

Financial Webinar for SMEs

IMI2 projects

24 September 2020 • 14:45 Brussels time

Welcome and Practical details for the webinar

- Presentation:
Antoine Juliens, Gaëlle Lanckmans, Bruno Morel
- 150+ Participants registered
- All “muted”
- Questions: via the “Chat” only
- Answers: at the end.
- Consolidated Q&A by email together with the slides

Webinar dedicated to SMEs

Target audience:

- SMEs involved in IMI2 projects

Why Specifically for SMEs?

- First participation in IMI2 grants
- Small structure with sometimes no time or no dedicated staff members like in large universities with a dedicated Grant Office.
- Specificity for SMEs: SME owner rate
- To reduce errors in reporting
- To avoid recovery of ineligible costs.

Webinar dedicated to SMEs

- **SME definition** - Legal entity that fulfils following criteria:

staff headcount < 250 persons	
Turnover <= EUR 50 Million	Total balance sheet <= EUR 43 million

- SME self-assessment questionnaire via the Participant Register (Beneficiary portal).
- **SME** that loses the status of SME remains eligible during the project life-time.

- **Difference between SME and Mid Size companies (IMI 2 specificity)**

- turnover up to EUR 500 million and not affiliated to a company with a consolidated turnover exceeding EUR 500 million.

Agenda

Cost eligibility criteria

Most common errors in reporting for SMEs

Reporting requirements

Audits (ex-ante and ex-post)

Questions & Answers

**Specifically for IMI2 projects
(H2020 Legal Framework)**

Reference documents

- [IMI2 Model Grant agreement](#)
 - Core Grant Agreement
 - Annex 1 – DoA- Description of the Action
 - Annex 2 – Estimate / budget
 - Annex 4 – Financial Statement (Reporting Template)
 - Annex 5 – CFS- Certificate on Financial Statements.
- [IMI2 Periodic report Template](#)
- [IMI2 Annotated Model Grant agreement](#) (v2.2, Oct 2019)

Costs eligibility criteria

Basic principle

The grant reimburses 100% of the action's eligible costs

ONLY eligible costs can be reimbursed

Eligibility criteria (Art 6 of the GA)

Costs must be:

- **Actual** (real, not estimated or budgeted)
- Incurred during the project lifetime (**start date – end date**)
- Connected to the action as described in DoA and **necessary** for its implementation (Annex 1)
- Foreseen in the estimated **budget** (Annex 2)
- **Reasonable**, justified and comply with the principle of sound financial management

...

Eligibility criteria (Art 6 of the GA)

- Identifiable and **verifiable** (auditable)
- Recorded in the **accounts** of the beneficiary
- In line with **usual** cost accounting **practices** of the beneficiary
- In line with the **accounting standards** of the country where the beneficiary is established
- they must comply with the applicable **national law** on taxes, labour and social security

[IMI2 JU Annotated Model Grant agreement](#) - Page 43

Most common errors for SMEs

10 Most common errors for SMEs

1. Personnel costs
2. Costs not incurred by the legal entity – Third Party
3. Subcontracting costs
4. Other direct costs: depreciation, computer
5. Travel costs: not specified or justified

Most common errors for SMEs

- 6. Place of employment: multiple addresses
- 7. Multiple Affiliations
- 8. Training costs
- 9. Recruitment costs
- 10. Financial contributions received by SMEs from
EFPIA/AP : sometimes questions and confusions

1. Personnel costs

□ Common Mistakes (usually spotted during audits):

- Use of billable rate / sales price instead of actual costs
 - IMI reimburses actual salary costs (not daily rates charged to customers)
 - Grant \neq commercial contract
- Use of budgeted costs (= not actual)
- SME owners: if no actual salary paid \rightarrow unit costs must be used
- Time sheets missing/not signed, not dated/inconsistency with HR records
- Hours: Difficulty to evidence hours charged to the project/to reconcile annual productive hours

1. Personnel costs **Record of hours**

Work on Project	Records
Exclusively on Project	No timesheet required (declaration)
Partially on Project	Keep timesheets

Templates for timesheets or Declaration on exclusive work:



Tpl_Timesheet
(H2020)



Tpl_Declaration
Exclusive Work

1. Personnel costs Record of hours

- **Timesheets:** show the actual hours worked on the project
 - Either on paper or in a computer-based time recording system
 - must be **dated and signed at least monthly** by the person working for the action and his/her supervisor.
- Flexibility due to COVID 19:** signature can be delayed until confinement is lifted.
- should include, as a minimum:
 - number and title of the action
 - the beneficiary's full name as in the GA
 - the full name, date and signature of the person working
 - the number of hours worked for the action in the period covered by the timesheet
 - the supervisor's full name and signature
 - a reference to the tasks or work packages on which the person has worked during the reported hours.


