



EUROPEAN COMMISSION

H2020 Programme

Guidance

Grant reductions

Version 1.0
27 February 2018



IMPORTANT NOTICE

This document aims to provide guidance to **Commission/Agency services** for deciding on **grant reductions** in the context of the H2020 programme.

It will not be applied mechanically, but provides for a common framework of parameters that will allow to harmonise practices and reach proportionate results adapted to each individual case.

This document has been endorsed by Commission Decision (2018)1017.

It should also be used by H2020 funding bodies.

HISTORY OF CHANGES

Version	Publication Date	Change
1.0	27.02.2018	▪ Initial version

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1. Background

The Horizon 2020 model grant agreements (MGAs) provide for a set of measures to be taken in case of grant agreement violations ('Chapter 6 measures').

These measures can lead to rejection of costs and/or to grant reduction (i.e. a reduction of the grant amount fixed in the estimated budget, Annex 2¹).

Reductions may be applied in cases of (see *Article 43 MGA*):

- substantial errors, irregularities or fraud²
- serious breach of obligations under the GA or during the award procedure, including improper implementation of the action, submission of false information, failure to provide required information, breach of ethical principles, etc.
- systemic or recurrent errors, irregularities or fraud/serious breach of obligations in other grants that have a material impact on the grant (i.e. extension of findings from other grants– see *also Article 22.5.2 MGA*).

This guidance establishes a methodology to ensure that grant reductions are applied in a coherent and proportionate manner by all Commission, Agency services implementing H2020 — and thus in line with the general principles of proportionality and equal treatment of beneficiaries.³

2. When can reductions be applied?

Grant reductions can be applied after beneficiary termination⁴, at the payment of the balance or afterwards (but NOT in interim payments).

According to Article 43 MGA, grant reductions can be made only for **sufficiently serious** cases, i.e. if there is proof of *substantial* errors, irregularities, fraud or *serious* breaches of obligations (during the award procedure or during the implementation of the GA).

Examples (reduction): *fraud/substantial irregularities; submission of false information; breach of ethical principles; partial or improper implementation of the action (e.g. one of the 3 test plants was not built, and several testing activities were not carried out); breach of the obligation to ensure open access to all peer-reviewed scientific publications relating to results; breach of the obligation to display the EU emblem; incorrect handling of EU-classified information; plagiarism.*

¹ This is the grant amount *committed* for the action (i.e. the maximum grant amount), not the grant amount actually *paid* (i.e. the final grant amount). The first is set out in the GA and linked to the budget of the action; the second is linked to the costs accepted.

² Reduction for substantial errors, irregularities or fraud was introduced as explicit contractual ground with GA version 3.0. For older grant agreements, grant reduction on these grounds was however also possible directly on the basis of Article 135(4) and (5) of the Financial Regulation No 966/2012 (and in very exceptional cases involving fraud schemes also on the basis of Article 1116 of the Belgian Code Civil — as annulation ab initio pour dol- ; see judgment of 12 July 2016, Commission/Thales, T-326/13, points 119-128).

³ See Article 135(4) and (8) of the Financial Regulation No [966/2012](#).

⁴ Only for GAs signed from version 3.0 onward. For older grant agreements, there is NO grant reduction at beneficiary termination for serious breach of contract (since explicitly NOT foreseen). By contrast, grant reduction at beneficiary termination possible for substantial errors, irregularities or fraud — directly on the basis of Article 135(4) and (5) of the Financial Regulation No 966/2012 (see footnote 2).

This means that grant reduction should NOT be applied in cases where the errors or breach of obligations have no significant impact on the action or the EU financial interests or image.

Examples (no reduction): *minor delays/deviations in the technical work foreseen in Annex 1 (e.g. a deliverable is slightly delayed because the researcher responsible is on sick leave; a scientific test has to be redone at a later time due to meteorological conditions).*

3. How much? — Calculation & reduction rates

Grant reductions must be **proportionate** to the seriousness of the errors, irregularities or fraud or breach of obligations.⁵

They will be **calculated** by applying the reduction rate to the maximum grant amount fixed in the GA. The resulting amount will be deducted from the maximum grant amount to calculate the reduced grant amount (*see Article 5.3.4 MGA*).

This calculation will observe the following **principles**:

1. The reduction will normally be calculated:

- on the defaulting beneficiary/ies (**beneficiary-level**)

The percentage will be applied to the maximum grant amount fixed in Annex 2 for the beneficiary/ies concerned.

