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Structural Actions

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***WORKING DOCUMENT***

***Implementation of the  
Structural Funds Budget  
1989-1995  
Detailed analysis and comments***

*Implementation of the Structural Funds budget 1989-95*  
*Summary*

**1. *Problems with a "top-down" approach to programming***

*The overall allocation for the Structural Funds is determined in advance of any programming exercise and constitutes, within the financial perspective, not only a ceiling but also a target for spending. This fact was taken into account when the programming documents (CSFs and SPDs) were adopted in 1994 and 1995, allocating the appropriations by programme to the various objectives and Member States.*

*In the case of commitment appropriations, there is no distinction between the annual forecasts, which are merely annual instalments calculated on the basis of the programming documents, and the multi-annual programming, which is itself based on budget figures rather than genuine planning.*

*There is no programming in the strict sense of the term for payment appropriations. Forecasts are calculated according to a somewhat mechanical method, on the basis of theoretical due dates for payments.*

**2. *Underspensing of Structural Fund appropriations gives cause for concern***

*In both 1994 and 1995 ECU 2 billion of the commitment appropriations allocated to the Structural Funds went unused. Apart from the problems caused by the time required for adopting programming documents for the new period, the Member States had difficulties putting up the national cofinancing funds in a climate of budgetary restraint. In accordance with the Interinstitutional Agreement of 1993, unused commitment appropriations will be re-entered in the budget to ensure that the spending targets for the Structural Funds are met. This means putting off to the end of the programming period the question of whether the Member States are able to absorb the full amount of appropriations. There was also insufficient utilization of payment appropriations in 1994 and 1995. Some ECU 4.8 billion was unused in 1994 and ECU 4 billion in 1995. This meant that the Member States made available own resources unnecessarily. The reason for this under-utilization of payment appropriations is that payments were slower than in the previous programming period. This, coupled with the large increase in commitment appropriations, has been the main reason for the increase in the volume of outstanding commitments (the cumulative total of commitments still awaiting payment) from ECU 15 billion in 1993 to ECU 23 billion in 1995. Contrary to a widely held view, however, the pace at which outstanding commitments are being cleared has not slackened over the years.*

**3. *Excessive concentration of the use of appropriations at the end of the year***

*Use of appropriations has been heavily concentrated towards the end of the year in the past two years. The proportion of commitment appropriations used in December was*

*54% in 1994 and 38% in 1995. This not only caused administrative problems but also affected the management of individual files.*



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*Implementation of the Structural Funds budget, 1989-95*  
*Detailed analysis and comments*

Since the introduction of the most recent reforms, there has been substantial under-utilization of both the commitment appropriations and the payment appropriations allocated to the Community's Structural Funds (EAGGF Guidance, ERDF, ESF and FIFG).<sup>1</sup> In 1995 heading 2 of the financial perspective showed the lowest rates of utilization: at the end of that year ECU 2 billion in commitment appropriations and over ECU 4 billion in payment appropriations available for the Structural Funds were not used.

Before analysing the ways in which the appropriations concerned are utilized, attention must first of all be drawn to their special nature since they represent both a ceiling and a target for expenditure.

The Structural Funds appropriations, the total amount of which was set in Edinburgh in December 1992 for the period 1994-99 and then increased in December 1994 in the context of enlargement, are the subject of programmes covering the period 1994-99.

The sums in question were allocated by objective and by Member State and the Commission informed each Member State of the annual figures designed to ensure compliance with the ceilings set in Edinburgh and thus remain within the expenditure ceiling for heading 2. The schedules for the use of these overall amounts were then set forth in numerous operational programmes (OPs) and Single Programming Documents (SPDs)<sup>2</sup> drawn up at the end of 1994 for the existing Member States of the Union and expanded in 1995 to cover the three new Member States.

Since the expenditure figure represents a target, the total commitment appropriations entered in the budget must be equivalent to the original overall allocation. The budgetary arrangements for heading 2 (as distinct from all the other budgetary spending) are essentially "top-down".

It should also be pointed out that the amounts set aside for the Structural Funds have been the subject of a political decision, which has been given shape in formal Commission instruments. Under the legislation as it now stands, these amounts represent targets which every effort should be made to achieve.

The payment appropriations, on the other hand, do not represent expenditure targets. The amount proposed by the Commission in its preliminary draft budget is based on an

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<sup>1</sup> In this document the figures and comments relating to the FIFG cover fishery structures measures implemented over the period 1989-95, although the FIFG itself had no legal existence before 1993.

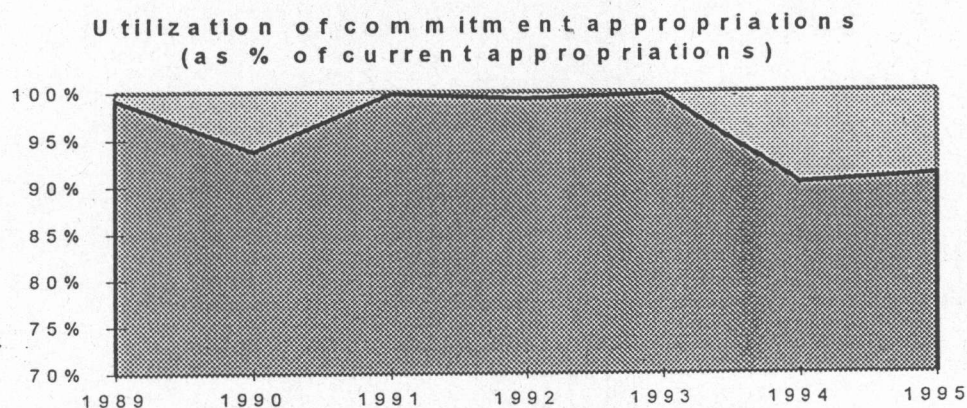
<sup>2</sup> It is on the basis of these documents that appropriations are committed. The Community Support Frameworks, which lay down general guidelines, do not form the basis for budgetary commitment.

estimate of the sums needed to cover both new appropriations and the payment of outstanding commitments. The utilization of such appropriations is of great importance, however, since it determines the level of own resources called in from Member States.

### 1. Utilization of commitment appropriations for the Structural Funds since 1989

The following diagram shows the utilization of the commitment appropriations for the Structural Funds.

Figure 1



Over the programming period 1989-93 the Structural Funds recorded highly satisfactory rates for the utilization of their commitment appropriations, with rates of over 99% for 1989, 1991, 1992 and 1993.

