

## ENI CBC MEDITERRANEAN

### SEA BASIN PROGRAMME

**2014-2020**

#### First call for Standard Projects

# Methodology for assessing the Financial Capacity (FC) of Applicants and partners

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Financial\_Capacity\_Evaluation.xls

## INTRODUCTION

The assessment of the Financial Capacity (FC) of the Applicant and Partners is crucial to ensure a successful project implementation. The appraisal is performed in “Step 2” of the evaluation process, the so-called “Operational Evaluation”, which includes the following elements:

1. Operational and Financial Capacity;
2. Effectiveness;
3. Sustainability;
4. Cost-Effectiveness.

This note relates only to the Financial Capacity assessment, the relevant legal bases are:

- Articles 131 and 132 §1 of the Financial Regulation (EC Regulation 966/2012);
- Articles 196 and 202 of the Rules of Application of Financial Regulation (EC Regulation 1268/2012);
- “Methodology for assessing the financial capacity (profitability, solvency and liquidity) of the beneficiaries of grants” by the **Unit R3** Accounting and finances of the **DG EAC** (August 2015);
- “Guide to preparing application pack in ENI CBC programmes” TESIM (January 2017).

The Financial Capacity (FC) issue is embedded in the Guidelines for Applicant - Evaluation Grid (EG) section 3. “Operational and Financial Capacity” and it is partially related **ONLY to questions n. 3.3 and 3.4**.

The scoring for the entire section 3 ranges from 12 up to 20 points.

Proposals scoring less than 12 points will be rejected.

<b>3. Evaluation Grid: Operational and Financial Capacity (Partnership) Minimum threshold: 12</b>		<b>Reference to Application Form section(s)</b>	<b>Max Sub- score</b>
OC	3.1 Are the roles and tasks of the Applicant and partners clearly defined? Do all partners actively contribute to the achievement of the expected results consistently with the 50% rule?	2.1 – Logical Framework 2.4 - Budget per work package 2.3 - Partnership	5
	3.2 Do the partners complement each other in terms of competences and expertise to achieve all expected results?	2.3.3 - Competences and experiences	5
FC	<b>3.3 Do the Applicant and partners have adequate resources to implement the project? (Management capacities)</b>	<b>4 - Operational and Financial Capacity 4.1 - Applicant and partners details</b>	5
	<b>3.4 Do the Applicant and partners have stable and sufficient financial capacity to ensure the cash-flow during all the project implementation? In case of private partners, does the information provided in the Application Form show adequate financial capacity, in particular as regards the amount of grant to be managed?</b>	<b>4.1 - Applicant and Partners details 4.2 - Financial Plan</b>	5
		<b>Total Score</b>	<b>20</b>

## 1. SCOPE

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The assessment of the FC of Applicants and partners allows the MA to estimate the capacity of the organisations, with reference to the **financial** and **economic** aspects, to implement a successful project.

Furthermore, throughout the financial plan it will be possible to assess the effective project cash-flow, since weak financial capacities may jeopardize the implementation of the activities.

The ratios and the applied thresholds have been set-up on the basis of the values (average requested amounts) of the previous calls for proposals launched by the ENPI CBC MED 2007-2013 Programme.

The MA drafted this specific methodology restricted to the Financial Capacity (FC) to set an impartial evaluation of the financial information related to last 2 questions (**3.3** and **3.4**).

The financial aspects of these two criteria are weighted to 60%. The remaining **2 points** (40%) will be assigned considering the Operational Capacity of the Beneficiary/Partner.

## 2. ENTITIES SUBJECT TO THE VERIFICATION OF FC

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**All grant applicants and partners** are subject to the assessment of the FC.

However, in accordance with Article 131 comma 3 of the EU Financial Regulation (N. 966/2012) "*the verification of financial capacity shall not apply to public bodies or international organisations*"<sup>1</sup>. Therefore, the above-mentioned organisations will be considered as having the necessary financial capacity in the evaluation process by default and **will get the score of 3 points**<sup>2</sup>.

### 2.1. SPECIAL CASES

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#### a) **Recent entities: Profit, NGOs and non-profit organisations with less than 3 years.**

A bank reference<sup>3</sup> is compulsory for organizations established less than 3 years from the submission date of the application. The bank reference indicates the "Degree of trust" between the entity and the banking system. This criterion aims at avoiding "entry barriers" to the call for young however dynamic, SMEs and private organizations.

