Interreg Estonia-Latvia European Regional Development Fund

EUROPEAN UNION

1st call for proposals,
2nd call for proposals,
3rd call for proposals,
4th call for proposals,
Priority 3 Better network of harbours

version 14.09.16

Annex 2

Revenue Guidelines

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1. Abbreviations and definitions

AA	Audit Authority; verifies the correctness of the controls carried out on the projects. Located at the Internal Control Department of the Estonian Ministry of Finance.
Additional net revenue	Unplanned net revenue that is generated during the project implementation phase of after the end of a project. It exceeds the forecasted amount of revenue, as it was estimated in the cost-benefit analysis.
End of a project	The end of a project in the context of the current document is in consistency with Chapter 7.1. Start and End Date of the Project in the programme Manual. End of a project is the end of implementation phase of a project, meaning the period eligible for carrying out project activities and incurring expenses.
Final report	After finalisation of the project, a final report has to be submitted to the JS. This report provides information about outputs, results and impacts of the project, and general feedback from the project to the Programme authorities.
FC	Financial Control; carries out controls and gives confirmations about the eligibility of expenditure on partner report level. In Estonia the FC is carried out by the Estonian Ministry of Finance and in Latvia by Latvian Ministry of Environmental Protection and Regional Development.
Funding gap method	The basis for the calculation of EU grant in revenue-generating projects, stipulating that the eligible expenditure cannot exceed the current value of the investment cost less the current value of the net revenue from the investment over a specific reference period appropriate to the category of investment concerned.
JS	Joint Secretariat; the most important contact point for project applicants and partners during preparation and implementation of the projects. The JS is hosted by Enterprise Estonia, located in Tartu and supported by an information point in Riga located at the State Regional Development Agency.
LP	Lead partner; each project has to appoint a LP, who has full financial and legal responsibility for the project, including implementation, reporting and coordinating activities. LP submits all the documents necessary for implementation of the project, except partner reports that are submitted to the FC by each project partner separately.
MA	Managing Authority; responsible for efficiency and correctness of management and implementation of the Programme. The tasks of MA are carried out by Cross-Border Programmes' Implementation Unit of the Regional Development Department of Estonian Ministry of Finance. Among other obligations the MA signs Subsidy Contracts and amendments to the Subsidy Contracts and is responsible for paying out subsidies to the projects, as well as carrying out repayment and recovery procedures in certain cases of generation of net revenue.
MC	Monitoring Committee; composed of representatives from both Estonia and Latvia, is responsible for selecting projects for funding, monitoring their implementation, making substantial changes to the Programme documents etc.

Operating costs	Operating costs are the costs to take into account when calculating the funding cap. They include running costs (day-to-day costs to labour, raw materials, electricity etc) and maintenance expenses (the costs of keeping equipment and plant in satisfactory condition to achieve a specific quality of service). When calculating funding cap, also costs for the replacement of project short-life equipment are included.
Partner report	Each project partner (including LP) has to submit a partner report with expenditure and activity description (including all supporting bookkeeping documents) to Estonian or Latvian FC within 10 working days after the end of each milestone. Based on this report a FC confirmation is issued for each project partner's expenditure during the milestone.
Programme	Cooperation Programme "Interreg V-A — Estonia–Latvia".
Programme authorities	Programme institutions, dealing with different aspects of programme implementation, including MA, JS, AA and FC.
Progress report	LP submits the progress report of the whole project to the JS with supporting documents – partner reports, FC confirmations of partner reports and additional materials, e.g. examples of project outputs.

2. Introduction

This guideline is targeted to the project partners and potential beneficiaries of the Estonia - Latvia Programme. It is aimed at helping project partners and potential beneficiaries to understand, how to handle different situations related to revenue generation during different phases of the project implementation from project preparation phase to the period after the end of a project.

2.1. What is revenue?

The definition of revenue is as follows:

Net revenues are cash in-flows directly paid by users for the goods or services provided by the operation, such as charges borne directly by users for the use of infrastructure, sale or rent of land or buildings, or payments for services <u>less any operating costs and replacement costs of short-life equipment incurred during the corresponding period</u>. Operating cost-savings generated by the operation shall be treated as net revenue unless they are offset by an equal reduction in operating subsidies.