1. Personnel costs

Several types of personnel costs:

- 1.1. Costs for **employees** (**employment contract**) – actual costs
- 1.2. Costs of **SMEs owners without a salary** - **unit costs**
- 1.3. Costs for natural persons working under a **direct contract** with the beneficiary **other than an employment contract** (e.g. **in-house consultants**) – actual or unit cost. P76 of [AMGA](#).
- 1.4. Costs of personnel **provided by a third party** against payment (person still paid and employed by the third party but at the disposal of the beneficiary) – actual. P80 of [AMGA](#).

1.1 Personnel costs

Costs for employees

 Hours
worked on
the action



Hourly rate
EUR/hour



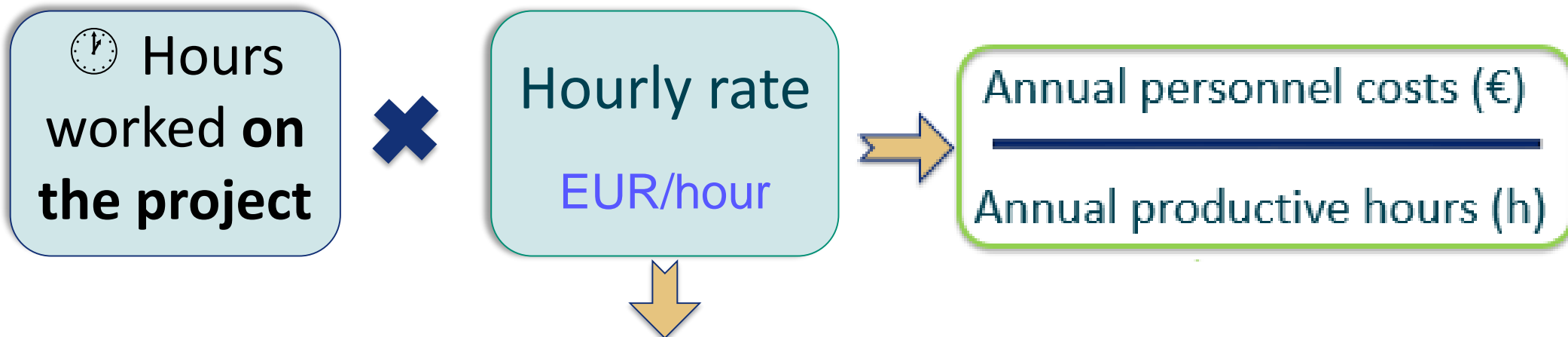
Annual personnel costs (€)

Annual productive hours (h)

- **Option 1: 1 720 hours** for persons working full time (or pro-rata for persons not working full time) (**'1 720 fixed hours' - advised**)
- Option 2: If employment contract specifies individual workable hours ('Individual Annual productive hours') → workable hours + overtime – absences (**or period of compulsory confinement if telework not possible**)).
- Option 3: If usual cost accounting practice of the beneficiary → ('Standard annual productive hours')

1.1 Personnel costs

Costs for employees



- **Method: Use the last closed financial year available**

→ *the most recent full financial year for which all information necessary to calculate the hourly rates is available*

→ NOT necessary to wait until the annual accounts have been audited.
→ 1 single rate per person per year

E.g. Reporting Period of 13 months:
12 months 2019 → FY 2019
1 month in Jan 2020 → FY 2019

- Alternative: 1 rate per month
→ 12 rates per person per year

1.2 Personnel costs **SME owners without salary**

- This is usually the case for very small SMEs or start-up companies where the owners do not pay themselves a salary in the start-up phase.
- **SME owners** who do **not** pay themselves a salary may apply a flat rate. The rate is defined by H2020 programme.
- **SME owners unit cost** is the **only** eligible cost when there is no employment contract, according to national labour regulations.

1.2 Personnel costs **SME owners without salary**

SME owner rate is only for

- SME **Owner** → NOT for employees / staff members

This is typically the case of the CEO, Managing Director, co-founder, etc who is owner of the SME

- SME owner **without a salary** : if the owner receives a salary, even a small salary, the SME owner rate cannot be applied.

1.2 Personnel costs **SME owners with a salary**

■ **Definition of salary**

A salary is defined by the national labour regulations

No employment contract, according to the national labour regulations

■ **Example**

In Belgium, a owner who invoices his/her company: this is not considered as a salary.

