



## **METHODOLOGY FOR ASSESSING THE FINANCIAL CAPACITY OF THE BENEFICIARIES OF GRANTS**

One of the tasks of the Directorate-General for Education, Youth, Sport and Culture (DG EAC) is to provide a direct financial contribution, in the form of grants, to projects or organisations which support the interests of the European Union or which participate in the implementation of an EU programme or policy in the field of culture, youth, sport and education. In general, the parties interested in receiving grants reply to public calls for proposals.

The grant applications submitted by the interested parties are subject among other things to an assessment based on the selection criteria, including verification of the applicants' financial capacity.

In order to ensure the assessment of financial capacity, DG EAC has set up a methodology in line with Articles 194(1)(b), 196 and 198 of the Financial Regulation (FR<sup>1</sup>).

This methodology describes the scope, the documents requested of the beneficiaries and, where an actual analysis is performed, the financial ratios used and the interpretation of the results obtained.

The proposed financial analysis is based on the general guidelines (liquidity, solvency, profitability) of the Directorate-General for Budget (DG BUDG). The ratios used and the thresholds applied are also those proposed by the same DG.

### **1. SCOPE**

Assessment of financial capacity as a selection criterion applies to all grants.

Under Article 196 of the Financial Regulation, and based on a risk analysis, the authorising officer is not required to request proof of financial capacity for grants worth EUR 60 000 or less.

Taking account of the specific nature of the grants administered by DG EAC, the decision was taken to perform a financial capacity analysis when the value of the pre-financing exceeds EUR 600 000. For values above this threshold, proof of financial capacity will be required on a case-by-case basis according to the hypothetical cases presented in points 3.2, 3.3 and 3.4 below and the financial analysis will be performed as described in point 4.

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<sup>1</sup> Regulation (EU, Euratom) 2018/1046 on the financial rules applicable to the general budget of the Union, repealing Regulation (EU, Euratom) No 966/2012 (2012 Financial Regulation), OJ L 193, 30/07/2018, page 1

## **2. ENTITIES SUBJECT TO THE EXAMINATION OF FINANCIAL CAPACITY**

- All grant applicants (or representatives of this applicant, where the applicant has no legal personality).
- For affiliated entities, all the entities concerned.

Exceptions:

It is important to underline that, according to Articles 196 and 198(5) of the FR "*the verification of financial capacity shall not apply to:*

- a) natural persons in receipt of education support;*
- b) to natural persons most in need such as unemployed persons and refugees, and in receipt of direct support;*
- c) to public bodies including member States organisations;*
- d) international organisations;*
- e) persons or entities applying for interest rate rebates and guarantee fee subsidies where the objective of those rebates and subsidies is to reinforce the financial capacity of a beneficiary or to generate an income.*

In accordance with the Erasmus+ programme "*Public bodies, as well as schools, higher education institutions and organisations in the fields of education, training, youth and sport that have received over 50 % of their annual revenue from public sources over the last two years shall be considered as having the necessary financial, professional and administrative capacity to carry out activities under the Programme. They shall not be required to present further documentation to demonstrate that capacity*".

## **3. DOCUMENTS TO DEMONSTRATE THE FINANCIAL CAPACITY OF THE APPLICANTS**

### ***3.1. Grants with a pre-financing value of EUR 600 000 or less***

For grants of this type, proof of financial capacity is constituted by a declaration on the honour by the grant applicant (Annex 2 of the Call for Proposals, "Declaration on honour on exclusion criteria and selection criteria").

However, in case of doubt and only for grants exceeding EUR 60 000, the assessment committee reserves the right to request supporting documents and to carry out a financial analysis as described in point 4 below (cf. Article 198(4) of the FR)

Along similar lines, and also for grants exceeding EUR 60 000, entities falling into one of the following high-risk categories must provide proof of their financial capacity (see points

3.2, 3.3 and 3.4 below) and are required to undergo the financial analysis provided for in point 4 below:

- Newly-created entities in existence for less than a year and for which no financial history is available
- New entities in existence for between one and three years
- Entities against which one or more expired and unpaid recovery orders have been issued by DG EAC
- Entities that are the subject of suspicions of or findings relating to serious administrative errors or fraud
- Entities against which legal proceedings have been brought for serious administrative errors or fraud
- Pilot project/new activity.

