European Economic and Social Committee

ECO/482
Adjustment of annual pre-financing for the years 2021 to 2023

OPINION

European Economic and Social Committee

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1303/2013 as regards the adjustment of annual pre-financing for the years 2021 to 2023
[COM(2018) 614 final - 2018/0322 (COD)]

Rapporteur: **Javier DOZ ORRIT**

Referral	European Parliament, 13/09/2018 European Council, 17/09/2018
Legal basis	Articles 177 and 304 of the Treaty on the Functioning of the European Union
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	20/12/2018
Adopted at plenary	24/01/2019
Plenary session No	540
Outcome of vote (for/against/abstentions)	121/1/3

1. **Conclusions and recommendations**

1.1 The European Commission proposal or a regulation under examination[1] amends the current Common Provisions Regulation for European funds[2], with a view to reducing the pre-financing of aid granted to the Member States under the 2014-2020 MFF from 3% to 1% of the amount of such aid between 2021 and 2023.

1.2 If the new Common Provisions Regulation[3] is approved in the terms proposed by the Commission, the reduction in the pre-financing percentage in the final period of implementation of programmes financed with EU funds under the 2014-2020 MFF will be compounded, when implementation of the 2021-2027 MFF begins, by an even greater reduction: the percentage will fall to 0.5% between 2021 and 2026, and will be abolished altogether with effect from 2027. At the same time, the Commission proposes the following for the next MFF: a reduction in resources for cohesion policy (-10%) and for the European Maritime and Fisheries Fund (-13%), an increase in the Member States' percentage of co-financing, and a shorter programme implementation period (from N+3 to N+2).

1.3 Pre-financing primarily supports Member State cash-flow in order to launch the implementation of programmes co-financed by European funds and avoid excessive delay in their completion. Pre-financing is a useful and necessary instrument. It should be borne in mind that, in order to launch a programme financed by European funds, the Member States must advance the resources to the public and/or private actors who are directly responsible for the programme's implementation.

1.4 The EESC does not consider the reasons given by the Commission for reducing the pre-financing percentages in the final stage of implementation of the 2014-2020 MFF to carry sufficient weight to justify this action.

1.5 In the EESC's view, the Commission possesses adequate instruments to monitor the proper use of European funds, including pre-financing, by the Member States: it would of course support any reforms that enhance this capacity.

1.6 The EESC urges the Commission to reconsider its proposal to reduce pre-financing percentages and to retain the percentages set out in the current Common Provisions Regulation for European funds under the 2014-2020 MFF.

1.7 The EESC also calls on the Commission to revise the pre-financing provisions in its proposal for a Common Provisions Regulation for European funds for the 2021-2027 MFF in line with the arguments set out in the present opinion.

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1 *Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1303/2013 as regards adjusting the level of annual pre-financing for the years 2021 to 2023*, COM(2018) 614 final - 2018/0322 (COD).

2 *Regulation (EU) No 2013/2013 of the EP and of the Council of 17/12/2013 laying down common and general provisions on various European Funds and repealing Council Regulation (EC) No 1803/2006.*

3 *Proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument*, COM(2018) 375 final - 2018/0196 (COD) and annexes.

2. **Background to the Commission proposal**

2.1 The current Regulation (EU) No 1303/2013 laying down common provisions on European Funds sets out rules governing the distribution of resources within the Multiannual Financial Framework (MFF) 2014-2020. Article 134 sets out the pre-financing amounts that Member States can receive from the EU to launch eligible programmes which will be financed by those funds. The regulation provided for the pre-financing rate to gradually rise from 1% in 2014 to 3% of the value of support for programmes from the Funds and the EMFF between 2020 and 2023.

2.2 Article 1 of the Proposal for a Regulation amending Regulation (EU) No 1303/2013, discussed in this opinion - the only one of the two articles in the text with regulatory content - amends Article 134 of Regulation (EU) No 1303/2013, reducing the pre-financing in the period 2021-2023 from 3% to 1% and retaining 3% only for 2020. This is still pre-financing under the 2014-2020 MFF programmes, which will continue to be implemented until 2023.

