

Legal & Financial Viability (LFV)

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Achim Klabunde

eTEN Programme

DEPLOYING TRANS-EUROPEAN
e-SERVICES FOR ALL

- **Why?**
 - to ensure sound financial management
 - to ensure that its agreement is with an existing legal entity
- **How?**
 - Checking the financial and legal documents of potential participants
- **Who?**
 - Financial: PRC, PNP
 - Legal: All

- **The Financial tests look at the participants:**
 - **Financial evaluation (5 accounting ratios)**
 - check whether the participation of a potential partner presents a risk to the Community funds that would be made available;
 - **co-financing capacity (2 accounting ratios)**
 - check whether the potential partners have the financial resources to finance their cost-share in the project.

Methodology developed by the Commission in consultation with Member States

LFV - The Ratios

Financial evaluation

- Quick ratio (liquidity)
- Gross Operating Profit ratio (financial autonomy)
- Profitability (1)
- Profitability (2)
- Solvency

Co-Financing capability

- Cash Flow Indicator
- Net Operating Profit Indicator

LFV - Financial evaluation

- Test results are graded as follows:

Grade	Weak (0)	Acceptable (1)	Good (2)
Quick Ratio	$i < 0.5$	$0.5 = i = 1$	$i > 1$
GOP Ratio	$i > 0.4$	$0.4 = i = 0.3$	$i < 0.3$
Profitability (1)	$i < 0.05$	$0.05 = i = 0.15$	$i > 0.15$
Profitability (2)	$i < 0.02$	$0.02 = i = 0.04$	$i > 0.04$
Solvency	$i > 6$	$6 = i = 4$	$i < 4$

- Total of scores 0-4 = weak
- Total of scores 5-7 = acceptable
- Total of scores 8-10 = good

LFV - Co-Financing

- Test results are graded as follows:

Grade	Score (0)	Score (1)
Cash Flow Indicator	$i < 1$	$i = 1$
Net operating Profit Indicator	$i < 1$	$i = 1$

- Total of scores 0 = weak
- Total of scores 1 = acceptable
- Total of scores 2 = good

LFV - Results matrix

- A results matrix will warn of 3 situations that will need attention
 - 1) Weak Financing
 - 2) Weak co-financing
 - 3) Weak financing and co-financing
- it will also raise an equity flag if the company has negative equity or other equity problems

LFV- Follow up

- **If the company is weak (financing or co-financing), the Commission can propose from the following measures (case-by-case):**
 - the company cannot be the co-ordinator without mitigation
 - project costs of the company reduced
 - no advance payment to the company
 - shareholders increase the amount of subscribed capital
 - the company provide a financial guarantee
e.g. from a bank, financial institution or parent company
 - withdrawal of company from consortium

The Legal test

- Confirm that the participant exists as a legal entity
- Ensures data given in the GPF form is up to date and correct
- Done through examination of the standard legal documents of the participant (certificate of incorporation etc)


LFV- Documents required

Note:- These documents are for the LFV testing not the completion of the negotiation.

- **Complete GPF forms**
- **Where possible, certified accounts no more than 18 months old i.e. data for 2002 not acceptable. If accounts do not show 2 years of data, then also send the previous set**
- **Updated legal documents showing company name, address and VAT registration number**
- **Legal entity form:**

http://europa.eu.int/comm/budget/execution/legal_entities_fr.htm

LFV- A2d sheet

		COMMISSION OF THE EUROPEAN COMMUNITIES Directorate-General Information Society Communication Networks. Applications eTen		A2d	
Project Nb:		0		Acronym:	
				0	
Financial Information					
Short Name: #REF!					
Closing date t0:		Duration t0 (months):			
Nb Employees:		Currency:			
Is the organisation a Small or Medium-sized Enterprise (SME) ?					
Is your organisation independent ?					
if no, please explain:					
Less than 3 annual balance sheets ?					
Comments on financial results:					

Must be filled in!