Revenue-generating project is any operation involving an investment in infrastructure, the use of which is subject to charges borne directly by users, and any operation involving the sale or rent of land or buildings or the provision of services and/or goods against payment.

Also, it is important to understand that only **<u>net revenue</u>** received from the project activities proportionally reduces the total eligible costs and ERDF co-financing. How to calculate net revenue is described in chapter 7. Funding gap method on page 17. Also, how to implement revenue-generating projects in different phases of project implementation is described in the following chapters of the document.

2.2. Can there be any other types of cash in-flows?

In addition to revenues there are other types of cash in-flows. These cash in-flows are not directly paid by users for the goods and/or services provided by the project and are not treated the same way as revenue. Other cash in-flows may be private and public contributions and/or financial gains that do not stem from tariffs, tolls, fees, rents or any other form of charge directly borne by the users.

Some examples of other types of cash in-flows:

- Government contributions towards construction and/or operating costs;
- Contribution of public bodies and/or private donors to construction and/or operating costs.

Other cash in-flows are not regarded as revenues. They must not be included in the determination of the funding gap (see chapter 7. Funding gap method on page 17), although they may be considered in the cost-benefit analysis of the national capital profitability.

2.3. Legal basis for the treatment of revenue

Legal basis for the treatment of revenues can be found in Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013. Below you can find a shortened description of the content of the articles that lay down rules for the implementation of revenue generation, taking into account the context of the programme.

Article 61 applies to projects which generate net revenue after their completion and are with total eligible cost over € 1 000 000 before the method for reducing eligible expenditure is applied. The article does not apply to projects for which public support takes the form of lump sums or standard scale unit costs. Also, it does not apply to projects which receive support under *de minimis* or state aid.

'Net revenue' means cash in-flows directly paid by users for the goods or services provided by the operation, such as charges borne directly by users for the use of infrastructure, sale or rent of land or buildings, or payments for services less any operating costs and replacement costs of short-life equipment incurred during the corresponding period. Operating cost-savings generated by the operation shall be treated as net revenue unless they are offset by an equal reduction in operating subsidies.

Where not all the investment cost is eligible for co-financing, the net revenue shall be allocated pro rata to the eligible and non-eligible parts of the investment cost.

The eligible expenditure of a project shall be reduced in advance taking into account the potential of the operation to generate net revenue over a specific reference period that covers both implementation of the operation and the period after its completion by the following method, chosen by the managing authority of the programme:

- Applicable method in Estonia - Latvia programme: calculation of the discounted net revenue of the operation, taking into account the reference period appropriate to the sector or subsector applicable to the operation, the profitability normally expected of the category of investment concerned, the application of the polluter-pays principle and, if appropriate, considerations of equity linked to the relative prosperity of the Member State or region concerned.

The Commission shall be empowered to adopt delegated acts, laying down the method. Where that method is applied, the net revenue generated during implementation of the operation, resulting from sources of revenue not taken into account in determining the potential net revenue of the operation, shall be deducted from the eligible expenditure of the operation, no later than in the final payment claim submitted by the beneficiary.

Where it is objectively not possible to determine the revenue in advance, the net revenue generated within three years of the completion of an operation, or by the deadline for the submission of

documents for programme closure fixed in the Fund-specific rules, whichever is the earlier, shall be deducted.

Article 65 (8) applies to operations which generate net revenue during their implementation and whose total eligible cost does not exceed €1 000 000 before the method for reducing eligible expenditure is applied.

The eligible expenditure of a project shall be reduced by the net revenue not taken into account at the time of approval of the operation directly generated only during its implementation, not later than at the final payment claim submitted by the beneficiary.

Where not all the costs are eligible for co-financing, the net revenue shall be allocated pro rata to the eligible and non-eligible parts of the cost.

This paragraph shall not apply to:

- projects subject to the state aid rules;
- projects for which public support takes the form of lump sums or standard scale unit costs provided that the net revenue has been taken into account ex ante;
- projects for which the total eligible cost does not exceed €50 000.

Commission Delegated Regulation (EU) No 480/2014 supplementing Regulation (EU) No 1303/2013 lays down rules for the method for calculating the discounted net revenue of operations generating net revenue after completion in accordance with Article 61 of the Regulation 1303/2013.