- on all the beneficiaries together (**action-level**), if:

- all beneficiaries are together responsible for not complying with the obligation AND the breach cannot be attributed to one (or several) of them, or
- very serious errors, irregularities or fraud put into question the funding of the entire action.

The percentage will be applied to the maximum grant amount fixed in Article 5.1 and Annex 2 for the action.

Examples (reduction on all beneficiaries):

1. *A review shows an improper implementation of the action which cannot be attributed to individual beneficiaries.*

2. *The consortium set up a fraud network to systematically overstate costs (i.e. fraud or very serious errors/irregularities that justify a reduction).*

2. The **reduction rate** (percentage) will normally be based on this reduction rate matrix.

REDUCTIONS	Gravity/impact					
	1 (Lowest)	2	3	4	5	6 (Highest)

⁵ See Article 43.2 H2020 General MGA.

Type of breach	Fraud		N/A	N/A	N/A	N/A	75 %	100 %
	Substantial errors or irregularities		N/A	N/A	25%	50 %	75 %	100 %
	Obligations during the award procedure		5%	10%	25%	50%	75%	100%
	GA obligations	Principal obligation	N/A	10%	25%	50%	75%	100 %
		Secondary obligation	5%	10 %	25%	50 %	N/A	N/A
	Improper implementation		Value of part improperly implemented					

The table fixes the range of reduction rates that can be attributed to a type of breach. Fields marked as N/A do not apply to that type of breach.

Examples: For example, any case of fraud will automatically be a minimum gravity of 5 (i.e. 75 % reduction); it cannot be qualified as gravity 1 to 4. Substantial errors or irregularities will automatically be qualified as 3 or above and breach of principal obligations automatically as 2 or above. By contrast, breaches of secondary obligations can never reach a gravity of more than 4.

Specific case:

Improper implementation (Art 7 MGA) — If the breach consists in the improper implementation of the action, the reduction will not be based on a fixed percentage from the matrix, but on the value of the improperly implemented part (— usually by looking at the amount that was budgeted/declared for it). The reduction will be proportional to the improper implementation (i.e. the degree of non/bad quality implementation).

The rate will be chosen on the basis of the type of breach (e.g. fraud, principal or secondary GA obligation, obligation during the award procedure, etc.) and its gravity (e.g. obligation only partially or totally disregarded, impact on the action/EU financial interests/image, aggravating and mitigating factors, etc.).

GA obligations other than proper implementation are grouped into 'principal' and 'secondary' in the catalogue of GA obligations in Annex 1 to this document.

Aggravating factors:

- The Commission/Agency has already warned the beneficiary about the breach (e.g. at the end of the first reporting period, external audit, etc.).
- The beneficiary has shown bad faith or intentionality.

- The beneficiary failed to co-operate with the Commission/Agency.
- Reputational damage for the Commission/Agency.
- Long duration or recurrence of the breach of the obligation.
- Existence of other breaches with same or lower percentage.

Mitigating factors:

- The beneficiary has remedied the situation on its own initiative (following a warning from the Commission/Agency).
- The beneficiary has taken precautionary measures (on its own initiative or following a warning from the Commission/Agency) to prevent similar breaches in the future.
- The beneficiary was in good faith and the rules were not entirely clear.
- The beneficiary has co-operated with the Commission/Agency throughout the proceedings.
- The project delivered very good results (not applicable to fraud cases).

If there are **several breaches** for a beneficiary in the same grant, only the highest rate decided for each of those breaches will be applied for the reduction at beneficiary-level. If there are several breaches in the same grant at action-level, only the highest rate decided for each of those breaches will be applied for the reduction at action-level. Reductions at beneficiary-level may accumulate with reductions at action-level.

Example:

1. Beneficiary A has committed 3 breaches (10%, 50% and 25%). The RAO will apply a single reduction of 50 %. (The other breaches should be counted as aggravating factor when determining the rates.)
2. Beneficiary B has committed 2 breaches (10% and 70 000 EUR for improper implementation). The RAO will apply the single reduction of 70 000 EUR if the amount for the other breach is less.

If the matrix gives a **disproportionate** result (e.g. for beneficiaries with very large maximum grant amounts), it will be lowered down to the next lower level.

If there is **force majeure**, there is no breach (according to Article 51 MGA), and therefore there is no reduction.

 The percentages for grant reductions must be distinguished from flat-rates for cost rejection (e.g. the correction rates for extrapolation in Article 22.5.3.1 H2020 General MGA or OLAF correction rates for ineligible costs). Those flat-rates are used to quantify ineligible costs (not for grant reductions).