As per GPF

If any major events effecting financial results

Must be the year end of the accounts

Refers to length of trading of the participant

Length of the fiscal period

Very important!

LFV- A2d sheet

Balance sheet	t0	t+1
Assets		
1 Subscribed capital unpaid:		
2 Fixed assets	0	0
2.1 Intangible fixed assets		
2.2 Tangible fixed assets		
2.3 Financial assets		
3 Current assets	0	0
3.1 Stocks		
3.2.1 Debtors due within one year		
3.2.2 Debtors due after one year		
3.3 Cash at bank and in hand		
3.4 Other current assets		
Total Assets	0	0
Liabilities		
4 Capital and reserve	0	0
4.1 Subscribed capital		
4.2 Reserves		
4.3 Profit and loss brought forward (enter sign)		
4.4 Profit and loss brought forward for the financial year (enter sign)		
5 Creditors	0	0
5.1.1 Long term non-bank debt		
5.1.2 Long term bank debt		
5.2.1 Short term non bank debt		
5.2.2 Short term bank debt		
Total liabilities	0	0
Profit and Loss		
6 Turnover		
7 Variation in stock		
8 Other operating income		
9 Costs of material and consumables		
10 Other operating charges		
11 Staff costs		
12 Gross operating profit	0	0
13 Depreciation and value adjustments on non-financial assets		
14 Net operating profit	0	0
15 Financial income and value adjustment on financial assets		
16 Interest paid		
17 Similar charges		
18 Profit and loss on ordinary activities	0	0
19 Extraordinary income and charges (enter sign)		
20 Taxes on profits (enter sign: minus for paid, plus for refunded taxes)		
21 Profit and loss for the financial year	0	0

Total assets = total liabilities

T0 data agrees to latest certified accounts

Must be the same and complete

Be careful of the sign!

LFV- Bank sheet

REMARKS :

BANK STAMP + SIGNATURE OF BANK REPRESENTATIVE

(Both Obligatory)(1)

DATE + SIGNATURE ACCOUNT HOLDER :

(Obligatory)

(1) The bank stamp and signature of its representative are not required if this form is accompanied by a copy of a bank statement. The signature of the account holder is obligatory in all cases.

*Must be signed and stamped by the bank
AND the appropriate authorised
representative of the contractor*

