Interreg Programme Management Handbook

Guide to the 2021-2027 period

The Interreg Programme Management Handbook comprises a series of factsheets. They can be read individually, or collectively, to understand the relevance of certain aspects of Interreg management. They cover the relevance, legal basis, key challenges and approaches to the given subject.

Factsheet | Financial flows

1. What is it? What is the definition of this work?

The allocation of EU funds is featured by the flow of funds between the European Commission (EC), programmes, and the projects (beneficiaries). Financial flows are crucial to secure the liquidity of Interreg programmes and projects, to ensure smooth implementation of activities and delivery of the expected results. Financial flows are dependent on a few interconnected factors, e.g., programme pre-financing (and clearance of pre-financing), projects' spending, payment applications to EC and EC reimbursement, retention and annual balance.

2. Why are we discussing it?

Some programmes are completely dependent on financing from EC and for them this is a significant topic. Other programmes have buffer financing from the hosting Member States and therefore have a good basis to reimburse projects.

There might be also an issue on project level, as each partner needs to have liquidity to be able to wait for the time between paying for project costs (such as staff, administrative, travel, external, equipment and possible investment) and getting reimbursed by the programme. Advance payments for projects would be an option to tackle this but it is currently only possible to programmes with IPA and NDICI funds with higher pre-financing from EC.

3. What are the Legal references and basis for this topic?

The Regulation (EU) 2021/1060 (CPR) — common provisions on the European Regional Development Fund is the most relevant for financial flows. Also, these regulations include a few important aspects:

- Regulation (EU) 2021/1059 (IR) — on specific provisions for the European territorial cooperation goal (Interreg)
- Regulation (EU) 2021/947 (NDICI) — establishing the Neighbourhood, Development and International Cooperation Instrument
- Regulation (EU) 2021/1060 (IPA III) — establishing the Instrument for Pre-Accession assistance

Especially the following articles are of importance:

Article 89, CPR – Types of payments
Article 93, CPR – Common rules for payments
Article 96, CPR – Interruption of payment deadline
Article 97, CPR – Suspension of payments
Article 100, CPR – Calculation of the balance

Article 51, IR – ERDF payments and pre-financing
Article 10.3., IPA III – Pre-financing for IPA III
Article 22.5., NDICI – Pre-financing for NDICI

Article 74.1(b), CPR – Payment to projects within 80 days
Article 46.6., IR – 3 months for national control

Article 2 (29), CPR – Definition of the accounting year
Article 91, CPR – Payment applications and no limitation to number of payment applications for Interreg
Article 98, CPR – Accounts
Article 99, CPR – Examination of accounts
Articles 101 &102, CPR – Procedures for examination of the accounts
Article 47, IR – Accounting function

4. What are the challenges, key considerations and frequently asked questions?

A key challenge to programmes without any buffers is to have enough liquidity to reimburse to projects timely and without delays. Additional challenge is to shorten the “waiting time” for project partners to get reimbursed.

5. How are they addressed?

Programmes that are fully dependent on the payments from EC tend to pay careful attention to financial flows and have measures in place to guarantee always having liquidity. One way is to submit frequent payment applications to EC. For Interreg Programmes the number of payment applications is not limited. Also, EC has put efforts in paying out quickly, a practice that was started in previous programming period. Programmes are also finding ways to reduce the time it takes to verify and pay out amounts requested in a project report.

6. How does it work in practice?

Many of features affecting financial flows that were introduced for 14-20 period remain the same or slightly modified for 21-27 period. These features are briefly summarised here. The financial flows of two fictive programmes are described in more detail in subsequent chapters.

Accounting year: There are no changes to the concept of accounting year. The accounting year starts on 1 July and finishes on 30 June the following year, except for the first accounting year, which is calculated from the start date of the eligibility period until 30 June 2022. For the final accounting year, it means the period from 1 July 2029 to 30 June 2030.

