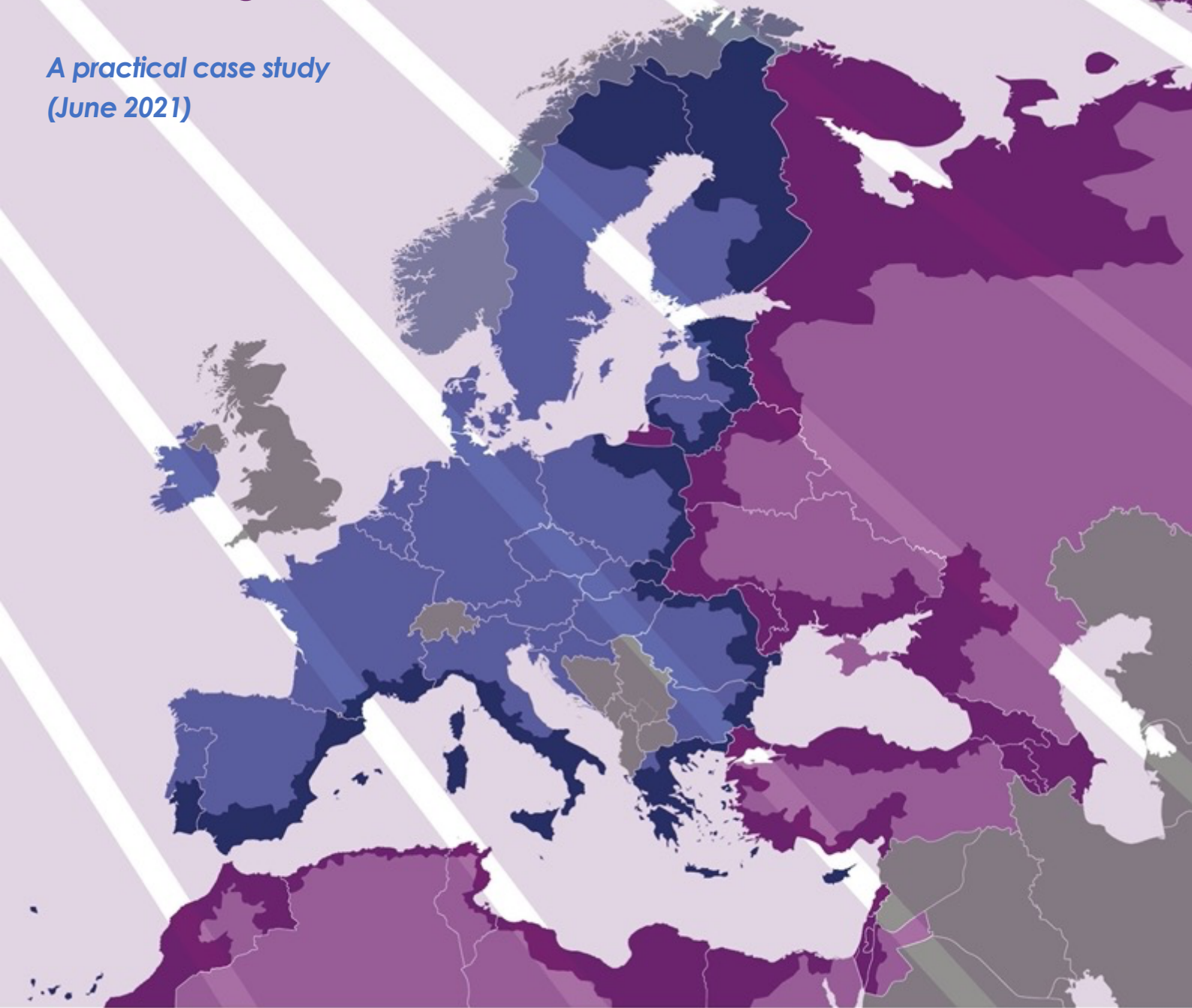


Financial planning of Interreg NEXT programmes:

*Estimating actual financing needs and
minimising decommitment risk*

*A practical case study
(June 2021)*



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Technical Support to the Imple-
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CBC programmes, implemented
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particip



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1. Introduction

Well-prepared financial plans are a pre-condition to the successful financial implementation of programmes and projects. **Financial plans have to be grounded in the implementation realities** in order to forecast realistic yearly commitments and minimise possible decommitment risks.