1.2 Personnel costs **SME owners with a salary**

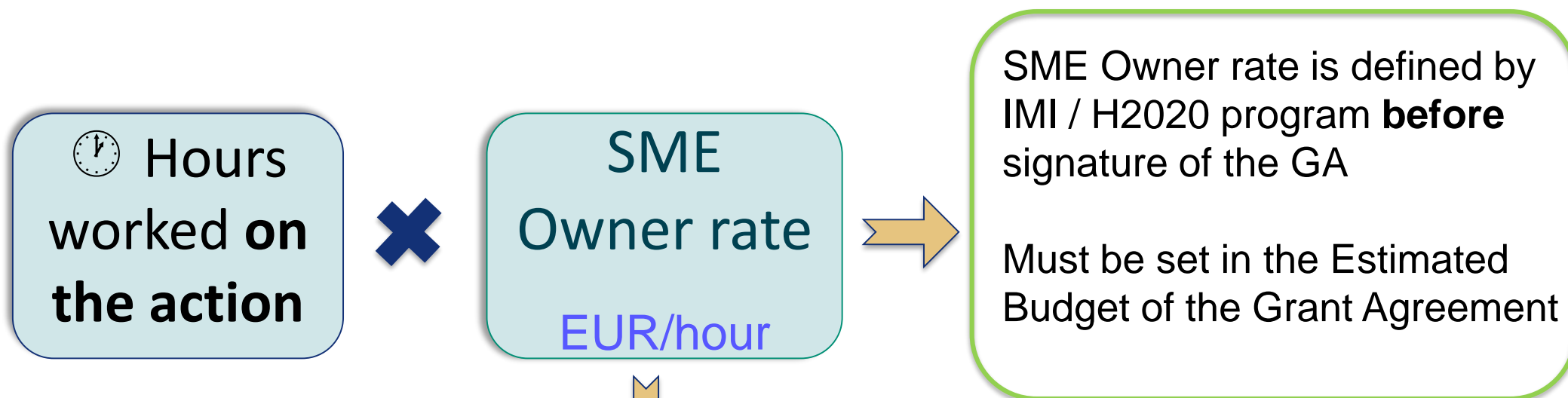
- **SME owners** who do receive a salary (registered as such in the accounts of the SME)
 - must declare actual salary costs
 - cannot declare personnel costs using unit costs.

1.2 Personnel costs **SME owners without salary**

HOURS spent on the project

- The hours of the SME owner spent on the IMI project must be evidenced as well → **timesheets**
- The total number of hours declared in IMI grant for a SME owner not receiving a salary a year (i.e. a financial year) can **NOT be higher than 1,720 hours.**

1.2 Personnel costs **SME owners without salary**



SME owner rate (Amount per unit) calculation is defined by IMI/H2020 Programme)=

EUR 4,880 / 143 hours = 34.12 EUR / hour

multiplied by country-specific correction coefficient of the country where the beneficiary is established

1.2 Personnel costs **SME owners without salary**

Country-specific correction coefficient

Country Code ⁵⁷	CCC
EU Member States	
AT	106.7%
BE	100.0%
BG	62.0%
CY	82.6%
CZ	81.78%
DE	97.0%
DK	135.0%
EE	79.4%
EL	88.7%
ES	95.4%
FI	120.8%

FR	115.7%
HR	83.9%
HU	77.4%
IE	115.6%
IT	104.4%
LT	72.5%
LU	100.0%
LV	77.7%
MT	84.4%
NL	107.9%
PL	75.5%
PT	84.2%
RO	68.8%
SE	121.8%
SI	86.1%
SK	80.4%

Horizon 2020 Associated Countries	
AL	65.3%
AM	75.4%
BA	69.0%
CH	121.2%
FO	135.0%
GE	75.3%
IL	106.1%
IS	115.3%
MD	62.01%

UK	139.8%
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Source: https://ec.europa.eu/research/participants/data/ref/h2020/wp/2018-2020/main/h2020-wp1820-msca_en.pdf page 94-95

1.2 Personnel costs **SME owners without salary**

	Monthly rate
For IMI2 calls 1 to 13 (calls <u>BEFORE</u> Work Programme 2018-2020)	EUR 4,650
For IMI2 calls 14 onwards calls <u>UNDER</u> Work Programme 2018-2020	EUR 4,880

In practice, the declaration of costs for SME owners without a salary is very simple and almost completely automatised. The beneficiaries must only indicate the number of hours worked on the action and the costs are then automatically calculated by the IT system.

1.2 Personnel costs **SME owners without salary**

‘Example in the IT portal for a Dutch SME owner
83 hours (units) x 33.92 EUR / hour

Cost Category	Unit Cost	Number of Units	Subtotal	Current Declared
c) Direct personnel costs declared as unit costs		83.00		2,815.36 €
SME owner/Natural person costs	33.92 €	83.00	2,815.36 €	

1.2 Personnel costs

Conclusion/WARNING

Error detected in a IMI grant

SME owner rate is only for

- SME Owner → NOT for employees / staff members
- SME owner without a salary : if the owner receives a salary, even a small salary, the SME owner rate cannot be applied

