



Financial Administration of EU Grants

Summer Camp

European Academy

Sound Financial Management



Economy

The resources used shall be made available in due time, in appropriate quantity and quality, and at the best price



Efficiency

The best relationship between the resources employed, the activities undertaken and the achievement of objectives



Effectiveness

The extent to which the objectives pursued are achieved through the activities undertaken

Sound financial management (Art. 33 of the FR)

- **Economy** - the resources used by the Union institution concerned in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality, and at the best price
- **Efficiency** - the best relationship between the resources employed, the activities undertaken and the achievement of objectives
- **Effectiveness** - the extent to which the objectives pursued are achieved through the activities undertaken
- **SMART** objectives: Specific, Measurable, Attainable, Relevant and Time-bound
- **RACER** PMI indicators: Relevant, Accepted, Credible, Easy and Robust

GRANTS

Art. 180, p. 2, Financial Regulation

Grants may be awarded in order to finance any of the following:

- (a) an action intended to help achieve a Union policy objective ('**action grants**');
- (b) the functioning of a body which has an objective forming part of, and supporting, a Union policy ('operating grants').

Operating grants shall take the form of a financial contribution to the work programme of the body referred to in point (b) of the first subparagraph.

GRANTS MANAGEMENT

- Pre-signature
 - Call for proposal, Submission of proposal, Selection, Evaluation, Validating checks, Financial and Operational Assessment, Signature, Start date of the duration of the action
- After signature
 - Keeping records
 - Amendments
 - Reporting, Payments and Suspensions
 - Checks, reviews, audits and investigations
 - Role of the Coordinator
 - Deliverables
 - Dissemination and Exploitation of Results
 - Communication

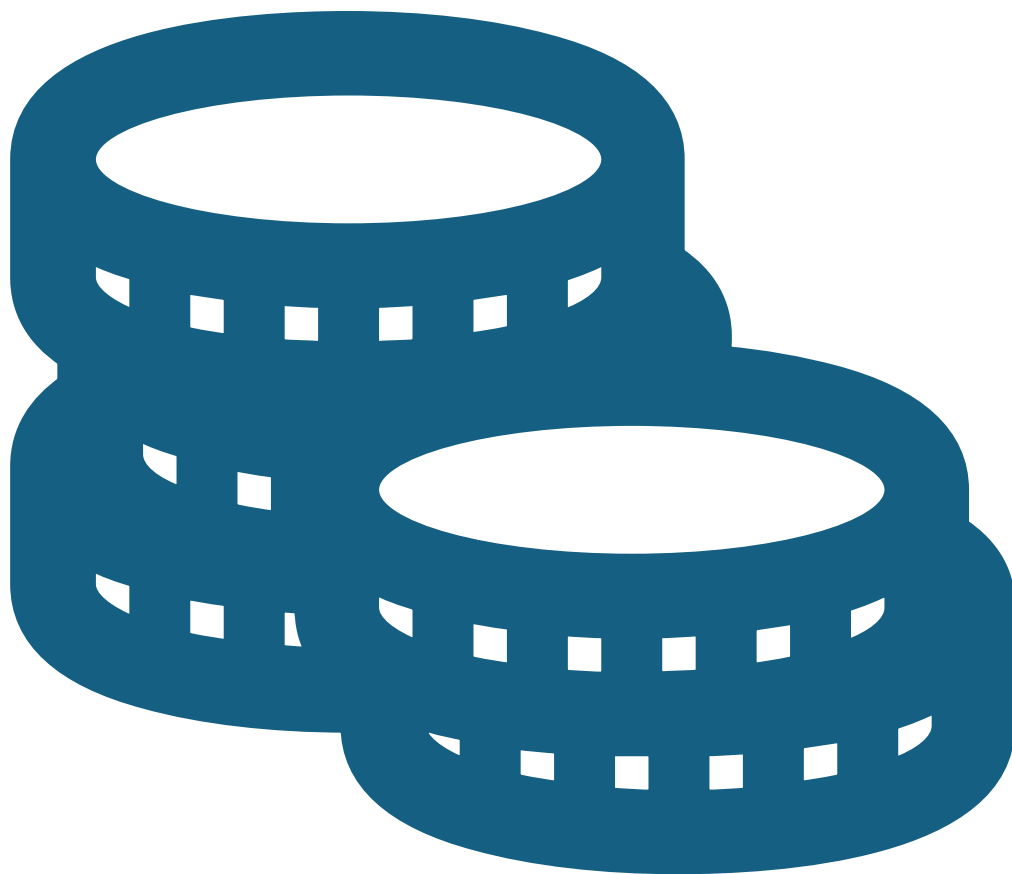
Budget

(Art. 5.4-5.5 of the HE GA)

