DLAPIL GUIDANCE NOTE
ON THE PRINCIPLE OF CO-FINANCING
IN THE COUNCIL OF EUROPE GRANT AWARD PROCEDURES

1. INTRODUCTION

Grant awards are an important financial assistance tool of the Council of Europe. They help beneficiaries achieve their goals and objectives while promoting the values and policies of the Council.

Grant awards are a form of expenditure which can only be incurred in compliance with applicable rules and procedures of the Council of Europe. Awards may be audited to monitor compliance with such rules and procedures. One of the main requirements in the grant award procedure is compliance with the principle of co-financing. The purpose of this Guidance Note is to explain in detail the practical implications of this requirement.

2. SCOPE

This Guidance Note will assist with:

- understanding how to comply with the principle of co-financing in grant award procedures;
- identifying the form of co-financing which is most suitable in light of specific needs, objectives, and limitations;
- planning and managing the co-financing element at each stage of the grant award procedure (preparation of application / grant documents, assessment of applications, implementation and post-implementation);
- avoiding common risks associated with the process.

This Guidance Note does not constitute legal advice, nor does it provide a comprehensive overview of all possible forms of co-financing. If you have any questions, DLAPIL should be consulted.

3. LEGAL FRAMEWORK

Co-financing is included as one of the general principles for grant awards in Article 2 of Rule No. 1374 of 16 December 2015 on the grant award procedures of the Council of Europe. This principle requires the Council not to finance the entire cost of a grant irrespective of the object of funding (i.e. an action, project, or the operational expenses of a grantee). Instead, the grantee must also contribute as detailed in Article 2.3.2.:

> *“The grantee shall contribute to the action or the project either by way of its own resources or by contribution from third parties. Co-financing may take the form of financial or human resources, in-kind contributions or income generated by the action or project.”*

The Rule does not contain further details on the form, distribution, valuation and verification of co-financing. The sections below are designed to explain these elements in practice to help ensure compliance.

4. COMPLIANCE

The form, distribution, valuation and verification of co-financing are four essential elements for compliance with the co-financing requirement in every grant award procedure.

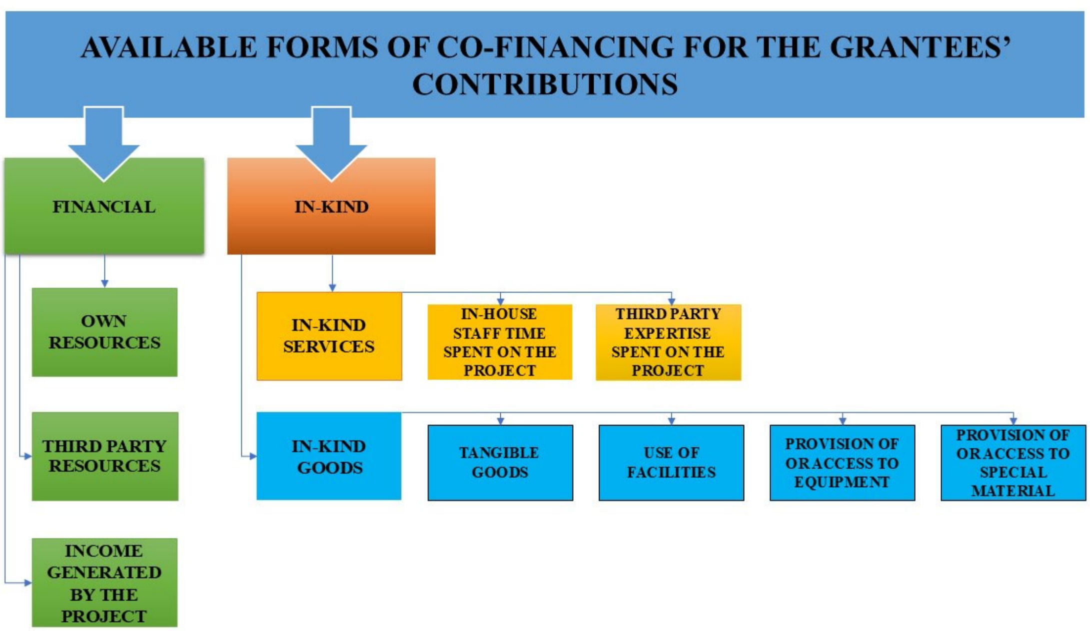
A grant award is compliant with the co-financing requirement when:

- the **form** of the grantee's contribution is clear;
- the **distribution** of co-financing is clearly defined;
- the **valuation** of the grantee's contribution is based on a clear and transparent method; and
- all three factors above are verifiable through subsequent **verification**, including by internal and external auditors of the Council of Europe.

