



EFCA FEACO seminar

30 October 2008

Grant contracts



Background

- **Several European consulting firms members of EFCA are currently involved in technical assistance projects financed by Europeaid (EDF) under the modalities of Private Indirect Decentralised Operation**
- **Consulting firms assume full responsibility of the management and financial implementation of the project or programme in place of the National Authorising Officer**
- **PMU = imprest administrator + imprest accounting officer**



- **Several Programme estimates (devis-programme) designed to implement part of a project or programme covered by a financing agreement, per period**
- **Opening of a dedicated bank account by the imprest administrator and the imprest accounting officer**
- **Bank account exclusively for payment transactions related to the implementation of activities of the Programme estimate**
- **It is credited with the initial allocation (advance/pre-financing) and replenished in accordance with cash flow requirements**
- **Initial advance given upon submission of a bank guaranty from consulting firm**
- **The imprest administrator and the imprest accounting officer responsible for managing these funds (signing)**



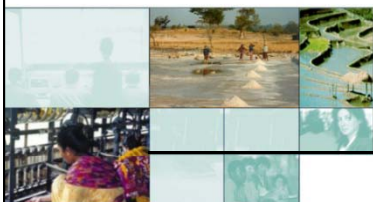
- **TA implementation of projects aiming at strengthening civil society and projects with component on civil society**
- **Calls for proposals ; eligible applicants : local associations or NGOs that usually have no cash facility and poor management capacity ; evaluation done by external assessors**
- **The PMU signs grant contracts with beneficiaries, whose model is given by the EC.**



- **Two main options for payment to beneficiaries:**
 - **Forecast final (one-off) payment after implementation of actions.**
 - **Pre-financing of 80% of the sum (or from 50 to 80%), without any financial guarantee**
- **First option not recommended by EU Delegations as considered not appropriate to the beneficiaries' need of cash**
- **Second option preferred by EU Delegations (but not by consulting firms !)**



- **Practical Guide: grant beneficiaries generally contribute to the financing of actions.**
- **Beneficiaries must supply evidence of the amount of the co-financing brought either with their own resources or in the form of financial transfers from third parties.**
- **Co-financing usually of 20% of the amount of the action.**
- **But this amount belongs to the beneficiary and cannot serve as compensation.**



Current financial schemes :

Different financial schemes	Case 1	Case 2	Case 3	Case 4
Contribution from the beneficiary	20% before signing the grant contract	10% before signing the grant contract	0%	20% before signing the contract with the beneficiary
Advance paid from the PMU to the beneficiary	80% after signing of the contract	70% after signing of the contract	80% after signing of the contract	50% after signing of the contract
Intermediary payment				30%
Final payment to the beneficiary	0% beneficiary must justify 80%	20% beneficiary must justify 70%	20% beneficiary must justify 80%	0% beneficiary must justify 30% or 80%
incentive for the beneficiary	No incentive to finalise the action	incentive to finalise the action in order to get paid for the last 20%	incentive to finalise the action in order to get paid for the last 20%	No incentive to finalise the action
Level of risk for consulting firms	Risk up to 80%	Max. risk of up to 70%	Max. risk of up to 80%	Risk up 50% or 80%



Key issues for consulting firms

- **The imprest accounting officer must draw requests for payment for replenishment and for closure with supporting documents for all expenditures, including those for grant contracts**

- **General conditions applicable to European Community-financed grant contracts for external actions indicates :**

“ article 2.1 :The beneficiary has to provide a list detailing each item of expenditure incurred in the period covered by the report, and indicating its title, amount, relevant heading in the budget of the action and reference of the annexed supporting documents”



- **The Programme estimate bank account cannot be replenished and our bank guarantee cannot be released in case of :**
 - **non scrupulous beneficiary,**
 - **beneficiary having not performed satisfactorily and/or completely an action,**
 - **beneficiary being unable to submit requested supporting documents enabling the accounting officer to deliver the closure payment request to the client**

- **General conditions (article 18.3) indicate that in case of failure of any beneficiary: « *Amounts to be repaid to the Contracting Authority may be offset against amounts of any kind due to the Beneficiary. This shall not affect the Parties' right to agree on payment in instalments. Where necessary the European Community may as a donor subrogate itself to the Contracting Authority* ».**

- **In most cases, no offset is possible.**

- **No mention that in case of non pre-financing recovery, EU Delegations would reimburse the programme estimate bank accounts and release our bank guarantee.**

- **Risks of huge financial loss: amounts of calls for proposal often exceed many times TA contracts budget.**



Proposed solutions

- a first solution would be to plan in Programme estimates the cost for outstanding risk insurance

Consulting firms would pay for this insurance aiming at covering the non recovery of the pre-financing given to beneficiaries of grant contracts

Comment: very little chances to find insurance companies for such risks



- ✓ **a second solution would be to add to article 18 of the General conditions..., a clause stating that such risk currently incurred by us is shifted to EU Delegations**

We propose:

Article 18 (Recovery): *“In case of no possible recovery, the European commission will proceed with replenishment and will give their approval to release the bank guarantee, even when the record of expenditure cannot be accompanied with supporting documents for grant contract.”*



- **a third possible option would be to remove from the Imprest commitment the sums dedicated to grants for beneficiaries**

- grants = Specific commitments
- payments under these contracts = the European Commission

- Practical guide to procedures for programme estimates financed by the EU (EDF): *“it is up to the relevant representative of the beneficiary country, in liaison with the Head of Delegation, to weigh up the advisory of financing them as part of the imprest component of the budget of the programme estimate or of financing them with specific commitments. “*

- Today : grants > EUR 100,000 : specific commitments
- WE PROPOSE: grants > EUR 20,000 : specific commitments



➤ **Another solution : split payment to beneficiaries upon justification of work done and expenditures incurred**

Contribution from the beneficiary before signing the grant contract	20%
First intermediary payment to the beneficiary paid after justification of work and expenditures spent	20%
Second Intermediary payment to the beneficiary paid after justification of work and expenditures spent	20%
Third Intermediary payment to the beneficiary paid after justification of work and expenditures spent	20%
Final payment to the beneficiary paid after justification of work and expenditures spent	20%
Incitation for the beneficiary	Low incentive for the beneficiary to finalise the action but...
Level of risk for the consulting company	...risk for the consulting firm up to only 20% as beneficiaries would gain experience in submitting financial reports according to Europeaid procedures