The financing of the ENI CBC programmes is based on Article 60 of the ENI CBC Implementing Rules, according to which, each financial year, the Managing Authorities request the transfer of prefinancing from the Union contribution. In the absolute majority of cases, prefinancing payments have been made at the maximum level (i.e., 80% of the EU contribution of the year in question), as there was no explicit requirement to tie the prefinancing payment request with precise financial needs.

However, **the financial planning of Interreg NEXT programmes will have two important twists**. According to article 51.4 of the Interreg Regulation 2021-2027, pre-financing should be estimated taking into account the actual financial needs. In addition, the programmes are moving from the N+5 to the N+3 decommitment rule. With these twists in mind, our estimations reveal that **the cases of slow financial implementation of ENI CBC programmes can translate in a decommitment risk for Interreg NEXT**.

Properly identifying these needs and avoiding an eventual decommitment risk if the implementation of the financial plans significantly differs from the estimations, imply that simply **following the ENI CBC approach might not be sufficient anymore**. A key question arises then:

How to be more precise in estimating the actual financial needs of an individual programme?

In order to answer this question, the experiences of ENI CBC programmes are a crucial piece of knowledge! TESIM has analysed the financial plans, commitments and payments of all programmes and, on the basis of these experiences, we have created a **case study** to support the preparation of the financial plan of an Interreg NEXT programme.

You will be able to adapt this case study to your own reality using a **financial planning tool** (Annex 1), which simulates the potential scenarios of your programme. We do hope that these materials will be of support and inspiration when planning the payment architecture of your future programme!

2. General considerations

In financial terms, the starting point of each programme is the multiannual financial plan and its division in annual commitments. But, **how well do our plans reflect reality?** There is no clear-cut answer to this, but - to a large extent - we can already assess how realistic the financial plans of ENI CBC programmes have proved to be.

Let's use the example from one of the programmes with a steady implementation tempo and compare how the payments¹ planned match the payment amounts actually reported until the end of 2020:

Year	Indicative payments PLANNED in the JOP	Payments ACTUALLY REPORTED in the annual report	Difference
2015	0	0	0
2016	0	0	0
2017	6 MEur	0	-6 MEur
2018	11 MEur	0	-11 MEur
2019	10 MEur	4 MEur	-6 MEur
2020	5 MEur	14 MEur	+ 9 MEur
Cumulative difference	32 MEUR	18 MEUR	-14 MEur

As can be seen, the significant difference between estimations and reality, even for well-performing programmes, is an evidence that **we can improve the accuracy of financial planning in Interreg NEXT.**

It is important to highlight that the difference between plans and reality is also due to various external factors beyond the influence of the programmes as, for example, delays related to the signature of the Financing Agreements. While not underestimating the importance of these factors, there are many decisions made by the programmes that have a direct impact on the financial flows, and these will be analysed in detail in the next section.

¹ Payments to the projects and the technical assistance.

3. Internal factors impacting financial planning

The budget is the starting point of the programme's financing. We have named our Interreg NEXT case study 'South-Eastern-Northern Programme' and have identified for it a total budget of 60 million Eur.

Name	Total budget	Programme approved
South-Eastern-Northern programme	60 million Eur	December 2021 ²

And now we can formulate the question that we would like to try to answer:

“How to assess whether the financial plan, including the annual commitments, is realistic and does not include significant decommitment risks?”

Together we will try to find an answer to this question. You can adapt the contents of the case study and **simulate your programme's financial plan and annual commitments using Annex I**

For the purposes of our case study, **the following decisions of the programme have proven to impact the financial flows:**

Timeline of project selection	
Budget allocation to each call	
Payments to projects - time and amount	
Technical assistance	

3.1. *Timeline of project selection*

The annual financial needs are largely defined by the payment needs at project level. That is why **it is important to understand how the timing of the project selection, assessment and contracting impact the timeline of actual disbursements of the programme funds to the projects.**

² The factors described below apply in the same way whether the programme is approved on September 2021 or later. September 2021 is used only for illustration purposes!