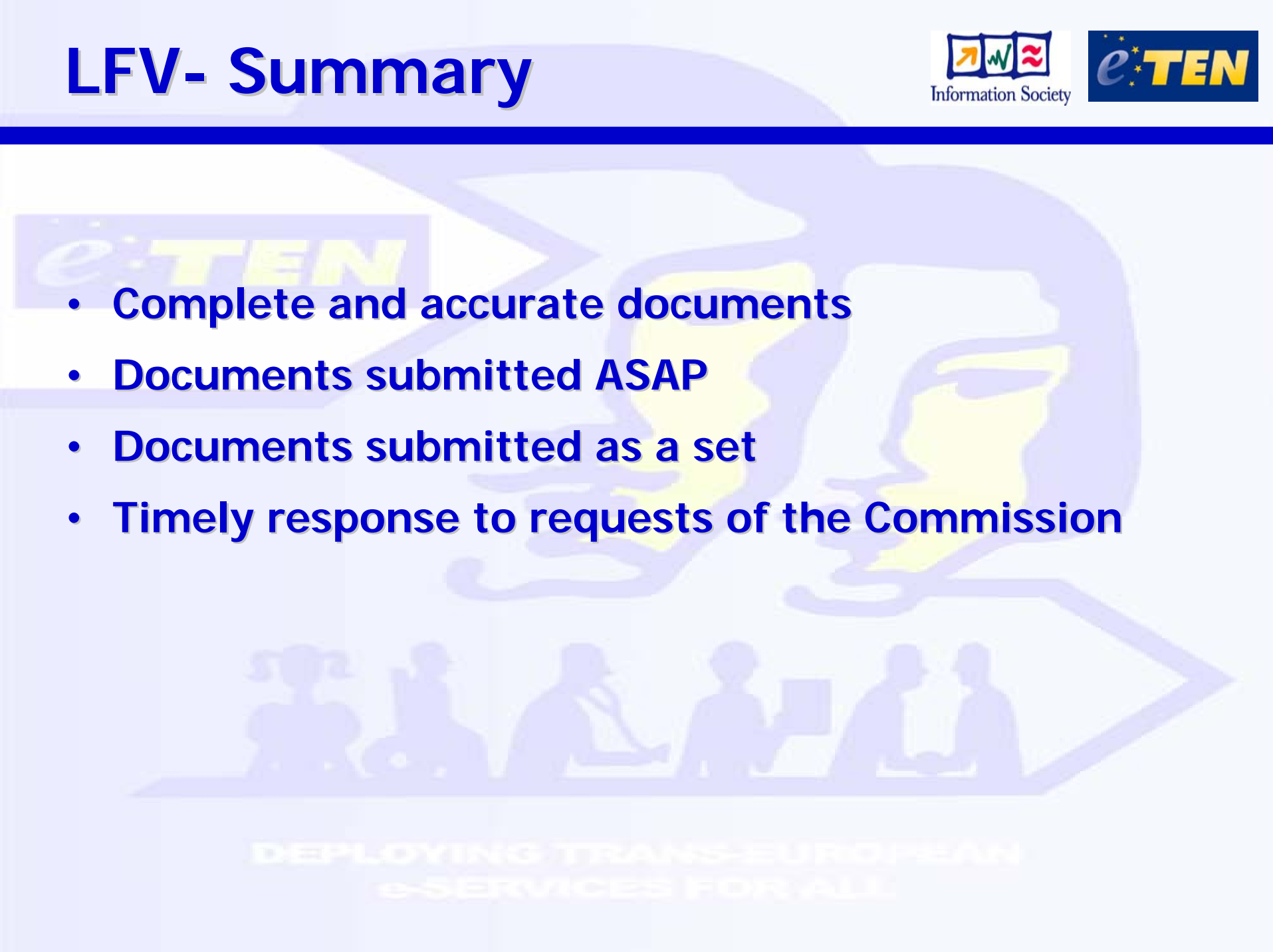
LFV- Possible further documents

- **Bank or parent company guarantee**
 - the template for these will be supplied by eTen and must be used.
- **Indication of increase in capital/shareholders loan**
 - Official letter from contractor, official minutes of board meeting
- **Letter rejecting claim to the advance payment**
- **Withdrawal letter as contractor leaves the consortium**

LFV- Common errors

- GPF forms not complete or lacking signature or date
- Figures on GPF form do not agree with certified accounts
- Balance sheet on GPF does not balance
- Certified accounts are in fact not certified
- Information not arriving in time or information arriving at separate times
- Incorrect legal status

LFV- Summary

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- **Complete and accurate documents**
 - **Documents submitted ASAP**
 - **Documents submitted as a set**
 - **Timely response to requests of the Commission**

Annex 1, LFV definitions

Quick Ratio = $\frac{\text{Current assets} - \text{Stocks} - \text{Debtors (> 1 year)}}{\text{Short-term debts (bank \& non-bank)}}$

Gross Operating Profit (GOP) Ratio = $\frac{\text{Interest}}{\text{Gross Operating Profit}}$

Profitability (1) = $\frac{\text{Gross Operating Profit (GOP)}}{\text{Turnover}}$

Profitability (2) = $\frac{\text{Net Operating Profit (NOP)}}{\text{Turnover}}$

Solvency = $\frac{\text{Total debt (liabilities)}}{\text{Equity}}$

Cash-flow Indicator = $\frac{\text{Cash-flow} \times \text{project duration}}{\text{project costs} - \text{EC contribution}}$

Net Operating Profit Indicator = $\frac{\text{Net Operating Profit (NOP)} \times \text{project duration}}{\text{project costs} - \text{EC contribution}}$