



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.09.2002
COM(2002) 528 final

**COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

Evolution of budget execution of the Structural Funds, in particular outstanding commitments (R.A.L.)

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TABLE OF CONTENTS

1.	Summary	3
2.	Trend in outstanding commitments.....	7
2.1.	Pre-1994 programming periods	7
2.2.	1994-99 programming period	7
2.3.	2000-06 programming period	9
2.3.1.	Commitments.....	9
2.3.2.	Payments	10
2.3.3.	Trend in commitments outstanding in 2000-06	11
2.3.4.	Total commitments outstanding at the end of the year	12
2.3.5.	Outstanding commitments for 2000-06 during each budget year	13
2.3.6.	Scenarios for atypical trends in payments.....	14
2.4.	Conclusion on the trend in outstanding commitments.....	15
3.	Budget management of payment appropriations	16
4.	“ <i>Sunset clause</i> ” for automatic decommitments	17
5.	Improving the forecasts.....	18
6.	Analysis of reasons for the slow start-up of 2000-06 programmes	20
6.1.	Cumbersome procedures.....	20
6.2.	Overlap of two programming periods	21
6.3.	Payments between the first date of eligibility of expenditure and the submission of the programme complements	22
6.4.	Better financial management and inspection	23
6.5.	Date of declaration of expenditure incurred.....	23
6.6.	Unforeseen circumstances.....	23
6.7.	Capacity to absorb funds.....	24
7.	“N+2” : Measures taken and planned by the Commission	24
8.	Conclusions.....	25

1. SUMMARY

Execution of the payment appropriations for the Structural Funds was at a low level in the 2000 and 2001 budgets because the responsible authorities in the Member States did not send in payment claims equal to the financial resources allocated to them and did not meet their own forecasts for the volume of such claims. The rate of execution of appropriations in 2002, up to 31 August 2002, is once more below Commission forecasts. This worrying finding raises questions about the reliability of the budget forecasts, about delays in the implementation on the ground of the programmes financed by the Structural Funds, and about the consequent growth in commitments outstanding. The Commission has undertaken an in-depth analysis of these questions.

For 2002, the Commission again expects an under-execution of the payment appropriations, in particular because of the Member States' delays in auditing the final expenditure declarations for the 1994-99 period, and in view of the level of the payment claims so far received for the 2000-2006 period. The final out-turn for the new programmes is still uncertain, as budgetary execution may be concentrated towards the end of the year. However, the outlook for the old programmes is already worrying. By 31 August 2002, the Commission had received only a few final payment claims, and most of these are not accompanied by the documents, such as the audit certificates, which are necessary before payment can be made. It is therefore apparent that the Member States have not respected the dead-line for presentation of their claims, which is set in the regulation at six months after implementation of the programmes (in principle 30 June 2002).

If this under-execution does materialise:

- the carry-over should be proposed of most of the unused appropriations of the period 1994-99, which may reach several billion €. The outstanding commitments (known as the French acronym 'RAL') at the end of 2002 will be increased by this amount, but will fall to the expected level by end-2003;
- the unused appropriations for the 2000-2006 period, which may be about 2 billion €, will lead to an increase the RAL at the end of 2002. This increase is expected, according to the suppositions explained in this Communication, to be whittled down over the years 2003 to 2006.

This communication explains:

- the expected evolution of the 'RAL' over the rest of the 2000-2006 programming period (EU-15), based on the execution rates recorded in budget years 2000 and 2001 and the assumption that spending should reach a steady level in 2004;
- the factors preventing reliable forecasting of annual payments, and the measures taken by the Commission to improve reliability;
- an initial analysis of why programmes got off to a slower start than anticipated in the 2000-2006 period;
- why programme management is so complex, and the steps undertaken by the Commission, in particular in the area of simplification, to help the Member States to overcome any obstacles to implementing their programmes.

Overlapping of two programming periods in 2000 and 2001

The Commission's analysis, together with information from the Member States, shows that the low execution rate for payment appropriations was due in particular to the fact that in 2000 and 2001 the new programming period overlapped with the previous one. At the same time there was a change between the two periods in the way the Community funding was paid out.

The cut-off date for the eligibility of most payments in the 1994-99 programming period was 31 December 2001. Since programme implementation was running a little late, Member States concentrated their efforts and financial resources on completing on-going operations so as not to lose too much of their funding at the moment of programme closure.

The national financial resources which had to be mobilised for this purpose were substantial. In addition to the € 41.7 billion in outstanding commitments under the Community budget on 31 December 1999, there were considerable "hidden" outstanding commitments at national level, due to the difference between the advances received from the Commission and the payments made to final beneficiaries. Furthermore, the Member States had to pre-finance the last 10% of appropriations for each programme, which were reimbursable only after the Commission had accepted their requests for final payments.

The administrative and financial constraints connected with completion of the 1994-99 programmes contributed largely to the delays in starting up programmes for the 2000-06 period. In particular, Member States took very little advantage of the provision allowing spending under most programmes to be eligible as of 1 January 2000 even though programmes were adopted at a much later date.

Unlike in the 1994-99 period, when the Commission paid out advances in anticipation of payments on the ground, the rules for the 2000-2006 period stipulate that the Commission can provide only a single advance of 7% for each programme, after which it reimburses the co-financing of the payments made by the final beneficiaries.

Outstanding commitments: a normal consequence of the way projects are financially managed

At a given moment the outstanding commitments comprise all the commitments approved but not yet paid but which would normally be paid in the future. It represents a future charge on the Community budget.

There is always a delay between the launching of an aid measure and the first payments, especially in the case of infrastructure projects. The necessary procedures include a call for expressions of interest, appraisal of the applications for assistance, the decisions granting the assistance, calls for tender and awarding of contracts before work can start. After that, payments need to be made, declared, checked, and certified by the paying authority before the Commission is sent an intermediate payment claim. The length of these procedures varies according to the project and according to the administrative systems in the Member States.

The existence of outstanding commitments is therefore normal in the financial management of economic development projects.

Moreover, at the beginning of each year the outstanding commitments are automatically increased by around 30 billion Euros. This is because the commitments made in respect of the

present year are added to the outstanding commitments of the previous year. The outstanding commitments reduce subsequently as and when payments are made.

The payment appropriations were considerably over-estimated by the Member States

The dip in payments by the Commission caused by the above two factors¹ was not taken into account by **the Member States, which notified payment forecasts to the Commission in 2001 that turned out to be about 50% higher than actual payments.** Because most programmes were adopted at the end of 2000 and the beginning of 2001, the Commission was expecting a massive wave of requests for co-financing of the payments made since the start of 2000, and had no reason to doubt these forecasts.

The expenditure forecasts notified by the Member States for 2002 and 2003 are again greater than the amounts entered in the 2002 budget and the 2003 preliminary draft budget, but it seems already probable that these forecasts are once more too high.

Given the under-execution of 2000-2006 programmes at mid-2002 compared with the financial perspective, the Commission has been looking at the probable evolution of payments throughout the programming period. On the likely assumption that the Member States will try to make maximum use of the deadlines allowed in the Regulations for the financial execution of programmes while avoiding automatic decommitments under the "N+2" rule², and in light of the longer period allowed in the rules for payments as compared with commitments (11 years and 7 years respectively), **it is foreseeable that annual payments will rise to a steady level of about € 27 billion a year between 2004 and 2007 and that final payments will be made in 2009 and 2010.**

In practice, it is likely that the level of annual payments will be a little higher than this minimalist assumption, but without exceeding the € 30 billion provided for in the financial perspective. The result will be a rising level of outstanding commitments towards the end of the period, peaking at between € 55 and € 64 billion in 2006. This figure, which is the consequence of the rule allowing two years after the end of each budget year for consumption of that year's commitments, will be reduced to an insignificant amount in 2010 even if funds are considerably under-utilised, because of decommitments under the "N+2" rule.

The major impact of the N+2 rule

The risk of losing funds under the "N+2" rule imposes an annual discipline on Member States to make progress on their programmes at a sufficient and steady rate, instead of revealing significant delays at the end of the programming period only, as was the case in the past.

This rule will come into play for the first time at the end of 2002, and the risk of decommitment already looms for a small number of programmes. The Commission has alerted the Member States concerned so that they can take corrective measures. It is not expected that losses will reach the high decommitment levels currently foreseen on closure of the 1994-99 period.

¹ Overlapping of two programme periods and the changed method of paying Community cofinance
² A rule introduced for the new programming period 2000-2006 which stipulates that any sum approved by the Union for a programme and which has not given rise, by the end of the 2 subsequent years, to a payment claim in respect of expenditure carried out on the ground is automatically de-committed. (Art. 31.2 of Regulation 1260/1999)

Commission staff are present at the meetings of the Monitoring Committees for each programme and they noted that operations under most programmes were committed in 2001 in sufficient volume to ensure a normal rate of execution over the years to come.

Simplification

In order to encourage the execution of programmes within the allowed deadlines, the Commission has started working in partnership with the Member States to simplify procedures for implementing the Structural Funds, both within the Commission and within the relevant national and regional departments. The aim is to make programme management more dynamic and to ensure more rapid and effective implementation of funds, since implementation procedures are often perceived as particularly onerous and disproportionate. The measures to simplify Commission procedures will be presented at an informal meeting of Ministers - to be held on 7 October 2002, to which representatives of EP committees will be invited.

Commission action plan

The implementation of the Structural Funds is the responsibility of the Member States.