When it comes to the number of calls, 11 out of 15 ENI CBC programmes³ have organised either two or three calls of proposals during their lifetime. For our case study we will use the three-calls scenario, with the first one in March 2022, soon after the approval of the programme. This implies that the preparation and approval have proceeded smoothly and the preparation for the project selection is carried out in parallel.

In the table below you find the timeline of the first call for proposals of our case study, which is very similar to the one often used in ENI CBC:

	Key steps	Duration	Date
Launch of call	Launch of the call	3 months	May-2022
	End of the call		Jul-2022
	Approval of the project by the JMC	8 months ⁴	Mar-2023
	Grant contracts signed (average for call)	3 months	Jun-2023
	Advance payments to the projects ⁵	1 month	Jul-2023
1 st period	End of 1st reporting period	9 months ⁶	Mar-2024
	Project progress reports received	3 months	Jun-2023
	Checks / 1st interim payments to the projects	3 months	Sep-2024
2 nd period	End of 2nd reporting period	9 months	Dec-2024
	Project progress reports received	3 months	Mar-2025
	Checks / 2nd interim payments to the projects	3 months	Jun-2025
Final period	End of final reporting period	9 months	Sep-2025
	Project progress reports received	3 months	Dec-2025
	Checks / final payments to the projects	3 months	Mar-2026

³ Estonia-Russia, Latvia-Russia, Latvia-Lithuania-Belarus, Lithuania-Russia, Poland-Belarus-Ukraine, Hungary-Slovakia-Romania-Ukraine, Romania-Rep of Moldova, Romania-Ukraine, Black Sea Basin, Mediterranean Sea Basin and Italy-Tunisia.

⁴ After 48 closed calls, the time between the closure of the call and the approval by the JMC is of 10 months in average. However, there are several outliers, hence 8 months is the average used in the model. In general, it is recommended to set a reasonable timetable for the project assessment, avoiding overly long procedures.

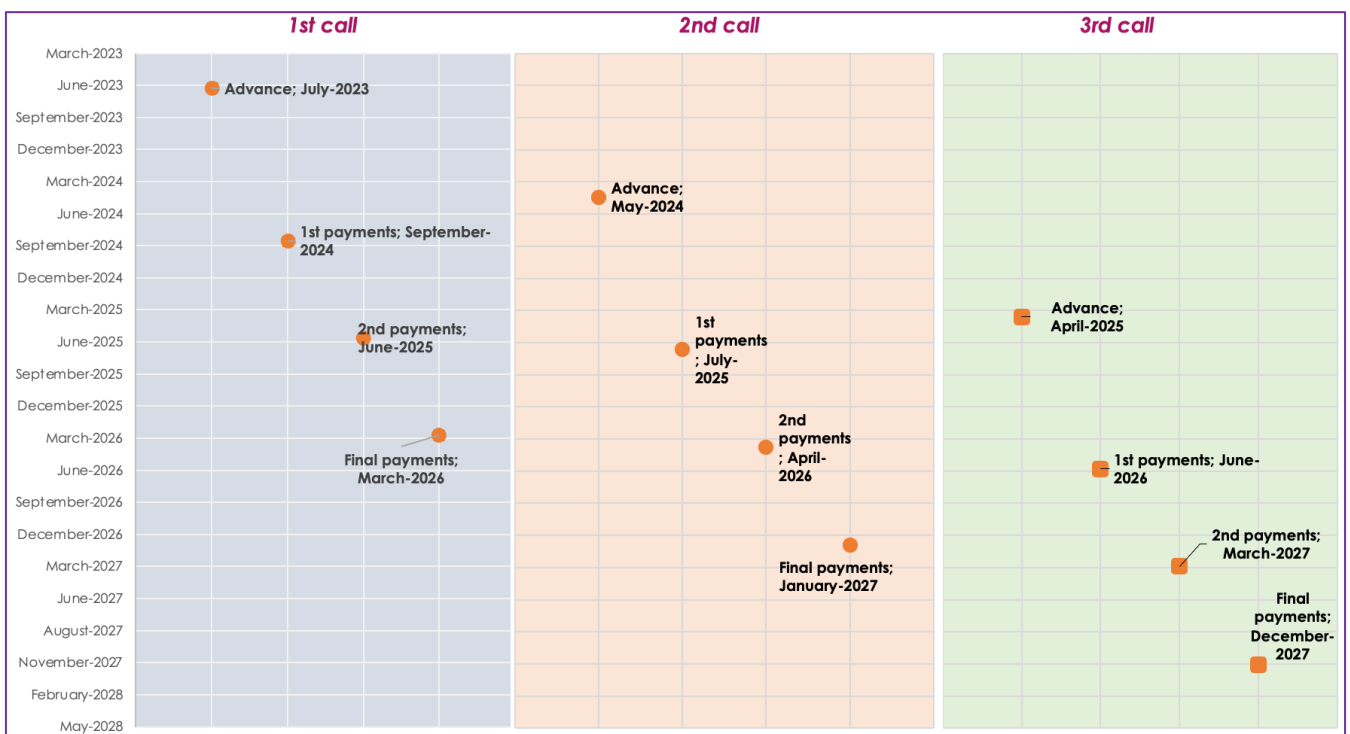
⁵ In case pre-financing will not be applied, the first disbursement will take place after approval of the first payment request. It is possible to change this parameter in the financial simulation tool.

