EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR RESEARCH & INNOVATION

Directorate B - Common Implementation Centre
B.3 - Common service for business processes

H2020 Programme

Guidance on H2020 Financial Viability Ratios

Version 2.0
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HISTORY OF CHANGES		
Version	**Publication Date**	**Change**
1.1	28.07.2015	Initial published version (archived). Hyperlink for the legal entity identification form was updated according to the type of legal entity and language versions
2.0	27.01.2020	Integration of part of the content into the Online Manual. Update of the section on the Financial Viability Check

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Calculation of the H2020 financial viability ratios

The H2020 financial viability ratios are based of the financial data contained in the supporting documents submitted by the participants.

For legal persons, there are five financial ratios:

Purpose	Indicator	Ratios
Liquidity	Quick Ratio	$\frac{\text{Current assets – Stocks – Debtors > 1 year}}{\text{Short term debt (bank and non-bank)}}$
Financial Autonomy	GOP Profit ratio	$\frac{\text{Interest}}{\text{GOP}}$
Profitability	Profitability (1)	$\frac{\text{GOP}}{\text{Turnover}}$
	Profitability (2)	$\frac{\text{NOP}}{\text{Turnover}}$
Solvency	Solvency	$\frac{\text{Total Debt}}{\text{Equity (*)}}$

(*) Equity = Capital and reserves - 50 % of intangible assets

Based on the results obtained for each of the above-mentioned ratios, the following scores are given:

Purpose	Indicator	Weak / Insufficient	Acceptable	Good
		0 points	1 point	2 points
Liquidity	Quick Ratio	$i < 0,5$	$0,5 \leq i \leq 1$	$i > 1$
Financial Autonomy	GOP Profit ratio	$i > 0,4$ or < 0	$0,40 \geq i \geq 0,30$	$0 \leq i < 0,30$
Profitability	Profitability (1)	$i < 0,05$	$0,05 \leq i \leq 0,15$	$i > 0,15$
	Profitability (2)	$i < 0,02$	$0,02 \leq i \leq 0,04$	$i > 0,04$
Solvency	Solvency	$i > 6,00$ or < 0	$6,00 \geq i \geq 4,00$	$0 \leq i < 4,00$

Exceptions

For liquidity

- If {Current assets – Stock – Debtors after one year} = 0, the result will be 0 ('weak'). The value for {Current assets – Stock – Debtors after one year} cannot be negative.

- If the short term debt (bank and non-bank) = 0, and the above (i.e. {Current Assets – Stock – Debtors after one year}) is not 0, the result will be 2 ('good').

For financial autonomy

- If GOP ≤ 0, the result will be -1 ('weak').

- The interest paid cannot be negative.

For profitability (1)

- If GOP ≤ 0, the result will be 0 ('weak').

- If Turnover = 0, the Operating income will be used for the calculation.

- If Operating Income = 0 or negative, the result will be 0 ('weak').

- Turnover cannot be negative.

When deciding about the financial viability of non-profit entities, their non-profitmaking nature can be taken into account.

For profitability (2)

- If NOP ≤ 0, the result will be 0 ('weak').

- If Turnover = 0, the Operating income will be used for the calculation.

- If Operating Income = 0 or negative, the result will be 0 ('weak').

- Turnover cannot be negative.

For solvency

- If Equity = 0, the result will be -1 ('weak').

- If Total debt = 0 and Equity is positive, the result will be 0 ('good').

- If Total debt = 0 and Equity is negative, the result will be -1 ('weak').

Financial viability will normally be considered positive (i.e. 'good' or 'acceptable'), if the obtained points are minimum 4.

Financial viability overall results

	Insufficient	Weak	Acceptable	Good
Result of financial viability check	0	1-3	4-5	6-10

Exceptions

Irrespective of the above results, the financial viability of a participant will always be considered 'weak' if:

1. The submitted audit report contains serious qualifications;
2. The participant is a newly established entity that has not yet closed any accounts;
3. There were substantial financial findings relating to the financial capacity in an audit of the Commission/Agency or the Court of Auditors or an OLAF investigation within the last two years;
4. The participant has been involved in serious administrative errors or fraud;
5. The participant is subject to pending legal procedures or judicial proceedings for serious administrative errors or fraud;
6. The participant is subject to an attachment order;
7. The participant is subject to a significant recovery order for an outstanding amount issued by the Commission/Agency, on which the payment is significantly overdue.

For natural persons, the financial viability is based on two criteria (i.e. liquidity and solvency), expressed as the following ratios:

Criterion	Meaning	Ratio	
Liquidity	Able to cover your short-term commitments	'Quick ratio'	$\frac{\text{Current patrimony(*) + annual revenues}^{\#}}{\text{Short term debt (bank and non-bank)*}}$
Solvency	Able to cover your medium and long-term commitments	'Solvency ratio'	$\frac{\text{Total debt*}}{\text{Patrimony (*)}}$

(*) as indicated in the declaration of patrimony
as indicated in the income tax declaration
* as indicated in the list of debts

Based on the results obtained the following scores are given:

Criterion	Ratio	Weak / Insufficient	Acceptable	Good
		0 points	1,5 points	3 points
Liquidity	Quick ratio	$i < 2$	$2 \leq i \leq 3$	$i > 3$
Solvency	Solvency ratio	$i > 1$	$1 \geq i \geq 0{,}5$	$i < 0{,}5$

The overall result is determined in the same way as for legal persons: the financial viability will normally be considered positive (i.e. 'good' or 'acceptable'), if a minimum of 4 points is obtained, unless the participant falls under one of the exception cases (see above).