However the Commission makes a firm commitment to achieving the goals of the cohesion policy, and in particular to translating Structural Fund programmes into concrete results on the ground within the time limits set, while at the same time ensuring sound management of Community funds. It is proposing therefore:

- to continue its initiatives to simplify procedures; it will submit its proposals for 2000-2006, under the existing rules, to the informal meeting of Ministers to be held on 7 October 2002, and will pursue its ideas for subsequent programming periods in a conference to be held in the first few months of 2003;
- to complete the major part of negotiations on programmes for the candidate countries before the date of their accession, in order to facilitate a timely start-up and to put to good use the experience of the present Member States by simplifying their implementation;
- to alert Member States regularly and in good time about programmes in danger of decommitment under the "N+2" rule, and to help Member States find solutions to the obstacles encountered in implementing programmes;
- to maintain the 'N+2' rule so that its effectiveness in imposing discipline on the programme managers can be properly judged, and to apply this rule in line with the detailed rules set out in the its decision of 27 May 2002³;
- to promote best practice in forecasting expenditure at programme level so that forward estimates can be made more realistic and reliable and the risks of decommitment can be better assessed;
- to examine the possibility of penalties for submitting late and/or unrealistic forecasts;
- to present to the Budgetary Authority each autumn an qualified analysis and appraisal of expenditure forecasts.

³ C(2002)1942

- to close all programmes and projects still open from before 1994 by the end of 2002, except those suspended for judicial reasons, and close most programmes from the 1994-99 period before the end of 2003.

2. TREND IN OUTSTANDING COMMITMENTS

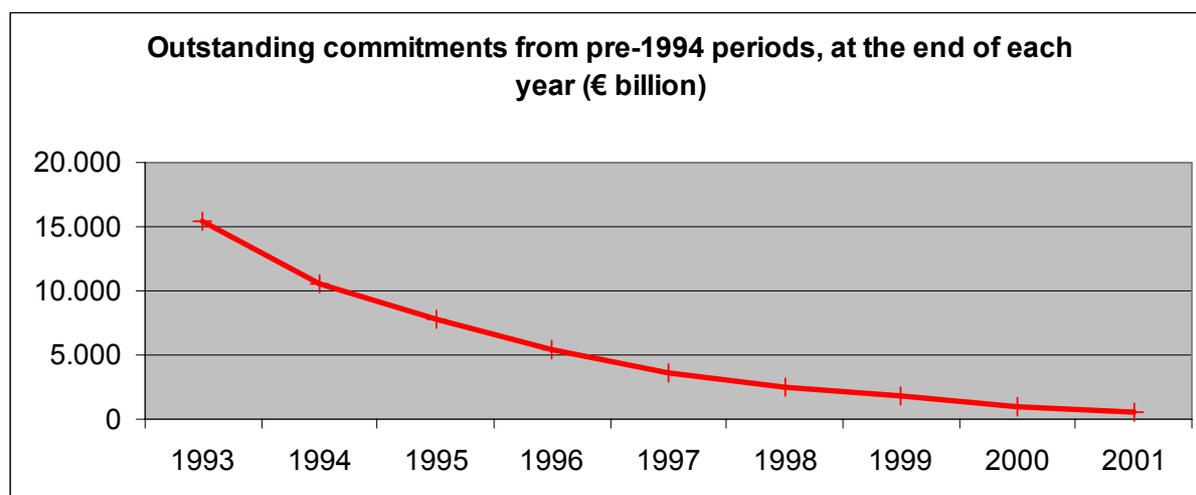
The Commission and the Member States implement the Structural Funds together in partnership, in accordance with Council Regulations adopted in agreement with Parliament. The effectiveness of this implementation can be assessed only by measuring actual progress in the light of what the Regulations require.

The same principle applies to evaluating the effectiveness of budget management and the trend in the balance of outstanding commitments.

2.1. Pre-1994 programming periods

As the following graph shows, the Commission has reduced the number of files still open to a few particularly contentious cases and matters still before the courts. Outstanding commitments at 30 June 2002 amounted to € 370 million, or 0.6% of the financial allocation for 1989-93. By the end of 2002 it should be down to a few files which cannot be closed until legal proceedings have been completed.

Graph 1 : Outstanding commitments at the end of each year from pre-1994 periods (€ billion)



2.2. 1994-99 programming period

At 30 June 2002 outstanding commitments amounted to €158 billion, or 9.9% of the financial allocation for the period, which is allowed under the rules.

The Regulation governing the 1994-99 programming period⁴ stipulates that some 10% of the amounts committed to programmes may not be paid until the final request for payment has been received and the final implementation report and the statement of assurance from the independent supervisory authority approved. Since the deadline for financial execution of most of the programmes is 31 December 2001, in theory the Member States still have the

⁴ Article 21(4) of Regulation (EEC) No 4253/88.

following six months in which to submit these documents, i.e. until 30 June 2002. They must in any case do so by 31 March 2003⁵. If the necessary documents have not been transmitted by that date, the Commission must decommit the balance of the commitment.

The Commission is allowed to extend the deadline for financial execution at the reasoned request of Member States. It granted longer deadlines only in cases of *force majeure* or similar circumstances or if the Commission had made a mistake. These longer deadlines did not extend beyond 30 September 2002 and were granted for less than 10% of the programmes, representing some 3% of committed funds.

The rules also stipulate that if a project is suspended for judicial reasons, the corresponding part of the programme concerned can be partially signed off. Further, the Commission is to refuse to pay amounts for which it has not received all the necessary information or assurances.

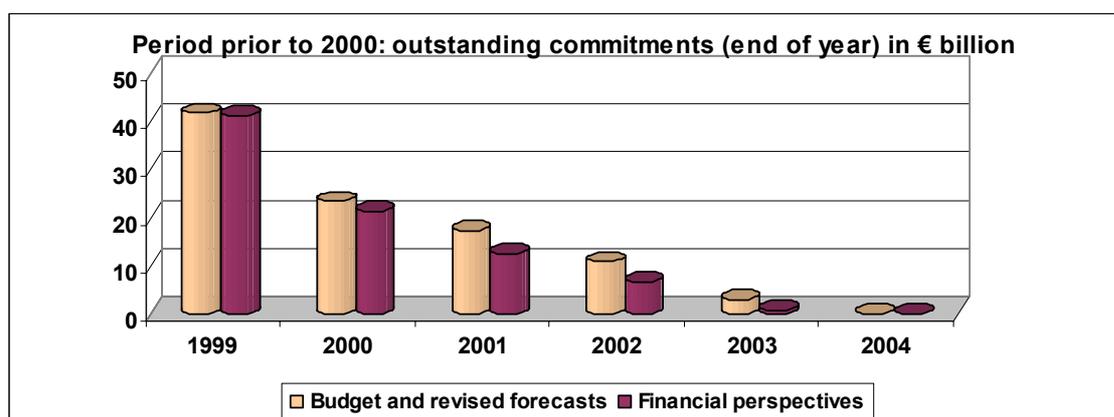
When the preliminary draft budgets for 2002 and 2003 were being prepared, the Commission estimated that half the commitments still outstanding at 31 December 2001 would be paid in 2002 and the other half in 2003, except for about 10%, which would be either paid at a later date or de-committed. However, most of the Member States are announcing a delay in forwarding requests for final payment, in particular because of the time needed for the statement of assurance to be drawn up by the independent service, this being the first time this has been required. Although the Commission has taken steps to process requests as quickly as possible, there is nevertheless a risk that there will be a flood of payment requests during the last months, with more than a thousand programmes to be cleared. Accordingly, the appropriations earmarked for these programmes will probably to be under-executed in 2002, and this could, where relevant, lead to appropriations being carried over to the 2003 budget year.

Moreover, the Commission will not know the total amount of the requests for final payment before the 31 March 2003 deadline: under-execution of the funds available within the 1994-99 programmes will result in de-commitments and this will reduce the amounts to be paid in 2003 commensurately. The Member States forecasts could lead to under-utilisation of the programme funds amounting to about €3.5 billion and moreover the 2003 preliminary draft budget was based on the premise that programmes would be under-executed by €2 billion. It should be noted that final payment claims for part of the funds for this period, relating to the 1994-96 commitments for Objective 2 programmes, were due by 30 June 1999. Most of the Member States did not meet this deadline. The 31 March 2003 final deadline for submission of documents also applies to these programmes. Formal notice was nevertheless served on the Member States to submit their final requests before the end of September 2002.

The following graph shows the impact on the 2000-2004 budgets of the closure rules for the 1994-99 period. It should be noted that the outstanding commitments for this period were reduced by 70% between the end of 1999 and the end of 2001. As stated above, it is probable that the appropriations for the 2002 year will be under-spent, but it is still difficult to assess by how much. This probable under-execution has therefore not been taken into account in the graph. In any case, the "RAL" at the end of 2003 will be kept to its forecast level, either by decommitments or by payments charged to the carryovers to 2003.

⁵ Article 52(5) of Regulation (EC) No 1260/1999; Commission guidelines on the closure of 1994-99 programmes, 9.9.1999 (SEC(1999) 1316).

