III.5 Erasmus+ Guidelines for NAs on assessing the financial capacity of grant applicants and beneficiaries

1. The regulatory context

The Financial Regulation and its Rules of Application[1] defines that the applicants for grants need to demonstrate the financial capacity to carry out the proposed action or work programme[2].

For grant applications, the applicant shall submit a declaration on his/her honour that s/he has stable and sufficient sources of funding to maintain the activity throughout the period during which the action is being carried out and to participate in its funding[3].

In addition, for grant requests in excess of € 60.000[4] applicant has to provide the proper financial data allowing the NA to make a verification of his/her financial capacity.

Based on the art.131(3) of the Financial Regulation, the NA may not proceed to this verification and, consequently, waive the obligation of getting financial data for grant applicants/beneficiaries of the following type:

- natural persons in receipt of scholarships or
- public bodies or international organisations[5].

The NA may also not proceed to this verification and, consequently, waive the obligation of getting financial data for any institution or organisation as it is defined by Art. 19.3. of the Erasmus+ Programme Decision[6].

Except for applications for grants up to € 60.000 included, the above mentioned guidance does not prevent the NA to request information to perform the analysis, in particular in case there are any indications that the applicant has serious financial problems, and after careful analysis, to take an appropriate decision on precautionary measures, including not entering into a grant agreement.

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1 Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 and Commission Delegated Regulation C(2012)7507final of 29 October 2012 on the rules of application of Regulation (EU) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (To be published in the Official Journal of the European Union by the end of 2012).

2 Article 131 (3) FR

3 Article 131 (3) FR

4 Article 131 (3) FR

5 International organisations are defined as follows: (a) international public-sector organisations set up by intergovernmental agreements, and specialised agencies set up by such organisations; (b) the International Committee of the Red Cross (ICRC); (c) the International Federation of National Red Cross and Red Crescent Societies; (d) other non-profit organisations assimilated to international organisations by a Commission decision. (art. 43(1) IR)

6 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.

2. Introduction to the development of the methodology

In general in order to be able to estimate the financial risk involved in awarding a grant, the financial analysis has two aspects:

- the applicant's co-financing capacity and
- the applicant's financial viability.

For actions/project managed by NAs which concern in general simplified form of grants (as opposed to reimbursement of real costs), the co-financing capacity is presumed to be met.

Therefore only the financial viability is assessed as it gives an indication of the quality of the applicant's financial structure and, thus, gives some assurance that the applicant will be able to maintain his activity throughout the period when the action covered by the grant is carried out.

This assessment is based on a number of ratios as explained in Section 0 below. It should be emphasised that this analysis does not guarantee that all financially weak applicants will be detected. Nevertheless, as it is basic, easy to use and consistent with the spirit of the Financial Regulation, it safeguards the Commission's financial interest by flagging applicants whose financial profile represents a clear risk.

The methodology takes care of the particular characteristics of beneficiaries of the Erasmus+ and can be used for the various legal forms which private organisations may take, from commercial companies to non-profit organisations.

The method requires that the financial statements ("balance sheet" and "profit and loss account" or "revenue and expenditure account"), of the last financial year for which the accounts were closed, are available. With their grant applications, applicants have to supply these financial statements, as requested by the Calls for proposals.

The NA has to ensure that it makes its analysis using the most recent available financial statements; in principle they should reflect the situation at a date not older than 18 months before the closing date for the Call for proposals (for example, if the closing date is the 1^{st} of February of the year N, the financial data should not be earlier than the 1^{st} of August of the year N-2).

An analysis of successive accounting years would introduce a dynamic element, making the analysis deeper and more precise, but would increase the complexity of drawing conclusions from the trends identified. Such an analysis can be carried out in case that the simple analysis is not conclusive.

3. The methodology

3.1. "Traditional" approach for applicants whose profile and activities are close to those of classic commercial companies

The following ratios have been used to determine the confidence level arising from the assessment process:

3.1.1. Assessment of financial viability

This assessment is based on the following indicators:

I. Financial independence = $\dfrac{\text{Total stockholders' equity}}{\text{Balance sheet total}}$

II. Liquidity = $\dfrac{\textbf{\textit{Accounts receivable + Liquidity}}}{\textbf{\textit{Short term liabilities}}}$

I. The financial independence ratio reflects the amount of own funds as a proportion of total liabilities to be determined. It indicates to which extent organisations depend on third-party funding. The closer the ratio is to 1, the more financially independent an organisation is and the more management autonomy it has. The closer the ratio is to 0%, the more dependent the organisation is on third-party funding. The lower the financial independence ratio is, the more difficult it will be to obtain credits and loans.

II. The liquidity ratio measures whether the current assets, except inventory, cover current liabilities and therefore indicates whether the economic operator will be able to meet its current liabilities.

3.1.2. Scoring

In order to categorise the level (poor, satisfactory or good) of the applicants' financial viability, the following scoring tables are used:

Indices to be taken into account	Result	Score
I. Financial independence (FI)	FI ≥ 0,5	4
	0,4 ≤ FI < 0,5	3
	0,3 ≤ FI < 0,4	2
	0 ≤ FI < 0,3	1
	FI is negative	-2
II. Liquidity	L<1	0
	1<=L<=2	1
	L>2	2

Adding the marks awarded for each ratio will give the overall score for the applicant's financial viability.