#### b) **Recent acquisition, merger and incorporation**

FC will be checked for all the entities concerned by the incorporation, acquisition and merger operations on the basis of the above-mentioned documents, according to the hypothetical cases presented.

## 3. ASSESSMENT METHODOLOGY AND INFORMATION TO DEMONSTRATE THE FC OF APPLICANTS AND PARTNERS

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This section explains the rationale and lists the supporting information to be provided by applicants and **EACH** partner during the first step of the evaluation. The FC will be assessed at partnership level during the second step and it will be calculated as arithmetical average of the FC of each applicant and partners.

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<sup>1</sup> A non exhaustive list of public bodies and international organizations follows: national administrations and institutions; decentralized bodies such as regions, departments, provinces and municipalities; joint bodies set up by the participating countries and regions (i.e. European Grouping of Territorial Cooperation - EGTC), international organisations, including regional organizations, UN bodies, departments and missions, international financial institutions and development banks, in so far as they contribute to the objectives of the ENI Regulation, European Union agencies provided that they meet the conditions set by the EC to participate; (i) public or public equivalent or parastatal bodies, local authorities or administrations and consortia thereof; chambers of commerce; universities and research centres/institutes.

<sup>2</sup> The MA reserves the right to apply ratios normally used for NGOs and non-profit organisations to public bodies (if the case). Please refer to the NCP of each Country for further information.

<sup>3</sup> The document delivered by the Bank declaring the financial reliability of the institution applying for the funds. Bank reference generally include (1) number of years of a customer's relationship with the bank, (2) number of loans and the amounts of their balances, (3) type and quality of collateral(s) provided, and (4) a copy of the customer's latest statement of financial affairs on file with the bank.

### 3.1. INFORMATION TO BE PROVIDED WITH THE APPLICATION FORM

#### 3.1.1. REFERENCE SUB-SECTION N. 3.3 OF THE EG

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Do the Applicant and partners have adequate resources to implement the project? (**Economic analysis**)

A maximum of 3 points (60% of the score) out of 5 can be obtained under sub-section n. 3.3, this sub-section aims at assessing if the Applicant and Partners **have resources enough** to implement project activities.

##### a) Nature of the Organisation: Profit organisations

###### Economic information to be provided in the Application Form:

Applicants and each partner, depending on their legal status, shall fill in the economic data in order to assess the profitability of the entity by calculating the current ratio **Net Income** (Profit or Loss)/**Total Annual Income**, with respect to the arithmetic average of the last three-years.

**Profitability ratio = Net Income (profit and loss) / Total Annual Income**

The optimal profitability ratios should be always positive. Higher ratios are more favourable compared with lower ones, because this shows that the entity can benefit from enough financial margins from its ongoing operations.

##### b) Nature of the Organisation: NGOs and non-profit organisations

###### Economic information to be provided in the Application Form:

Applicants and each partner, depending on their legal status, shall fill in the economic data in order to measure the weight of the requested grant on the annual income of the organization. In case of Lead Applicants, the value shall be limited to the budget allocated to them, not to the grant, which will be redistributed to other applicants.

The calculation, which will be expressed as a percentage, as follows:

**Grant Dependency ratio = (Requested Grant / Project duration in years) / Total Annual Income<sup>4</sup>**

The grant ratio should ideally be lower than 30%. A higher amount would imply a high dependency on the grant to be awarded and a high risk of financial difficulties in case of any delay in the pre-financing.

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<sup>4</sup> Donors' contributions and other sources of funding, such as contributions by members or sponsorships.

### 3.1.2. Reference sub-section n. 3.4 of the EG

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Do the Applicant and partners have stable and sufficient **financial capacity** to ensure the cash-flow during all the project implementation? In case of private partners, does the information provided in the Application Form show adequate financial capacity, in particular as regards the amount of grant to be managed?

This sub-session aims at assessing the **financial independence** that makes it possible to evaluate the sound financial autonomy by the applicant and each partners.

#### a) Nature of the organisation: Profit making organisations

##### Financial information to be indicated in the Application Form.

Applicants and partners shall fill in the financial data declaring the values of “**Own funds**”<sup>5</sup> and “**Total liabilities**”<sup>6</sup> of the last three years. The average of the last three years will be used as ratio.