Article 15. Method for calculating discounted net revenue

Discounted net revenue of the operation shall be calculated by deducting the discounted costs from the discounted revenue and, where applicable, by adding the residual value of the investment. The discounted net revenue of an operation shall be calculated over a specific reference period applicable to the sector of that operation as set out the following table:

Sector	Reference period (years)
Railways	30
Water supply/sanitation	30
Roads	25-30
Waste management	25-30
Ports and airports	25
Urban transport	25-30
Energy	15-25
Research and innovation	15-25
Broadband	15-20
Business infrastructure	10-15
Other sectors	10-15

The reference period shall include the implementation period of the operation.

Revenues and costs shall be determined by applying the incremental method based on a comparison of revenue and costs in the scenario of the new investment with the revenues and costs in the scenario without the new investment.

Where an operation consists of a new asset, the revenues and costs shall be those of the new investment.

Where value added tax is not an eligible cost, the calculation of discounted net revenue shall be based on figures excluding value added tax.

Article 16. Determination of revenues

For the purposes of the calculation of discounted net revenue, the revenues shall be determined on the following basis:

- where applicable, user charges shall be fixed in compliance with the polluter-pays principle, and, if appropriate, shall take into account affordability considerations;
- revenue shall not include transfers from national or regional budgets or national public insurance systems;
- where an operation adds new assets to complement a pre-existing service or infrastructure, both contributions from new users and additional contributions from existing users of the new or enlarged service or infrastructure shall be taken into account.

Article 17. Determination of costs

For the purposes of the calculation of discounted net revenue, the following costs occurring during the reference period shall be taken into consideration:

- replacement costs of short-life equipment ensuring the technical functioning of the operation;
- fixed operating costs, including maintenance costs, such as staff, maintenance and repair, general management and administration, and insurance;
- variable operating costs, including maintenance costs, such as consumption of raw materials, energy, other process consumables, and any maintenance and repair needed to extend the lifetime of the operation.

Article 18. Residual value of the investment

Where the assets of an operation have design lifetimes in excess of the reference period referred to in article 15(2) of the Regulation 1303/2013, their residual value shall be determined by computing the net present value of cash flows in the remaining life years of the operation. Other methods of calculating residual value may be used in duly justified circumstances.

The residual value of the investment shall be included in the calculation of discounted net revenue of the operation only if the revenues outweigh the costs referred to in Article 17 of the Regulation 1303/2013.

Article 19. Discounting of cash flows
Only cash flows to be paid out or received by the operation shall be taken into consideration when calculating costs and revenue. Cash flows shall be established for each year in which they are paid out or received by the operation over the reference period.

Non-cash accounting items such as depreciation, any reserves for future replacement costs and contingency reserves shall be excluded from the calculation.

Cash flows shall be discounted back to the present using a financial discount rate of 4 % in real terms as an indicative benchmark for public investment operations co-financed by the ESI Funds.

Member States may use a financial discount rate other than 4 % if they provide a justification for that benchmark and ensure it is used consistently across similar operations in the same sector.

Values other than 4 % may be justified on the grounds of:
- specific macroeconomic conditions and international macroeconomic trends and conjunctures; or
- the nature of the investor or the implementation structure, such as public private partnerships; or
- the nature of the sector concerned.

In order to establish specific financial discount rates, the programme estimates the average long-term return from an alternative, risk-free basket of investments, whether domestic or international, which they deem most relevant. Information on the different financial discount rates shall be made available to beneficiaries.

2.4. Projects with total eligible costs not exceeding €50 000

Obligations of project partners, who is funded by the Programme in the frames of a projects with total eligible costs not exceeding €50 000:

- They are not obliged to report on any revenue or net revenue during the project preparation period;
- Partners of these projects do not have to report any revenue or net revenue during the project implementation period;
- They are not obliged to report on any revenue or net revenue during the project closure;
- Partners of these projects do not have to report on any net revenue that will be generated after project completion.

In case you have doubts about the application of small projects with total eligible costs not exceeding €50 000, please turn for consultation to the JS.

2.5. Project partners subject to the rules on *de minimis* aid and state aid

Partners can participate in the Programme in conformity with *de minimis* and state aid rules.