### ***3.2. Grants with a pre-financing value of EUR 600 000 or more***

For grants of this type, proof of economic and financial capacity is provided by the following documents:

- the declaration on the honour certifying the economic and financial capacity of the economic operator (Annex 2 of the Call for Proposals, "Declaration on honour on exclusion criteria and selection criteria");
- the economic and financial capacity analysis form showing the financial data of the economic operator, completed and signed by the operator (see Annex 7.b "Economic and Financial Analysis form");
- for economic operators required under national law to keep a complete set of accounts: the balance sheet, profit and loss account and annexes of the last financial year for which accounts have been closed;
- for economic operators required under national law to keep a simplified set of accounts: the schedule of actual expenditure and income and the annex showing assets and liabilities for the last financial year for which accounts have been closed.

### ***3.3. Special cases***

#### ***a. Grants with multiple beneficiaries***

For grants with multiple beneficiaries and with a pre-financing value greater than EUR 600 000, proof of financial capacity must be provided as follows:

- For the co-ordinator: the documents provided for in point 3.2 above;
- For the joint beneficiaries: only the declaration on the honour provided for in point 3.2 above.

If the value of the pre-financing is EUR 600 000 or less, the declaration on the honour provided for in point 3.1 is sufficient and must be provided by both the coordinator and the joint beneficiaries.

*b. Recently-created entities (in existence less than one year)*

In the case of recently-created undertakings for which no accounts have yet been approved and which are thus considered high-risk, DG EAC will request **an interim report on their annual accounts** for all grants in excess of EUR 60 000. These interim accounts must cover the period between the date of creation of the entity and the date of publication of the call for tenders. They must be accompanied by the declaration on the honour and the analysis form provided for in point 3.2 above.

For low-value grants the declaration on the honour in Annex 2 of the Call for Proposals, "Declaration on honour on exclusion criteria and selection criteria" will suffice.

*c. Applicants without legal personality*

In accordance with Article 197(2) of the FR, in the case of grant applicants without a legal personality, the representatives of this applicant must provide proof of their capacity to enter into legal commitments on behalf of the applicant. They must also prove their financial capacity using the documents or means provided for above for legal persons, according to the appropriate hypothetical cases presented in point 3.

*d. Entities applying as a group*

If several applicants apply as a group in a multi-beneficiary call and together form one entity, that entity may be treated by the authorising officer responsible as the sole applicant, provided that the application identifies the entities involved in the proposed action or work programme as part of the applicant.

Proof of financial capacity will be provided for each of the entities, according to the appropriate hypothetical cases presented in point 3.

*e. Recent acquisitions, mergers and incorporations for which consolidated accounts are not yet available*

Financial capacity will be checked for **all** the entities concerned by these incorporation, acquisition and merger operations on the basis of the above-mentioned documents, according to the hypothetical cases presented in point 3.

### **3.4. Action grants > EUR 750 000 and operating grants > EUR 100 000**

In addition to the documents required in points 3.1, 3.2 and 3.3 above, Article 196(1)(d) of the FR states that for action grants exceeding EUR 750 000 or operating grants exceeding EUR 100 000, an audit report produced by an approved external auditor, where it is available, and always in cases where a statutory audit is required by Union or national law, certifying

the accounts for up to the last three available financial years. In all other cases, the applicant shall provide a self-declaration signed by its authorised representative certifying the validity of its accounts for up to the last three available financial years. It also provides for exceptions:

- the obligation to provide an audit report applies only to the first application by a given beneficiary in any one financial year;
- it does not apply to public bodies or to the international organisations referred to in Article 156 of the FR;
- it is possible to decide, depending on a risk assessment, to waive this obligation for education and training establishments and, in the case of agreements with a number of beneficiaries, beneficiaries who have accepted joint and several liabilities or who do not bear any financial responsibility.

#### **4. FINANCIAL ANALYSIS AND INTERPRETATION OF THE RESULTS**

The financial analysis involves calculating a series of financial ratios based on the financial data declared on the economic and financial capacity analysis form (Annex 7.b of the Call for Proposals "Economic and Financial Analysis form") and verified based on the financial documents requested.