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

Financial independence makes it possible to determine the proportion of own funds in total liabilities and, therefore, if the organization can ensure its short-term commitments or even ask for additional bank exposure. Sound financial autonomy is demonstrated by values above 20%.

#### b) Nature of the organisation: NGOs and non-profit organisations

##### Financial information to be indicated in the Application Form.

For the case of NGOs and non-profit organisations, this ratio indicates the dependency over donors’ contribution, compared with other sources of funding, such as contributions by members or sponsorships. The calculation, which might be expressed as a percentage, is as follows:

**Donor’s Dependency = Income from Donors / Total Annual Income**

Applicants and partners shall fill in the financial information declaring the values of “Income from donors” and “Total annual income” of the last three years. The ratio between these two values (average of the last three years) indicates the dependency over donors’ contribution, compared with other sources of funding, such as contributions by members or sponsorships.

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<sup>5</sup> **Own funds** is the sum of the following balance sheet categories:

Subscribed capital (Unless national law provides that called-up capital is to be shown under this item, in which case the amounts of subscribed capital and paid-up capital shall be shown separately.)

+ Share premium account

+ Revaluation reserve

+ Reserves:

1. Legal reserve, in so far as national law requires such a reserve.

2. Reserve for own shares.

3. Other reserves, including the fair value reserve.

+ Profit or - loss brought forward

+ Profit or - loss for the financial year.

<sup>6</sup> **Total liabilities** includes all the debts at short and long term as indicated in the company balance sheet.

### **3.2. SUPPORTING DOCUMENTS TO BE PROVIDED BY PROJECTS ADMITTED TO THE ELIGIBILITY CHECK**

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Each Applicant and partner<sup>7</sup> will have to submit an official declaration signed by the respective legal representative, accompanied by a copy of balance sheet and profit and loss account, stating that the financial information provided in the Application Form and in the Financial Capacity Sheet are true and correspond to the annual accounts.

A specific form of such declaration is available in the Application Pack.

However, the MA reserves the right to request, according to the entity legal status, evidence on (non-exhaustive list):

- Last three-years Net Income (Profit and Loss account);
- Last three-years annual Income;
- Official records of the most recent “Own funds”;
- Official records of the most recent “Total liabilities”;
- Last three-year annual donors income.

Failure to provide the official declaration and all requested documents implies the rejection of the entire proposal.

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<sup>7</sup> This does not apply to public administrations, public bodies (including bodies governed by public law) and international organisations.

#### 4. SCORING TO ASSESS THE FC

This paragraph describes how FC will be assessed for the Applicant and EACH partner during the evaluation of sub-sections n. 3.3 and n. 3.4. The global score per project will be the sum of the arithmetical averages of each applicant's individual score (see example below).

##### 4.1. EVALUATION OF SUB-SECTION 3.3

###### Public bodies and International Organisations:

Description	Score
Public organisations	3

**Description: PR - Profitability Ratio = Net Income (profit and loss) / Total Annual Income**

*Private (profit): maximum score 3 out of 5.*

Description	Score
$PR \leq 0,00\%$	0
$0,00\% < PR \leq 2,00\%$	0,5
$2,00\% < PR \leq 4,00\%$	1
$4,00\% < PR \leq 6,00\%$	2
$PR > 6,00\%$	3

**GDR - Grant Dependency Ratio = (Requested Grant / Project duration in years) / Total Annual Income**

*Private (NGOs and no profit sector) Maximum score 3 out of 5.*

Description	Score
$GDR \geq 30\%$	0
$20\% < GDR \leq 30\%$	0,5
$15\% < GDR \leq 20\%$	1
$10\% < GDR \leq 15\%$	2
$GDR < 10\%$	3

The grant ratio should ideally be lower than 30%. A higher amount would imply a high dependency on the grant to be awarded and a high risk of financial difficulties in case of any delay in the pre-financing.