Where a partner of a revenue-generating project is subject to the rules on *de minimis* aid or state aid, the partner is not regarded as subject to the rules of implementation of revenue-generating projects in the following cases:

- ***de minimis* aid;**
- **compatible state aid to SMEs, where an aid intensity or an aid amount limit is applied in relation to state aid;**
- **compatible state aid, where an individual verification of financing needs in accordance with the applicable state aid rules has been carried out.**

Obligations of the project partner or potential applicant, who is funded by the Programme according to *de minimis* or state aid rules and is not obliged to apply the revenue generation rules, as described above:

- These project partners or potential applicants are not obliged to report on any revenue or net revenue during the project preparation period;
- These project partners do not have to report any revenue or net revenue during the project implementation period;
- They are not obliged to report on any revenue or net revenue during the project closure;
- These project partners do not have to report on any net revenue that will be generated after project completion.

Implementation and co-financing of projects or project partners, subject to the rules on *de minimis* and state aid is described in Annex 1 to the Programme Manual.

In case you have doubts about the application of *de minimis* aid or state aid to your project or any additional questions related to the issue, please turn for consultation to the JS.

2.5. Other principles for implementing revenue-generating projects

Other specific cases of revenue generation are as follows:

- **Project revenues do not fully cover the operating costs.** If the project generates revenue based on a financial analysis, but no net revenue, project eligible costs will not be deducted.

- **The use of revenue (NB! Not the use of net revenue!) earned by a project will be solely decided by the respective project partner(s);**

- **Revenue can be used for co-financing the same project that has earned the revenue.**

3. Revenue-generating projects with total eligible costs not exceeding €1 000 000

The following chapter describes the preparation and implementation of revenue-generating projects with total eligible costs not exceeding €1 000 000, which are foreseen to generate net revenue and that net revenue can be estimated in advance.

How to implement revenue-generating projects with total eligible costs not exceeding €1 000 000, where it is not possible to estimate revenue generation in advance, is described in chapter 5. Projects, generating net revenue that cannot be estimated in advance on page 14.

Revenue generation of projects with total eligible costs not exceeding € 50 000 is not monitored.

In accordance with Regulation (EU) No 1303/2013 Article 65 (8), for operations whose total eligible costs do not exceed €1 000 000, the eligible expenditure of a project shall be reduced by the net revenue generated only during its implementation, not later than at the final payment claim submitted by the beneficiary.

Where not all the costs are eligible for co-financing, the net revenue shall be allocated pro rata to the eligible and non-eligible parts of the cost.

3.1. Project application phase

Where a project with total costs between €50 000 and €1 000 000 plans to generate net revenue and it can be estimated in advance, the applicant has to indicate in the Project Application:

- Total budget of the project activities;
- Foreseen net revenue that will be generated during the project implementation phase;
- Proportionally reduced project budget, where the foreseen net revenue has been deducted from the total cost of project activities.

The rest of the fields in the Application Form must be filled in, taking into account the proportionally reduced budget. Also, the simplified calculations about revenue generation must be added to the Application Form.

The level of detail of the analysis of revenue generation depends on the complexity of the object, event, etc, the calculation is needed for. In case of positive financing decision, the MC approves the project with proportionally reduced budget.

Projects with total costs below €50 000 are not obliged to submit such a calculation.

3.2. Project implementation phase

Where a project partner of a project with total costs not exceeding €1 000 000 has generated net revenue during the project implementation phase, the generated net revenue must be reported to the Programme authorities in partner report and progress report of the respective period.

All running projects with total cost below €1 000 000, which have not previously reported their generated net revenue, are asked to fill net revenue related fields in the following partner and progress reports, if any net revenue is or has been generated.

Additional net revenue, generated during the project implementation phase, which has not been deducted during the project application phase as a result of a cost-benefit analysis, is to be deducted from the project's eligible expenditure.

The maximum amount to be deducted will be based on the relevant co-financing rate applied for the project concerned and shall not in total exceed the ERDF contribution received by the respective project partner in question.

Additional net revenue will be deducted on partner level from the eligible expenditure with the FC confirmation to partner report. On project level the LP must make sure that information about additional net revenue, which has been deducted from the eligible costs in partner report level, is included also in the progress report in accordance with the rules of the programme. JS and MA control that generated net revenue has been deducted in accordance with the eligibility rules.