- The action budget is an estimation.
 - It will be a reference in case of grant reductions.
- Budget transfers are possible:
 - Between beneficiaries
 - Between budget categories in a beneficiary's estimated action budget
- Budget transfer is NOT possible:
 - to a **form of costs** that is not set out in the estimated budget in Annex 2
- But
 - Cost amounts budgeted may be transferred from A1 to A2/A3 **direct personnel costs** budget categories without an amendment to the grant agreement even if they did not foresee that form of cost in Annex 2



Consult the Commission before budget transferring.



Forms of EU contributions Art. 125 FR

- Actual costs incurred
- Unit costs
- Lump sums
- Flat-rate financing
- A combination of the forms
- Financing not linked to the costs of the relevant operations

Eligibility of costs

- Art.6 of the GA (based on Art. 186 of the FR)
- **Eligibility** of costs: **general criteria**
 - Incurred during the implementation of the action
 - Necessary for the action
 - Indicated in the budget, Annex 2
 - Identifiable and Verifiable
 - Compliant with national legislation on taxes and social security
 - Reasonable, justified, based on the principle of Sound Financial Management (economy and efficiency)
- Costs incurred by the Affiliated Entities – identified in the GA, abide by the same rules applicable to the Beneficiary
- Non-recoverable VAT
- Reference to GA on estimated budget categories - possibilities for transfers

Eligibility of covid19 - related force majeure costs

- Force majeure (Art. 39 in HE):
 - was unforeseeable, exceptional situation and beyond the parties' control
 - proves to be inevitable despite exercising all due diligence
 - must be formally notified to the other party without delay, stating the nature, likely duration and foreseeable effect
 - Travel tickets/hotel bookings/meetings cancelled
- Costs are eligible if they fulfil:
 - the general eligibility conditions of Article 6, and:
 - Beneficiaries must immediately take all the necessary steps to limit any damage due to force majeure

Direct and Indirect costs

- **Direct costs** – costs that can be measured on their contribution to the action can reported as direct. They must not include any indirect costs.
 - Staff related
 - Travel, accommodation and subsistence allowances
 - Purchases of Goods, Work or Services
 - Subcontracts
- **Indirect costs** – costs not only incurred for the action implementation and that cannot be measured on their precise contribution to the action

Forms of costs

- Actual costs

- Real, not budgeted or estimated numbers

- Unit costs

- Personnel costs for SME owners/Natural persons not receiving a salary
 - Usual costs accounting practice of the Beneficiary for average personnel costs
 - Internally invoiced goods and services

- Specific unit costs

- costs for energy efficiency measures in buildings
 - access costs for providing trans-national access to research infrastructure
 - access costs for providing virtual access to research infrastructure
 - costs for clinical studies

- Flat rate for indirect costs

- 25% of direct eligible costs

- Lump sum

Forms of costs

- The forms of cost are included in the Grant Agreement per cost category.
- The reimbursement rates apply to all forms of costs (actual, unit, lump sums and flat-rates costs) and all budget categories.
- Within a grant, *different forms* of costs CAN be used.