Pre-financing: For current period there is only one type of pre-financing (so no separation for initial and annual pre-financing). For the first two years (2021, 2022) the pre-financing is 1 % and for years 2023-2026 the pre-financing 3 % for ERDF. For IPA II, the level of pre-financing amounts to 50 % of the first three budgetary commitments to the programme. For NDICI the pre-financing rate may be up to 80 % of annual commitments to the programme, if requested by the Managing Authority.

The pre-financing is paid until 1 July of each year. For the first two years (2021, 2022) the pre-financing is cleared annually and for years 2023-2026 the pre-financing is cleared towards the end of the programme, at the latest at programme closure. This means that the pre-financing for years 2023-2026 actually remains in programme use cumulatively, unlike in previous period when annual pre-financing was offset.

Interim payments to programmes: Each **payment application** will be reimbursed at a rate of 95% of the amount requested. The retention is 5% compared to 10% in 14-20 period. The EC has 60 days to process the payment application. But as mentioned, EC makes as effort in paying out much sooner.

Payments of the Balance of the Accounts for the accounting year N: Calculated by the EC and paid or recovered before 1 July in year N+1.

Payments to projects: Projects should be reimbursed within 80 days (was 90 days in 14-20) from the submission of the project report. The precondition for the payment is that the programme has funds in the bank account, either from pre-financing or interim payments – or some form of buffer financing (but this obviously is not mentioned in the regulations). Additionally, project must have submitted all the necessary supporting documents, and there cannot be any evidence of irregularities requiring further investigation.

In case of serious deficiency for which corrective measures have not been taken, **EC can interrupt the payment deadline for interim payments and balance payments or suspend all or parts of those payments**. This would have a major impact on the ability of the programme to reimburse projects, so it is advisable to specify in the Grant Contract the precondition "availability of funds" for the payments to projects.

Financial flows in ERDF programme

The financial flows of a fictive ERDF programme can be illustrated like this.