Graph 2: Payment of commitments outstanding under the 1994-99 programmes



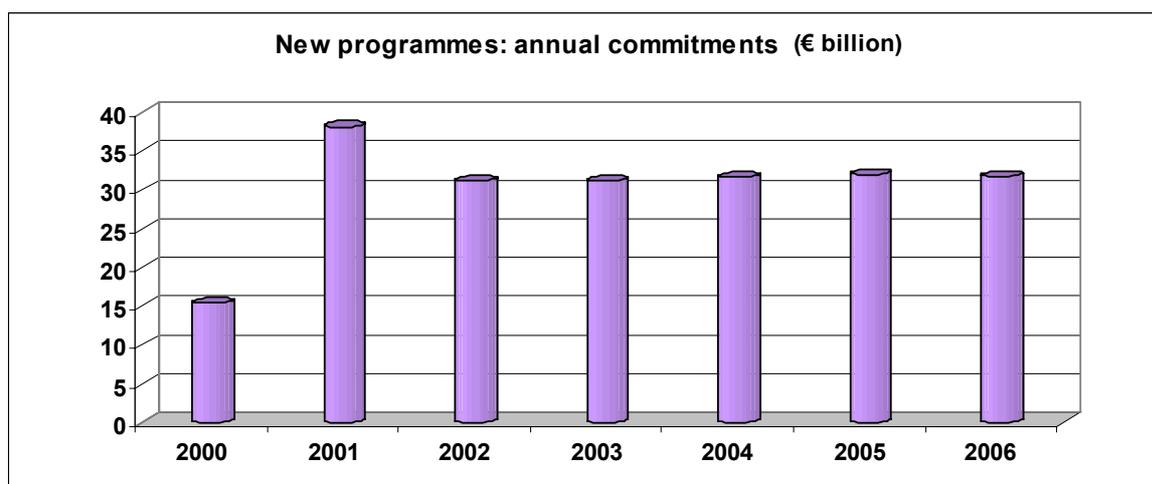
2.3. 2000-06 programming period

This analysis of outstanding commitments for 2000-06 is based on the situation in mid-2002, taking account of the effect of the delays in the adoption of some programmes in relation to the Agenda 2000 forecasts and the late start to the financial execution of programmes.

2.3.1. Commitments

Although the Structural Fund Regulation requires commitments to be programmed in seven, normally equal, annual instalments, the Financial Regulation and the inter-institutional agreement allow for the appropriations for the 2000 budget year to be transferred to the 2001 budget year or, alternatively, for the 2000 instalment to be reprogrammed over the 2002-06 budget years in the event of delays in the adoption of the programmes, in particular if negotiations overran the five-month period allowed by Regulation (EC) No 1260/1999. For a considerable number of programmes, this period was not long enough to negotiate programmes of adequate quality that met the requirements of the new Regulation regarding indicators and gave guarantees of sound financial management and supervision. The commitments under the first annual instalment made in 2001 using carried-over appropriations amounted to €8 226 million, and the part of the first annual instalment reprogrammed over the 2002-06 budget years was €6 153 million. These margins of flexibility only apply to the first instalment and can no longer be applied to the subsequent annual instalments, which are committed automatically before 30 April each year. The commitment profile is thus known. Taking account of the transitional arrangements and the allocation of the performance reserve in 2004, it is as follows:

Graph 3 : Trend in commitments under the new programmes



2.3.2. Payments

Normally, the final eligibility date for payments is 31 December 2008, and requests for final payment of 5% of Community assistance must be submitted by 30 June 2009⁶.

The following graph shows the payments made in 2000 and 2001, the 2002 budgeted amount and the expected trend in payments between 2003 and 2010.

It is still difficult to predict the actual spend in 2002, as claims are concentrated towards the end of the year. The following graph does not take account of the present under-execution.

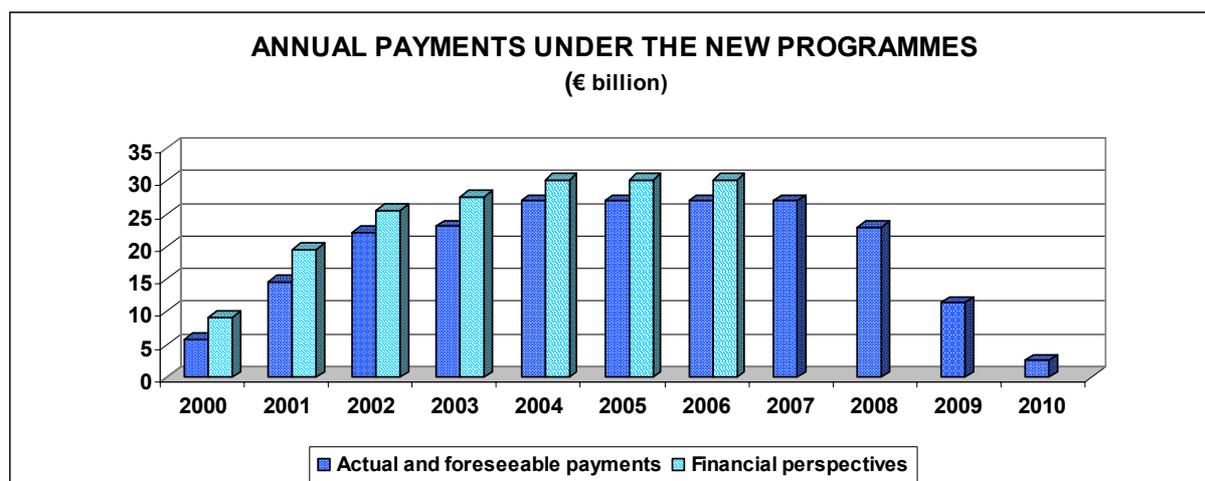
For the years 2003 to 2010, it is assumed that the execution of projects is spread regularly over the remaining period, irrespective of the Community's commitments.. This trend is based on the assumption that Member States will take full advantage of the time available for executing the funds. The Commission also supposes that, on average, the Member States will avoid the risk of de-commitment under the "N+2" rule⁷, which sets a two-year deadline after the budget year concerned for execution of each annual instalment, including the last ones for which this risk is at its highest⁸. It should be noted that the period for executing payments as laid down in the rules and implemented by the Member States can last up to ten years.

⁶ Article 32(4) of Regulation (EC) No 1260/1999.

⁷ Article 31.2 of Regulation 1260/1999

⁸ Under this hypothesis, payments would be above the level needed to avoid applying 'N+2' up to and including 2005

Graph 4: Trend in payments under the new programmes



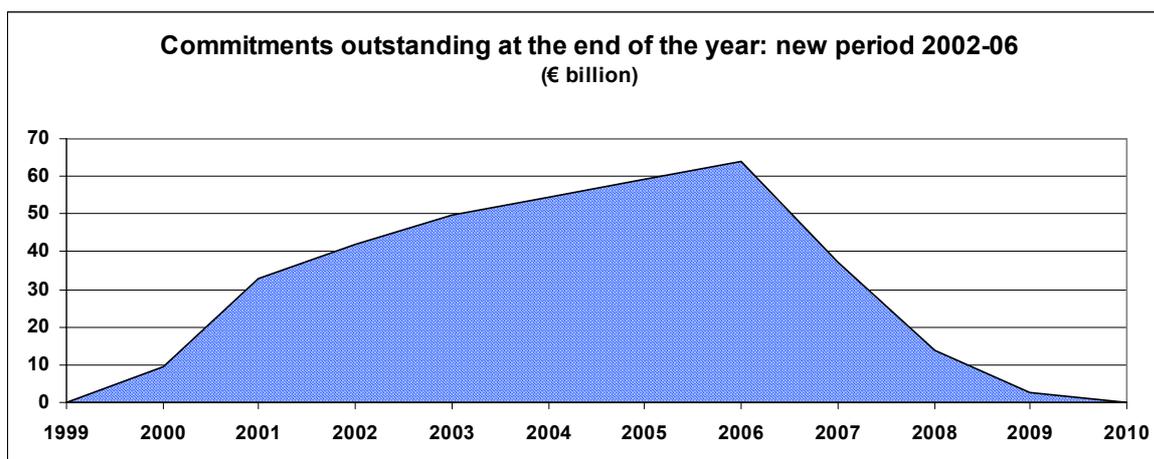
According to this central assumption, payments would amount to around €27,5 billion per year from 2004 to 2007, leaving a safety margin compared with the amount implicit in the 2000-2006 financial perspective, which is approximately €30 billion.

2.3.3. Trend in commitments outstanding in 2000-06

The next table shows the trend in commitments outstanding in 2000-06, following on from Graphs 3 and 4. Outstanding commitments arise because commitments are spread over seven years and payments over ten years. Under the above assumption that execution will be spread over the maximum period allowed, while avoiding de-commitment under the "N+2" rule, the commitments outstanding at the end of the year will gradually increase to €64 billion in 2006, and will fall back to a marginal remaining balance in 2010. This balance represents the projects suspended under legal or administrative proceedings.

It is important to note that the increase in the amount of outstanding commitments at the end of the period is entirely due to the time allowed for financial execution under the legal provisions. Outstanding commitments worth €64 billion at the end of 2006 represent two years of commitments and two months of payment requests received but not yet paid. These outstanding commitments will be absorbed by the payments made in 2007 and 2008, except for the part to be absorbed in 2009 and 2010 by final payment requests, which is not subject to de-commitment under the "N+2" rule.