2.3 The reasons for the change in the pre-financing arrangement as set out in the explanatory memorandum of the proposal are "... to increase transparency and contribute to the predictability of budgetary planning and to a more stable and predictable payment profile", with regard to the repayment of funds from Member States to the EU generated by the system during clearance. The explanatory memorandum also mentions the fact that from 2019 the basis for calculating the pre-financing rate will already include the "performance reserve", equivalent to 6% of the total value of the planned support.

2.4 The proposal concerns pre-financing for programmes financed by the following funds: the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund and the European Maritime and Fisheries Fund, together with the Border Management and Visa Instrument.

2.5 Article 84 of the Proposal for a Regulation laying down common provisions on European Funds within the Multiannual Financial Framework 2021-2027[4] sets a pre-financing rate of 0.5% of the total amount of assistance from the Funds laid down in the decision approving the programme, stipulating that it is only to be granted during the first six years of the period - from 2021 to 2026. The Commission proposal does not provide for pre-financing in 2027 and subsequent years. Interreg programmes will be governed by specific rules setting a pre-financing rate of 1% of the total amount of the programme.

2.6 Other changes to the current rules contained in the draft Regulation laying down common provisions for 2021-2027 are a decrease in the rate of co-financing from the EU budget and a shorter implementation time for programmes, with the suggestion of changing from the N+3 rule to the N+2 rule.

4 COM(2018) 375 final – 2018/0196 (COD) and annexes.

3. General and specific comments, and proposals

3.1 The procedures to implement support for programmes financed by the funds affected by Regulation (EU) No 1303/2013, together with the other accounting and control rules for resources provided by the EU to the Member States, require the Member States to advance the resources to the public institutions, private actors or partnerships of both, who are directly responsible for implementing these programmes. As programmes are implemented, and implementation is duly certified by the Member States, the EU releases the matching share of co-financing committed to each of the approved programmes.

3.2 Pre-financing primarily supports Member State cash-flow, which is very useful for launching the implementation of programmes co-financed by European funds and avoiding excessive delay in their completion as a result of any cash-flow problems they may have. Such cash-flow difficulties were particularly acute during the worst years of the recent economic and financial crisis, when extreme austerity policies were applied, and these difficulties persist, especially for those Member States that have to bring down their budget deficits.

3.3 The time taken to reflect on, draw up, present, adopt and begin to implement programmes varies according to their character and the ability of administrations and private actors in each of the Member States. This frequently takes more than two years: as a result, implementation phases often accumulate in the final years of each MFF, finishing two or three years after completion of the latter. The 2013 Common Provisions Regulation appeared to take this factor into account by providing that annual pre-financing rates would rise from 1% in 2014 to 3% from 2020 to 2023, moving from 2% to 2.875% between 2016 and 2019.

3.4 The Commission is now adopting the opposite approach. In the proposal to amend the 2013 Regulation discussed in the present opinion, annual pre-financing, which will stand at 2.875% of the value of each programme in 2019, falls to 1% between 2021 and 2023. Similarly, but more radically, the Proposal for a Regulation on the common provisions of the MFF 2021-2027 sets annual pre-financing at 0.5% between 2021 and 2026, and removes it entirely in 2027 and the subsequent years in which the implementation of programmes financed by the structural and cohesion funds will continue.

3.5 In the Committee's view, the reasons given by the Commission in the explanatory memorandum to the Proposal for a Regulation are insufficient to warrant the change. It cites the transparency and predictability of budgetary planning and a predictable payment profile. The EESC considers there to be no reason for these - entirely desirable - criteria to be incompatible with a procedure for advancing and clearing support, where adequate controls are in place, as they should be.