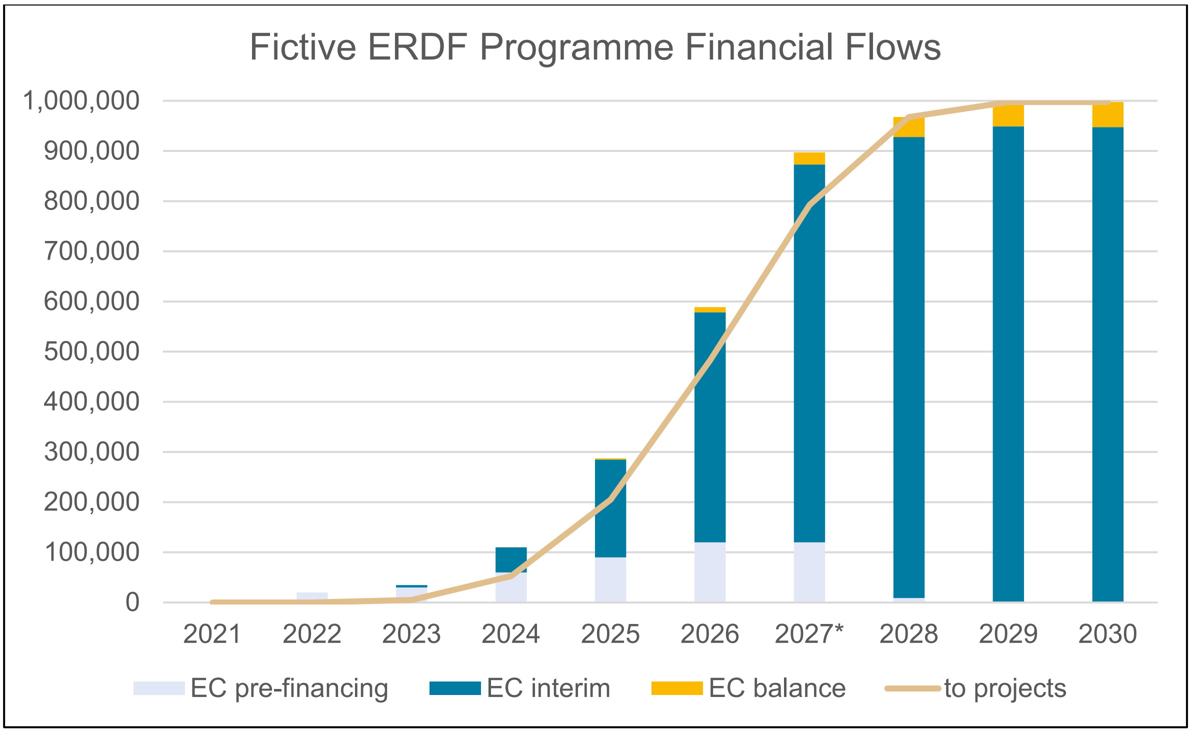

Figure 1 Cumulative financial flows of a fictive ERDF programme with no irregularities.

The payments from EC come in 3 different types: pre-financing, interim payments and annual balance payments and are illustrated with stacked columns as cumulative amounts per year. The cumulative payments to projects are illustrated by the line. The pre-financing for 2023-2026 amounts to 12 % of programme budget allocation, which contributes to stable liquidity of the programme. When the programme reaches the level of 88 % financing, EC starts clearing the pre-financing for 2023-2026. The cumulative payments form EC cannot exceed the maximum programme budget allocation. In the example above, the clearance of pre-financing for 2023-2026 starts in 2028. (The pre-financing for 2021 and 2022 has been cleared in 2023.)

So, the first flow of finances is pre-financing from EC to programme. The second flow is from programme to project, that is a much longer process and requires liquidity at the project partner level.

For project partner the timeline from paying the expenditure and getting reimbursed can be a lengthy process. There are programmes which offer fast-track lump sums for preparation costs which would arrive at project partner account much faster than the reimbursement for standard expenditure. The sums, however, are not significant in terms of financial liquidity for the partner.

In the example illustrated below the partner starts paying the project expenditure in March 2023 and has 6 moths reporting period. The programme has set a deadline for the partner to submit the partner report for national control is two weeks and national control can take up to 3 months. After national control of the partner report, the Lead Partner prepares the project report including the expenditure of all partners and submits it to the programme. So even if a single partner has a faster national control, the submission of the project report is affected by the time for national control of each partner. In the case one/some of the national controllers use(s) the maximum time, the Lead Partner can only submit the report on 31.1.2024. The programme then has 80 days to check the report and reimburse to Lead Partner (latest on 21.4.2024), who in turn is transferring the funding for the partners. If also this part would take the maximum time, the partner is reimbursed in the beginning of May 2024, more than a year later after first expenditures have been incurred.

Figure 2 Second flow of finances (project partner in ERDF Programme)

After the programme has paid to projects it can start applying for interim payments from EC, which is the third flow of finances. This flow is split into two as the EC pays out 95% of each payment application after approval of the application and applies retention to the remaining 5%. This 5% is paid out as an annual balance payment after approval of the accounts (of the accounting year of the payment application and if no financial corrections are necessary). If the programme includes the reimbursement to project made on 21.4.2024 into a payment application submitted in the beginning of May 2024, it can receive the interim payment even in May, but latest on 1.7.2024 and the 5% retention a year later, by 31.5.2025.