#### 4.2. EVALUATION OF SUB-SECTION 3.4

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##### Public bodies and International Organisations:

Description	Score
Public organisations	3

**Description: FIR - Financial Independence Ratio = own funds/total liabilities**

*Private (profit sector) Maximum score 3 out of 5.*

Description	Score
FIR ≤ 20%	0
20,00% < FIR ≤ 30%	1
30,00% < FIR ≤ 40%	2
FIR > 40%	3

**Description: DDR - Donor's Dependency Ratio = Income from Donors / Total Annual Income**

*Private (no profit sector) Maximum score 3 out of 5.*

Description	Score
50,00% < DDR ≤ 90%	0
40,00% < DDR ≤ 50%	1
30,00% < DDR ≤ 40%	2
DDR ≤ 30%	3

A ratio higher than 50% would indicate a high dependency and low diversification of sources of funding. A ratio above 90% should indicate the impossibility to provide the minimum required co-financing and might therefore imply the exclusion from the call.



## 5. EXAMPLE

The beneficiary has to fill the cover, according to the information provided in the application form.

ENI CBC MED PROGRAMME - FIRST CALL FOR STANDARD PROJECTS				
METHODOLOGY FOR ASSESSING THE FINANCIAL CAPACITY (FC) OF APPLICANTS AND PARTNERS				
The assessment of the financial capacity (FC) of the Applicant and partners is a crucial issue to ensure a successful project implementation. Its appraisal is going to take place during Step 2 of the evaluation process, the so-called "operational evaluation".				
<i>(Only white cells have to be filled)</i>				
<b>Acronym of the project</b>		<b>Duration of the project (months)</b>		
Project Acronym #1		24		
Partnership	Name	Status	EU amount requested	Recent entity@?
Beneficiary	Ministry abc	Ministry or other national public administration	100.000,00	-
Partner 1	Municipality of def	Regional or local public administration	90.000,00	-
Partner 2	Crossing xyz	International organisation	75.000,00	-
Partner 3	Association zyx	NGO	50.000,00	-
Partner 4	Enterprise yxz	Company or other economic operator	45.000,00	-
Partner 5				-
Partner 6				-
Partner 7				-
Partner 8		-		-
Partner 9		-		-
Partner 10		-		-
Partner 11		-		-
Partner 12		-		-
Partner 13		-		-
Partner 14		-		-
Partnership n° 5				
i) Recent entities: Profit, NGOs and non-profit organisations with less than 3 years.				
<i>The bank reference is compulsory for organizations established less than 3 years from the submission date of the application. The Bank reference indicates the "Degree of trust" between the entity and the banking system. This criterion aims at avoiding "entry barriers" to the call for young however dynamic, SMEs and private organizations.</i>				

The general overview of the partnership will be as follows:



### FINANCIAL INFORMATION OF APPLICANTS AND PARTNERS

Acronym of the project: Project Acronym #1



Entity	Status	Net income (profit and loss)		Income from Donors	Total Annual Income	EU amount requested	Own funds	Total liabilities	Recent entity(i)?	Bank declaration
Ministry abc	PUB					€ 100.000,00			-	-
Municipality of def	PUB					€ 90.000,00			-	-
Crossing xyz	IG					€ 75.000,00			-	-
Association zyx	NGO			€ 23.333,33	€ 45.000,00	€ 50.000,00			-	-
Enterprise yxz	PRI	€ 11.000,00			€ 55.000,00	€ 45.000,00	€ 45.000,00	€ 25.000,00	-	-

The value of the ratios will be calculated as follows:



### FINANCIAL INFORMATION OF APPLICANTS AND PARTNERS

Acronym of the project: Project Acronym #1



Entity	Status	3.3		3.4	
		Profitability	Grant Dependency	Financial Independence	Donors' Dependency
Ministry abc	PUB	PUB	PUB	PUB	PUB
Municipality of def	PUB	PUB	PUB	PUB	PUB
Crossing xyz	IG	PUB	PUB	PUB	PUB
Association zyx	NGO		55,56%		51,85%
Enterprise yxz	PRI	20,00%		180,00%	



The ratios at partnership level will be the following ones:

**Reference sub-session n. 3.3 of the EG**

Do the Applicant and partners have adequate resources to implement the project? (Economic analysis)

A maximum of 3 points (60% of the score) out of 5 can be obtained under sub-session n. 3.3, this sub-session aims at assessing if the Applicant and Partners have resources enough to implement project activities.

