European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund: financial management

2008/0233(AVC) - 26/11/2008 - Initial legislative proposal

PURPOSE: to amend Regulation (EC) No 1083/2006 on the European Regional Development Fund, the European Social Fund and the Cohesion Fund on certain provisions relating to financial management.

PROPOSED ACT: Council Regulation.

CONTENT: the unprecedented crisis besetting the international financial markets has created major challenges for the EU and requires a rapid response in order to counter the impacts on the economy as whole. The Commission has endeavoured to contribute to the debate currently taking place within the Union and with its international partners on how best to react to the current financial crisis and to its socio-economic consequences. In particular the Commission has, together with Member States, examined the possibility of accelerating investment projects and payments to Member States.

To do this, cohesion policy represents the most powerful and relevant lever for assisting the real economy. With total financial resources of EUR 347 billion for the 2007-2013 period and EUR 250 billion of this envelope earmarked for Lisbon-related investment, cohesion policy provides a powerful support for both budgetary stability and public investment in the Member States and the regions of the EU.

In such a situation, certain regulatory provisions presently in force should be adapted in order to accelerate the implementation of investment projects and the making available of Community financial resources for the benefit of the Member States and the regions of the EU. These provisions include those relating to pre-financing, those concerning expenditure declarations – more specifically, on the one hand, the reimbursement of advances paid to beneficiaries within the framework of State Aids in the meaning of Article 87 of the Treaty and, on the other, major projects and finally those relating to the eligibility of expenditure and financial engineering instruments.

The proposed modifications to Regulation (EC) No 1083/2006 seek to counteract the negative effects of the economic crisis in its totality, in order to accelerate in the short term the implementation of the Funds for the benefit of the real economy, notably through strengthened support to SMEs.

They are concentrated on four principal areas:

- extending the scope of application of Article 44 relating to financial engineering instruments for the intervention of the EIB and EIF in support of Member States for the preparation and implementation of operational programmes;
- an amendment to Article 56 relating to the eligibility of expenditure with a view to clarifying the possibility of payment of overheads on the basis of flat rates and to introduce the possibility of in-kind contributions being considered as eligible expenditure at the time of establishing - or contributing to – funds;
- a modification of the dispositions relating to expenditure declarations: (i) for major projects with the removal of the prohibition from including incurred expenditures for such projects in interim payment requests before major project approval by the Commission and (ii) for State Aids within

the meaning of Article 87 of the Treaty through the removal of the 35 % limit hitherto attaching to advances paid to beneficiaries by the body granting the aid, thus permitting advance payments of up to 100 %, other conditions remaining unchanged;

- an increase in the third pre-financing instalment (2009) of 2 % for Structural Funds for those Member States that acceded to the EU on or after 1 May 2004, the creation of a third instalment (2009) of 2,5 % for Structural Funds for all those Member States which had acceded to the EU as constituted before 1 May 2004, in terms of the territorial co-operation objective, if the programme contains at least one participating Member State which acceded to the EU on or after 1 May 2004, it is attributed an additional percentage advance of 2% in 2009. These additional resources which should be made available at the beginning of the year should be rapidly transferred to beneficiaries, taking due account of the rules of sound financial management.

Budgetary impact: the amount of additional advance payments foreseen in 2009 on the basis of the proposal totals EUR 6.3 billion. Other proposed amendments may increase the speed of interim payments.