3. The **reduction base** is the maximum grant amount that is fixed in the grant agreement.

For reductions at *beneficiary-level*, this is normally the beneficiary's maximum grant amount; for reductions at *action-level*, this is the maximum grant amount for the consortium (see *Annex 2 and Article 5.1 MGA*).

Specific cases:

Reductions at beneficiary termination — For reductions at beneficiary termination, the reduction rate will not be applied to the beneficiary's maximum grant amount, but to a pro rata temporis⁶ part of it (to ensure *effet utile*, since the 'lower of the two amounts' rule would often render grant reductions redundant — because rarely higher than the non-declared costs).

Pro rata temporis part of the maximum grant amount:

$$\left\{ \begin{array}{l} \text{beneficiary's maximum grant amount (see Annex 2)} \\ \text{multiplied by} \\ \text{\{months of participation\}} \\ \text{divided by} \\ \text{total action duration (months)\} \end{array} \right\}$$

Reductions after payment of the balance for overspending beneficiary — For reductions after payment of the balance for a beneficiary that overspent (i.e. declared more costs than its maximum grant amount), the reduction rate will be applied directly to the beneficiary's share in the final grant amount and that same amount will be recovered from the beneficiary. This ensures a proportionate result for beneficiaries that contributed more to the action than initially planned in the estimated budget (avoids disproportionate grant reductions compared to the *real* project budget at payment of the balance).

4. At payment of the balance, the calculation may need to be done **several times** (once for each defaulting beneficiary/linked third party and once for the action, if any) and all amounts must be summed up to give the total amount of grant reduction that flows into the final payment calculation. Reductions at beneficiary-level may accumulate with a reduction at action-level.

5. If grant reduction takes place at the same time as cost rejection, only one of the two measures will have a financial impact. This is because both resulting amounts (grant amount after rejection and grant amount after reduction) will be compared and only the **lower of the two amounts** will be taken into account for the final grant amount (see *Articles 5 and 50 MGA*).

6. Not all grant reductions will automatically lead to a recovery. Recovery depends on the overall payment calculation and whether the beneficiary received more than was due (after the grant reduction; see *Article 44 MGA*).

7. **Linked third parties** will be treated like beneficiaries (*mutatis mutandis*). Grant reductions will be calculated on the linked third party's maximum grant amount (with the exception set out above). For the purpose of recoveries, linked third parties are looked at together with their beneficiary.

 For detailed explanations and sample calculations, see [Article 21 H2020 AGA — Annotated Model Grant Agreement](#).

⁶ The pro rata temporis part is portion of the beneficiary's maximum grant amount that corresponds to its period of participation (i.e. until termination).

4. How? — Procedure

Grant reductions are subject to a **contradictory procedure** (which will take place for each grant agreement before the reduction is implemented, i.e. at beneficiary termination, at payment of the balance or afterwards; *see Articles 21 and 43 MGA*).

For on-going grants, the beneficiary will moreover be informed at the time when the breach is discovered (via an audit implementation/review **information letter**).

A Coordination Panel will be set up to ensure that grant reductions are applied in a consistent and coherent manner. The panel must be consulted for any case involving several responsible authorising officers. If the RAO decides to deviate from the opinion of the panel it must duly justify its decision.

The RAO must also consult OLAF before initiating the contradictory procedure or informing the beneficiary if:

- OLAF is investigating the beneficiary or is assessing the possibility to open an investigation (OLAF's selection process);
- The RAO envisages sending the case to OLAF.

In those cases, any disclosure of information to the beneficiary in the context of the contradictory procedure or information letter requires the prior agreement by OLAF.

5. Combinations with other measures for breach of contract

Depending on the case, grant reduction may have to be combined with other Chapter 6 measures (*e.g. suspension of payments, termination, administrative sanctions: exclusion and/or financial penalties, etc.*).

The principle of proportionality has to be respected in all cases. Moreover, if grant reduction takes place at the same time as cost rejection, only one of the two measures will have a financial impact (*see point 3.5 above*).

Catalogue of GA obligations



This table presents the GA obligations (other than proper implementation) in two main groups:

- corporate: obligations which are equal for all programmes
- sectoral: obligations which are specific for one or several programmes (*e.g. IPR provisions in research*)

and classifies them as principal or secondary.



The list below ONLY concerns reductions *based on the GA* (i.e. 'serious breach of obligations under the GA').

GA obligations leading to rejection of costs are not included precisely because their breaches result in rejection of (quantified) amounts. Therefore, they do not need to be classified as principal or secondary to use the reduction rate matrix in order to be quantified.