Daily Rate (Horizon Europe)

Actual personnel costs during the months within
the reporting period

Divided by

Maximum declarable day-
equivalents

1 month = 30 Days (Horizon Europe)

AGA page 51



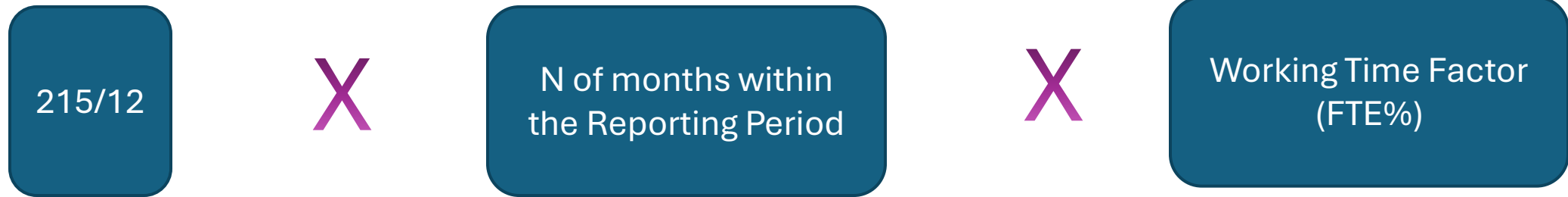
For the purpose of all personnel cost calculations a month is considered to have 30 days.

Example: In the reporting period from 01/05/2022 to 31/03/2023, you calculate the number of months to be used when an employee is hired from 05/05/2022 until 20/10/2022:

- May: 26 days as of the day of being hired, i.e. $26 / 30 = 0,87$ months
- June-September: 4 months
- October: 20 days until end of employment, i.e. $20 / 30 = 0,67$ months

That is for the person in the reporting period: $(26 / 30) + 4 + (20 / 30) = 5,54$ months.

Day Equivalents (Horizon Europe)



Compare the calculation in Horizon Europe:



Bonus payments

- They are part of the Basic Remuneration
- Additional Eligibility Conditions:
 - part of the usual remuneration practices for national projects
 - not based on commercial targets or fund raising
 - be paid in accordance with national law, the collective labour agreement and the employment contract/equivalent appointing act
 - **exclude arbitrary bonuses** (i.e. bonuses which are not part of the beneficiary's usual remuneration practices and/or which are not based on objective conditions)

Project-based accounting in HE

- Calculation of the Additional Remuneration:
 - **"Action Reference" (AR)** - reference rate for the work on the H2020 action
 - **"National Projects Reference" (NPR)** - reference rate for the usual remuneration practice for national projects
 - Compare both rates:
 - If $AR > NPR$, there is additional remuneration
 - If $AR \leq NPR$, there is NO additional remuneration, all remuneration is basic

Project-based accounting in Horizon Europe

- The daily rate to be used for the EU grant financial statement will be the **lower** of the two.
- In practice, the HE framework does not allow additional remuneration in the context of what it means under H2020.
- Page 37-38 in the AGA-HE (Art.6.2.A.1)



Other Payments and Additional Remuneration in Horizon Europe:

- 13th salary, Christmas pay, retroactive salary increase
 - When recorded in the statutory accounts, based on a binding document, and not an estimate
 - If accruals are used over the time before payment, the cost declared should be including them in the month of the payment
 - If – beneficiary usual remuneration practice, and paid consistently for same kind of work or expertise, AND
 - Based on objective and generally applied criteria, regardless of the source of funding

Reference: p.48-49 of the Annotated Corporate Grant Agreement (10-15 min reading time).

A2. Natural Persons working under a DIRECT contract

- Art. 6.2.A.2 The **costs for natural persons working under a direct contract** with the beneficiary other than an employment contract are eligible personnel costs, if:
 - (a) the person works under conditions similar to those of an employee (in particular regarding the way the work is organised, the tasks that are performed and the premises where they are performed);
 - (b) the result of the work carried out belongs to the beneficiary (unless exceptionally agreed otherwise), and
 - (c) the costs are not significantly different from those for personnel performing similar tasks under an employment contract with the beneficiary.



Calculation principles to Category A.1 apply also to

A.2. 2 July 2025

Sara Dishkova, CIA

Natural Persons working under a DIRECT contract – Category A.2

- Usually ”in-house” consultants, free-lancers
- Actual OR unit costs (average personnel costs)
- Eligibility:
 - General criteria
 - Direct contract
 - Output/product owned by the beneficiary
 - Similar working conditions
 - Costs not significantly different (50% or 25% reference to CFS agreed-upon procedures, page 9)
- The remuneration must be based on the working time (not on output)
- New in HE: An entity with one person only can also be A2, subject to all General and Additional Criteria