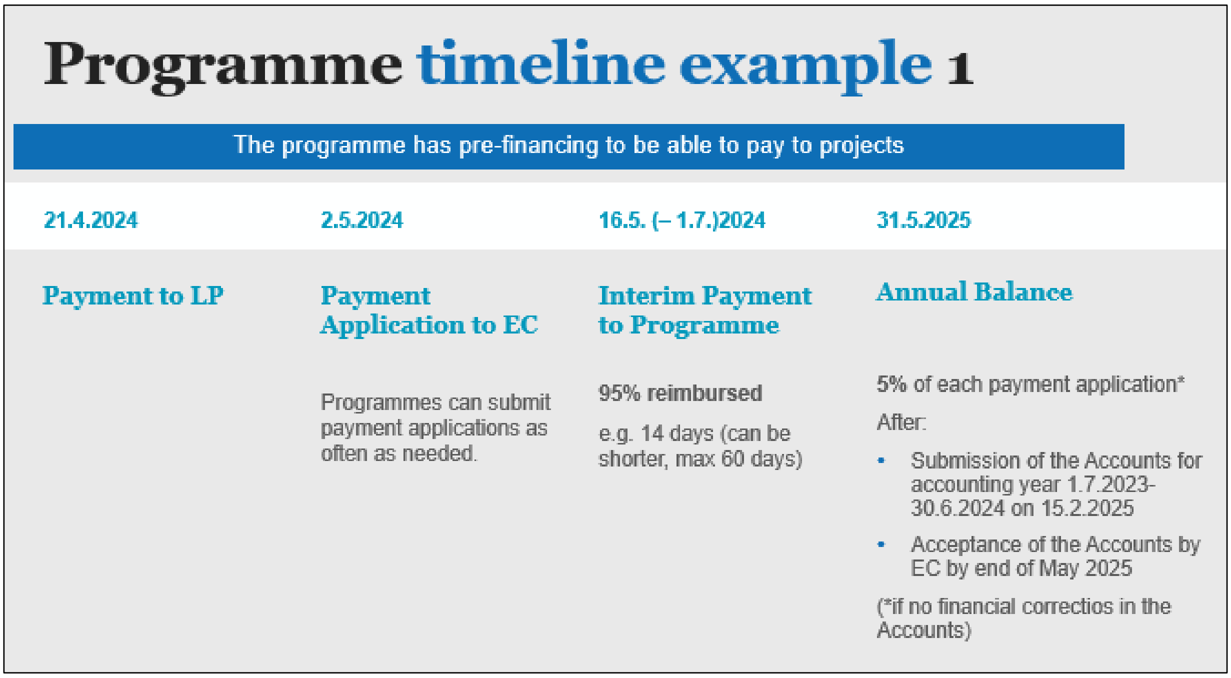

Figure 3 Second flow of finances (ERDF Programme)

Financial flows in Interreg funds programme

In case a programme is a multi-fund programme and has funds from ERDF, IPA and/or NDICI, jointly referred to as Interreg funds, there is much more pre-financing available for that programme. For this fictive programme the pre-financing includes all three funds with different pre-financing models. For IPA II, the pre-financing amounts to 50 % of the first three budgetary commitments to the programme. For NDICI the pre-financing rate may be up to 80 % of annual commitments to the programme. Finally, the first flow of finances (i.e. pre-financing) amounts to 42 % of the programme budget and contributes to substantial liquidity for the programme. This in turn enables advance payments to project partners to ease the liquidity constraints.

The fictive programme has decided to transfer 30% of total EU-contribution to project as soon as the grant contact is signed. This advance payment is cleared with each payment claim so that the programme reimburses 80% of the value of the report. So, the second flow of finances is split into two: advance payment and reimbursement.

Thus, the financial flows of a fictive Interreg fund Programme differ from the previous example and could look like this:

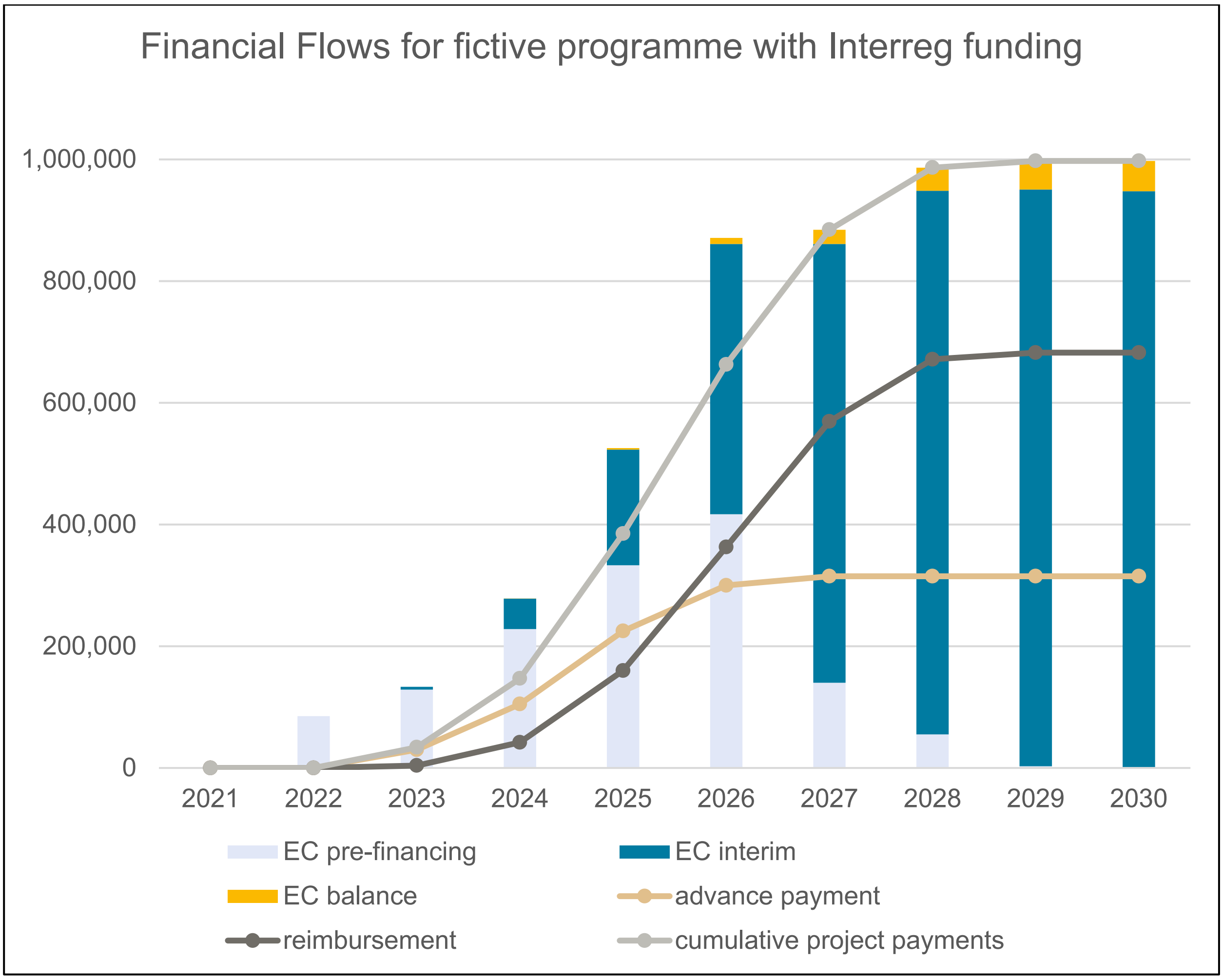

Figure 4 Cumulative financial flows of a fictive Interreg fund programme with no irregularities.

The payments from EC (pre-financing, interim payments and annual balance payments) are illustrated with stacked columns as cumulative amounts per year. The payments to projects are illustrated by the lines. There are three lines to differentiate the advance payments from reimbursements, and then there is one line for cumulative project payments.

When the programme reaches the level of 58 % financing, EC starts clearing the pre-financing. The cumulative payments form EC cannot exceed the maximum programme budget allocation. In the example above, the clearance of pre-financing starts in 2027. (The pre-financing for 2021 and 2022 has been cleared in 2023.)