Mistake / error detected in a IMI grant

- SME did use the **SME owner unit costs for employees**
- This was discovered by the auditors when drafted the CFS- Certificate on Financial Statements → Financial statements had to be re-calculated with actual costs.-

1.2 Personnel costs **Conclusion/WARNING**

Error detected in a IMI grant

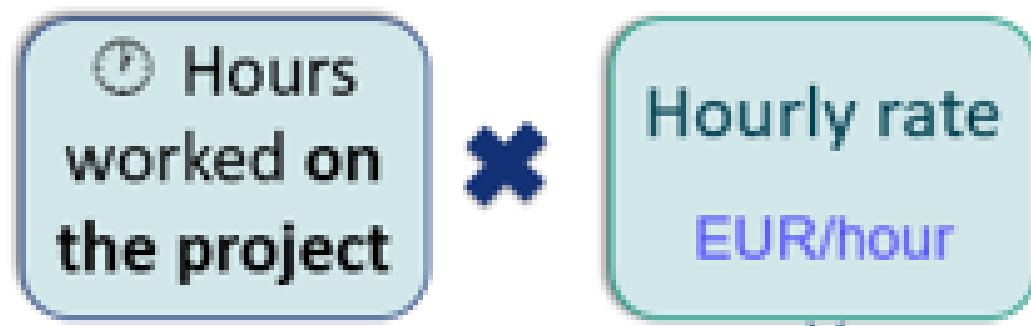
- **SME owner without a salary did not use the IMI flat rate, but a billing rate**
- Example : billing rate / daily rate usually charged to a customer is 50 EUR / hour
- But IMI rate for SME owner without a salary is 34 EUR / hour
 - this led to substantial recovery in one case:
16 EUR / hour x 1.000 hours (over 3 years) over claimed: 16.000 EUR recovered.

1.3 Personnel costs Direct contract but not employee

- This the case of **in-house consultants, self-employed natural persons**
- Work on the action for the beneficiary and have a direct contract (different than contract for employee)
- Should work **under similar conditions as employees**, in terms of supervision, presence requirements, similar salary for similar tasks, etc
- Contract should be with the **individual** (not a third party)
- What NOT: staff provided by a temporary work agency → other direct costs/Subcontracting, NOT personnel cost

1.3 Personnel costs **Direct contract but not employee**

- Obligation to keep timesheets
- Personnel costs declared as actual costs (most common case) or unit cost (if average personnel costs is the usual practice of the beneficiary)
- For actual costs – same formula as for employees. Hourly rate depends on what is specified in the contract (page 77 of AMGA)



1.4 Personnel costs **Personnel provided by a Third Party against payment**

- This is the case of **Seconded personnel (against payment)**.
- The person is paid and employed by the **third party**, but works for the beneficiary. S/he is at the disposal of the beneficiary.
- There should be a formal agreement to detail the conditions (tasks, payment from one entity to the other, duration, location, etc.)
- The beneficiary must reimburse the **actual costs** to the third party. No specific calculation method: the costs reported must correspond to the price paid by the beneficiary — **up to the costs** actually incurred by the third party.

1. Personnel costs

Specific cases

- **Teleworking:** eligible if it is the beneficiary's usual practice and possible to record the hours worked on the action
 - Flexibility due to COVID 19: accepted even if not usual practice
- **Benefits in kind (e.g. company car or lunch vouchers):** eligible if justified and registered as personnel costs in conformity with the beneficiary's usual remuneration practices.
- **Students, PhDs, or other researchers under scholarships or internship:** can be accepted, if the agreement is work-oriented (not training-oriented)
- ...Exhaustive list: page 56 of [AMGA](#).

2. Second common error: Third Parties

A Third Party is a Legal entity that does **not sign** the Grant Agreement.

❑ Common mistake:

- Cost not incurred by the SME who signed the Grant agreement but by another legal entity → not eligible
- Typically the case of two **linked SMEs** (Sisters SMEs/affiliated SMEs)

❑ Good Practice:

- The second SME needs to be formally identified and added as a **third party** in the Description of the Action (Annex I).
- Amendment still possible if notified before the end of the project → cost becomes eligible.

2. Third Parties

2 types of third parties:

1) Carries out part of the work

- **Linked third party:** legal or capital link with Beneficiary not limited to the action (example: two affiliated SMEs) (Article 14)
- **Subcontracting** (Article 13)

2) Provides in-kind contribution to Beneficiary (Article 11 & 12)

- In-kind contribution = non-financial resources (staff, equipment,...)