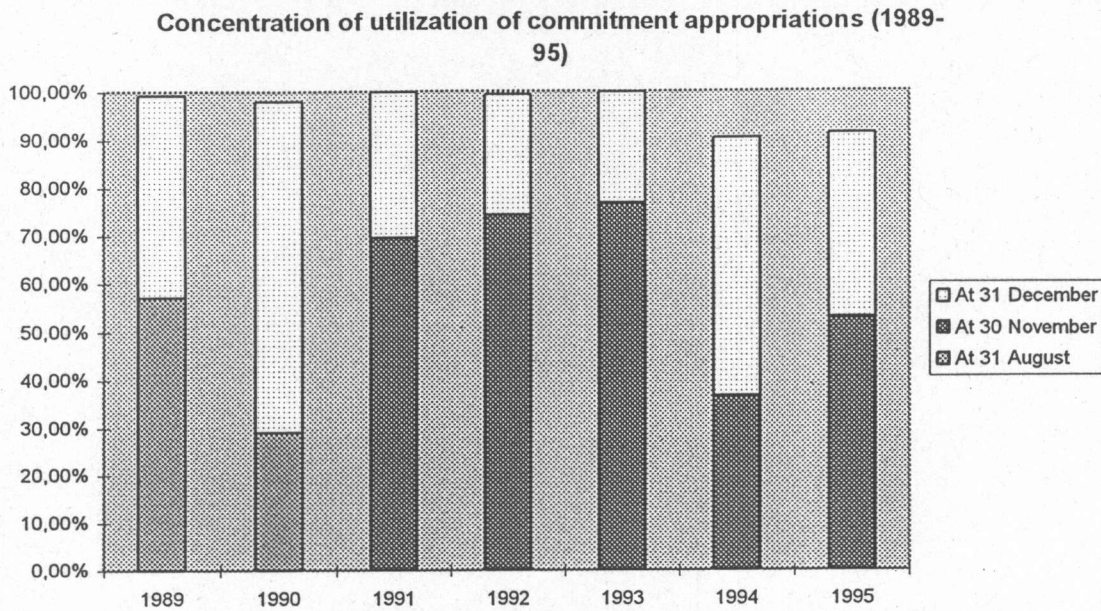
The only year in which the rate of utilization was less satisfactory was 1990, at the end of which ECU 700 million was still available. This represented an overall rate of utilization of 93.7%, the shortfall being mainly attributable to the ESF.

In both 1994 and 1995, on the other hand, approximately ECU 2 billion in commitment appropriations remained unused, giving utilization rates of 90% and 92% respectively.

It should also be pointed out that, although there is no objective yardstick for measuring the optimum rate of utilization over a given budgetary year, in both 1994 and 1995 spending was concentrated mainly on the end of the year. December 1994 thus saw the utilization of 54% of that year's appropriations and December 1995 38% of the year's appropriations (for the reasons, see points 1.1 and 1.2 concerning the introduction of the new programming period). No such end-of-year concentration had occurred in the previous programming period (see Figure 2). It will be noted that in 1994 the rate of utilization at 30 November had still not reached the level attained by 31 August in 1989.



Figure 2

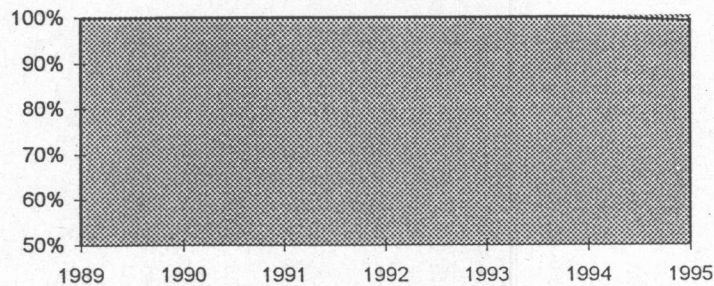


**1.1. 1994**

The 1994 budgetary year marked the beginning of a new programming period, which will last until the end of 1999. The new period necessitated the preparation of new programming documents for each Member State and for each objective. These documents cover 90% of the total sums available and are known as Community Support Frameworks (CSFs) or Single Programming Documents (SPDs), as the case may be. Despite the difficulty and the scale of this programming exercise, it was successful in that (as may be seen from Figures 3a to 3d) almost all the Funds utilized over 99% of their 1994 appropriations. Only the ESF, at 95%, had ECU 272 million left unused.

Figures 3a

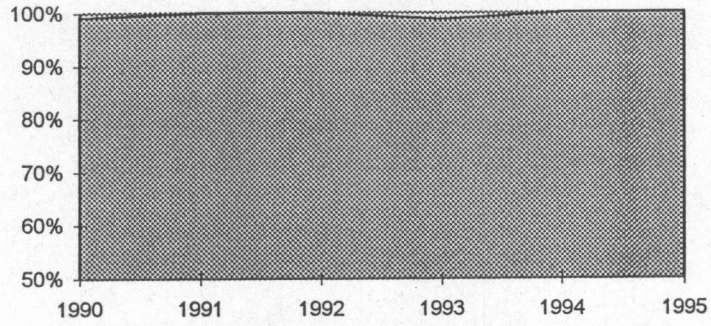
**EAGGF-Guidance: Utilization of commitment appropriations (1989-95) as % of current appropriations**



