Guideline

Financial Statements

and Impact Pathways

To be used for the application procedure SDGP

1. **Financial statements**

Content of Annex 7: Financial statements of project partners

# Background information

The information provided in this Annex will be used to assess the financial standing of the project partners.

## Companies, NGOs, Knowledge Institutes

Companies, NGOs and Knowledge Institutes within the partnership should submit their most recent (2017 or 2018), audited annual reports (Government institutions are exempted from this requirement). Please note, we may request additional guarantees such as a Bank Guarantee or a Third Party Guarantee before to award or award the subsidy under conditions. Formats for both the Bank guarantee as well as the Third Party Guarantee are provided in this document.

NB. If your company is not legally bound to have its annual report audited, you should at least provide a compilation statement from a chartered accountant regarding the balance sheet and the income statement.

**Public Institutions**

Public Institutions should submit a legally signed Letter of Intent as part of the Partner form. Please make sure the Letter is signed by the Public Institution(s) as presented in the application form or the financially mandated Public Institution. A format is provided in this document.

As part of the full proposal application, the consortium should provide a clear and realistic picture about how the partners will finance their own contribution. A solid financial alternative should be provided If the own financial situation of the contributing organisation is weak.

The financial statements of the partners providing for the own contribution, have to be submitted together with the subsidy application, this is a mandatory annex. Thirdparty guarantees and bank guarantees don’t have to be included in this stage yet. However as stated above, the organisations do need to provide a clear and realistic picture about how they can guarantee their own contribution, either from own resources or alternatives.

After the full proposal application deadline, we will review this information and documentation provided on this topic. Based on this review, we will request additional guarantees for partner contribution if necessary. This will be in January 2020.

**Key Standards Table**

Based on the figures in the annual financial statements, we use the Key Standards Table to evaluate if the project partners have enough financial means available to (pre-)finance the project.

The key standards need to be calculated based on the figures presented in the annual financial statements. This should be the most recent annual report, 2018.

**Key standards criteria**

SDGP uses the following key standards criteria to assess the financial position of each contributing project partners:

* Financing ratio ≥ 1.20 Financing ratio = (project duration in months/ 12) x cash flow / own contribution.
* Equity / own contribution ≥ 0.40.
* Solvency ≥ 0.30 Solvency = equity / total assets.
* Current ratio ≥ 1.30 Current ratio =current assets / current liabilities (indicator of the firm's liquidity).
* Quick ratio > 1.00 Quick ratio = current assets – inventory/ current liabilities.
* Cash flow ratio > 1.00.

In order to assess the financial situation of the company, the key standard outcomes will be combined with the qualitative information about how the organisation will finance their own contribution. If the key standard ratio’s do not meet the minimum standards, it is likely that a third party guarantee or bank guarantee will be requested, depending on the overall financial situation of the organisation and how the investment will be guaranteed.

**The rationale behind the financial assessment:**

The success of a project partly depends on the financial position of the project partners. The project partners will need to be in a position to:

* Pre-finance the SDGP contribution, and
* Finance their own contribution to the project budget, and
* Finance the working capital as working capital, is not eligible for SDGP subsidy, and
* Cover any unexpected additional costs.

**Explanation in text:**

Please provide the following information in Annex 1, Project Plan:

* Describe how the PPP's own contribution will be financed.
* Describe how the SDGP contribution will be pre-financed by project partners.
* Describe how the working capital needed for the project will be provided.

**Additional information**

The key standards are indicative. Even if a partner meets all standards, there can be other issues. Therefore, in addition to the annual reports, SDGP will have a broader look at the financial position of all contributing partners, in terms of operational management, trends, prospects.

If any of the project partners do not meet the key standards minimum requirements, or, if there is any other issue/reason that may lead to any doubt as to the financial position of any of the project partners, please provide additional information and explain how will those project partners (pre-) finance the project during its implementation (= SDGP contribution, partner's own contribution and project's working capital).

Please make sure the information is sound, verifiable and valid for at least the project's duration.

**Possible solutions in case project partner(s) does not meet the key standards minimum requirements from annual reports:**

* Solutions among the partners (one partner guaranteeing the other's own contribution). Please note, the guaranteeing partner should then meet the key standards for the total own contribution;
* Solutions outside the partnership (confirmed loans, bank guarantees or guarantees by third parties, allocated to the project and covering at least the project's duration);
* For third party (parties outside the partnership) guarantees (not being bank guarantees), use the Third Party Guarantee format.

Please make sure to add the most recent annual accounts of the guarantor. The guarantor should then logically meet the key standards minimum requirements for the amount it stands surety for.

* Should a bank guarantee, bank loan or credit facility be considered, then a 'Letter of Intent' from the corresponding bank may be accepted as long as this letter expresses a genuine intention to **immediately** provide a guarantee, loan or credit facility for amount X, **once SDGP subsidy has been awarded**. Should an SDGP subsidy be awarded, the provision of the full bank guarantee, bank loan or credit facility, will become a component of the Inception phase. An example of a format for the Letter of intent for a bank guarantee, bank loan or credit facility is provided hereafter on page 4 to 7.