Where a project partner has generated additional net revenue that exceeds the forecasted amount and has not fulfilled its obligation to report net revenue, it is possible for the project partners to report it with the next partner and progress report.

In case revenue generation will be noticed by any of the Programme authorities or by auditors, and project partner has not fulfilled its obligations regarding reporting on the revenue generation, it will be regarded as an irregularity. Decision of recovery will be formalised by the MA.

In case the project generates cumulatively additional net revenue in the amount exceeding 10% of its estimated total amount of expenditure, the total budget of the project will be amended accordingly and the net revenue amount will be deducted from the total budget of the project. LP has to submit an amended project Application Form to the JS, followed by an amendment to Subsidy Contract, which will be concluded with the MA.

The eligible expenditure of the project shall be reduced by the amount of additional net revenue, which not taken into account at the time of approval of the operation, only during its implementation, not later than with the last partner reports, submitted by the beneficiaries.

3.3. Period after project implementation

Partners of the revenue-generating projects with total costs not exceeding €1 000 000 do not report net revenue that will be generated after project closure.

4. Revenue-generating projects with total costs over €1 000 000

The following chapter describes the preparation and implementation of revenue-generating projects with total costs over €1 000 000, which are foreseen to generate net revenue and that net revenue can be estimated in advance.

How to implement revenue-generating projects with total costs over €1 000 000, where it is not possible to estimate revenue generation in advance, is described in chapter 5. Projects, generating net revenue that cannot be estimated in advance on page 14.

Generating net revenue must be taken into account during project implementation and during the reference period (see the table on page 6) after project end, to which the calculation of discounted net revenue of a project shall projected. As regards the reporting of earned net revenue, project partners must inform the programme about additionally generated net revenue up to 3 years after the end of a project or by the deadline for the submission of documents for programme closure.

Following the funding gap method, only the cash in-flows directly paid by users have to be taken into account in determining the gap. Other cash in-flows, both public and private contributions that do not stem from charges to the users of the service, are not taken into account.

4.1. Project application phase

Where it is possible to estimate revenue generation objectively in advance during the project application phase, the LP submits the Project Application, including an indication about possible revenue generation by the project. No detailed estimations are necessary during initial project submission.

When a project is selected for funding, it is approved the project with the total budget. After receiving positive financing decision, where a project generates net revenue, the funding gap has to be estimated. The cost-benefit analysis will be organised by the project itself, costs to expertise related to cost-benefit analysis are eligible from the project budget in accordance with the eligibility rules of the programme.

Taking into account the results of the respective cost-benefit analysis, the applicant has to submit the following documents to the JS for signing Subsidy Contract:

1. Updated Project Application Form:
- Total budget of the project activities;
- Foreseen net revenue that will be generated during the project implementation phase and up to 3 years after project completion or by the deadline for the submission of documents for programme closure;
- Proportionally reduced project budget, where the foreseen net revenue has been deducted from the total cost of project activities.

2. Information about revenue generation. The level of detail of the analysis depends on the complexity of the object, event, etc. the calculation is needed for.

If the project generates revenue based on a financial analysis, but no net revenue, project eligible costs will not be deducted. If project generates net revenue, the project eligible costs will be deducted proportionally in the amount of generated net revenue, following the co-financing rates of the project. Expected net revenue is deducted from the relevant partner's budget before signing the Subsidy Contract.

Where not all the project costs are eligible for ERDF support, the net revenue must be allocated *pro rata* to the eligible and non-eligible parts of the costs. In order to determine discounted eligible expenditure that is to be taken into consideration, the discounted investment costs must be compared to discounted net revenue.

4.2. Project implementation phase

The partners of the projects with total cost over €1 000 000 need to report net revenue in partner reports and progress reports. Additional net revenue that exceeds the forecasted amount will be deducted from the project's eligible expenditure. Where the amount of additional net revenue exceeds 10% of the estimated total eligible expenditure of the project, net revenue amount will be deducted from the total budget of the project.

Where a project partner has generated additional net revenue that exceeds the forecasted amount and has not fulfilled its obligation to report net revenue, it is possible for the project partners to report it with the next partner and progress report.