##### ***4.1. Financial ratios***

Two types of calculation are used by type of economic operator, differentiated by the requirement to keep either a complete or a simplified set of accounts.

###### ***a. Economic operators keeping full accounts***

###### **Financial independence = own funds/total liabilities**

Financial independence makes it possible to determine the proportion of own funds in total liabilities and therefore to measure the degree of organisational independence in relation to third-party funds. A ratio of less than 20 % is considered to be negative.

###### **Liquidity = (available funds + claims)/Short-term liabilities**

This ratio measures whether total short-term assets actually cover short-term liabilities and therefore indicates whether the economic operator will be able to meet its short-term commitments.

The value of this ratio must be equal to or higher than 1. Otherwise, current assets do not suffice to cover short-term liabilities, and the economic operator may not be able to meet its commitments in the very near future (in less than a year).

###### ***Debt ratio = own funds/medium- and long-term liabilities***

This ratio measures the solvency and independence of the operator, by analysing the composition of the liabilities on the balance sheet. A ratio of less than 30 % will be considered negative.

###### **Capacity to co-finance using own funds = (Net project cost/Duration in years)/Own funds**

This concerns determining whether the body has the capacity to finance the cost of the project using own funds. A ratio higher than 75 % shows a low capacity for co-financing using own funds.

###### **Ratio of project cost covered by self-financing capacity = (net project cost/duration in years)/self-financing capacity**

This ratio measures the proportion of project costs which could be covered by the self-financing capacity for the year. A value higher than 75 % must be considered to be negative.

***b. Economic operators keeping simplified accounts***

**Financial independence = own funds/total liabilities**

Financial independence makes it possible to determine the proportion of own funds in total liabilities. Sound financial autonomy is demonstrated by values above 20 %.

**Liquidity = (available funds + claims)/Short-term liabilities**

This ratio measures whether total short-term assets actually cover short-term liabilities and therefore indicates whether the entity will be able to meet its short-term commitments.

The value of this ratio must be equal to or higher than 1. Otherwise, there are insufficient current assets to cover short-term liabilities, and the entity may not be able to meet its commitments in the very near future (in less than a year).

**Adequacy of own funds = own funds/total revenue**

This is the ratio of stable resources to total revenue, and measures the number of periods available to the entity to maintain its activity using own funds. A high value is therefore an indication of the entity's "survival" capacity. A ratio of less than 25 % is considered to be negative.

**Capacity to co-finance using annual revenue = (Net cost of the project/Duration in years)/Total revenue**

This involves determining whether the body has the capacity to finance the cost of the project using its annual resources. A value higher than 75 % must be considered to be negative.

**Capacity to co-finance using stable resources = (Net cost of the project/Duration in years)/Stable resources**

This ratio determines the extent to which the body has the capacity to co-finance the project using stable resources. A value higher than 75 % is considered to be negative.

***4.2. Analysis of the results***

A series of points from 0 to 2 are allocated according to the calculated value of each ratio. Adding the points awarded for the financial year under analysis results in a three-level classification of financial viability: INSUFFICIENT, SATISFACTORY, GOOD.

In the case of a negative result, the Commission may either not select the applicant or take measures to protect its financial interests.

### ***4.3. Assessment of the financial situation of the special cases provided for in point 3.3 "Special cases"***

For the special cases provided for in point 3.3 above, the economic operators concerned are authorised to prove their economic and financial capacity using the means described in the same point.

For affiliated entities, the financial capacity of each entity will be analysed according to the appropriate hypothetical case. However, in addition to these individual analyses, an overall assessment will also be made. If financial analyses as presented in point 4 are performed, the overall assessment will be based on the results of these financial analyses performed for each of the affiliated entities, using the following formula as the basis for the calculations:

$$\bar{m} = \frac{\sum_{i=1}^n \alpha_i m_i}{\sum_{i=1}^n \alpha_i}$$

$m$  – the number of points obtained by each affiliated entity

$\alpha$  – the part of the grant received by each affiliated entity (expressed as a percentage)