Figures 3b

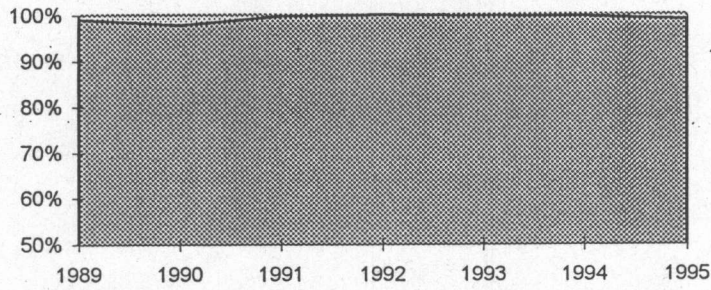


**FIFG: Utilization of commitment appropriations (1990-95) as % of current appropriations**



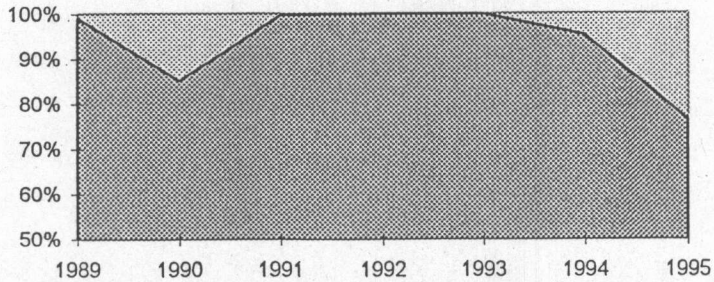
**Figures 3c**

**ERDF: Utilization of commitment appropriations (1989-95) as % of current appropriations**



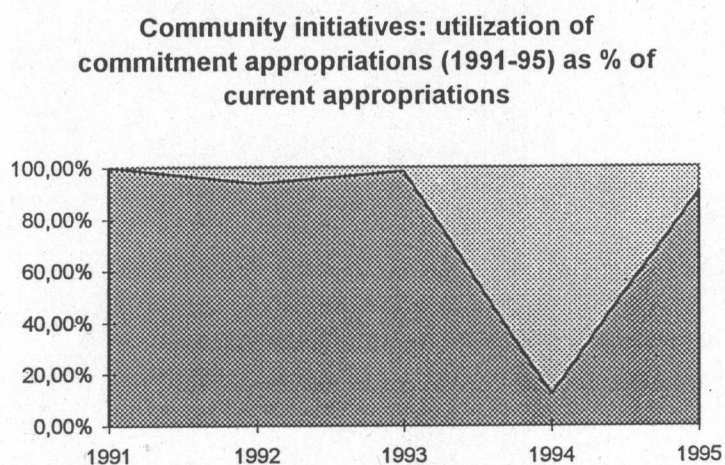
**Figures 3d**

**ESF: Utilization of commitment appropriations (1989-95) as % of current appropriations**



The main reason for underutilization of Structural Funds appropriations in 1994 was, however, that (as is shown in Figure 3e) only 12% of the appropriations for Community initiatives were committed.

Figure 3e



Of the ECU 1 927 million allocated to Community initiatives for 1994, only ECU 230 million was spent in that year. Of the ECU 1 697 million which remained at the end of the year, ECU 339 million was carried over but only ECU 310 million was in fact used in 1995.

This underspend derives from the fact that before the Community initiative programmes could be drawn up, the Commission had to lay down guidelines for Community initiatives over the period 1994-99, for unlike the CSFs or SPDs, which reflect national priorities declared by the Member States, these initiatives reflect Community priorities set by the Commission.

The communications laying down these guidelines and requesting Member States to submit their programmes within four months were published in the Official Journal in July 1994. It was not until late-November 1994, therefore, that the Commission received from the Member States the first applications concerning the implementation of Community initiative programmes.

Despite the Commission's efforts to adopt as many programmes as possible in 1994, the time remaining before the end of the financial year was too short for the proper utilization of the appropriations available.

## 1.2. 1995



Although in 1995 decisions had already been taken on almost all the CSFs and SPDs for the period 1994-99, a number of operational programmes (OPs) had still to be adopted for the CSFs.

At the end of 1995 the position as regards utilization was different from that at the end of 1994, for it was the "national expenditure" (CSFs or SPDs) which accounted for most of the appropriations left unused. Most of this under-utilization was attributable to the ESF (ECU 1 585 million not utilized, i.e. a utilization rate of only 76%).

There were various reasons for the difficulties encountered by the CSFs and SPDs in 1995.

In the first place, as was probably the case in 1990, there had been a delay in the preparation and therefore the adoption of the programming documents in the previous year and this had in turn delayed the implementation of the programmes in 1995. The requirement that 40% of a given tranche must be utilized before the following tranche can be committed makes for a certain inertia, so that 1995 suffers as a result of an unsatisfactory rate of utilization in 1994.

This difficulty is amplified by the fact that the Single Programming Documents, which bring together the CSFs and operational programmes in one stage and which have been chosen by many Member States as a programming tool, have made it possible to commit the first tranche more rapidly. Thus, in all cases where an SPD in the present programming period has replaced the various CSFs and OPs used in the previous programming period, the programmed amounts are larger than those figuring in the OPs, with the result that a higher level of utilization (in absolute terms) must be achieved before the next tranche can be committed.

Moreover, since the Community assistance granted through the Structural Funds must always be matched by a national contribution, it is conceivable that certain Member States, anxious to keep their public spending within limits, may have deliberately delayed the implementation of certain programmes qualifying for Structural Fund assistance.

In the case of the Community initiatives, the failure to utilize some ECU 245 million may be attributed to a combination of the following three factors:

- firstly, a large number of CIPs were not approved until very late in 1995 and some indeed not until 1996;
- secondly, although the 1993 reform was a success in that the number of types of assistance provided under the CSFs and SPDs for the various objectives was reduced, this did not apply to the CIPs, which outnumber the forms of "mainstream" assistance although accounting for only 9% of total expenditure under the Funds;



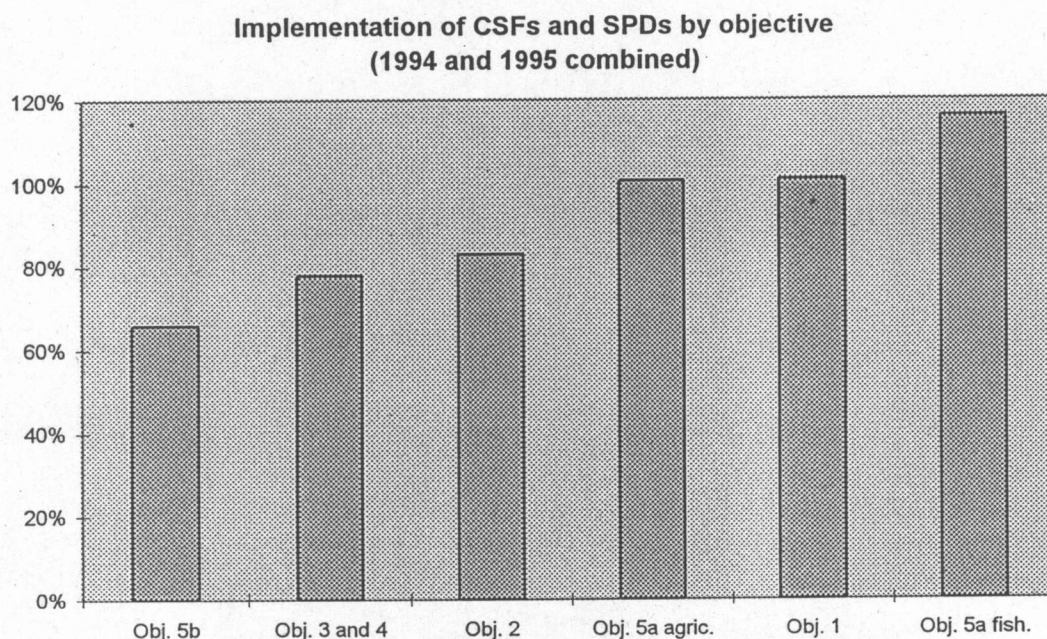
- thirdly, a feature of the current period has been the large number of small programmes and, more particularly, the ever-increasing number of multi-fund programmes in which one or more Funds have only a marginal participation. This not only makes the procedures for adopting the programmes extremely cumbersome but also adds considerably to the complexity of the procedures for managing and monitoring the programmes, at both Community and national levels.