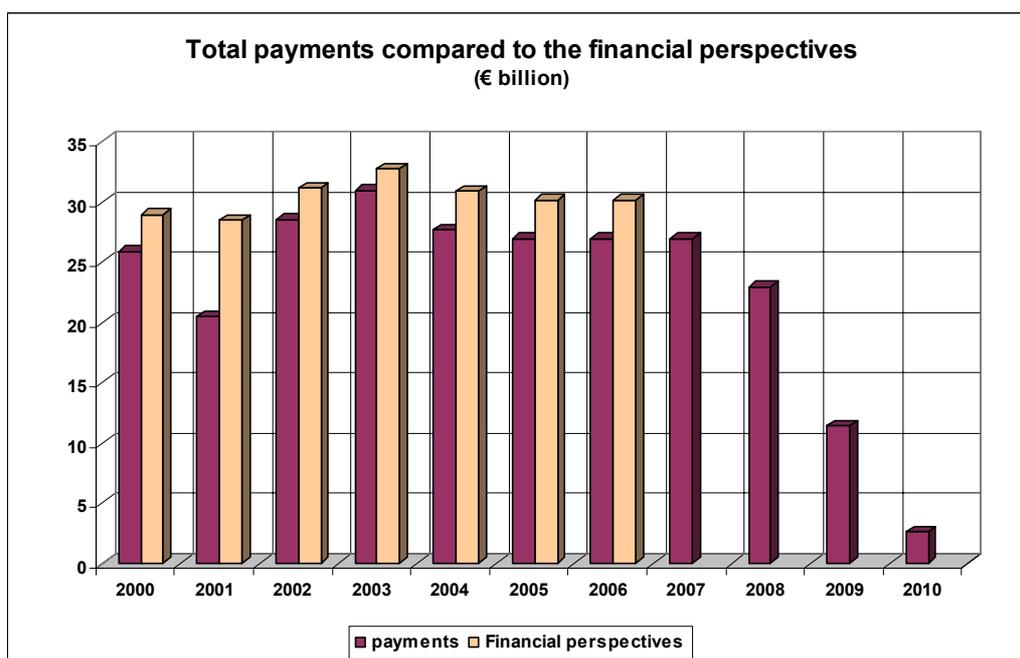
Graph 5: Outstanding commitments under the new programmes



Budget execution of payment appropriations for all programming periods

Aggregating the data on payment of commitments outstanding at 31 December 1999 and on the financial execution of the 2000-06 programming period, the payment profile between 2000 and 2010 under the Structural Funds is as follows:

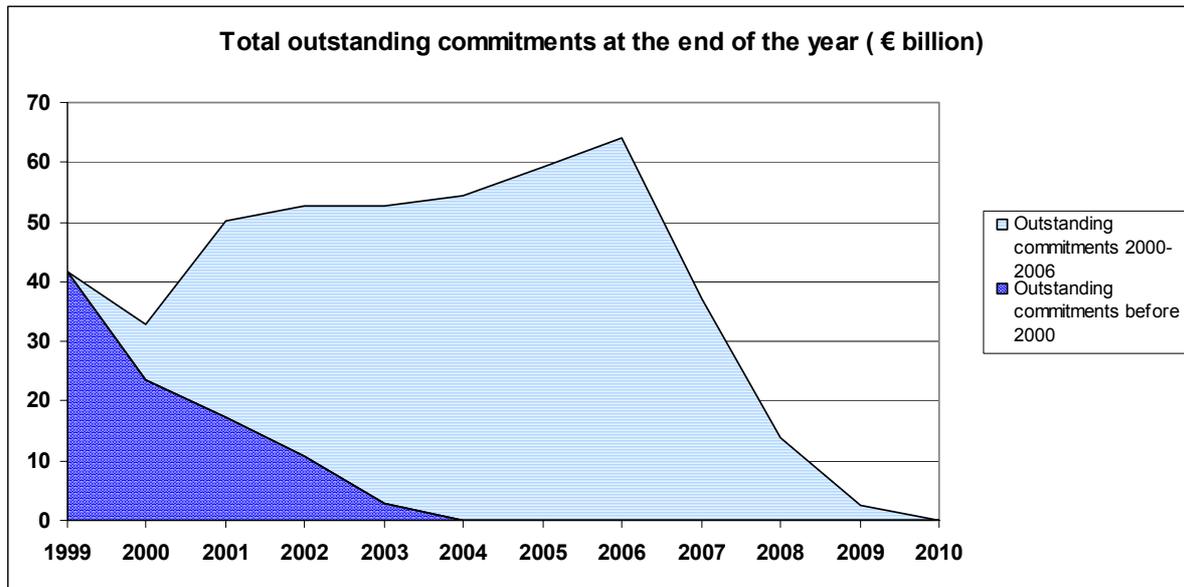
Graph 6: Total payments under the Structural Funds



2.3.4. Total commitments outstanding at the end of the year

The following graph shows the expected trend in total commitments outstanding at the end of the year for 1999 to 2010 for both the 1994-99 and 2000-06 programming periods.

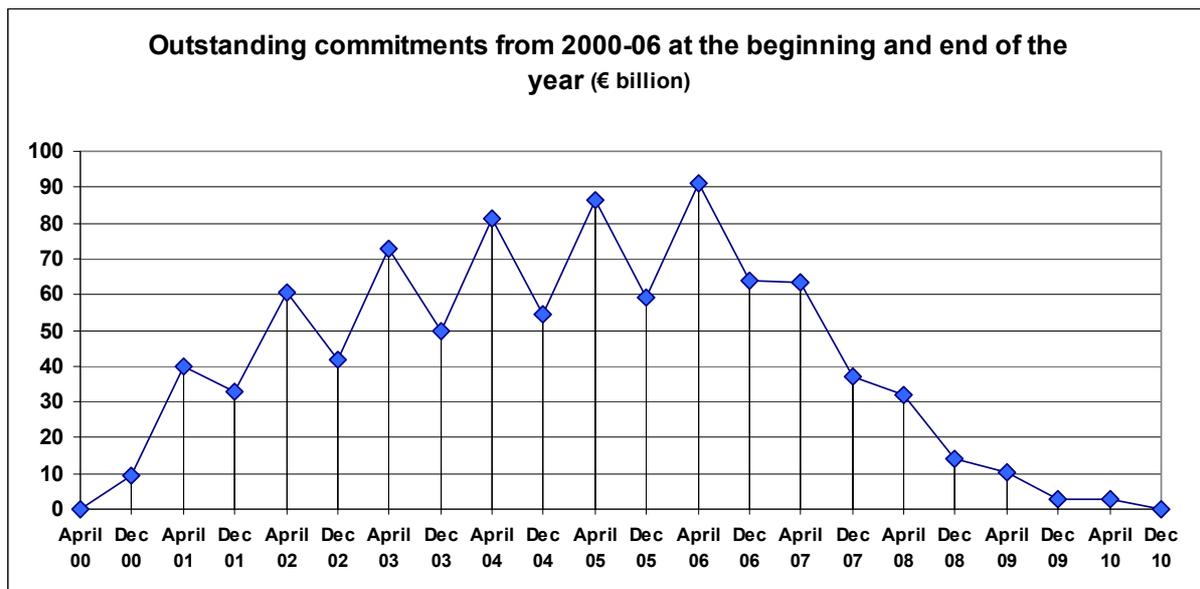
Graph 7: Total commitments outstanding under the Structural Funds (at the end of the year)



2.3.5. Outstanding commitments for 2000-06 during each budget year

According to the Regulations, each annual instalment of the 2000-06 programmes must be committed no later than 30 April, and is added to the outstanding commitments from the end of the previous budget year. Consequently, the outstanding commitments at the beginning of the budget year are some €30 billion higher than they were at the end of the previous one, and then fall back to the expected level by the end of the year. The following graph illustrates this phenomenon, which will temporarily bring the maximum outstanding commitment level to € 91 billion in 2006.

Graph 8: Trend in outstanding commitments for 2000-06 during each budget year



2.3.6. Scenarios for atypical trends in payments

Starting from the central assumption which has just been stated, we can explore the possible impact of two extreme scenarios, both of which are more theoretical than probable.

2.3.6.1. The delays in execution are made good during 2003 and 2004.

If all the payments initially expected in 2000 and 2001 but not requested were added to the payments expected in 2003 and 2004, the financial perspective would indeed be overrun by some €6 billion, as Graph 9 shows. However, none of the Member States are expecting any such surges in implementation of programmes. Under this scenario, payments would exceed the annual commitment instalment, to fall back to a lower level afterwards, which seems rather unlikely. At any rate, the inter-institutional agreement allows the Commission to propose to the budgetary authority each year an adjustment of the ceiling on payments to bring it into line with implementing conditions. The Commission will examine the situation before the beginning of each budget procedure and submit any proposal which might prove necessary in the light of the state of payments.

Graph 9: Trend in payments in the event that the initial under-execution is made good in 2003 and 2004

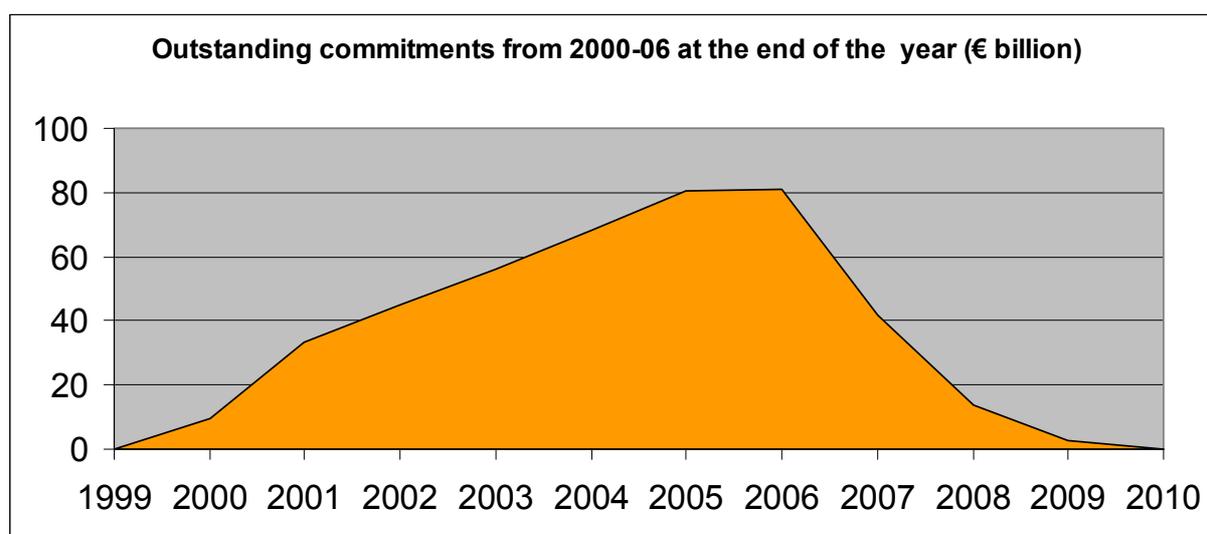


2.3.6.2. Outstanding commitments are cut back by automatic decommitments due to constant under-utilisation of payment appropriations for 2000-06.