Each of the four elements are discussed below.

5. FORMS OF CO-FINANCING

The two main forms of co-financing available to grantees for their contribution to a grant from the Council of Europe are *financial* and *in-kind* contributions. The following schematic summary shows the sub-categories within both these forms, which are all explained in further detail below.



5.1. Financial contribution

A grantee's financial contribution can only be in the form of money. It can come from:

- the grantee's own resources;
- resources provided to the grantee by a third party; or
- income generated by the action/project funded by the grant.

5.1.1. Own v. third party resources

The Council of Europe should be made aware whether the financial contribution of the grantee comes from its own resources, or resources provided to it by a third party. We have explained below how this should be determined in each case.

If the funds intended to constitute the grantee's financial contribution to the grant are fully and unconditionally available to the grantee, they are its own resources. Unrestricted funding from a third party with no commitments or conditions attached would therefore qualify as a financial contribution from the grantee's own resources, even though it was obtained from a third party.

Conversely, if such funds are being made available by a third party under specific conditions and/or restrictions on their use, this is a financial contribution from that third party. In this case, the successful implementation of the grant entails the grantee not only meeting all the requirements of the Council of Europe, but also of the third party. The additional reporting and administrative burden for the grantee may be considered as a factor when assessing the grantee's capacity for implementing the grant successfully.

5.1.2. Income generated by the action/project

Income generated by the action or project funded by the grant can be used by the grantee to co-finance the same grant. Examples of such income include fees for participation in educational workshops, training programs, or public events organized with financial support from the Council of Europe under the grant.

This form of co-financing requires accuracy in forecasting the income that the action or project may generate. Significant differences between the forecasted and the actual income may jeopardise compliance with the co-financing requirement.

5.2. In-kind contributions

In-kind contributions can be made either in the form of *services* or *goods*.

5.2.1. In-kind contributions in the form of services

Two types of contributions possible under this form of co-financing are *in-house staff time* and *third-party expertise* dedicated to the action or project funded by the grant.

5.2.1.1. In-house staff time

In-house staff time as an in-kind contribution is a form of co-financing which refers to the value of the time spent on the action or project under the grant either by: (a) employees, experts or consultants of the grantee, to the extent that such time is not charged to the Council; or (b) volunteers of the grantee who do not receive monetary compensation.

To be compliant, this form of co-financing requires accuracy in *measuring* staff time and *distinguishing* work directly contributing to the action or project under the grant from other work within the grantee organisation.

Crucial elements for accurate *measuring* of staff time include:

(1) Determination of the hourly rate

- This must be based on the records existing prior to the action or project under the grant and should not rely merely on the grantee's self-declaration.
- The records may include an approved salary scale substantiated by proof of regular payroll transfers, monthly payslips, etc.

(2) Tracking of the time spent on the action or project

- This is usually done through various timekeeping tools such as timesheets requiring staff to log their hours.
- Example: if an employee spent 20 hours working on a grant-related action or project in a month, these 20 hours should be recorded as a direct staff cost.

(3) Adjusting the value for benefits

- If, in addition to the salary paid to an employee, the grantee incurs certain additional costs that are not directly paid to the employee but are inextricably linked to the employment (e.g., mandatory social security contributions), the total value of the staff time should include these additional costs.

(4) Calculating, documenting, and recording the overall value of staff time

- Accurate recordkeeping of in-house staff time spent on the grant implementation requires creating and keeping records and calculations for all the above, including the hourly rates, actual time worked on the action or project, value adjustments (if any), etc.
- Documentation required for the recordkeeping may include payslips, proof of wire transfers, employment contracts, job descriptions, timesheets, project reports, etc.

Further to accurate measuring of staff time, it is crucial to *distinguish* direct and indirect staff costs. Direct staff costs relate to work which is necessary for implementing the substance of the action or project. Indirect staff costs relate to work carried out in connection with the action or project but which cannot be directly allocated to the action or project activities (for example, staff involved in administrative matters, finance and accounting, human resources, IT and communications and other support services). These costs are also sometimes referred to as overhead or administrative costs.

For the purposes of co-financing, the main difference between the two is that indirect costs should always be capped at seven per cent of the budget.