Seconded personnel A.3

- General eligibility conditions should be observed
- The 3rd party must be in Annex 1 GA
- Secondment assignment Best Practice:
 - The **secondment agreement** has to detail the conditions of secondment (tasks, payment (or not) from one entity to the other, duration of the secondment, location, etc.).
- The costs must be reimbursed up to the value actually incurred by the providing entity for the time working on the action, as reconciled with the accounting records

Seconded personnel A.3

- Only up to the actually incurred costs by the third party can be declared²⁴
- If the beneficiary paid less than that – declare the rest as receipts
- Indirect costs **of the third party**:
 - Can be claimed only if the staff worked NOT in the beneficiary's premises (and in that case: 3rd party's costs estimation in Annex 2)

Seconded personnel A.3

- Additional eligibility criteria:
 - The beneficiaries must ensure that the Commission/Agency, the European Court of Auditors (ECA) and the European Anti-Fraud Office (OLAF) have the right to carry out checks, reviews, audits, and investigations on the third parties (see Article 22), and in particular audit their underlying costs.
 - They must also ensure that the Commission/Agency has the right to make an evaluation of the impact

SME owners/Natural persons not receiving a salary – Category A.4 (HE)

- The unit daily rate is amended from $5080/18=282,22$ in Decision C(2020) 7115, to
- $8745,40/18= 485,85$ with Decision C(2024) 5328 from 31.07.2024
- So, in Annex 2a the A4 daily rate:
 - $8.745,4/18 = 485,85$
 - Multiplied by the country-specific coefficient
- The total number of day-equivalents declared in EU grants, for a person for a year, cannot be higher than 215.

Other Payments and Additional Remuneration in Horizon Europe:

- 13th salary, Christmas pay, retroactive salary increase
 - When recorded in the statutory accounts, based on a binding document, and not an estimate
 - If accruals are used over the time before payment, the cost declared should be including them in the month of the payment
 - If – beneficiary usual remuneration practice, and paid consistently for same kind of work or expertise, AND
 - Based on objective and generally applied criteria, regardless of the source of funding

Reference: p.48-49 of the Annotated Corporate Grant Agreement (10-15 min reading time).

Costs of Third Parties



- Any party not signing the Financial Contribution Agreement with the EC is a third party
 - Subcontractors
 - In-kind contributions
 - for free
 - against payment
 - Linked third parties
 - International organisations
 - Contractors

Subcontracting (Art. 9.3 of GA HE)

- Beneficiaries may award subcontracts covering the implementation of **certain action tasks**.
- Subcontracting may cover only a **limited part** of the action.
- Beneficiaries/linked third parties may NOT subcontract tasks to other beneficiaries/linked third parties
- The tasks to be implemented and the estimated cost for each subcontract must be set out in Annex 1 and the total estimated costs of subcontracting per beneficiary must be set out in Annex 2.

Subcontracting

- Example of subcontracting costs:
 - Translation, Interpretation, specific Evaluation, external Expertise, Information, Dissemination, Reproduction, Publication
- Beware of additional eligibility rules:
 - Best value for money - price-quality ratio OR lowest possible price
 - No core activities, no Coordinator's tasks
 - Included in the Grant Agreement (Annex 1 and Annex 2)
 - OR agreed with the Commission (amendment/simplified procedure)
 - Procurement rules - when beneficiaries are 'contracting authorities' or 'contracting entities' (within the meaning of the EU public procurement Directives 2014/24/EU and 2014/25/EU³⁷)
- The Subcontractor should abide with the same obligations and provide the same rights to the Commission as those of the Beneficiary

Subcontracting

Obligations that must be extended to subcontractors:

- Avoiding conflicts of interest ([see Article 35](#))
- Maintaining confidentiality (see *Article 36*)
- Promoting the action and give visibility to the EU funding (see *Article 38*)
- Liability for damages (see *Article 46*).