If the Member States fail to implement their programmes at a rate which allows them to avoid decommitments under the "N+2" rule, the outstanding commitments could exceed the levels shown in Graph 5 only to subside quickly to a modest amount in 2010, under the effect of automatic decommitments. Graph 10 shows this phenomenon, assuming that payments between 2002 and 2006 remain constantly under €20 billion. In these circumstances, the "sunset clause" of the "N+2" rule would cap outstanding commitments at around €80 billion⁹.

⁹ This worst-case scenario supposes that every programme behaves identically in financial terms. In reality, some programmes will be implemented more rapidly and others more slowly. Their respective payments or decommitments will reduce the 'RAL' commensurately.

Graph 10: Capping the outstanding commitments under the automatic decommitment rule



2.4. Conclusion on the trend in outstanding commitments

While the "normal" evolution of outstanding commitments during the remaining years shown in Graph 7 is certainly an estimate, it is nonetheless based on the likely behaviour of the authorities responsible for executing assistance, which would spread their claims evenly over the time still available for implementing programmes while avoiding throughout the period any loss of funds under the "N+2" rule. This graph illustrates the assumption that the level of payments is exactly what is needed to avoid decommitment under the "N+2" rule while stabilising the annual payments throughout the period. The Member States can be expected to give themselves a safety margin around this central assumption, and annual payments between 2004 and 2006 are likely to be slightly more than the €27,5 billion estimated under the central assumption. This would remain compatible with the financial perspective up to €30 billion. The commitments outstanding at the end 2006 would then amount to between €55 and €64 billion.

The factors described in the first part of this paper and the profile of outstanding commitments shown in Graph 7 require the payment schedules initially programmed in the financial perspective to be updated. The payment profile established in the financial perspective and reflected in the first budgets was too optimistic.

It must be acknowledged that the full impact of the new payment system was probably not accurately measured when the financial perspective and the new Structural Fund Regulations were being prepared. It should be remembered that the new system is now based on the reimbursement of expenditure actually paid by the final beneficiary, except for the initial advance payment, and thus differs radically from the previous system, which was based on successive advances in line with progress in implementation. In other words, we moved from an *ex-ante* to an *ex-post* payment system. But the financial perspective was essentially drawn up mechanically on the basis of previous experience. This conforms moreover with the logic of the financial perspective, which aims to ensure that there are enough payment appropriations, but where the ceiling on payments is not intended as an expenditure objective.

Without denying the difficulties encountered in implementing the programmes, which will be dealt with below, in particular the fact that absorbing appropriations from the previous period has taken precedence over launching the programmes for the new period, the amount of

payments in the financial perspective should not be taken as a benchmark against which to measure the performance of the Structural Funds. In the absence of reliable information, in particular regarding the Member States' forecasts, and an adequate overview of the impact of the new system, the first budgets for the period were drawn up to match the ceiling in the financial perspective too closely.

In relation to the new payment profile as described in Graph 6, the following risks can be identified:

- The actual amount of utilisation of payment appropriations in 2002, which may be lower than supposed in the above graphs, owing to a slower start to the 2000-06 programmes than anticipated by the Commission and, above all, much slower than anticipated by the Member States, together with later than expected submission of requests for final payments under the 1994-99 period.
- A slightly higher level of payments over the period 2003 to 2006. However, the only way the financial perspective might be slightly overshot during 2004 to 2006 is if the delay in implementation is made good very rapidly. While the possibility of a surge in requests for payments in one or another budget year cannot be excluded, it is unlikely to have much effect at budget level because it is more probable that Member States will experience surges and dips in different years.
- A level of payments comparable to what the Member States expected in 2002 and 2003, i.e. respectively €5 billion and €8 billion higher than expected by the Commission. Given the experience of repeated overestimates by the Member States, this eventuality should be seen as rather unlikely

3. BUDGET MANAGEMENT OF PAYMENT APPROPRIATIONS

Faced with these uncertainties, recourse to the Budgetary Amendment (BA) instrument must not be excluded, either to reinforce or reduce the appropriations available depending on the execution. This is of course only relevant in case of a substantial difference compared to the budget voted.

For 2002, an under-execution of payment credits is foreseen, concerning essentially the old programmes, appropriations of which must to a large extent be carried over to the following year in order to close the programmes. The Commission took note of the Declaration annexed to the minutes of the meeting of the Budget Council of 19 July concerning an anticipated budgetisation by amending letter of the possible positive balance of the 2002 year. However, the limits of this updating of payment needs should be recognised, insofar as the forecasts transmitted by the Member States suffer a large margin of uncertainty and taking into account the concentration of the receipt of payment requests at the end of the year.

For the 2003 financial year, there might be a risk of an increase in applications for reimbursement for the new programmes in relation to the payment appropriations allocated to this end in the preliminary draft budget. The Commission considers, however, that it is too early to give a valid judgement on this hypothesis in view of the uncertainties surrounding payment forecasts. Conversely, if applications for reimbursement should in fact increase substantially, the Commission will submit a SAB during the 2003 financial year if required, which it may do thanks to the margin below the ceiling for payment appropriations. Once again, the Commission has taken note of the statement attached to the minutes of the meeting of the Budget Council on 19 July 2002 regarding this possible Amending Budget.

4. “SUNSET CLAUSE” FOR AUTOMATIC DECOMMITMENTS

In the worst-case scenario, i.e. payment applications well below the estimates for the central scenario, outstanding commitments would nevertheless be limited by application of the “N+2” rule, and payments to be made by the Commission after 2006 could not be greater than the amounts forecast under the “normal” hypothesis.

At present it is impossible to determine the risk of substantial decommitments under the “N+2” rule. The Member States have had to cope with two challenges simultaneously: making up the delays in implementing the 1994-99 programmes before the final eligibility deadline of 31 December 2001, and starting the 2000-06 programming early enough to avoid the first de-commitments under the “N+2” rule at the end of the 2002 and 2003 financial years. It is to be hoped that the Member States will abide by the discipline imposed by this rule, of which they are continually reminded by the Commission, to ensure that programmes are implemented at a rate sufficient to avoid a loss of funding on these deadlines.

The risk of de-commitment under the “N+2” rule at the end of 2002 differs by Member State, region and fund, but remains fairly limited bearing in mind delays in the adoption of the programmes and the payment on account which covers almost half of the first instalment of the commitment. In Austria and Germany, for instance, all Objective 1 programmes bar one have already achieved a level of payments high enough to preclude de-commitment, while a number of programmes in Italy and the UK are at a clear risk of de-commitment. At the present moment in time, however, the Commission does not predict any significant loss of appropriations at the end of 2002, except perhaps in Italy.

The highest risk is at the end of 2003, when the rule will apply to all programmes, in particular with regard to a number of Objective 2 programmes.

As regards the implementation of the automatic de-commitment rule, the Commission would like to recall the Communication recently adopted to explain the rules for the application of this rule (Communication C(2002)1942 adopted on 27 May 2002). The rule is to be applied programme by programme and fund by fund, taking into account all applications for payments sent to the Commission by 31 December of the year “N+2” at the latest. Hence not only will payments be taken into account, but also eligible applications for payments sent by the Member States within that deadline.

On this basis, and bearing in mind any exemptions provided for in the Regulation (such as judicial suspensions), the Commission will propose a net reduction of the Community assistance to a Member State, which will be invited to submit a new financing plan. This will allow Member States to choose how to deal with the impact of the reduction in financial assistance. In effect, the automatic decommitment rule applies to Community commitments but does not directly impact on individual operations in progress. In the absence of participation by a Member State, the Commission will take the decision itself. Once the decision to reduce Community financing has been adopted, decommitment will be carried out automatically. Under the timetable presented by the Commission in its Communication, these operations should be implemented during the first half of “N+3”, and hence some time will elapse before the decommitment shows up in the accounts.

Under the Structural Funds Regulation, the Commission must inform the Member States that there is a risk of automatic decommitment. For the year 2000, the Commission sent a warning letter to the Member States in November 2001, followed by a second in July 2002. It intends

to write again at the beginning of the autumn. The Commission undertakes to transmit this information on regions at risk to the budgetary authority.

5. IMPROVING THE FORECASTS

A precise forecast of Structural Funds payments is difficult due to the extremely decentralised nature of the operations being financed. The measures are managed by numerous intermediate organisations. The national and regional authorities scarcely have any control over the time taken for decisions to be made by selection bodies on the projects to be financed, or decisions by the various advisory bodies, as these involve partnership between numerous social and economic actors. Forecasts are even more difficult for the initial years of a new programming period.