In case the generation of net revenue will be noticed by any of the Programme authorities or by auditors, and project partner has not fulfilled its obligations regarding reporting on the revenue generation, it will be regarded as an irregularity. Decision of recovery will be formalised by the MA.

4.3. Period after project implementation

All project partners that have generated net revenue during the project application phase and/or the generation of net revenue is foreseen for the period up to 3 years after project completion or by the deadline for the submission of documents for programme closure, are obliged to:

- submit an updated calculation about net revenue generation about the reference period after the end of a project with the last partner report of the project;
- report any additional net revenue earned after the project completion either 3 years after project end or on December 1, 2021, whichever is the earlier.

If it is necessary to update the funding gap analysis, it is recommended to use the same experts who compiled the first cost-benefit analysis.

Generated net revenue that was not foreseen in the initial financial analysis will be proportionally deducted from the last payment to the LP or earlier, if possible, based on the information submitted with partner reports.

In case of additional net revenue after project completion it will be paid back by the respective project partner, taking into account the co-financing rate applied for the project concerned. The LP is responsible for submitting an application for making repayment to the JS, as described in chapter 6. Repayment on page 15.

The cumulative amount of deductions or repayments will not exceed the total ERDF contribution received by the project partner, who has generated net revenue.

5. Projects, generating net revenue that cannot be estimated in advance

This chapter describes the preparation and implementation of projects that generate net revenue that cannot be estimated in advance, with total eligible costs exceeding €50 000.

5.1. Project preparation and application phase

In case it is not possible to estimate net revenue generation in advance, the project is not obliged to:

- include to the project Application Form information about foreseen net revenue that will be generated during the project implementation phase;
- submit any information to the JS together with the Project Application Form.

5.2. Project implementation phase

If net revenue cannot be objectively estimated in advance during the project application phase, generation of net revenue must be reported in partner and progress reports of the respective project periods during the project implementation phase and within three years of the completion of an operation, or by the deadline for the submission of documents for programme closure, whichever is the earlier. All project partners are obliged to keep the accounting of net revenue generated.

If net revenue cannot be objectively estimated in advance during the project application phase, but the project generates net revenue, it is possible for the project partners to report it with the next partner and progress report. Net revenue will be deducted from the project's eligible expenditure.

Where the amount of net revenue exceeds 10% of the estimated total eligible expenditure of the project, net revenue amount will be deducted from the total budget of the project.

When it will become possible to estimate the generation of net revenue objectively in advance during the project implementation phase, the project is obliged to carry out cost-benefit analysis, to estimate the funding gap and reduce the project budget of the respective project partner(s) accordingly.

5.3. Period after project implementation

All projects with total eligible costs under € 1 000 000 that generate net revenue that cannot be estimated in advance during the project application phase are not obliged to report any net revenue that will be generated after the end of a project. The obligation to report net revenue generation ends with the end of the project.

All projects with total eligible costs over € 1 000 000 that generate net revenue that cannot be estimated in advance, report about generated net revenue earned after the project completion either 3 years after project end or on December 1, 2021, whichever is the earlier.

In case such a project has generated net revenue after project completion, project partner who has earned net revenue shall pay it back. To start the repayment procedure, the LP shall submit an application for making repayment to the JS. The MA will make recovery decision.

The maximum amount to be deducted will be based on the relevant co-financing rate applied for the respective project partner concerned and shall not in total exceed the ERDF contribution received by the project partner in question.

In case revenue generation during the project implementation phase or after the end of a project will be noticed by any of the Programme authorities or by auditors and project partner has not fulfilled its obligations regarding reporting on the revenue generation, it will be regarded as irregularity.

6. Repayment

Where a project has generated net revenue that exceeds the forecasted amount, it is possible for the project partners to make a repayment after the end of the project.

Documents necessary for repayment are as follows:

1. **LP submits an application for making repayment to the JS, signed also by the respective project partner who has earned the net revenue, including the following information:**
   - Name and number of the project;
   - Sum of the ineligible ERDF support repayment;
   - Justification;
   - Deadline for making repayment is at least 5 work days.
2. **Decision for making repayment is made by the Head of the MA.**

Receiver of the repayment:
Receiver: Ministry of Finance
Receiving Bank: SEB
10220034796011
SWIFT: EEUHEE2X
IBAN : EE891010220034796011
Reference number: 2800045849

Explanation: “Repayment of project number ...”,

When the project will not make repayment in time, the MA will make a recovery decision.