Financial viability score	Poor	Satisfactory	Good
Total marks awarded	2 or less	3 or 4	5 or more

3.2. Non-profit organisations[7]

3.2.1. Assessment of financial viability

The ratios for assessing financial viability and the scoring rules are identical to those set out in point 3.1.1 above.

3.2.2. Scoring

In order to categorise the level (poor, satisfactory or good) of the applicants' financial viability, the scoring tables under heading 3.1.2 are to be used.

4. Interpreting the results

On the basis of the scores awarded, applicants may belong to three distinct categories each of which requires a specific approach:

4.1. Financial viability satisfactory or better

The applicant shows a healthy financial profile. The conditions are fulfilled to consider that awarding a grant will constitute a low risk for the Commission financial interests.

4.2. Poor financial viability

For grant requests under € 750.000, NAs should decide, on the basis of a risk analysis, whether a set of precautionary measures and/or guarantees that safeguard the Commission's financial interests should be requested. Such measures and guarantees are outlined in section 5.

For grant applications over € 750.000 which, with the exception of public sector bodies and international organisations or applications received from applicants who have lodged earlier in the same year an application, must be accompanied by an audit report produced by an external auditor, the NA has to get additional assurance resulting from a more in-depth analysis (such as covering consecutive accounting periods, checking additional ratios, taking account of external audit reports).

Such analyses should be carried out by a NA staff member with a good knowledge of financial analysis or by an external expert. If the outcome of the additional checks does conclude that the risk for the financial interests of the Commission remains high, grants should only be awarded with a set of precautionary measures and/or guarantees which safeguard the Commission's financial interests as outlined in section 5.

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[7] Beneficiaries whose main activities are not of a commercial nature, irrespective of their legal form.

5. Precautionary measures and guarantees

5.1. Prefinancing

In function of their risk assessment, the NA may decide that

- the beneficiary should not receive any prefinancing for his action at all or
- the prefinancing should remain limited to a maximum not exceeding € 60.000;
- in addition the prefinancing may be split in several instalments for which the payment can be executed in function of the fulfilment of a number of conditions and after checking and approving the said reports according to the procedure described in the Guide for NAs;
- it will only make one single payment after receipt and approval of the final report.

5.2. Additional reporting

In function of their risk assessment, the NA may request that the beneficiaries submit reports at regular interval. These reports may be progress reports or intermediate financial reports that will be considered as intermediate payment requests. The NA may also request that these reports must be accompanied by an audit report produced by an external auditor.

5.3. Guarantees[8]

In function of their risk assessment of the grant applications exceeding € 60.000, the NA may require advance guarantees such as:

- A bank guarantee covering the same amount as the prefinancing. In the event of staggered payments, the NA may request either a guarantee which directly covers the total amount of prefinancing (including payments not yet made) or, alternatively, an extension of existing guarantees every time a new prefinancing payment is made.
- Guarantees from partners participating in the project or joint and several guarantees from one or more third parties. In such cases, the financial capacity of partner(s)/third party(ies) must have been demonstrated so as to ensure that they are financially viable.

Any guarantees must fulfil the following conditions:

- Be denominated in Euro;
- Be provided by an approved bank or financial institution established in one of the Member States of the European Union or, when the beneficiary is established in another country participating to the programme, a bank or financial institution that offers sufficient security;
- Stand as irrevocable collateral security, or a first-call guarantor of the beneficiary's obligations;
- They must be unconditional and payable on first request. The guarantees may be called in at any time by the NA and the guarantor may impose no condition on their calling in by the NA.
- They must be for a period sufficiently long to allow them to be activated.

8 Article 182 of the IR.

6. Glossary

This glossary gives a general overview in French, English and German of the technical terms used in the note.

French	English	German
Bilan	Balance sheet	Bilanz
Compte de résultats	Profit and loss account	Gewinn- und Verlustrechnung
Total des charges	Total expenses	Summe Aufwendungen
Fonds de roulement	Working capital	« working capital »
Capitaux propres	Capital and reserves	Eigenkapital
Dettes à longue terme	Long term debt	Verbindlichkeiten (langfristig)
Immobilisations incorporelles	Intangible assets	Immaterielle Vermögensgegenstände
Immobilisations corporelles	Tangible assets	Sachanlagen
Immobilisations financières	Financial assets	Finanzanlagen
Indépendance financière	Financial independence	Finanzielle Unabhängigkeit
Rentabilité	Profitability	Rentabilität
Résultat net de l'exercice	Net result of the accounting period	Jahresüberschuss/ Jahresfehlbetrag
Résultat d'exploitation	Operating result	Betriebsergebnis
Charges financières	Financial charges	Aufwendungen
Produits financiers	Financial income	Erträge
Chiffre d'affaires	Turnover	Umsatzerlöse
Dotation aux amortissements	Depreciation	Abschreibung