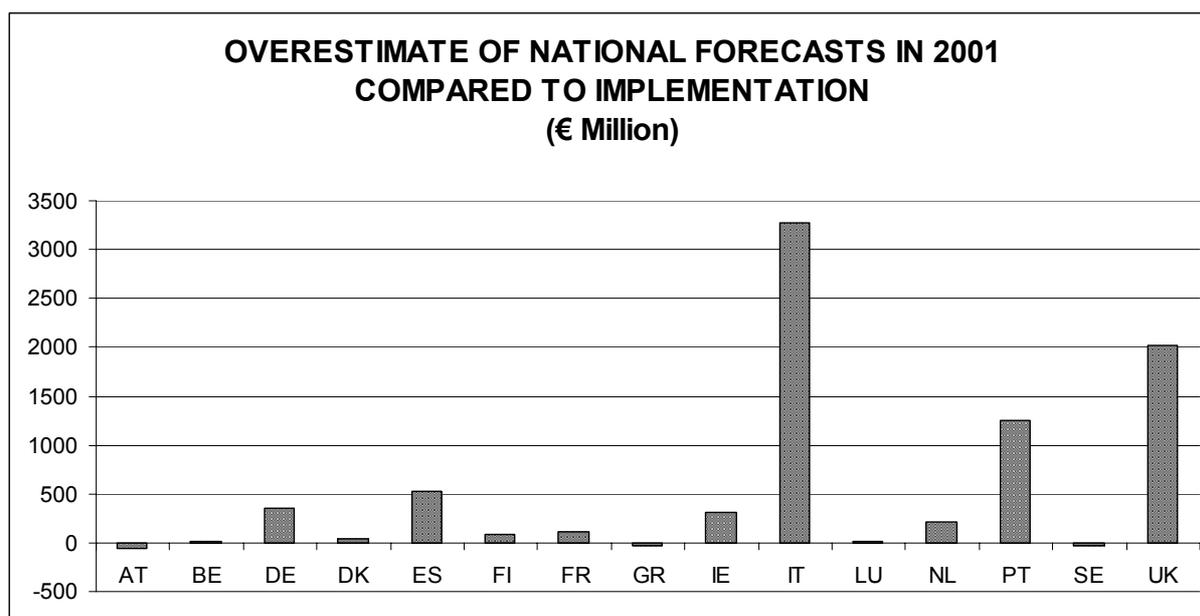
For the past few years, under SEM 2000, the Commission has asked Member States to give their forecasts by fund and by objective. This informal cooperation has been transformed into a legal obligation for the new programmes¹⁰. From 2001, for the 2000-06 programming period, the Commission called for forecasts by fund and by programme. This initiative, involving a greater number of participants in future, aims to improve forecasts and identify the programmes at risk under the “N+2” rule. In 2001 the Member States transmitted incomplete information which also turned out to contain major overestimates: the appropriations entered in the budget were insufficient to meet the Member States’ declared requirements, including the need to make advance payments, but execution ultimately turned out to be much lower¹¹.

The experience of recent years has shown that most of the Member States overestimate their forecasts. Moreover, the quality of forecasts submitted by each Member State is not consistent, which makes them more difficult to interpret. In absolute terms, however, much of this overestimation is down to just a few Member States. In 2001, **three Member States accounted for 85% of the total overestimate** as shown below.

¹⁰ Article 32(7) of Regulation (EC) No 1260/1999.

¹¹ Some examples of explanations received from the Member States: Germany: some regions feared that the Commission would reduce payments in line with their forecasts in the event of insufficient budget resources; Italy: forecast modelled on the Berlin profile rather than an analysis by programme; Spain: national-level estimate, without analysis by programme; Belgium: forecast of payments by final beneficiaries up to 31 December, not of applications sent to the Commission up to 31 October for payment by 31 December; UK: communicates amounts sufficient to avoid any decommitment under n+2, irrespective of reality on the ground; Ireland: difficult forecast in initial year of programming period.

Graph 11: Overestimates of national payment forecasts in 2001



In 2002, the Commission specified the criteria to be used in producing the forecasts and announced that they would be placed at the disposal of the budgetary authority, not just as a total but broken down by Member State as well. Forecasts by fund and by programme were received from all the Member States. France had the biggest delay, sending its forecasts on 1 July 2002. At that point forecasts had still not been received for earlier French and Italian programmes, which Member States have been invited to submit for the last time in 2002.

The Member States' forecasts for 2002 and 2003 are 15% higher than the 2002 budget and PDB 2003. For the old programmes, forecasts seem to point to larger than expected de-commitments (but it is impossible to draw definitive conclusions in the absence of the forecasts from France and confirmation of those for Italy). For the new programmes, the cumulative forecasts exceed available appropriations by slightly more than 25%, especially for 2003. However, in the past, forecasts sometimes exceeded actual requirements by this kind of margin. In addition, only a few programmes post an expenditure forecast that is too low to avoid de-commitment under the "N+2" rule.

In budgetary terms, it would be desirable in years to come for these forecasts to contribute to the establishment of future budgets and to the management of current budgets. However, forecasts arrive too late to be taken into account in the preliminary draft budget. The Commission could therefore present an appraisal of the forecasts in a SAB in the autumn.

The Commission will work with the Member States to improve forecasting techniques. However, these will remain unpredictable in view of the number of participants involved in the extremely decentralised management of the Structural Funds. The Commission will appraise the figures communicated by the Member States by comparing them with the profile of expected total expenditure each year.

The absence of any penalties for manifestly inaccurate forecasts probably does not facilitate the forecast exercise. It should be recalled that penalties are provided for under the rural development programmes financed from the EAGGF Guarantee Section, in cases where the difference between the budget forecast and execution exceeds 25%. This results in a reduction

of payments in the following year, with no automatic reduction in the programme. Clearly this model cannot be transferred directly to the Structural Funds, especially since rural development appropriations are non-differentiated. Even if overestimating the payment appropriations produces fewer disadvantages in the case of the Structural Funds, thanks to the differentiated appropriations, the impact of forecasts that are systematically wrong on the management of the Community budget should be considered. Any penalty system should be based on appropriate regulatory provisions and might be worth exploring in the next set of regulations if forecasts have not improved by then.

6. ANALYSIS OF REASONS FOR THE SLOW START-UP OF 2000-06 PROGRAMMES

The rate of financial execution of programmes differs appreciably by Member State, region and fund. A rate of execution of 15% of the total allocation for programmes, inclusive of the initial advance, could have been expected at 30 June 2002 based on assumed rates of payment. At that point, five Member States had attained, or almost attained, this rate of implementation overall (Austria 16.6%, Germany 16.1%, Portugal 18.5%, Spain 16.2%, Ireland 14.4%). Seven Member States had not even attained 10%, i.e. barely more than the initial advance (Belgium, Denmark, Italy, Luxembourg, Netherlands, Sweden, United Kingdom).

The rate of execution of Objective 3 programmes is higher than average in most Member States, and that of Objective 1 is around average. Objective 2 programmes show the biggest delays, at 9.3% in total. While the overall rate of execution in Austria is 16.6%, it is just 11.9% for Objective 2 programmes, well below the 24.6% achieved for Objective 3. The same differential is evident in Germany, at 10.4% and 20.0% respectively, and in the UK (7.0% and 15.1%).

There follows a presentation of the main reasons for the generalised under-execution in relation to SEM 2000 expectations, and explanations for the delays experienced in some programmes in comparison with others which are progressing normally.

6.1. Cumbersome procedures

The procedures for granting public funds are necessarily strict, and often seen as being excessively cumbersome and out of proportion, in particular where smaller subsidies are concerned. This red tape is not an inevitable consequence of the Structural Funds provisions. Article 34(1) provides that in carrying out its tasks the managing authority is to act in full compliance with the institutional, legal and financial systems of the Member State concerned. Under Article 3 of Commission Regulation (EC) No 438/2001, Member States' management and control systems must be subject to proportionality in relation to the volume of assistance administered.

Possible ways of alleviating the administrative burden and simplifying the procedures for granting assistance must be explored in collaboration with the Member States, in order to identify and promote best practice.

Although conscious of the need to simplify to a maximum national and Community procedures, while limiting any risk of irregularity, the Commission considers that the delays in implementing the Structural Funds cannot be ascribed to the Community rules, which are identical for all Member States and programmes, but often result from the choices made by the Member States themselves in implementing programmes. To support this analysis, the

Commission notes that in June 2002 many programmes were making normal progress, and only a few demonstrated a worrying delay. The rate of execution of financial commitments between 2000 and 2002 for ERDF Objective 1 programmes can vary by up to double the rate within one Member State (e.g. Spain, Germany, between <30% and > 60%).

As far as ERDF is concerned, Sweden is an example of good practices. It decided to avoid any risk of de-commitment under the “N+2” rule by stepping up the grant of assistance at the start of the programming period. There is great demand for such assistance in Sweden, and after adopting each decision to grant aid, it issues regular reminders where no payment application is made, and can penalise excessive delays in project start-up by cancelling the financial assistance. This contrasts with Belgium, where Objective 1 payments appear set to be highest towards the end of the programming period, exposing it to the risk of de-commitment at the start of the period.

In Germany and Austria, major commitments for the 2000 financial year had already been used by 30 June 2002, removing these Member States from the risk of a significant automatic de-commitment. In Italy, however, the rate of consumption of appropriations in almost all the programmes gives cause for concern. This has led it to introduce, for the first time, a system of close and regular monitoring of the progress of each programme, and to improve the efficiency of its administrative management procedures.

An analysis in France, where the low rate of implementation of all programmes is worrying, cites the profusion of co-financiers as one of the factors slowing down procedures, as the grant of the Community financing depends on a decision by the last co-financier. But the cumbersome nature of national procedures and their excessive delays are held primarily responsible.

In Portugal, the management of rural development measures was bound to be difficult in view of the great number of applications covering small amounts. 19 600 applications had to be processed for one measure, some involving under € 200.