Although the first of these factors should not influence developments in subsequent budgetary years, this will not be the case with the two other factors and with this in mind some thought should be given to the present structure of the CIPs.

### 1.3. Breakdown of utilization by objective

During the first two years of the current programming period the degree of utilization of the appropriations allocated to the Structural Funds has varied greatly from one cohesion policy objective to another, as may be seen from the figure below.

Figure 4



Although good use has been made of the appropriations for objectives 1 and 5a, the same is not true of objectives 2, 3 and 4, whilst almost 34% of the appropriations for objective 5b remained unused.

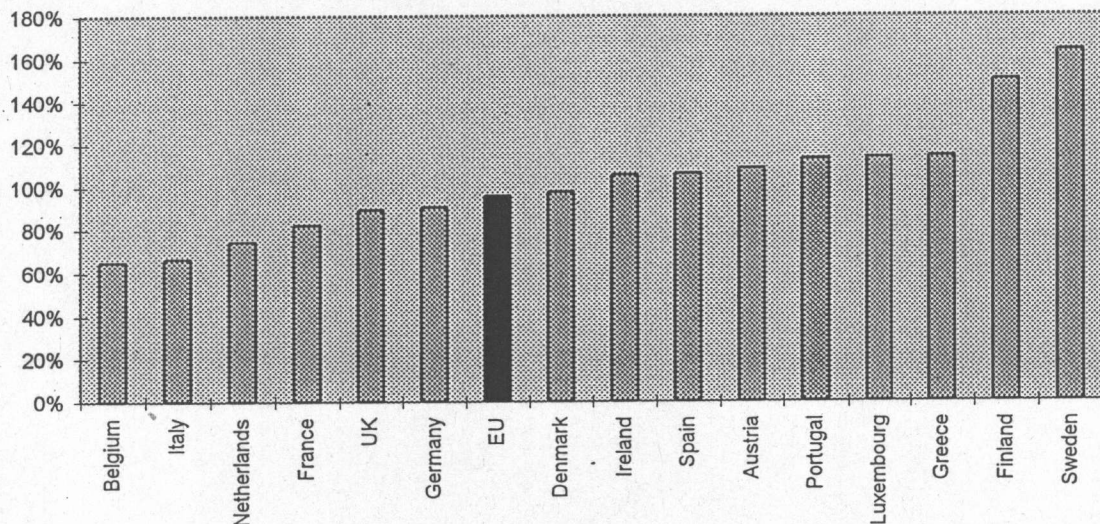
In the case of objectives 5b and 2, the delay in utilization is attributable to the fact that the programming documents were late in being adopted in 1994. In the case of objectives 3 and 4, the actual implementation of the programmes was slowed down to some extent by the introduction of a new objective.

#### 1.4. Breakdown of utilization by Member State

In 1994 and 1995 the utilization of the commitment appropriations for the Structural Funds varied considerably from one Member State to another, as may be seen from Figure 5, the interpretation of which should take account of the fact that recourse was had to commitments in a single tranche, particularly in the case of the Member States which joined the Union in 1995, with the result that some very high rates of utilization were recorded.

Figure 5

Implementation of CSFs and SPDs by Member State  
(1994 and 1995 combined)



In six countries (Belgium, Italy, Netherlands, France, United Kingdom and Germany) implementation is below the Community average of 95.8%. In these countries the rate of utilization for certain objectives is under 60%: in Belgium for objectives 1 and 2; in Italy for objectives 3, 4 and 5b; in the Netherlands for objective 2; in the United Kingdom for objectives 5b and 5a (fisheries); and in Germany for objectives 3 and 4.

In other Member States, however, the rate of utilization (as compared with that programmed) exceeds 100%. This may be explained by the fact that under the rules of the Structural Funds it is possible to commit tranches in advance, provided that the conditions for implementation on the ground are met and provided that the appropriations are available, thus reducing the gap between programming and actual expenditure.

In 1994, for example, advance commitments on the 1995 tranche amounted to ECU 1 billion in the case of the ERDF and ECU 250 million in the case of the EAGGF Guidance Section (Portuguese programmes), although this had no impact on the budgetary headings since the commitments in question were made from the appropriations



still available at the end of the year. Such advance commitment, provision for which is made in the rules governing the implementation of the Structural Funds, brought about an overall improvement in the utilization of appropriations in 1994 and 1995 but it should not divert attention from the delays which have affected implementation in certain Member States and which may be of a structural nature.