2. Third Parties – comparison table

	Works on action tasks		Provide non-financial resources for the action
Type of Third Party	Subcontracting	Linked Third Party	Third Party providing in-kind contribution
In the estimated Budget (Annex 2)	of the main beneficiary	of the linked Third Party	of the main beneficiary
Reporting – In the Financial Statements (Annex 4)	of the main beneficiary	of the linked Third Party	of the main beneficiary
Eligible cost	Price (containing Profit margin)	Actual cost (no profit allowed)	Actual cost (no profit allowed)
Selection	Contract – best value for money	Legal link with beneficiary	Agreement
Article of the GA	Article 13	Article 14	Articles 11 & 12

3. Third common error: Subcontracting

- ❑ Subcontracting is a purchase of goods, works or services that are identified as **action tasks** in Annex 1.
 - Example: subcontracting of opinion surveys
 - Only a limited part of the action can be subcontracted, only if it is a more efficient means for the SME to deliver the required work.
 - The contract is based on business conditions (includes a profit margin for the subcontractor)
 - Subcontracted tasks must be described in Annex 1 and costs foreseen in Annex 2
 - Ensuring the **best value for money**, equal treatment during the selection and no conflict of interest.
- ❑ **Common mistakes:**
 - Subcontracting not foreseen in Annex 1 and 2 (→ Amendment)
 - No documentation justifying the selection of the subcontractor.

4. Fourth common error: Depreciation

❑ Most common mistakes:

- Depreciation not pro rata temporis, not in line with the SME usual practice
- Personal computer: Not eligible because not specific to the project (standard office equipment) → Should be covered by 25% indirect costs

❑ Good practices

- Equipment (if foreseen), must be depreciated according to the SME usual accounting practice.
- Depreciation charges must start from the date when the assets are activated for the project (pro rata temporis and percentage of time used for the project).

5. Fifth common error: Travel costs

❑ Common mistakes:



- Travel not specific, purpose not explained, no information of who travelled where
- Lack of adequate supporting documents
- Not compliant with travel policy of the SME
- Costs not related to the Action

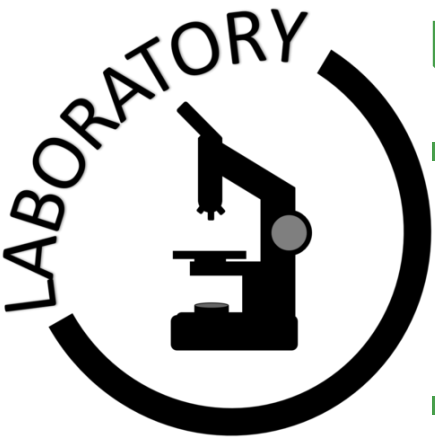
❑ Good practices:

- Travel must be in line with the beneficiary's usual practices on travel → **Draft your OWN Travel Policy**
- Specify date, location, purpose for the project, person(s), WP(s)

6. Place where the work is performed

❑ Errors/mistakes:

- Work is not performed at SME premises
- Head office is a letter box

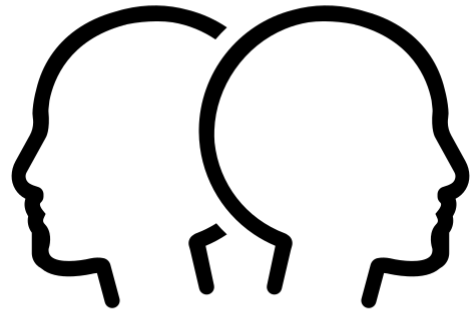


❑ Good practices:

- In case the research is carried out outside the official SME premises, the place where the work is performed must be mentioned in the DoA-Description of Action.
 - Example: For very small SME, head office is at the owners home office, but the work is performed at an outside lab.
- Important to identify actual place of work for fraud detection and audit purposes.

7. Multiple Affiliation and change in SME status

□ Academic who is also an SME owner:



- Need to clarify which legal entity incurs the costs, the University or the SME
- Need to clarify on where the work is performed: at SME premises or university lab

□ change in SME status

- Change in the SME status must be notified (via the portal)
 - Change of name, legal address, ownership
 - UTRO- Universal transfer of Rights and obligation, ie when an SME is absorbed by another legal entity

8. Training costs (to follow training course)



- Training costs are Normally **not eligible**
- The beneficiary should have the resources and operational capacity to perform the tasks at the start of the project
- Eligible in exceptional cases only if scientifically justified and necessary for the project (specific technical skills needed in the course of the project).

9. Staff Recruitment costs

- Normally **not eligible**
- The beneficiary is required to have the necessary human resources to implement the action, at the start of the Action.
- If needs to recruit, the related costs could be covered by the 25% flat-rate indirect costs
- **Patients** recruitment costs are eligible (provided required for the Action and described as a tasks in Annex 1).