The obligation to properly implement the action (i.e. obligation to implement the action as foreseen in Annex 1 and obligation to implement the action well – good quality; *see Article 7*) is not included because the grant reduction does not depend on the qualification into principal or secondary, but on the value of the improperly implemented part.

Obligations that might be breached during the award procedure are not included because they are too varied to be catalogued.

Corporate obligations (in all EU MGAs)

EU GA obligations		Type
Article 7: Obligation to implement the action in compliance with all legal obligations under applicable EU, international and national law		case by case
Article 10.1.2, 13.1.2: Obligation to comply with the public procurement rules (for beneficiaries that are contracting authorities/entities)		case by case (see also DG BUDG Guidelines)
Article 13.1.2, 14.1.2, 15.1.2, 15.2..2: Obligation to ensure that GA provision apply to third parties (subcontractors, linked third parties, third parties receiving financial support)		Principal
Article 17:	Obligations to provide information upon request	case-by-case
	Obligation to keep information in BR updated and inform about events and circumstances likely to affect the grant	Principal
Article 18: Obligation to keep reliable records and supporting documents		Principal
Article 19: Obligation to submit deliverables		Principal
Article 20: Obligation to submit technical and financial reports		Principal
Article 21.7: Obligation to distribute payments		Principal
Article 22: Obligation to cooperate for audits and investigations		Principal
Article 23: Obligation to cooperate for action impact evaluations		Secondary

Article 35:	Obligation to avoid conflict of interest	Principal
	Obligation to notify conflict of interest	Secondary
Article 36: Obligation to maintain confidentiality		Principal
Article 38.1:	Obligation to promote the action and its results	Principal
Article 38.2:	Visibility of EU funding	Principal
Article 39: Obligation to comply with EU and national law on data privacy		Secondary
Article 50.1 and 50.2: Obligation not to terminate without good reasons (otherwise improper)		Secondary

Sector-specific obligations

H2020 GA Obligations		Type
Article 13 PCP/PPI: Obligations concerning the PCP/PPI subcontracting		Principal
Article 15 ERANET Cofund: Obligations concerning the rules for providing support to or implementation of trans-national projects		Principal
Article 15.1.2 MSCA-COFUND:	Obligation to take measures to implement the European Charter for Researchers and the Code of Conduct for the Recruitment of Researchers	Principal
	Obligations concerning the rules on recruitment and working conditions for researchers	Principal
	Other obligations	Secondary
Article 16.1.2: Additional obligations for access providers		Secondary
Article 23a: Obligation to take measures to implement Code of Practice on the management of intellectual property in knowledge transfer activities		Secondary
Article 24: Obligation to agree on background		Principal
Article 25: Obligation to give access to background		Principal
Article 26: Obligations regarding ownership of results		Principal
Article 27:	Obligation to protect results	Principal
	Information on EU funding	Principal
Article 28:	Obligation to exploit the results	Principal
	Additional exploitation obligations	Principal

	Obligations regarding standards	Principal
Article 29:	Obligation to disseminate results	Principal
	Additional dissemination obligations	Principal
	Obligations on open access to scientific publications	Principal
	Obligations on open access to research data	Principal
	Visibility of EU funding	Principal
Article 30: Obligations on transfer and licensing of results		Principal
Article 31: Obligation to give access to results		Principal
Article 32: Obligation to take measures to implement the European Charter for Researchers and the Code of Conduct for the Recruitment of Researchers		Principal
Article 32 ERC: Obligations concerning the working conditions for the PI and his/her team		Principal
Article 32 MSCA-ITN, MSCA-IF and MSCA-RISE:	Obligation to take measures to implement the European Charter for Researchers and the Code of Conduct for the Recruitment of Researchers	Principal
	Obligations concerning the rules on recruitment and working conditions for researchers/seconded staff members	Principal
Article 33: Gender equality		Secondary
Article 34: Obligation to comply with ethical principles including plagiarism		Principal
Article 37:	Obligation to protect classified information	Principal
	Obligation to comply with security requirements	Principal
	Obligation to comply with EU, national and international law on dual-use goods or dangerous materials and substances (if applicable)	case-by-case basis
Article 49.1 MSCA-IF: Obligations concerning action suspension (only for the reasons set out in the GA)		Principal
Article 56a ERC: Obligations concerning transfer of the GA to a new beneficiary (portability)		Principal
Article 56a MSCA-IF: Obligations concerning transfer of the GA to a new beneficiary		Principal