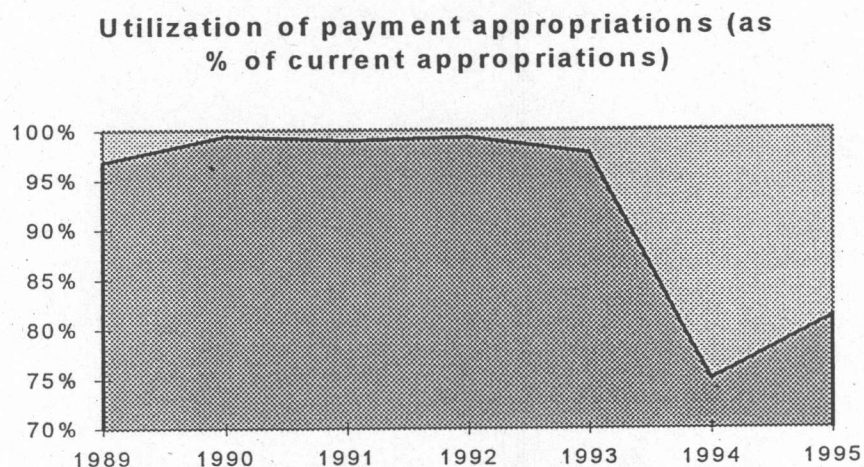
In 1995 the appropriations for objective 1 were greatly increased at the cost of the other objectives (an additional ECU 410 million going to EAGGF Guidance and an extra ECU 628 million to the ERDF). Certain Member States covered by objective 1 (Portugal, Spain, Greece and Ireland) were able to commit their 1996 tranche at the end of 1995 whilst others (notably Italy) were unable to commit the entirety of their 1995 tranche.

## 2. Utilization of payment appropriations for the Structural Funds since 1989 and trend in outstanding commitments

### 2.1. Utilization of payment appropriations

Over the period 1989-93 the rate of utilization of payment appropriations was satisfactory, averaging over 96%. At no time did the appropriations available at the end of a period exceed ECU 500 million (Figure 6).

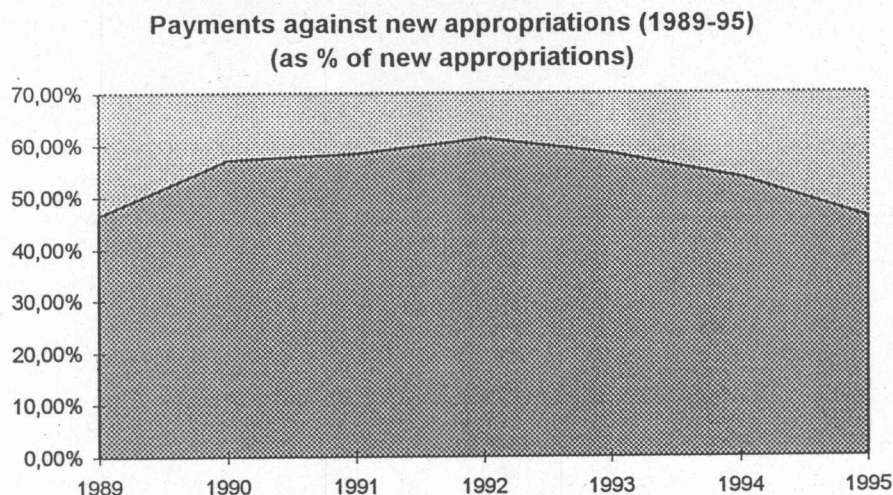
Figure 6



During this period payments against commitments made during the year from new appropriations was usually in excess of 55%, as may be seen from Figure 7.



Figure 7



Since this percentage was in excess of 50%, it was possible in the case of several programmes to pay out a second advance shortly after the payment of the first.

Such payments cannot be made unless the Member State is able to certify that expenditure corresponding to at least half the first advance has been actually incurred by the final beneficiaries. It follows that such a high rate for the clearance of commitments over a budgetary year indicates satisfactory progress on the implementation of the programmes themselves.

Since 1994, however, the utilization of payment appropriations has greatly deteriorated, with ECU 4.8 billion unused in 1994 and ECU 4 billion unused in 1995. This is directly reflected in the lower rate of utilization-of new appropriations in 1994 and 1995 (54% and 46% respectively) as compared with the period 1989-93 (see Figure 8). This deterioration is attributable to:

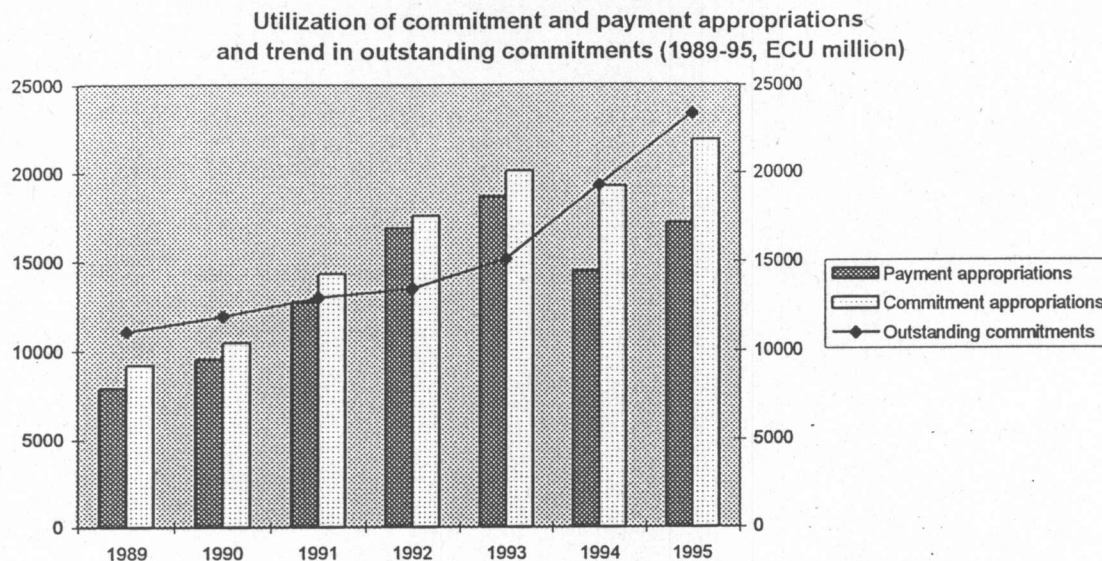
- a change in the rules governing the Structural Funds: since 1994 it has no longer been possible (as it was during the 1989-93 programming period) to give greater weight to retrospective expenditure;

- the fact that in 1995, when the percentage of new appropriations paid out fell below 50%, certain commitments were made only in the last few days before the end of the financial year, leaving the authorizing departments insufficient time to pay the first advance of 50%.

## 2.2. Trend in outstanding commitments

As may be seen from Figure 8 below, a sharp increase in commitment appropriations and insufficient utilization of payment appropriations resulted in the level of outstanding commitments rising from ECU 15 billion in 1993 to ECU 23 billion in 1995.