Please note that when projects are (almost) entirely financed through debt (= financial means from non-related third parties), we will doubt whether such an investment is a responsible one for the project partners. Therefore, the chance of approval for such financial constructions is very slim.

The following documents are **not** considered to be sufficient proof:

* Bank account statements;
* Statements of in-kind contributions.

If during the financial assessment it has **not** been (sufficient) demonstrated and proven that the project partners have enough financial means available to (pre-)finance the project, the application will be **rejected**.

# Format Letter of Intent for contribution Public Institutions

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| --- | --- |
| Sustainable Development Goals Partnership Facility -SDGP |  |

|  |
| --- |
| Letter of Intent |

*[PROJECT TITLE]*

[*Name of Public Institute*] herewith formally states to contribute to the partnership to enable the financing of the project *[project title]*

The contribution of [*Name of Public Institute*] consist(s) of:

A contribution of *[EUR amount]*

With this Letter of Intent, the [*Name of Public Institute*] declares its intention to finance the project *[project title]*.

The contribution will be made available to the project organisation and will be subject to the conditions decided upon by the partnership.

*[name, title, authority and signature]*

 **Format model Bank Guarantee**

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| Sustainable Development Goals Partnership Facility -SDGP |  |

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| Bank Guarantee |

A Letter of Intent will have to be provided at the date of the submission of the project proposal to the Netherlands Enterprise Agency.

Below a format for a letter of intent to provide Bank Guarantee can be found.

A valid Bank Guarantee will have to be provided before the end of the Inception phase of the project.

**We accept bank guarantees when:**

* These are issued by a legally incorporated bank.
* The bank in question (the guarantor) has the financial means to issue such a guarantee.
* Guarantor issues the guarantee in favour of the state of The Netherlands.
* The guarantee is unconditional.
* Guarantee covers the project contribution of the participating party in full.
* Guarantee is valid for the whole of the project period.
* The Guarantor enters into the obligation to pay to the State all that owed in the matter by the Applicant/ Project Partner according to the State's statement, at the State's first written request.
* The guarantee is subject to the law of The Netherlands.

**Letter of Intent for a Loan Facility / Line of Credit / Bank Guarantee**

*Dear Sir/Madam,*

*Please be informed that <NAME BANK/FINANCIAL INSTITUTION> is willing to sanction a term loan facility/line of credit/bank guarantee to <NAME AND ADDRESS OF COMPANY>, to a maximum of <CURRENCY AND AMOUNT> (equivalent as per today's exchange rate to <EUR AMOUNT>), in connection with the implementation of the SDGP project in <NAME COUNTRY>, with project title <NAME PROJECT>, subject to approval of the project application by the Netherlands Enterprise Agency, Prinses Beatrixlaan 2, 2595 AL THE HAGUE, The Netherlands.*

*This declaration/commitment is based and subject to information and circumstances presently applicable and known by our bank (or <NAME OF FINANCIAL INSTITUTION/ BANK>).*

*The Bank's general rules and regulations apply. No further rights can be derived from this letter, nor any form of guarantee, liability or responsibility on behalf of <NAME OF FINANCIAL INSTITUTION/BANK>.*

*Thus signed and drawn up in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (place) on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (date).*

***For*** *\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (name of the bank/ financial institution),*

 *\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (signature) (stamp)*

 *\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (name and position)*

**Format Third Party Guarantee**

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| --- | --- |
| Sustainable Development Goals Partnership Facility -SDGP |  |

|  |
| --- |
| Third Party Guarantee |

**THIS GUARANTEE** is made on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (date)

**By**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (name of legal entity/company/person that provides guarantee)**,** a company or legal entity established under the laws of \_\_\_\_\_\_\_\_\_\_ (the "**Guarantor**"), concerning a guarantee for (name of Applicant/ Project Partner). This Third Party Guarantee is in favour of **THE STATE OF THE NETHERLANDS on behalf of the Minister for Foreign Trade and Development Cooperation**, in this matter represented by Netherlands Enterprise Agency (the "**State**");

**WHEREAS**

A) On \_\_\_\_\_\_\_\_\_\_\_ (date of submission), the company/organisation named \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (the "**Applicant**") submitted an application to the State for a grant under the Sustainable Development Goals Partnership Facility (SDGP). *Optional: As part of this application the company/organisation named \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (the "****Project Partner****") submitted an Partner Form thereby committing itself*. The project is titled \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (the "**Project**").

B) In case the application is accepted, the State requires that the Applicant/(Project Partner) fulfils its/their obligations mentioned in the administrative decision to ensure implementation of the Project.

C) These obligations include a financial contribution of the Applicant/Project partner to the Project.

**HEREBY DECLARES AS FOLLOWS:**

1. The Guarantor irrevocably and unconditionally stands surety vis-à-vis the State for the financial contribution of the Applicant/Project partner in the project, which amounts to EUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

2. This Guarantee will become effective once the SDGP grant for the Project has been awarded and will terminate when the Project has been concluded and the SDGP grant has been fixed.