Failing to abide with these obligations, the grant may be reduced and/or other penalty consequences may occur, according to Art. 13.2 , Art. 43 and Art. 6

Subcontracting

- **Conflict of interests**
(Art. 12 in HE)

The beneficiaries must take all measures to prevent any situation where the **impartial and objective** implementation of the action is **compromised** for reasons involving:

- economic interest,
- political or national affinity,
- family or emotional ties or
- any other shared interest



In-Kind Contributions

Indicative Audit Programme Ref. Section A 20-21; D 70,-72, 81- 84

- For ODC in-kind contributions :
 - The costs claimed do not exceed the actually incurred direct costs
 - Cost do not exceed depreciation costs of similar equipment, infrastructure or assets
 - "Arms' length" principle (No profit transferring)
 - No profit/financial fees are included in the in-kind costs
 - No estimations
 - Indication for the costs in Annex I / or approved in writing by EC
 - For in-kind contr. NOT used in the beneficiary's premises: indication in Annex 2

Linked third parties/ AFFILIATED Entities are:

affiliated entities

- under the direct or indirect control of the beneficiary
- under the same direct or indirect control as the beneficiary
- directly or indirectly controlling the beneficiary

entities with a legal link to a beneficiary

- established legal relationship
- broad and not specifically created for the work in the GA that goes beyond the action duration and usually pre-dates and outlasts the GA

What is NOT an affiliated entity?

H2020 Rules for Participation, Art. 8, par. 3

- the same public investment corporation, institutional investor or venture-capital company has a direct or indirect holding of more than 50 % of the **nominal** value of the issued share capital or a majority of voting rights of the shareholders or associates;
- or
- the legal entities concerned are owned or supervised by the same **public** body.

Affiliated Entities

- AE does not charge a price, but declares its own costs for implementing the action tasks.
- AE itself performs certain action tasks directly and is responsible for them towards the beneficiary. AEs do NOT sign the GA (and are therefore not beneficiaries).
- The beneficiary remains responsible towards the Granting Authorities for the work carried out by the AEs. Moreover, the beneficiaries are financially responsible for any undue amount paid by the Granting Authority as reimbursement of costs for their AEs — unless the GA foresees joint and several liability.
- Work is under the full and direct control, instructions and management of the AE, who carries out this part of the action (with its employees).

Affiliated Entity (Art. 8 HE)

- There is NO simplified approval procedure for the inclusion of an AE in the implementation of the action.





Comparision -3rd Parties HORIZON EUROPE

- **Affiliated entities partners**

- Named in GA, action tasks indicated Annex 1 and 2
- Costs and contributions
- Ref: Art. 8 GA

- **Associated partners**

- Named in GA, section tasks set in Annex 1
- Ref: Art. 9.1 GA
- Not eligible for funding

- **Third parties giving in-kind contributions**

- Free of charge/ (against payment only for HE)
- Set in Annex 1
- Art. 6.1 and Art. 9.2 GA

- **Subcontractors**

- Costs and related action tasks should be set in Annex 1 and 2
- Value for money

Subcontracting/ Third parties in HE

TYPE	Works on 'action tasks'?	What is eligible for the beneficiary/ affiliated entity?	Must be indicated in Annex 1 GA?	Conditions for participation	GA article
Beneficiaries	YES	Costs	YES	Must be eligible	art 7
Affiliated entities	YES	Costs	YES	Must have a capital or legal link with a beneficiary and fulfil the same eligibility conditions	art 8
Associated partners	YES	n/a	YES	No specific conditions (APs do not receive funding).	art 9.1
Third parties contributing to the project	Participate in the action as contributors	n/a (exception for HE: Costs)	YES	/	art 9.2
Subcontractors	YES	Invoiced price	NO (only subcontracted tasks must be indicated)		art 9.3
Third parties receiving financial support ⁴	Participate in the action as recipients.	Amount of support given	YES	According to the conditions in Annex 1 GA	art 9.4

Other direct costs

- Purchases of **goods, works or services**.
 - Ensure the **best value for money or**, if appropriate, **the lowest price** and avoid any conflict of interests (see Article 35).
 - Internally invoiced goods and services (D.1)
 - Calculated as unit costs only, according to usual practice
- **Equipment**
 - Standard case: no full cost, but depreciation actually incurred
 - Only the portion of the costs that corresponds to the rate of actual use for the action during the action duration can be taken into account.
 - No financial fees (e.g. for credits on the purchase, or for the leasing, etc.)
- Report on Explanations on the use of resources (n.a. MSCA & LS)
 - If actual costs declared under "other direct costs" are **equal or higher** than **15% of claimed personnel costs** for the beneficiary in each reporting period, no need to give any detail.