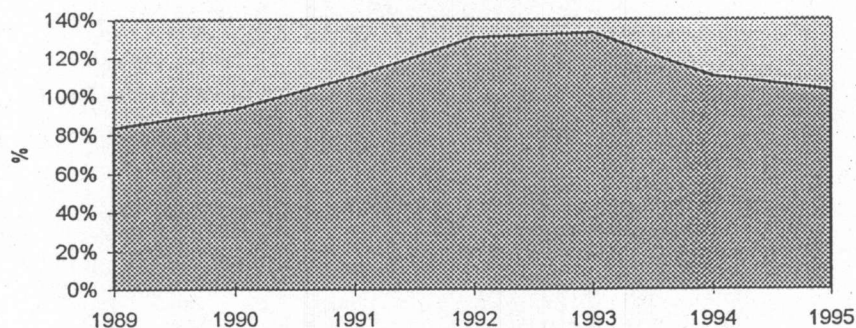
**Figure 8**



Although the commitments outstanding have increased in absolute terms, the situation is seen to have improved appreciably in 1994 and 1995 when the parallel increase in commitment appropriations is taken into account (Figure 9): whereas in 1992 and 1993 outstanding commitments represented over 130% of annual commitment appropriations, this percentage fell to 110% in 1994 and to 103% in 1995.

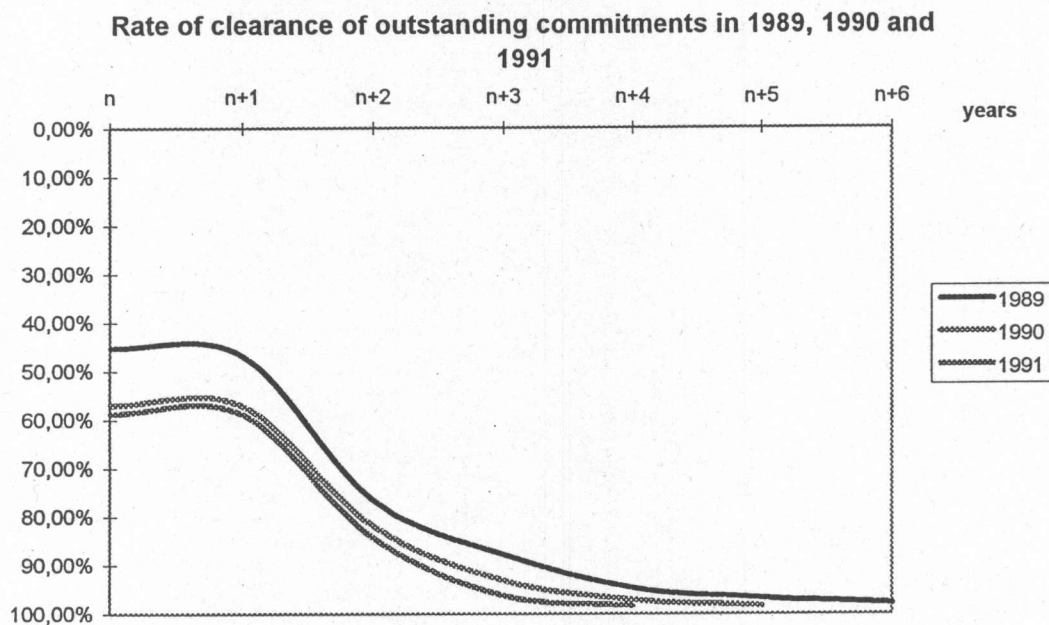
**Figure 9**

**Outstanding commitments at 31 December as % of annual commitment appropriations, 1989-95**



Contrary to a widely held view, the pace at which outstanding commitments are being cleared has not slackened over the years. Figures 10a, 10b and 10c show how a relatively steady rate has been maintained. For example, payments have already been made against 85% of the appropriations committed in 1992 and 1993. There has in fact been a slight improvement in the rate of clearance of outstanding commitments, the percentage of appropriations committed in year  $n$  and paid in year  $n+2$  having risen from 82% in 1990 to 86% in 1993.

**Figure 10a**



**Figure 10b**

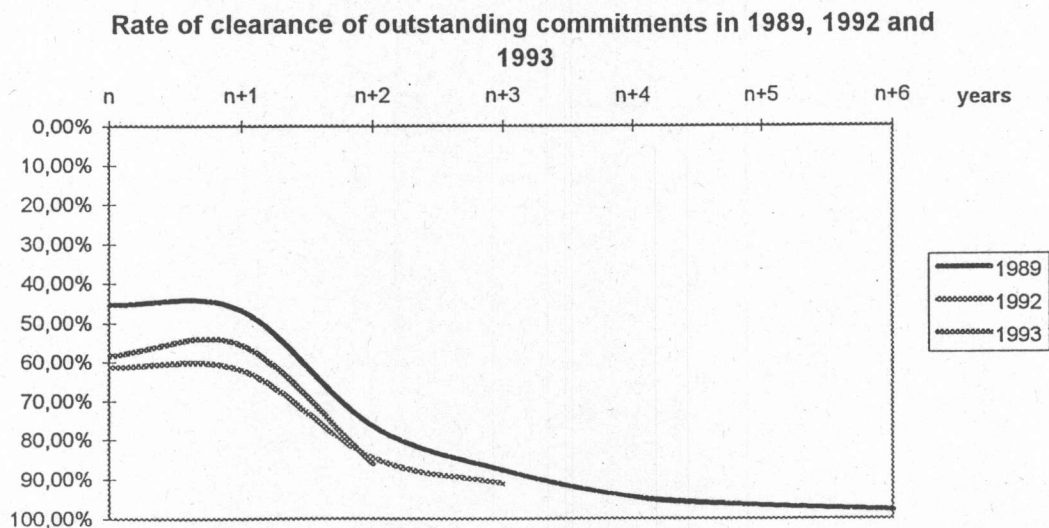
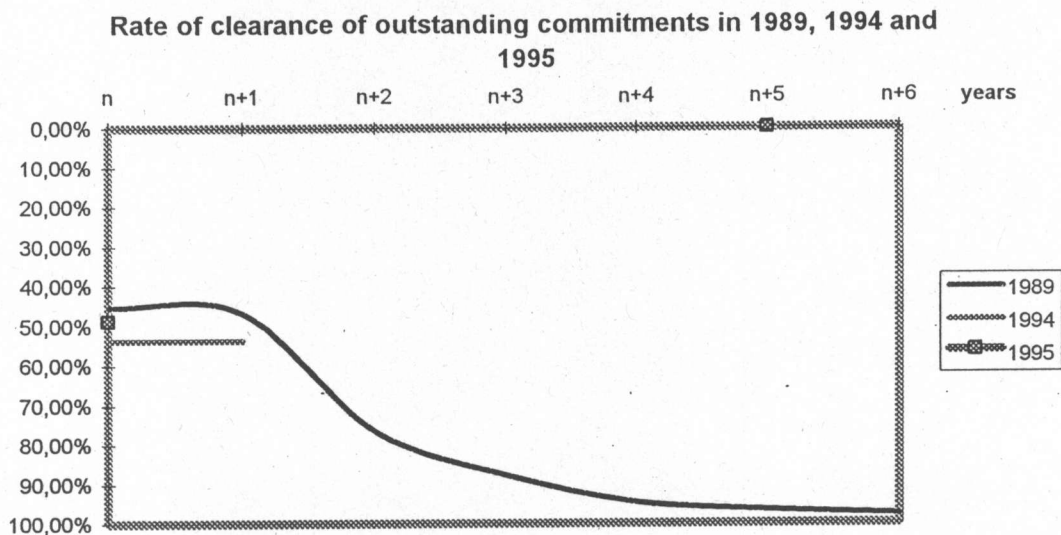