3. The Guarantor provides, together with this guarantee, the State with its latest audited annual report and accounts to enable the State to assess the Guarantor's financial standing.

4. The Guarantor enters into the obligation to pay to the State all that owed in the matter by the Applicant/Project partner according to the State's statement, at the State's first written request and at the mere communication that the Applicant/Project partner is in default of compliance with the obligations referred to above.

5. The Guarantor is not required to make payment under this advance payment guarantee in the event that the written claim from the State is not accompanied by a statement by the State, bearing a legally valid signature, indicating that the State has served the Applicant notice of default, and that the Applicant then failed, in the State's opinion, to meet its obligation(s) within 14 calendar days of the date on which notice of default was served, no later than the date on which the SDGP grant for the Project is fixed.

A notice of default, as described above, is not required in the following cases:

a) the Applicant/Project partner is in a state of bankruptcy

b) the Applicant/Project partner is granted protection from its creditors (in Dutch: surseance van betaling), or

c) the Applicant/Project partner dissolves its company/organisation.

This declaration is subject to the law of The Netherlands.

Thus signed and drawn up in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (place) on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (date).

**For** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (name of the Guarantor),

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (signature)

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (name and position)

1. **Impact pathways**

This paragraph provides additional information about chapter 2.3 of the project proposal format. It provides background information about how to formulate the impact pathways.

An Impact Pathway (IP) helps to think critically about the desired societal change and illustrates how the complex process of change will unfold over time. To a certain extent, IPs are similar to Theories of Change, in the sense that they illustrate how and why a desired change is expected to happen in a particular context. An IP unravels the problem: it focuses on direct and indirect causes and their inter-relations. it also serves as a roadmap and helps to manage and steer an intervention. An impact ‘pathway’ may suggest a linear relationship between output, outcome and impact; in practice, this is hardly ever the case. Change is a complex process that depends on a variety of actors and factors. As a result of this, it could be necessary to revise the model based on experiences and sub results achieved during project implementation.

When working with IP critical issues (tensions/risks) and/or markers for change (M4Cs, necessary steps towards impact) will be formulated. Illustrating how risks and tension are handled or how success will be recognised at each step in the pathway of change (M4Cs).

The essence of working with IP is to link it in a smart way to your M&E system:

* Monitor immediate outcomes: learn from performance with immediate outcome indicators that help build/strengthen and adjust the specific intervention. The goal is to improve the intervention during project implementation based on progress made and experiences so far.
* Measure intermediate outcomes: evaluate changed intermediate outcomes indicators that are informative for benchmarking performance of the intervention;
* Build a plausible storyline for the contribution to the ultimate outcomes: make use of existing information to reflect on the impact logic and collect information that can support and challenge the storyline.

The outcomes should include results within the chosen theme as well as results on the crosscutting themes, being gender equality, climate adaptation and supporting a circular economy.

**Glossary of terms and definitions**

**Inputs** The financial, human, material and information resources used to produce outputs through activities and accomplish outcomes.

**Activities** Actions taken or work performed through which inputs are mobilized to produce outputs.

**Outputs** Direct products or services stemming from the activities of an initiative.

**Immediate outcomes** A change that is directly attributable to the outputs of an initiative. In terms of time frame and level, these are short-term outcomes and are usually at the level of an increase awareness skills of X or access to Y among beneficiaries. Please note that these should also be added to the M&E sheet.

**Intermediate outcomes** A change that is expected to logically occur once one or more immediate outcomes have been achieved. In terms of time frame and level, these are medium-term outcomes which are usually achieved by the end of a project and are usually at the change of behaviour/practice level among beneficiaries. Project outcomes should contribute to the selected application theme. The result framework for each of the four themes is described in the policy rules.

**Outcomes** The highest-level change that can be reasonably attributed to an initiative casually, and is the consequence of one or more intermediate outcomes. The outcome takes the form of a sustainable change of state among beneficiaries.

NB: Only outputs fall under the direct sphere of control of a project or intervention. Outcomes and impact belong only to sphere of influence of a project or intervention. Project outcomes should contribute to the selected application theme. The result framework for each of the four themes is described in the policy rules.

**Critical issue** A potential risk or tension that can hamper the achievement of a particular output or outcome. These risks or tensions can be related to the (social, political or environmental) context in which the intervention is implemented or to the specific partnership (power) dynamics. Preferably, these risks and tensions are made explicit, addressed and mitigated. In paragraph 2.4 of the project proposal format, a risk assessment is included. The relevant mitigating measures indicated in this risk assessment should be translated into activities and included as activities in the impact pathway model.

**Marker for Change** A process or content-based milestone related to each step in an IP that is considered to be crucial or necessary in achieving the desired ultimate change.

**Key performance indicators** (KPI’s); Whereas the Markers for change are qualitative indicators based on the improvement of the enabling environment and institutional development, the project also has to include quantitative indicators measuring the impact on the Dutch policy goals. The mandatory indicators of the theme chosen for application should be included as quantitative indicators. For an overview of the indicators per theme see chapter 6 of the project proposal format.