3.6 The figure mentioned in the exploratory memorandum - a financial flow of EUR 6.6 billion (2017) in recoveries from the Member States to the EU - cannot, on account of its volume, be the result solely of excess pre-financing, but must also arise from the non-implementation or poor implementation of programmes, or poor planning of certification of expenditure. Moreover, the claim made in the explanatory memorandum that the reduction in the pre-financing percentage will be offset because the reduction will also apply, from 2019 onwards, to the "performance reserve" is not accurate. This reserve represents only 6% of the programme, and the percentage of new pre-financing that is proposed will only be one third of that planned. What is more, the "performance reserve" is also accounted for in each Member State's budget and the only outcome for them is to lose this 6% in whole or in part, if they do not meet the implementation criteria.

3.7 If the problem that the regulatory change is intended to resolve were to be related to the cash-flow management of budget resources, what the Commission is proposing would transfer cash-flow problems from the EU to the Member States. The issue is complex because, given that in the current 2014-2020 MFF, EU resources based on the Member States' contributions according to their Gross National Income (GNI) represent 72% of overall EU income[5], any discussion of EU cash-flow also involves the cash-flow of the Member States in keeping with their levels of wealth.

3.8 It should also be borne in mind that the Proposal for a Regulation on common provisions for the 2021-2027 MFF introduces an increase in the percentage of co-financing to be covered by the Member States, and the rule governing the implementation period is reduced by a year, changing from N+3 to N+2. At the same time, the 2021-2027 MFF proposal entails a reduction in resources for cohesion policies of 10% and for the European Maritime and Fisheries Fund of 13%. In other words, it is proposed at the same time to significantly cut fund resources, to reduce programme implementation periods, and that the Member States should increase their co-financing commitments while pre-financing is slashed.

3.9 It should be pointed out that in its umbrella opinion on the 2021-2027 MFF[6], "The EESC, in accordance with the European Parliament's position, proposes that the expenditure and revenue figure reach 1.3% of GNI" and that "... the financing of cohesion policies (the sum of ERDF, CF and ESF) should be maintained in the MFF 2021-2027, at least with the same resources, at constant prices, as in the current financial framework". The same criterion can be applied to the CAP and the European Maritime and Fisheries Fund. With regard to revenue, in the same opinion the EESC argued that this "... should start from the HLGOR and European Parliament proposals for a wide range of further sources of own resources, leading to a significant shift towards reliance on own resources within the period of the coming MFF". The agreement between the EESC, the EP and the Committee of the Regions on this and many other aspects of the next MFF is particularly striking.

3.10 Earlier positions are reiterated in the sector-oriented opinions on the EU's new financial framework, in particular the opinion on the Common Provisions Regulation[7] which, in accordance with the views set out in the opinion on the Multiannual Financial Framework post 2020[8], adds "... the EESC regrets that this proposal amends the current N+3 rule to an N+2 rule and invites the European Commission to reconsider it", and at the same time "asks the

5 The Commission's proposal for the 2021-2027 MFF increases the EU's planned "own resources", but the GNI-determined Member State contributions would continue to be close to 57%.

6 OJ C 440, 6.12.2018, p. 106.

7 OJ C…. (ECO/461) (not yet published).

8 OJ C 440, 6.12.2018, p. 106.

Commission to reconsider increasing the co-financing rates [to be borne by the Member States]".

3.11 In the EESC's view, the Commission possesses adequate instruments to monitor the proper use of European funds, including pre-financing, by the Member States. At the same time, it considers that close cooperation between the Commission and the Member States can and should improve a number of aspects of programme planning and management, and would support reforms that enhance such capacities.

3.12 In the light of the above points, the EESC disagrees with the Proposal for a Regulation amending Regulation (EU) No 1303/2013 that seeks to substantially reduce annual pre-financing for the 2021-2023 period.

3.13 The Committee urges the Commission to reconsider its proposal and to take account of the present opinion and the views of the Member States, in particular those that most efficiently and correctly implement programmes that are co-financed with European funds. In the event that the pre-financing percentages set out in the current regulation are not maintained, it calls for the reduction to be significantly less than the two-thirds (calculated proportionately) proposed.

3.14 The EESC also calls for the drastic cut in pre-financing and its abolition from 2027 onwards, as set out in the Proposal for a Regulation on the common provisions for the European funds under the 2021-2027 MFF.

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The president of the European Economic and Social Committee