Other direct costs

- Rental of meeting rooms/interpretation booths
- Costs for certificates on the financial statements
- Financial costs, e.g. related to the bank guarantee if required
- Intellectual Property Rights reviews
- Communication events, material, services

Ensure competitive selection procedure for purchase of goods, works, and services, based on pre-announced award criteria, value for money and no conflict of interest.

Other direct costs

- Travel and subsistence allowances (actual cost only)
 - Costs are necessary for the implementation of the action, reasonable, verifiable and not reckless
 - Keep tickets, bills, receipts, proof of payment
 - Must be declared in euro according to the rules in the GA
 - According to the Beneficiary's usual travel policy but in compliance with GA
 - Only costs related to the time for travel related to the work on the action
 - Per diem/Fixed fees reconcile with the Beneficiary's usual travel policy, procedures or practice
- COVID19 : equipment for holding online meetings may be **eligible**.

Indirect costs

- One flat rate 25% of total eligible direct costs minus:
 - Subcontracting costs
 - In-kind contributions related costs incurred by 3rd parties outside of the Beneficiary's premises
 - Costs of providing financial support to 3rd parties
 - Costs from specific costs categories (unit or lump-sum costs) that include indirect costs
- BEWARE:
 - Indirect costs cannot be reimbursed and thus should not be declared if the Beneficiary also receives an Operating grant (for the operation and running costs of an entity, Art. 180.2.(b) of the FR), unless the Beneficiary applies separate accounting and shows no double funding doubts

Ineligible costs

- In principle – if costs **do not meet the general and specific eligibility conditions** set out in Article 6 of the GA
- Costs **listed in Article 6.3** of the GA
 - Return on capital or return generated by an investment (dividends)
 - Debt and debt service charges (on loans)
 - Interest owed
 - Provisions for bad debts and losses
 - Bank costs charged by the beneficiary's bank for transfers from the granting authority
 - Currency exchange losses
 - Deductible VAT
 - Incurred during the suspension of the implementation of the action
 - Declared under another EU or Euratom grant
 - In-kind contributions from 3rd parties (voluntary work, equipment available for free, etc.)
 - Excessive or Reckless expenditure

Receipts from the action

NO PROFIT RULE (HE, H2020)

- Receipts from the action (Art. 5.3.3 of the H2020 MGA)
 - (a) Income generated by the action; if the income is generated from selling equipment or other assets purchased under the Agreement, the receipt is up to the amount declared as eligible under the Agreement;
 - (b) financial contributions given by third parties to the Beneficiary/linked 3rd party specifically to be used for the action, and
 - (c) in-kind contributions provided by 3rd parties free of charge and specifically to be used for the action, if they have been declared as eligible costs
 - Example: p. 204 AMGA

If Grant Amount + Receipts > Total Eligible Costs → Deduction of profit

Revenues from the action: art.22.3.4

NO PROFIT RULE - Horizon Europe

- Revenue must be declared by For-Profit Beneficiaries
- For entities that work for profit (in their usual activities), EU grants must not have the purpose or effect of producing a profit during the action. Beneficiaries that are profit legal entities (and that do not fall under any of the other exceptions) must therefore declare their revenues at the end of the action. (p.225 AGA)

⚠ For the calculation of the profit, only the EU grant (and other EU grants, if any; see Article 6.3) and the **revenues** from the action (e.g. from the sale of results, such as products, services and publications, **conference fees**) are taken into account. Grants from other donors for the action or for the activities of the beneficiaries ('financial contributions') are NOT considered as revenue.

If Grant Amount + Receipts > Total Eligible Costs → Deduction of profit

Final grant amount

(Horizon Europe, GA Art.22.3.4)

- Calculated by the Commission when the Payment of the Balance is made
- The **final grant amount** for the action will be calculated in the following steps:
 - **Step 1** — Calculation of the total accepted EU contribution
 - **Step 2** — Limit to the maximum grant amount
 - **Step 3** — Reduction due to the no-profit rule
- If the balance is **positive**, it will be paid to the **coordinator**

THANK YOU FOR PARTICIPATING IN THIS COURSE

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