10. Financial Contribution (FC) received from EFPIA/AP

- Financial funding received by an SME from EFPIA/AP to cover eligible costs of the Action
Example: equipment purchased by an SME but financed by a EFPIA company.
- Total Eligible costs of the Action are reimbursed
 - partly **by IMI**, partly **by EFPIA/AP**
 - But **not by both** at the same time = no double funding.
- based on bilateral agreement between the SME and the EFPIA company
- Must be identified in the **Annex 1** (the amount, the purpose, the SME recipient of the FC, the EFPIA company paying the FC)
- must be set in the **Annex 2** - Budget (FC received by the Beneficiary/FC paid by the EFPIA/AP, included in costs of the beneficiary).

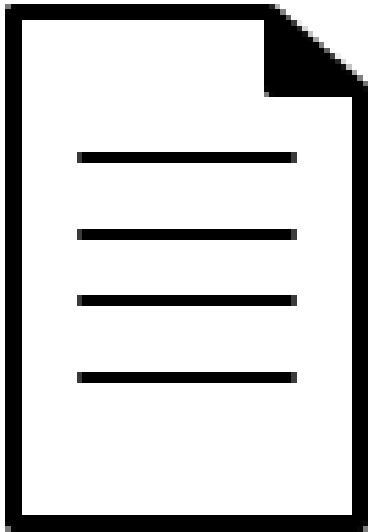
10. Financial contribution (FC) received from EFPIA/AP

How to report Financial Contributions?

- **Eligible costs** covered by the FC received
 - must be declared in the reporting period **when they were incurred** (financial statement) – not when the FC is received.
 - These costs should NOT be reimbursed by IMI since they are already reimbursed by a FC from EFPIA
 - **Deduct** those costs from IMI requested contribution
 - Avoid double funding
 - **NO profit rule:** $\text{sum [IMI funding + EFPIA FC]} \leq \text{total eligible costs}$
- **FC received** from EFPIA/AP must be declared by the SME as a **Receipt in final period.**

Advices for SMEs

SOP- Standard operating procedure



- Draft your own SOP - **Standard operating procedure**
 - travel policy, procurement, depreciation...
 - HR policy, teleworking, ...
- “Paper trail”. Example: Request for quotation, offer, Purchase Order, receipt, invoice, ...
- Document in writing
- Documents must be kept 5 years after the final payment.

Advices for SMEs



- Get in touch with the coordinator of your project, project manager or IMI Staff for specific questions.

