



# EU Grants

## Grant reductions

Version 1.0  
15 March 2024



### **IMPORTANT NOTICE**

This guidance document sets out the principles for determining **grant reductions** in the context of the EU programmes (2021-2027).

It will not be applied mechanically, but provides for a common framework of parameters that will allow to harmonise practices across EU services and reach proportionate results adapted to each individual case.

It applies to all EU programmes that have this guidance listed on their Reference Documents page in the EU Funding & Tenders Portal.

HISTORY OF CHANGES		
Version	Publication Date	Change
1.0	15.03.2024	▪ Initial version (new MFF).

**Table of contents**

**1. Background ..... 5**

**2. In what cases can reductions be applied? ..... 5**

**3. When can reductions be applied? ..... 5**

**4. How much? – Calculation and reduction rates ..... 6**

    4.1 Calculation ..... 6

    4.2 Reduction rates..... 6

**5. How? – Procedure ..... 8**

**6. Combinations with other measures for breach of contract ..... 9**

## 1. Background

The [EU Model Grant Agreement \(MGA\)](#)\* provides for a set of measures to be taken in case of non-compliance with grant agreement obligations ('Chapter 5 measures').

These measures can involve *inter alia* the rejection of ineligible costs and/or grant reductions, i.e. reducing a beneficiary's accepted EU contribution in order to take into account the breach (*see Article 22.3.4 MGA*).

This guidance establishes a methodology to ensure that such grant reductions are applied in a coherent and proportionate manner and aims to establish a harmonised approach across services, in line with the general principles of proportionality and equal treatment of beneficiaries<sup>1</sup>. It applies to all types of grants (including operating grants, lump sum and unit grants) and to all programmes that have published it as part of their guidance on the EU Funding & Tenders Portal.

## 2. In what cases can reductions be applied?

According to Article 28.1 MGA, reductions can be applied in cases of:

- substantial errors, irregularities or fraud
- serious breach of obligations under the grant agreement or during the award procedure, including improper implementation of the action, non-compliance with the call conditions, submission of false information, failure to provide required information, breach of ethics or security rules (if applicable), etc.
- systematic or recurrent errors, irregularities, fraud or serious breach of obligations in other grants that have a material impact on the grant (i.e. extension of findings from other grants; *see also Article 25 MGA*).

Grant reductions are for serious cases of non-compliance, i.e. if there is evidence of substantial errors, irregularities, fraud or serious breaches of obligations (during the award procedure or during the implementation of the grant agreement). They will normally not be applied in cases where the errors or breach of obligations have no significant impact on the action or on the EU financial interests or image.

**Examples (reduction):** *fraud/substantial irregularities, submission of false information, breach of ethical principles or EU values, partial or improper implementation of the action (e.g. several activities were not carried out), breach of the obligation to display the EU emblem, incorrect handling of EU-classified information, plagiarism, etc.*

**Examples (no reduction):** *minor delays/deviations in the technical work foreseen in Annex 1 GA (e.g. a deliverable is slightly delayed because the person responsible is on sick leave; a task had to be redone at a later time due to meteorological conditions).*

Moreover, they cannot be applied in situations recognised as force majeure (*see Article 35 MGA*).

## 3. When can reductions be applied?

Grant reductions can be applied at beneficiary termination, at final payment or afterwards. They can NOT be applied in interim payments (*see Article 28.1 MGA*).

Before the reduction is applied, the beneficiaries will be given opportunity to submit observations (*see below section 5*). For on-going grants, the beneficiaries will moreover usually already be informed immediately after the breach is discovered, to warn them about the grant reduction and ask them to take remedial measures to avoid further

---

<sup>1</sup> See Articles 131(4) and 188, point (a) of the Financial Regulation [2018/1046](#).

breaches during the project implementation (*e.g. after an audit or project review or in the context of an OLAF investigation*).

## 4. How much? – Calculation and reduction rates

### 4.1 Calculation

Grant reductions should be proportionate to the seriousness and the duration of the errors, irregularities, fraud or breach of obligations.

The granting authority will apply the reduction rate (*see below, section 4.2*) to the accepted EU contribution<sup>2</sup> of the beneficiary who committed the violation (or the revised accepted EU contribution if the reduction is after the final payment). The resulting amount will be deducted from the accepted EU contribution (or the revised accepted EU contribution) to establish the (revised) total accepted EU contribution.

If there are several beneficiaries involved in the breach, the granting authority will normally determine and apply the reduction for each of them separately.

If needed, the granting authority can however also determine and apply a reduction to all the beneficiaries of the grant agreement if:

- all beneficiaries are together responsible for not complying with the obligation AND the violation cannot be attributed to one (or several) of them individually, or
- very serious errors, irregularities or fraud put into question the funding of the entire action.

#### **Examples (reduction on all the beneficiaries):**

**1.** A review shows an improper implementation of the action (*i.e. implementation not in line with the description of the action in Annex 1 GA*) which cannot be attributed to individual beneficiaries.

**2.** The consortium set up a fraud network to systematically overstate costs (*i.e. fraud or very serious errors/irregularities that justify a reduction*).

In this case, the granting authority will apply the same reduction rate to all participants.

Affiliated entities will be treated like beneficiaries (*mutatis mutandis*). Grant reductions will be calculated on the affiliated entity's accepted EU contribution. It is only in case grant reductions lead to a recovery from affiliated entities that they will be looked at together with their beneficiaries (meaning that the amount to be recovered from an affiliated entity will be claimed from its beneficiary).