Figure 10c



### 2.3 Breakdown of outstanding commitments by Fund and by Member State

From one Fund to another there are substantial differences in the proportion of total commitments represented by outstanding commitments, as may be seen from Figure 11. Since the data relating to the FIFG are not significant, they have been omitted here. The ESF shows the smallest ratio, indicating that this Fund has performed well in clearing its outstanding commitments, which is not without some impact on the utilization of commitment appropriations.

Figure 11

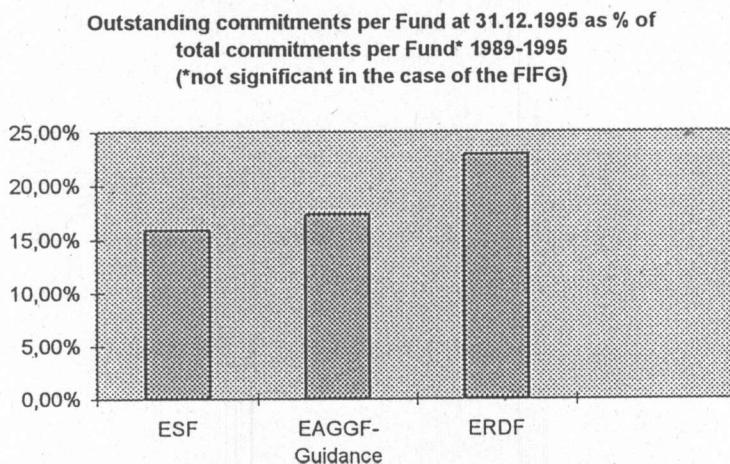


Figure 12 gives a breakdown of outstanding commitments by Member State, showing the percentage of total outstanding commitments accounted for by each Member State at 31 December 1995.

Figure 12

Breakdown of outstanding commitments by Member State at

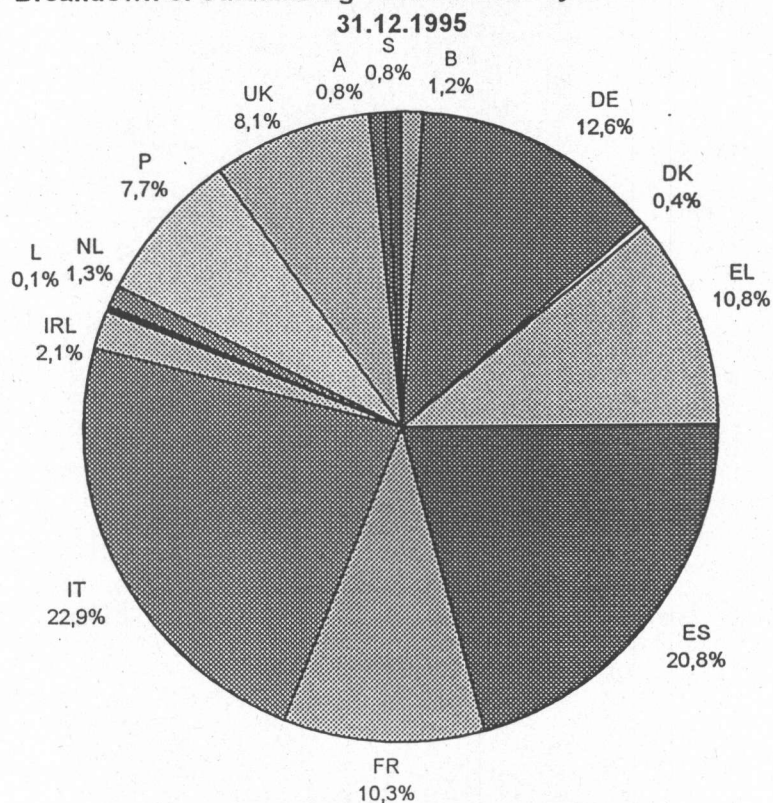
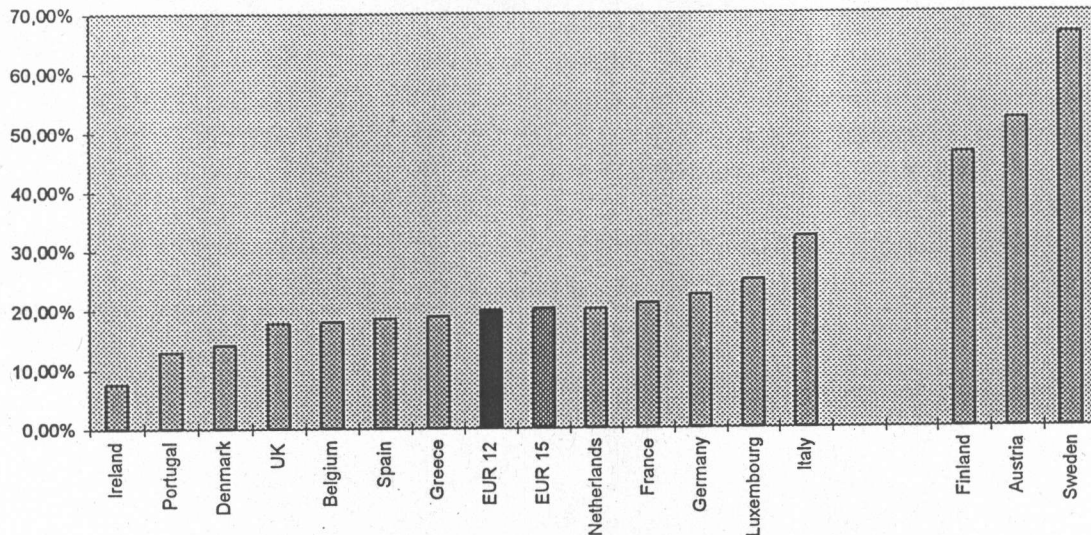