Reporting requirements for SMEs IMI 2 projects

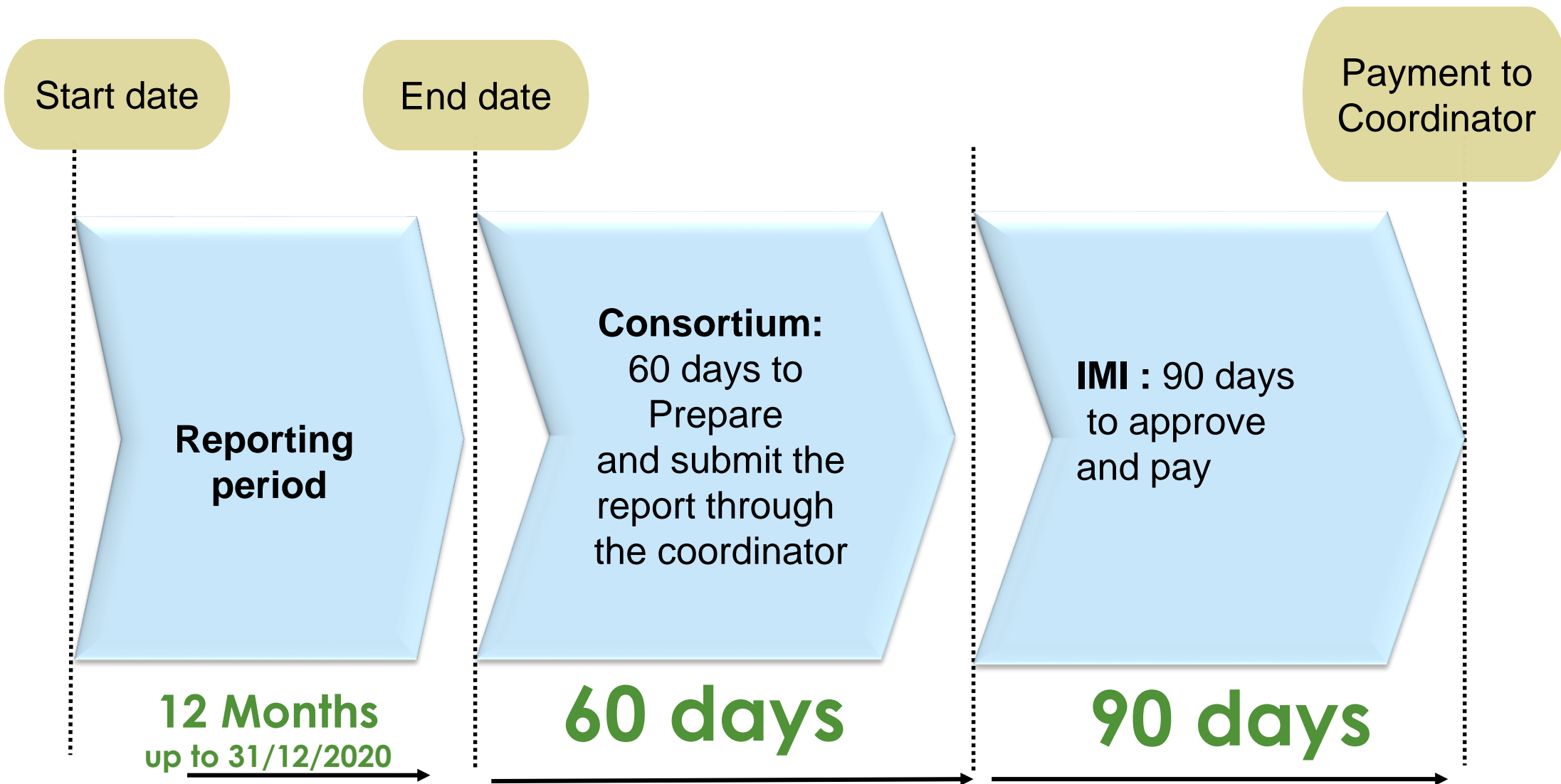
Reporting

1. When and how to report
2. Analysis of reports
3. Interim payments

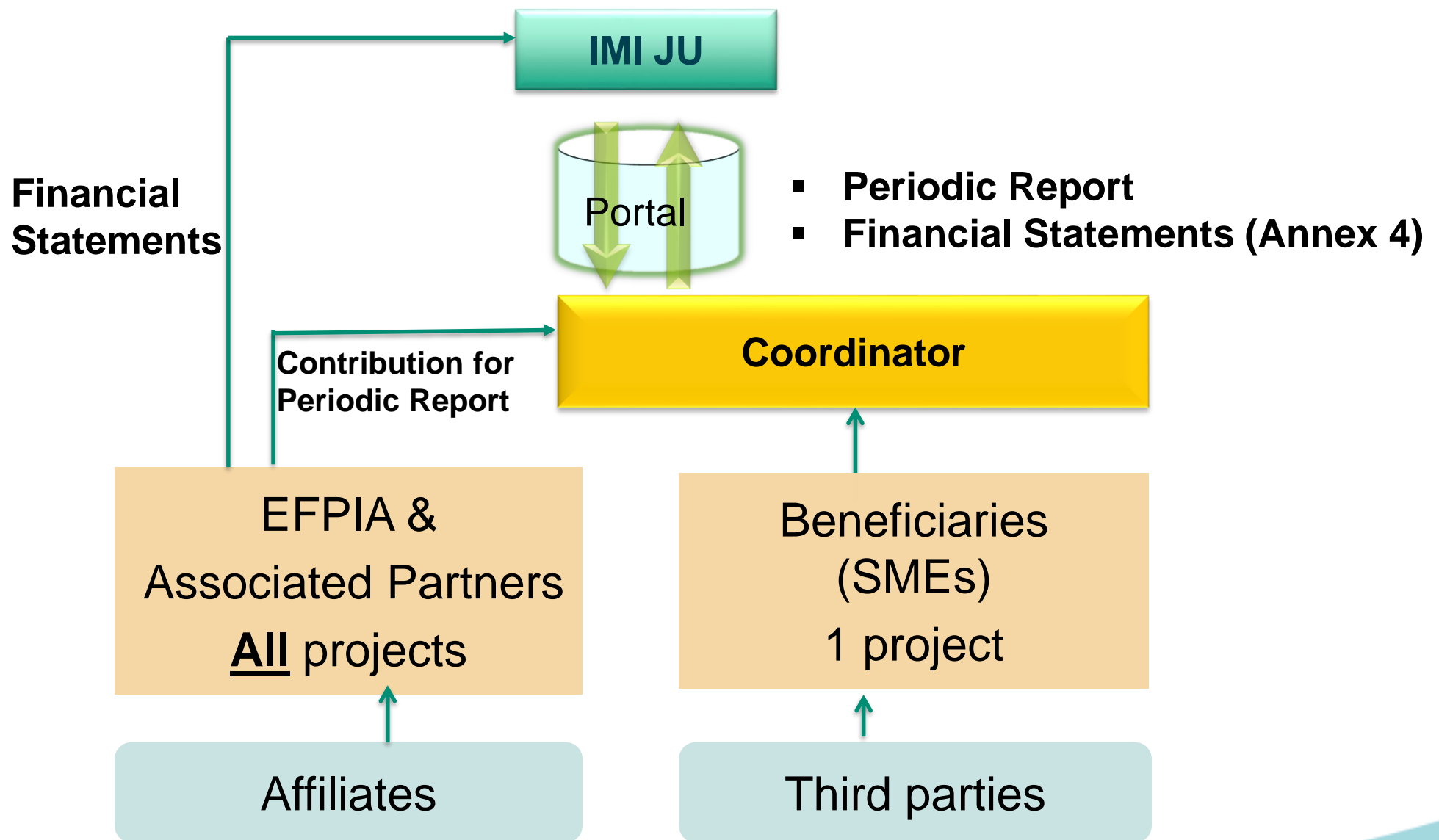
1. When and how to report

- According to project deadlines:
 - 60 days after the end of the reporting period
 - The coordinator may set shorter deadlines, as 60 days in the deadline for the whole Consortium.
- Reporting via the Funding & Tenders Portal

When to report - Reporting timelines



2. Who and how – reporting actors



What - Content of the periodic report

1. Individual **Annex 4** - Financial statements
2. **Periodic report**, including “**use of resources**”
3. **CFS** – Certificate on financial statements, if applicable,
Threshold : **325,000 EUR** IMI contribution (as reimbursement of actual costs, excluding 25% indirect costs), **at the end of the project.**
3. **RECEIPTS** (From EFPIA companies) – must be declared at the end of the project.

Assessment of reports by IMI

How does IMI analyse the reports ?

- Assessment by:
 - Scientific (Project) Officer
 - Financial Officer
- Comparison to Annex I –DoA Description of the Action, in particular deliverables, milestones, budget, subcontracting
- If Documents are missing or if the report is incomplete → the 90 days time limit is suspended (article 47).

Interim Payments – cash flow



- All payments made by IMI to the Coordinator
- **Prefinancing** paid at the start of the project
- **Interim payments:**
Reimbursement of accepted requested IMI contribution, after IMI acceptance until **[Prefinancing + subsequent payments]** reaches **90% of the grant amount.**
- **Final** payment: after approval of the final report.

Audits in IMI2 Actions

Two types of Audits

Audit <u>before</u> IMI final payment	Audit <u>after</u> IMI payment (“Ex-post audit”)
Certificate on Financial Statements : report per exception	Audit opinion on the eligible and ineligible costs
Auditor appointed by the Beneficiary	Auditor appointed by the European Commission
Mandatory under IMI2 GA (Art 20.4 & Annex V)	Randomly selected by IMI under annual representative audits or risk based audit (Art 22.1.3)
Due in final period if requested contribution >325 KE (based on direct costs)	Anytime during the project and up to 2 years after payment of the balance

Ex-post audit objectives

- To control whether costs are eligible or not (Art. 6)