3.3 ratio at partnership level

2,40

Partnership assessment: Project Acronym #1										
Role/Name	Legal status	Net income (profit and loss)	Income from Donors	Total Annual Income	EU amount requested	Own funds	Total liabilities	Bank declaration	Ratio	
BEN	Ministry abc	Ministry or other national public administration	N/A	N/A	N/A	€ 100.000,00	N/A	N/A	-	3,00
PP1	Municipality of def	Regional or local public administration	N/A	N/A	N/A	€ 90.000,00	N/A	N/A	-	3,00
PP2	Crossing xyz	International organisation	N/A	N/A	N/A	€ 75.000,00	N/A	N/A	-	3,00
PP3	Association zyx	NGO	N/A	€ 23.333,33	€ 45.000,00	€ 50.000,00	N/A	N/A	-	0,00
PP4	Enterprise yxz	Company or other economic operator	€ 11.000,00	N/A	€ 55.000,00	€ 45.000,00	€ 45.000,00	€ 25.000,00	-	3,00

**Reference sub-session n. 3.4 of the EG**

Do the Applicant and partners have stable and sufficient financial capacity to ensure the cash-flow during all the project implementation?

This sub-session aims at assessing the financial independence that makes it possible to evaluate the sound financial autonomy by the applicant and each partners.

3.4 ratio at partnership level

2,60

Partnership assessment: Project Acronym #1										
Role/Name	Legal status	Net income (profit and loss)	Income from Donors	Total Annual Income	EU amount requested	Own funds	Total liabilities	Recent entity(j)?	Ratio	
BEN	Ministry abc	Ministry or other national public administration	N/A	N/A	N/A	€ 100.000,00	N/A	N/A	-	3,00
PP1	Municipality of def	Regional or local public administration	N/A	N/A	N/A	€ 90.000,00	N/A	N/A	-	3,00
PP2	Crossing xyz	International organisation	N/A	N/A	N/A	€ 75.000,00	N/A	N/A	-	3,00
PP3	Association zyx	NGO	N/A	€ 23.333,33	€ 45.000,00	€ 50.000,00	N/A	N/A	-	1,00
PP4	Enterprise yxz	Company or other economic operator	€ 11.000,00	N/A	€ 55.000,00	€ 45.000,00	€ 45.000,00	€ 25.000,00	-	3,00

METHODOLOGY FOR ASSESSING THE OPERATIONAL AND FINANCIAL CAPACITY (OC & FC) OF APPLICANTS AND PARTNERS

EVALUATION GRID:		Financial Capacity		Operational Capacity					Total	Reference to Application Form section(s)
OPERATIONAL AND FINANCIAL CAPACITY (PARTNERSHIP) Minimum threshold: 12		0	1	2	3	4	5			
3.1	Are the roles and tasks of the Applicant and partners clearly defined? Do all partners actively contribute to the achievement of the expected results consistently with the 50% rule?				0				0	2.1 – LOGICAL FRAMEWORK 2.3 - PARTNERSHIP 2.4 - BUDGET PER WORKPACKAGE
3.2	Do the partners complement each other in terms of competences and expertise to achieve all expected results?				0				0	2.3.3 - COMPETENCES AND EXPERIENCES.
3.3	Do the Applicant and partners have adequate resources to implement the project? (management capacities)	2,40			0				2,40	4 - OPERATIONAL AND FINANCIAL CAPACITY 4.1 - APPLICANT AND PARTNERS DETAILS.
3.4	Do the Applicant and partners have stable and sufficient financial capacity to ensure the cash-flow during all the project implementation? In case of private partners, does the information provided in the Application Form show adequate financial capacity, in particular as regards the amount of grant to be managed?	2,60			0				2,60	4.1 - APPLICANT AND PARTNERS DETAILS. FINANCIAL PLAN
Partial score		5,00			0,00					
Total score				5,00						

The **global score** of the Financial Capacity per project will be the sum of the arithmetical averages of each applicant’s individual score. (See page 7). In the example above provided, the global score will be **5,00** (2,40 + 2,60).

The Evaluation Grid will be the following:

The scoring for **entire** section 3 ranges from a minimum of 12 up to 20 points.

The assessment of the Operational Capacity, which will be object of a separate document, will be able to assign the following scores:

- 3.1 - Maximum of 5 points (100% of the ratio);
- 3.2 - Maximum of 5 points (100% of the ratio);
- 3.3 - Maximum of 2 points (40% of the ratio);
- 3.4 - Maximum of 2 points (40% of the ratio);

Those ratios will be added to the Financial Capacity global score, proposals scoring less than 12 points will be rejected.