In case net revenue generation, which has not been previously reported, will be noticed by any of the Programme authorities or by auditors, it will be regarded as irregularity. In case of irregularity, decision of recovery will be formalised by the MA.

7. Funding gap method[1]

Funding gap method is the method to be used for carrying out cost-benefit analysis of a project to determine the ERDF grant. All the cost-benefit analyses are organized by the JS, unless a project proposes to carry the analysis out itself.

In Estonia - Latvia Programme the appropriate period for cost-benefit analysis to cover is 15 years from the beginning of project implementation – the life-cycle of the project. As regards ETC type of programmes, one project can be implemented in several places and by several project partners who carry out activities that differ from each other. The amount of investments and the results of economic activity can be different. Therefore, the funding gap analysis has to be prepared separately for each project partner.

The funding gap is the difference between the current value of project investment costs and discounted net revenue.

While calculating budget for project activities, net revenue that can be estimated in advance will proportionally reduce the total eligible costs and ERDF co-financing. This applies to all projects funded by the Programme, regardless of the amount of total costs of the project.

Eligible expenditure of net revenue-generating projects shall not exceed the current value of the investment cost less the current value of the net revenue from the investment over a specific reference period for appropriate to the category of investment concerned:

- Investments in infrastructure; or
- Other projects where it is possible to objectively estimate the revenue and net revenue in advance.

The funding-cap expresses the part of the project investment costs which cannot be financed by the project partners themselves; and that therefore needs to be financed from the contributions of the Programme. The funding gap approach applies to all operations which generate net revenue through charges borne directly by users. This applies regardless of the way the net revenue will be managed.

Where not all the investment cost is eligible for co-financing, the net revenue shall be allocated *pro rata* to the eligible and non-eligible parts of the investment cost.

Funding gap approach does not apply to the following cases:

- **Projects that do not generate revenue (funding gap rate equals 100%);**
- **Projects that do not generate net revenue. These are projects whose revenues do not fully cover the operating costs (funding gap rate equals 100%)** – as the revenues do not fully cover the operating costs, there will be no net revenue and these projects are not considered to be revenue-generating projects;
- **Projects subject to the rules of *de minimis* aid,** as the rules that apply to revenue-generating projects do not apply to projects subject to the rules of *de minimis* aid.

[1] The method will be made more detailed or reference to COM guidelines will be added.

7.1. Calculation of the funding gap

Calculation of the funding gap consists of three key steps in order to determine the EU grant:

1st STEP. Calculation of the funding gap

Max DEE = DIC – DNR = FG

Where: DEE is discounted eligible expenditure;
FG is the funding gap;
DIC is discounted investment cost;
DNR is discounted net revenue.

2nd STEP. Calculation of the discounted eligible expenditure

DEE = FG*P

Where: DEE is discounted eligible expenditure;
P is percentage consistent with the ratio of discounted eligible cost over discounted investment cost.

3rd STEP. Calculation of the contribution from the Funds

$DG_{EU} = DEE*CR_{EU}$

Where: CR_{EU} is the EU co-funding rate;
DG_{EU} is the discounted contribution from the Funds.

Incremental net revenue is the difference between the revenue and the operating costs of two project scenarios – "with the project" and "without the project". As only the net revenue from the investment needs to be considered; only the incremental net revenue is taken into account while calculating the funding gap.

The calculations should include running costs (e.g. labour, raw materials, and electricity), maintenance expenses and costs for the replacement of project short-life equipment. Financing costs (e.g. interest paid) and depreciation should be excluded. When VAT is recoverable, the costs and revenues should be based on figures excluding VAT.

The *pro rata* allocation of net revenue to eligible costs is carried out by multiplying the funding gap times the ratio of the discounted eligible costs over discounted investment costs. The resulting amount, the discounted eligible expenditure, multiplied by the co-funding rate identifies the discounted contribution from the Funds from which the related undiscounted value can be derived.

For example, if only 80% of the discounted investment cost is eligible, which means that 20% of the discounted investment costs are not eligible, then 20% of the discounted net revenue must also not

be considered in the funding-gap. This means that both the discounted net revenue and investment costs should be multiplied by 80%.