- To correct errors (= ineligible costs)
- To identify systematic errors and correct them in all cost claims (Art 22.1.5)
- To report a representative and residual error rates as to obtain a Discharge from the budgetary authority, the European Parliament, further to the European Court of Auditor's opinion.

Common errors found in ex-post audit 1/2

European Court of Justice jurisprudence: technical deliverables are necessary but not sufficient for claiming costs – costs must be actual and evidenced.

- No paper trail to link cost with the Action or no supporting documents (Art 18)
Recommendation: project accounting.
- No Time sheets (TS) / inconsistent TS: not signature/no supervision, inconsistency with HR records (hours claimed while on leave)
Recommendation: use template provided in Annotated GA (Art 18).
- Incorrect annual productive hours to compute hourly rate.
Recommendation: use option 1 of Art 6.2.A (1,720 annual hours)
- Personnel costs claimed by SME owners who do not have employment contracts without using the SME owners unit cost.
Recommendation: clarify your situation at GAP stage to use (or not) the SME owner unit cost. If doubt during the Action, contact IMI officers for possible amendment.

Common errors found in ex-post audit 2/2

- Budgeted figures instead of actual figures
- Subcontracting/other direct costs: No procurement procedure or no demonstration of best value for money.
Recommendation: for SME without procurement procedure, justify your selection with a best value for money analysis.
- Wrong or full depreciation of equipment / no pro rata per the Action's use.
Recommendation: apply the SME usual accounting practice and measure equipment usage in the Action.

Available guidance & support :

- The annotated GA on Art 6 “Eligible/Ineligible costs” contains detailed guidance, including examples and specific cases.
- Answers to FAQs published on the Funding & Tenders Portal
- 2019 EC communication “how to avoid most common errors”
- Contact IMI

Reference documents and links

- [IMI2 Model Grant agreement](#)
- [IMI2 Periodic report Template](#)
- [IMI2 Annotated Model Grant agreement](#) (v2.2, Oct 2019)
- [How to avoid errors when claiming costs in H2020 grants](#)
- [H2020 FAQ](#)

IMI Contact: Via the portal or e-mail: finance@imi.europa.eu

Questions & answers

Thank you

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