### 4.2 Reduction rates

The reduction rate (percentage) will be based on the following reduction rate matrix:

Figure 1 — Reduction rate matrix


REDUCTIONS	Gravity/impact					
	1 (Lowest)	2	3	4	5	6 (Highest)

<sup>2</sup> The methods of calculation of the accepted EU contribution are detailed in Articles 22.3.2 and 22.3.4, and that of the revised accepted EU contribution in Article 22.3.5 MGA.

<b>Type of breach</b>	<b>Fraud</b>	N/A	N/A	25%	50 %	75 %	100 %
	<b>Substantial errors or irregularities</b>	5%	10%	25%	50 %	75 %	100 %
	<b>Obligations during award procedure</b>	5%	10%	25%	50%	75%	100%
	<b>Obligations during grant implementation</b>	5%	10%	25%	50%	75%	100 %
	<b>Improper implementation of the action</b>	5%	10%	25%	50%	75%	100%

The matrix fixes the range of reduction rates that can be attributed per type of breach. Fields marked as N/A do not apply to that type of breach.

**Examples:** Any case of fraud will automatically be a minimum gravity of 3 (i.e. 25 % reduction); it cannot be qualified as gravity 1 or 2.

 For the MFF 2021-2027, reduction rates for improper implementation will also be calculated as a percentage based on gravity/impact, since the reduction is no longer calculated on the maximum grant amount fixed in the GA, but on the accepted EU contribution. Thus, in so far as the value of the not/improperly implemented work will normally be already reflected in the lower amount of accepted EU contribution (costs declared/costs rejected because not necessary/lower lump sums for not/partially delivered work packages), the grant reduction will normally focus on the gravity of the breach and the impact on the objectives of the project. If the improper implementation is such as to call into question the decision awarding the grant, the reduction can go up to 100%.

The reduction rate will be chosen for each beneficiary concerned on the basis of the type of breach (e.g. *fraud, grant agreement obligation, obligation during the award procedure, etc*), its gravity (e.g. *obligation only partially or totally disregarded, impact on the action/EU financial interests/image, aggravating and mitigating factors, etc*) and its duration (e.g. *one-off, persistent, permanent*).

When deciding on the gravity, the granting authority will take into account the following:

- aggravating factors:
  - the granting authority had already warned the beneficiary about the breach (e.g. *at the end of the first reporting period, project review, audit, etc*) but the beneficiary did not take remedial measures
  - the beneficiary has shown bad faith or intentionality
  - the beneficiary failed to co-operate with the granting authority

- reputational damage for the granting authority
- recurrence of the breach of the obligation
- the beneficiary committed several breaches (in this grant or in others).
- mitigating factors:
  - the beneficiary has remedied the situation (*e.g. following a warning from the granting authority*)
  - the beneficiary has taken precautionary measures (on its own initiative or following a warning from the granting authority) to prevent similar breaches in the future
  - the beneficiary was in good faith
  - the beneficiary has co-operated with the granting authority throughout the proceedings
  - the project fully achieved its objectives (⚠️ not applicable to fraud cases).

If a beneficiary breaches several obligations (individually and/or as part of a collective breach) in the same grant agreement, only the highest rate decided for each of those breaches will be applied. The other breaches may be counted as aggravating factors when determining the applicable rate.

#### **Examples:**

**1.** Beneficiary A has committed 3 breaches (10%, 50% and 25%). The granting authority will apply a single reduction of 50 %.

**2.** Beneficiary B has committed 1 individual breach (5%). It is also responsible together with all the beneficiaries of the grant for 2 other breaches, for which the granting authority determines the same rate for all participants (10% for a breach of an obligation during the grant and 25% for improper implementation of the action). The granting authority will apply to beneficiary B only the highest rate decided for each of these breaches, i.e. a single reduction of 25%.

⚠️ Where call conditions provide for a specific grant reduction methodology in case certain output targets are not reached (*e.g. INNOVFUND, RENEWFM*), the grant reductions will be calculated in accordance with that methodology instead of the rates in the matrix.

⚠️ Any event or situation recognised as **force majeure** cannot constitute a breach of obligations (according to Article 35 MGA), and therefore NO grant reduction may be applied.

ℹ️ For detailed explanations and sample calculations, see [AGA — Annotated Corporate Model Grant Agreement, art 22](#).

## **5. How? — Procedure**

The way in which grant reductions will be communicated to the beneficiaries depends on whether they entail or not a recovery (not all grant reductions will automatically lead to a recovery since recovery depends on the overall payment calculation and whether the beneficiary received more than what was due after the grant reduction; see *Article 22.2 MGA*).

In accordance with Articles 22 and 28.2 MGA, the beneficiaries will therefore be informed of the grant reduction as follows:



- if the grant reduction does not lead to a recovery: in a payment letter
- if the grant reduction leads to a recovery: in a pre-information letter.

In all cases, the beneficiaries are invited to submit observations (on all elements raised in the letter, including the grant reduction; *see Article 28.2*). Those observations will be followed-up by the granting authority:

- if the grant reduction does not lead to a recovery: through a payment review procedure which may lead to an additional payment of the contested amount if the observations are considered well-founded
- if the grant reduction leads to a recovery: through a confirmation letter indicating the final position on the recovery after considering the observations.

## **6. Combinations with other measures for breach of contract**

Depending on the case, grant reduction may have to be combined with other Chapter 5 measures (*e.g. suspension of payments, termination, administrative sanctions: exclusion from EU award procedure and/or financial penalties, etc*).

If grant reduction takes place at the same time as cost rejection, the financial impact of both measures will be cumulative.

The principle of proportionality is to be respected in all cases.