The Council of Europe allows its grantees to charge up to seven per cent of the total eligible costs of a grant for indirect expenses, including indirect staff costs. While indirect staff time may be a grantee's contribution to co-financing, the cumulative share of the indirect costs charged to the Council of Europe and of the indirect staff time as an in-kind contribution of the grantee should not exceed that seven per cent. Therefore, if a grantee intends to charge the Council of Europe the maximum amount of indirect costs (i.e. seven per cent), it can no longer contribute to co-financing with indirect staff costs.

5.2.1.2. Third-party expertise

Another form of in-kind contribution available to grantees is co-financing with *pro bono* expertise from third parties, for example inviting an expert to speak at an educational programme or training event in connection with the grant action or project. The third party must not be employed by or affiliated with the grantee, and must hold a recognised and relevant professional qualification. The expert's actual expenses incurred (e.g. travel costs) may be reimbursed but no fee must be paid in order for their participation to constitute co-financing.

To determine the distribution of co-financing between the Council of Europe and the grantee, the third party expertise should be valued, even though it is provided *pro bono*. If the expertise provided *pro bono* is generally available from the third party for a fee, the value would be what it typically charges for such expertise. Conversely, if the provider of the expertise does not charge a fee (e.g., national or international civil servants), the value should be determined by applying the average open market rate for similar expertise from a person with a comparable profile. Both valuation methods for this form of co-financing should be documented and verifiable.

5.2.2. In-kind contributions in the form of goods

There are four types of contributions possible under this form of co-financing, as follows:

- tangible goods;
- use of facilities;
- provision of or access to equipment; and
- provision of or access to special material.

5.2.2.1. Tangible goods

This is where the grantee provides a tangible asset that it acquired before the grant award and that is essential for the grant's implementation. If the grantee acquires the asset after the grant award and conclusion of the grant agreement, and if the value of the asset is documented, this will be a financial contribution (see 5.1 above).

Unless the value of the asset is documented, it should be valued applying fair market value (i.e. the price that an asset would sell for on the open market between a willing buyer and a willing seller, both of whom are knowledgeable about the asset and under no pressure to buy or sell). The elements used for establishing the fair market value of the asset should be documented.

5.2.2.2. Use of facilities

This is where the grantee provides facilities required for the implementation of the grant free of charge, either directly by the grantee, for example a conference space at its premises, or by a third party offering the facilities to the grantee through a non-exchange transaction. This contribution should be valued using open market rates for comparable facilities and the elements used for determining such rates should be documented.

5.2.2.3. Provision of or access to equipment

Unlike tangible goods in 5.2.2.1 above, the equipment in question should not be the object of the grant as such but instead provide an essential support for the action or project under the grant. This may be IT, electronic, technical or other equipment necessary for the implementation of the grant. The value of such equipment should be determined based on the fair market value of comparable equipment in a similar condition, and the elements used for establishing the fair market value should be documented.

5.2.2.4. Provision of or access to special material

This is where the grantee provides special material which may include subscription-based databases, information resources, or any other material which is essential for the implementation of the grant, and which is not openly available free of charge.

The valuation of this contribution should be based on the cost of the subscription or use of the material for the period required for the grant's implementation. If the material is developed specifically for the purposes of the grant the value will be its development costs.

5.3. Cumulative application

Provided that all validity criteria for each individual form of co-financing are met, two or more forms of co-financing may be applied cumulatively.

6. DISTRIBUTION OF CO-FINANCING

There is no fixed minimum amount or percentage for the grantee's co-financing contribution. However, in practice, the distribution of co-financing should ensure a meaningful contribution from the grantee – one that goes beyond a symbolic amount.

In other words, a grantee should have a sufficient investment in the action or project under the grant, which will enhance their incentive for its successful implementation. When determining the distribution of co-financing between the Council of Europe and the grantee, relevant factors include the total amount of the grant, the implementation period, and the size and resources of the specific grantee.

7. VALUATION OF CO-FINANCING

The elements that should be used to value the various forms of co-financing are outlined in the sections above. An overarching principle for the valuation of every form of co-financing is that there must be supporting documentation demonstrating, where appropriate, the cost and/or methodology for the calculations based on the data from the relevant markets.

8. VERIFICATION OF CO-FINANCING

Every co-financing arrangement should be verifiable, including by the donors, internal and external auditors of the Council of Europe. A verifiable co-financing arrangement implies that its form, distribution and valuation are clear, compliant, well-recorded and documented.
If you have any questions after consulting this Guidance Note, please contact DLAPIL.