For a project partner the situation is also different. The timeline from paying the expenditure and getting reimbursed can also here be a lengthy process, but the 30 % advance payment equips the partner with the needed liquidity to pay project expenditure. The process to reimbursement of eligible expenditure is similar as in the previous example except for the amount to be reimbursed. In this case, the report is reimbursed to 80 % of the value of the report and 20% is used for clearing the advance payment. So, the partner has continuous cash flows from the programme.

In the example illustrated below the partner receives the advance payment in March 2023 and can start paying the project expenditure. When the same deadlines and situations of the previous example prevail, the Lead Partner can submit the report on 31.1.2024. The programme then has 80 days to check the report and reimburse to Lead Partner 80 % of the value of the report (latest on 21.4.2024). This means that the project partner would in May 2024 get an additional amount of money to pay for further project expenditure.

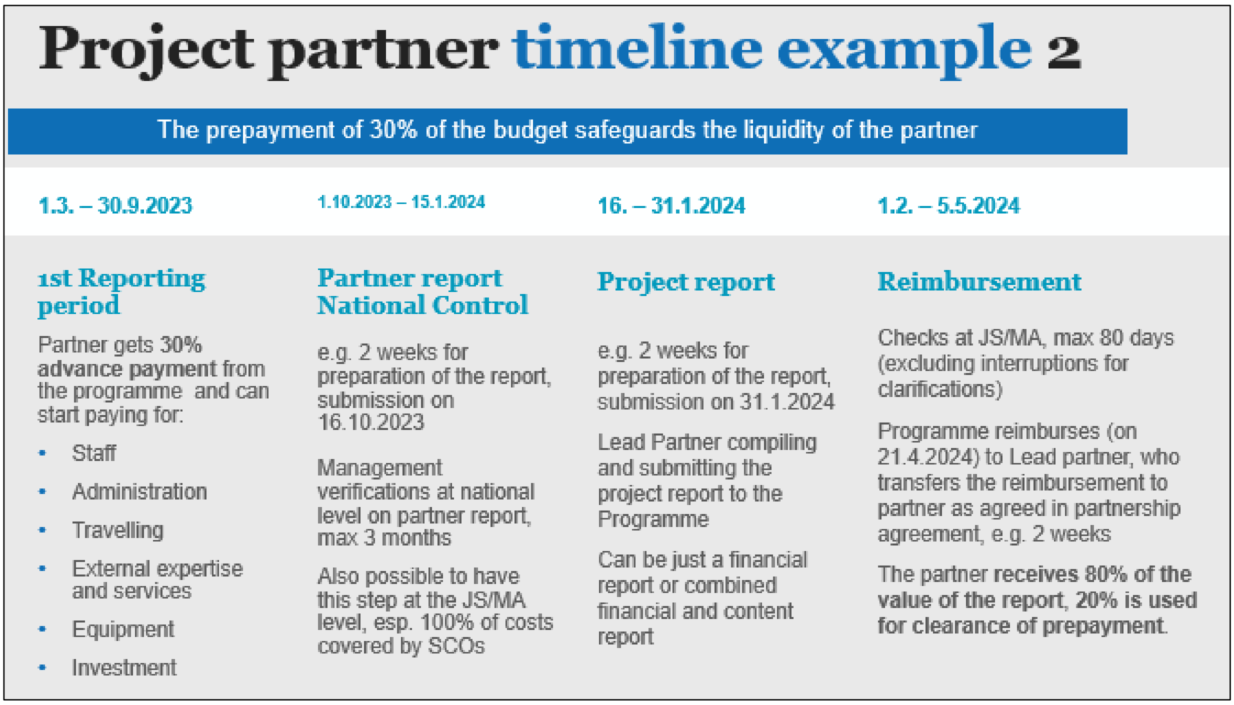

Figure 5 Second flow of finances (project partner in Interreg fund Programme)

The programme cannot include advance payments to projects into payment application to EC – therefore significant pre-financing (from Commission) is a precondition for advance payments. However, the programme can include 100% of the value of the report, i.e. the amount reimbursed plus the amount of cleared advance payment. For the payment application submitted in the beginning or May 2024, the programme can include the reimbursement made in 21.4.2024 and the amount of advance payment that was cleared in April 2024 and paid out in March 2023. Interim payment from EC will follow in May, but latest on 1.7.2024 and the 5% retention a year later, by 31.5.2025.