The most successful programmes try to find simple and effective procedures, proportional to the sums concerned, and above all a high level of organisation, information and mobilisation, and are based on forward planning aiming to reduce the delays between each stage of decision-making. This is all the more important where the agreement of several services is required (environment, culture, local, regional and national authorities, management and monitoring committees, etc.).

6.2. Overlap of two programming periods

2000 and 2001 were not only the first two years in the new programming period, but also the last two years of financial execution for the 1994-99 programming period. On top of outstanding commitments in the Community budget of some 10% of the allocation for the latter period, at the end of 1999 there was a “hidden” outstanding commitment of the difference between the advances paid to the Member States and their actual expenditure by that date. The extent of delays in implementing programmes in the 1994-99 period was indicated by the “rebudgetisation” between 1998 and 2000 of € 3.8 billion that had remained unused between 1994 and 1997, and by major reorientations of programmes at the end of 1999, which was the deadline for commitments for projects in the Member States.

There can be little doubt that awaiting the legal and financial security offered by the Commission’s formal adoption of the programmes delayed start-up in some cases but it is

now clear that the main reason for the slow start in the new period was that all levels of the administration in the Member States concentrated their efforts and budgetary resources on completing the programmes from the previous period and delayed beginning those for the new period.

At least in certain regions, the effect on payments by the Commission of the switch from the 1994-99 period to that of 2000-06 was decisive. While they had received cash advances up to 1999, the Member States had themselves to pre-finance the final payment of 10% of the allocation for the whole period. Furthermore, the submission of final claims, and hence the payments, will be delayed by about six months since the Commission is rightly insisting on rigorous checks on the final claims.

Under the provisions for 2000-06, unlike the previous arrangement of permanent advances, the Commission reimburses the payments made by beneficiaries, i.e. after the calls for expressions of interest, the consideration of applications, the selection of projects to finance, the making of grants, calls for tenders, the start of projects, payments, checks and the declaration to the Commission, which has 60 days in which to make the payment. This means that the first substantial applications for interim payments will not be made until some 12 to 18 months after the programmes have begun.

A dip in payments between mid-2000 and the middle or end of 2002 is a consequence of the switch from one programming period to another and from one set of arrangements for payments to a very different one.

6.3. Payments between the first date of eligibility of expenditure and the submission of the programme complements

It is a fact that the procedure for preparing the operational programmes and the SPDs, their negotiation and adoption by the Commission lasted longer than expected and that the Member States were often late in submitting a programme complement which was consistent with the programme adopted.

There were also substantial delays in the submission for approval by the Commission of certain aid schemes and major projects to be financed by the programmes.

However, those delays had no impact at all on the first date for the eligibility of expenditure, which was set by Article 30 of Regulation (EC) No 1260/1999 at 1 January 2000, if not earlier, for most mainstream programmes. The national authorities were expected to take advantage of this provision, but they did so only rarely. As far as the Commission is aware, only Portugal did so to any considerable degree. Other Member States, for example the United Kingdom, issued calls for proposals only after submitting the programme complement at mid- or end-2001. As a result, the substantial applications for interim payments expected in 2001 to reimburse measures financed between January 2000 and the date when the programme complement was notified, which is a prior condition for payment by the Commission, did not materialise.

Since most Member States did not declare substantial expenditure on projects which had already been decided on by 1 January 2000 and did not start to consider applications for assistance until 2001, it may now be expected that, apart from the payment of the initial advance of 7%, the rate of actual financial implementation of each programme will remain modest early in the period, achieve a steady rhythm towards 2003 and be completed in 2008.

6.4. Better financial management and inspection

One element which has helped spread applications for payments over time is the more rigorous financial management and checks required to comply with the new provisions of Regulation (EC) No 1260/1999, including the obligation to establish a paying authority and provide it with staff. Following the comments of the Court of Auditors and the discharge authorities about the rate of errors and irregularities in the Structural Funds, the Commission insisted on compliance with these provisions, and the Member States took their time in implementing them.

One of the provisions making financial management more rigorous concerns the stricter application of the rule that advances of funds to intermediary organisations are not eligible. Recognising the advances as eligible would certainly improve the rate of budget execution but it would also reduce the pressure for genuine implementation at the level of the final recipients, which is a vital condition if the cohesion policy is going to have an impact.

The Commission had adopted the principle of refusing to reimburse Community co-financing which exceeds the level set in the programme complement, considering that this ‘front-loading’ of Community part-financing exposed it to the risk that the rate set would not be respected in the long run, so proportionately reducing the multiplier effect sought. However, with the aim of simplification this rule had been relaxed, provided sufficient controls are applied.

6.5. Date of declaration of expenditure incurred

A limited number of Member States have adopted the practice of not paying grants for certain large projects until work has been completed, which correspondingly delays the way progress on the ground is reflected in budget execution.

Moreover, the advances to project holders are ineligible until the date of their clearance by the expenditure effectively incurred. However the services of the Commission are examining this condition in order to make this type of advance eligible at the date of payment, while respecting the principles of good management and control

6.6. Unforeseen circumstances

In some cases, delays in certain programmes may be attributed to their special features:

- following the collapse of the telecommunications sector or the lack of confidence in economic growth (Ireland, Portugal, United Kingdom), the private part-financing planned was not forthcoming;
- inconsistencies between the planned rates of co-financing and the limits imposed by the State aid rules (United Kingdom Objective 2);
- uncertainties caused by changes in Community rules (EAGGF Guidance Section/ Fisheries);
- requests from some NGOs were refused because of failure to comply with provisions on public tenders from which they were exempted during the previous period.

6.7. Capacity to absorb funds

Besides the fact that the capacity to absorb the funds available for 2000-06 was reduced by the need to co-finance the last two years of payments for the 1994-99 period, the Commission detected no on-going problems in the absorption of assistance, except in some Objective 2 areas where the fragmentation of assistance and the low rate of co-finance available reduced interest from project promoters, certain programmes where private part-financing did not materialise and in some FIG programmes.

One factor which reduced the absorption of funds is the limited ability of local authorities to contribute to co-financing. The increase in Community resources over the various programming periods has not been reflected in an increase in the national matching funds. Small and medium-sized firms have not shown the interest expected in certain programmes.

7. “N+2” : MEASURES TAKEN AND PLANNED BY THE COMMISSION

Delays in execution mean that the programmes concerned risk losing funds under the “N+2” rule. The Commission will apply this rule in accordance with the statutory provisions. However, in order to avoid this situation, and maximise sums effectively implemented by the cohesion policy, the Commission :

- Adopted a Communication specifying the implementing rules of “N+2” (Communication C(2002)1942 adopted 27 may 2002);
- Is working with the Member States to improve the techniques of forecasting by programme (C.f. Chapter 5)
- Is keeping the senior authorities of the Member States regularly informed about the progress of the programmes at risk;
- Is working with those responsible to establish the reasons for delays and the solutions to be adopted, in accordance with the Regulations. Where a programme is unable to achieve the goals planned, the Commission will consider with the Member State concerned how to divert the funds at risk from this programme to other more promising purposes;
- Is looking at ways of simplifying procedures (both its own and those of the Member States) to make them more efficient and to bring the administrative burdens on applicants for aid and the administrations responsible into better balance.

The Commission has begun to consider this point both within its own departments and in the Consultative Committees of the Funds. It will present its proposals for the current period to the informal meeting of Ministers on 7 October 2002 and extend the debate to the post-2006 period at a conference to be held early in 2003. It has also asked the Member States to identify best practices in appraising applications for assistance so that these can be applied throughout the Union. A number of ideas have already been identified, including making less rigorous the conditions for modification of programmes to improve their management, streamlining the procedure for mid-term revision, and making control procedures more proportionate and better co-ordinated.

The Commission will profit from the lessons to be learned from the experiences of the present Member States to speed up and simplify the implementation of the Funds by the candidate

countries after accession. It has set itself the target of completing the bulk of the programme negotiations planned for these countries before accession so that the programmes can start as soon as allowed by the accession agreements.

8. CONCLUSIONS

The volume of payments in implementation of programmes for socio-economic development in 2000-06 was considerably overestimated in 2000 and 2001, partly because of the longer than expected time taken to negotiate programmes; the Member States also made little use of the provision under which payments as of January 2000 would be eligible. The start of some programmes was undoubtedly delayed by awaiting the legal and financial security offered by the formal adoption of the programmes by the Commission. However, the Commission believes that the main reason for budgetary under-execution in 2000 and 2001 is that the Member States gave priority to completing projects financed under the programmes for 1994-99, for which the deadline for eligibility was 31 December 2001, and started the programmes for 2000-06 late.

Commission staff attend the meetings of the Monitoring Committee for each individual programme and found in 2001 that the value of the measures committed for most of the programmes was adequate to ensure a normal rate of execution in the years to come.

2002 is the second year of actual implementation of most programmes, and the payment appropriations could once again prove greater than actual execution: for the period 2000-06 because of delays between the start of aid measures on the ground and the declaration of payments to the Commission, and for 1994-99 because of the late claims for final payments due to delays in the Member States in checking the expenditure declared during the programming period. The Commission will reassess its estimate this autumn. Because decisions to grant assistance are highly decentralised, any estimate of expenditure for the current and future years is tentative but, with that reservation, the Commission expects budget execution to follow a fairly regular pattern from 2003 to 2008, with the last payments being foreseen in 2010.