Figure 13 shows, for each Member State, the outstanding commitments at 31 December 1995 as a percentage of total commitments over the period 1989-95. This percentage reflects the relative "performance" of the Member States in the clearance of their commitment appropriations.

Figure 13

Outstanding commitments by Member State at 31.12.1995 as % of total commitments per Member State over the period 1989-95



Six Member States (United Kingdom, Belgium, Spain, Greece, Netherlands and France) score close to the average for the Community of Twelve, their outstanding commitments representing between 18% and 21% of all appropriations committed and due for payment. Two Member States record slightly higher percentages.

Three Member States (Ireland, Portugal and Denmark) are particularly efficient at clearing their appropriations whilst in the case of Italy outstanding commitments account for a very substantial percentage (32%) of total commitments.

It should be pointed out that the figures for Finland, Austria and Sweden are not significant since the first commitments were made only in 1995.

A comparison of Figures 12 and 13 reveals two interesting facts:

the five Member States with outstanding commitments exceeding 10% (Germany, Greece, Spain, France and Italy) account for almost 77% of all outstanding commitments;

three of these Member States (Germany, France and Italy) are not among the countries whose clearance of outstanding commitments has been satisfactory.

When these two factors are borne in mind, it may be concluded that any improvements in the clearance rate achieved by one or more of these States could have a considerable impact on the overall level of outstanding commitments.



### 3. Reliability of forecasts

For the last two years the forecasts of the implementation of the Structural Funds have proved unreliable. The estimates drawn up at the beginning of each year have not been borne out in practice. In the case of the commitment appropriations one consequence of this inadequate forecasting has been the high level of underutilization. In the case of the payment appropriations the consequences have been even more serious, for these appropriations form the basis for the payment of own resources by the Member States and if they are over-estimated this can have an adverse impact on the national treasury. On the other hand, if the payment appropriations are under-estimated, this may cause difficulties in that budgetary availabilities may then prove insufficient to meet applications for payment.

Depending on the type of appropriations involved, different reasons may be found for the unreliability of these forecasts.

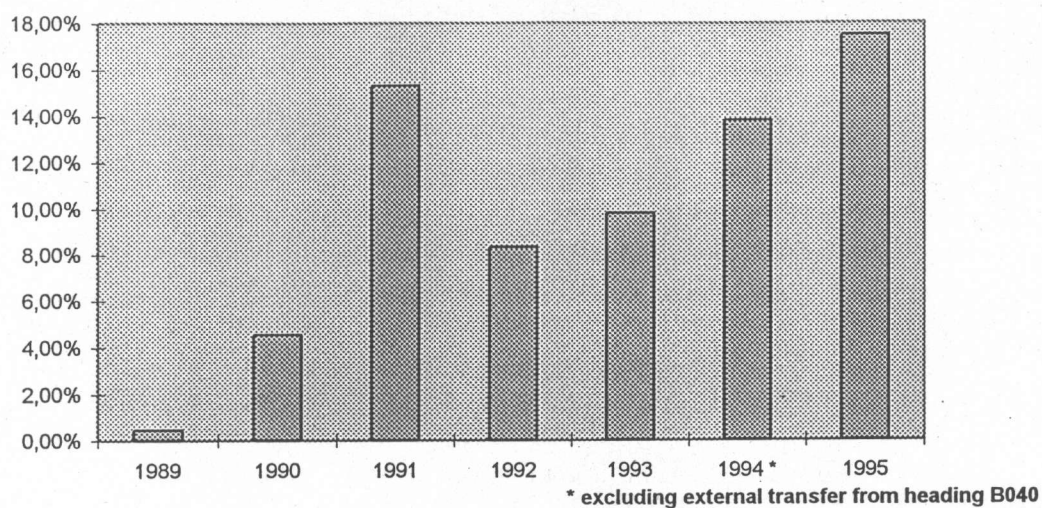
In the case of commitment appropriations, the forecasts are not solidly based on factual assessments of actual progress "on the ground". All too often the annual forecasts are no different from the multiannual programming which is itself based on budgetary data (compliance with the Edinburgh figures) rather than on any real planning. Thus, the programming exercise is in a sense "top-down" and takes insufficient account of how projects are in fact progressing in the Member States, although this would be the only reliable way of assessing the requirements for commitment appropriations in a given year.

In the case of payment appropriations, the programming is somewhat mechanical, being based on theoretical due dates for payments. The shortcomings of this method derive from the fact that, on the one hand, no account is taken of variations in the clearance of outstanding commitments and, on the other hand, the possible underutilization of commitment appropriations is not anticipated.

In 1994 and 1995 there were very substantial movements of appropriations within the budget, both by internal transfer and by external transfer. The total sums moved represented in absolute terms 13.8% of the original appropriations for 1994 and 17.5% of those for 1995. In all, over ECU 4 billion was moved in the course of these two budgetary years.

Figure 14

### Budgetary transfers as a % of original appropriations (1989-95)



The transfers made in 1994 are not necessarily attributable to a discrepancy between programming and implementation since most of these transfers, carried out under the Notenboom procedure in 1994, were intended to bring the budget back into line with the programmes embodied in the CSFs and SPDs. When the preliminary draft budget for 1994 was drawn up, precise programming data were not yet available as the CSFs and SPDs had not yet been adopted.

In 1995, although certain programming documents had still not been adopted when the budget was drawn up, the transfers of appropriations reflect the fact that the delay affecting certain objectives was offset by more rapid implementation of objective 1. The scale of these transfers raises the question of whether the financial programming contained in the CSFs and SPDs still serves any real purpose and whether it could be brought closer into line with actual implementation on the ground.