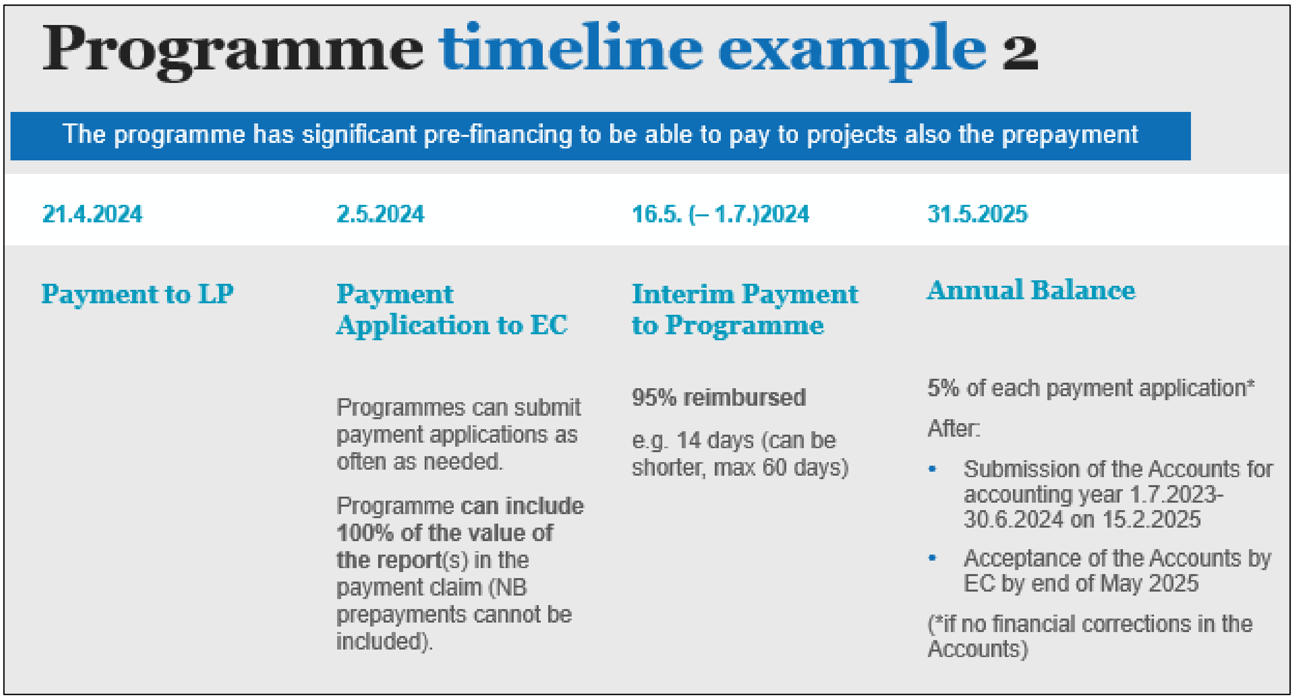

Figure 6 Second flow of finances (Interreg fund Programme)

7. Good practice examples, innovative approaches

Extensive use of simplified cost options (SCOs) is an effective way of shortening the time between end of reporting period and programme paying to the project. The early experiences of programmes indicate that each step from a partner preparing the report to verification at national and / or programme level takes half of the time compared to previous period.

Also **risk based management verifications** should contribute to shortening the time needed for national control. Some programmes are carrying our management verifications at JS level for SCOs.

Publisher | Interact programme
Date | 28.03.2025
Author | Sanna Erkko
Contributors | Przemyslaw Kniaziuk

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