Because the period for payments provided for in the Regulation is longer than for commitments (11 years compared with 7), the Commission expects the amount outstanding at the end of the year to increase to a peak of some € 55 to 64 billion in 2006 and then fall virtually to zero in 2010. This pattern is based on the likely assumption that the Member States will make maximum use of the time allowed for implementation by Regulation (EC) No 1260/1999, while avoiding substantial decommitments under the ‘sunset clause’ of the “N+2” rule.

Even in the event of substantial under-utilisation of funds, the amount outstanding in 2010 will be rendered insignificant by decommitments under the “N+2” rule. However, the Commission believes that, faced with the risk of losing funds under that rule, the Member States will seek to implement their programmes at a rate adequate to ensure only limited losses. It will keep the Member States regularly informed of the programmes at risk.

In addition to the amount outstanding for 2000-06, there is the amount for the previous period, which stood at € 17.2 billion at the end of 2001. That will be settled before the end of 2003, on the basis of final payment claims to be notified by 31 March 2003, except for a small amount relating to cases giving rise to dispute or projects suspended for judicial reasons.

A large amount outstanding is an inevitable consequence of the legal provisions governing the Structural Funds. The discipline imposed by the “N+2” rule should be given an opportunity to reduce this amount and encourage the Member States to take advantage of the funds available to them within the time allowed.

The Commission is doing everything it can to help the Member States achieve this goal. It has begun a wide-ranging consideration of ways to simplify procedures and will present its proposals to the informal meeting of Ministers on 7 October 2002. Since the problems vary depending on the region, the Member State and the Fund, it is working with the Member States to identify obstacles and solutions.

There is a real risk that some resources under some funds will be lost by some programmes because of the application of the “N+2” rule. However, the discipline imposed each year by this rule forces the Member States and their regions to pay constant attention to achieving a satisfactory rate of programme implementation, rather than trying to make up lost time at the end of the period, as happened in 1994-99. It is better to cancel a few tens of millions of Euro in 2002 and 2003 than to lose very large sums at the end of the period.

ANNEXES : tables for graphs 1 to 10

Graph 1 : Outstanding commitments at the end of each year from pre-1994 periods (€ billion)

	RAL pré-94 à la fin de chaque année (milliards d'Euros)	%
1993	15.405,70	100%
1994	10.508,00	68%
1995	7.762,60	50%
1996	5.349,46	35%
1997	3.542,32	23%
1998	2.434,95	16%
1999	1.858,37	12%
2000	991,30	6%
2001	532,20	3%

Graph 2 : Payment of commitments outstanding under the 1994-99 programmes

	1999	2000	2001	2002	2003	2004
Financial perspective						
Expected RAL	41,2					
Payments		19,8	8,9	5,6	5,2	0,7
De-commitments		0	0,1	0,2	0,6	0,1
Remaining RAL (at the end of the year)	41,2	21,4	12,4	6,6	0,8	0
Actual implementation and budgets assumption						
Actual RAL (including pre<94)	41,7	2,4				
New commitments (closure of Edinburgh)		2,4				
Payments		20	5,8	6,4	7,9	0,7
De-commitments (including pre<94)		0,7	0,4			2,2
RAL (end of the year)	41,7	23,4	17,2	10,8	2,9	0
1999,2000 and 2001 : actual implementation						
2002: implementation plan (budget - 0,9 billion)						
2003: PDB						
2004: remaining commitments (de-commitments or legal cases)						

Graph 3 : Trend in commitments under the new programmes

	1999	2000	2001	2002	2003	2004	2005	2006
Actual implementation								
(after rebudgetisation and carryovers)								
Commitments (new programmes)		15,4	38,1	31,1	31,1	31,6	31,9	31,7
Cumulated commitments	0	15,4	53,5	84,6	115,7	147,3	179,2	210,9
2000-01 : actual implementation (with carryovers in 2001)								
2002: budget, 2003:PDB (adjusted FP)								
2004-06: financial perspective (adjusted FP)								

Graph 4: Trend in payments under the new programmes

Financial perspective (initial PF)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Payment on account		8	6									
Reimbursements		1,2	13,6	25,6	27,6	30,2	30,2	30,2				
TOTAL		9,2	19,6	25,6	27,6	30,2	30,2	30,2				
Actual implementation												
Payment on account		5,9	7,7	0,2	0	0,3	0	0	0	0	0	0
Reimbursements		0	7	22	23,1	26,7	27	27	27	23	11,4	2,6
TOTAL	0	5,9	14,7	22,2	23,1	27	27	27	27	23	11,4	2,6
Payments covered N-3, N-2 and X% of N-1 (on average)					40%	27%	13%	-1%	-17%	-7%		
Payment claimed in Dec N+2 and paid in N+3								-0,4	-5,3	-3,5		
2000-01 : actual implementation												
2002: budget, 2003: PDB												
2004-08: Steady State, i.e. 90% of one annual tranche from 2004 to 2007 and 80% in 2008 (N+2 avoided)												
2009-2010: final balance (75% in 2009 and 25% in 2010) + 3,5 billion in 2009												

Graph 5: Outstanding commitments under the new programmes

Actual implementation	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Commitments		15,4	38,1	31,1	31,1	31,6	31,9	31,7	0	0	0	0
Payments		5,9	14,7	22,2	23,1	27	27	27	27	23	11,4	2,6
RAL (fin de l'année)	0	9,5	32,9	41,8	49,8	54,4	59,3	64	37	14	2,6	0
2000-01: actual implementation												
2002: budget, 2003: PDB												
2004-07: FP (for commitments) and steady state (for payments)												

Graph 6: Total payments under the Structural Funds

(1994/1999) - source: ANCIENS PROGR.		1999	2000	2001	2002	2003	2004	2005					
Financial perspective													
(1)	Payments		19,8	8,9	5,6	5,2	0,7						
Actual implementation and budgets assumption													
(2)	Payments		20	5,8	6,4	7,9	0,7						
(2000/2006) - source: PAYMENTS													
Financial perspective (initial PF)													
(3)	TOTAL		9,2	19,6	25,6	27,6	30,2	30,2	30,2				
Actual implementation													
(4)	TOTAL	0	5,9	14,7	22,2	23,1	27	27	27	27	23	11,4	2,6
for chart													
(1)+(3)	Financial Perspectives	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
(2)+(4)	Payments		29,0	28,5	31,2	32,8	30,9	30,2	30,2	27,0	23,0	11,4	2,6

Graph 7: Total commitments outstanding under the Structural Funds (at the end of the year)

Actual implementation (end of the year)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Old RAL		41,7	23,4	17,2	10,8	2,9	0	0	0	0	0	0
New RAL		0	9,5	32,9	41,8	49,8	54,4	59,3	64	37	14	2,6
RAL (end of the year)		41,7	32,9	50,1	52,6	52,7	54,4	59,3	64	37	14	2,6
2000-01 : actual implementation												
2002: budget, 2003:PDB												
2004-08: FP (for commitments) and steady state (for payments)												

Graph 8: Trend in outstanding commitments for 2000-06 during each budget year

	99	99	00	00	01	01	02	02	03	03	04	04	05	05	06	06	07	07	08	08	09	09	10	10
	avril	déc	avril	déc	avril	déc	avril	déc	avril	déc	avril	déc	avril	déc	avril	déc	avril	déc	avril	déc	avril	déc	avril	déc
RAL beginning																								
->end of the year	0	0	0	9,5	39,9	32,9	60,4	41,8	72,9	49,8	81,4	54,4	86,3	59,3	91	64	63,6	37	31,7	14	10,5	2,6	2,6	0

Graph 9: Trend in payments in the event that the initial delays are made good in 2003 and 2004

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Financial perspective (initial PF)											
Payment on account		8	6								
Reimbursements	1,2	13,6	25,6	27,6	30,2	30,2	30,2				
TOTAL	9,2	19,6	25,6	27,6	30,2	30,2	30,2				

Actual implementation											
Payment on account	5,9	7,7	0,2	0	0,3	0	0	0	0	0	0
Reimbursements	0	7	22	27,6	29,9	30,2	30,2	18,6	9,2	7,9	2,6
Récupération				5,8	5,8						
TOTAL	5,9	14,7	22,2	33,4	36,0	30,2	30,2	18,6	9,2	7,9	2,6

2000-01 : actual implementation

2002: budget

2003-04: financial perspective + catching-up in two-year time of the "backlog" compared to the FP

2005-2010: financial perspective assumption

Graph 10: Capping the outstanding commitments under the automatic decommitment rule

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Commitments	15,4	38,1	31,1	31,1	31,6	31,9	31,7	0	0	0	0
Cumulated commitments	15,4	53,5	84,6	115,7	147,3	179,2	210,9	210,9	210,9	210,9	
Payments	5,9	14,2	19,7	19,7	19,7	19,7	19,7	27	23	11,4	2,6
Cumulated payments	5,9	20,1	39,8	59,5	79,2	98,9	118,6	145,6	168,6	180	182,6
De-commitments	0	0	0	0	0	0	11,6	11,9	4,8	0	0
Cumulated de-commitments	0	0	0	0	0	0	11,6	23,5	28,3	28,3	28,3
RAL (end of the year)	9,5	33,4	44,8	56,2	68,1	80,3	80,7	41,8	14	2,6	0

Payments covered N-3, N-2 and X% of N-1 (on average)

Exceeding the N+2

Claimed in November and December and paid in early N+3

De-committed during the following year

19%	-17%	-53%	-90%	-106%
6,0	-5,4	-16,8	-17,1	-10,1
	5,4	5,2	5,2	5,3
		-11,6	-11,9	-4,8
				3,5

2000, 2001: implementation

2002-2006: payments maximising the RAL at the beginning of 2006, while keeping a stable instalment of payment (and without automatic decommitments before 2006)

2007-2010: central scenario