⁶ Please note that with shorter reporting periods (for example, 9 months instead of 12, 6 months instead of 9) it is easier to demonstrate to the stakeholders the overall financial progress of the programme (expenditure reported). This something to consider when deciding on the reporting system (balance between the needs of the beneficiaries and the programme).

When it comes to planning subsequent calls, the ENI CBC programmes have followed different practices and there is hardly an average scenario⁷. In our case study the calls are launched on an annual basis, as follows:

- 1st call – May 2022;
- 2nd call – March 2023;
- 3rd call – January 2024.

Depending on the reporting system and project length, there can be a varied number of payments to the projects during their implementation. On average, there are three to four payments to a project in its lifetime. In the above-mentioned scenario, applied for each of three calls, we can expect that **the indicative payments to the projects** will be made approximately around these points in time:



3.2. Budget allocation to each call

Understanding the timeline of the payments to the projects is only one part of the equation. **It is equally important is to estimate which could be the indicative amounts transferred to the projects.**

⁷ The average time between calls in the ENI CBC programmes with two calls or more varies between 7 to 21 months. You can model the scenario of your programme in Annex 1.

Of course, any estimation can be precise only to some extent; however, it is important for the quality of the planning that we build on the data already available to use. For the purpose of the case study, the programme budget is divided as follows:⁸

Programme budget (Eur)	60 000 000
EU financing	54 000 000
EU financing for technical assistance	4 909 091 ⁹
EU financing for projects	49 090 909
Other sources	6 000 000
Other financing for technical assistance	0
Other financing for projects	6 000 000

As to the budget allocations for each call, the practice varies from programme to programme and, also here, there is not really 'an average scenario'¹⁰. Therefore, in the case study we have used the following strategy¹¹ concerning the timing and funds allocated for the calls:

Parameters for calls for proposals	% of programme budget allocated	Total amount (Eur)	EU share (Eur)	Launch of the call
1st call	40%	22 036 364	19 636 364	May-2022
2nd call	40%	22 036 364	19 636 364	Mar-2023
3rd call	20%	11 018 182	9 818 182	Jan-2024
	TOTAL	55 090 909	49 090 909	

3.3. Payments to projects - time and amount

As a next step, we have to see how the payments are distributed at project level (i.e., how much funds to the project are on average paid with the pre-financing payments, interim payments and final payments). To this end, **the payment statistics of ENI CBC projects are a good starting point for the estimation.**

⁸ In the example we have described the situation where technical assistance is financed only through EU funds.

⁹ The maximum amount available for the technical assistance is based on the assumption that the total EU allocation 'contains' a 10% flat rate for this type of expenditure.

¹⁰ Two approaches can be distinguished between all ENI CBC programmes for allocating the funds between calls: (1) **proportional distribution of funds** (three Finnish programmes, Latvia-Lithuania-Belarus, Lithuania-Russia, Hungary-Slovakia-Romania-Ukraine, three programmes managed by Romania, Mediterranean Sea Basin and Italy-Tunisia) and (2) **frontloading the allocation in the 1st call** and allocating savings in subsequent ones (Estonia-Russia, Latvia-Russia, Poland-Russia, Poland-Belarus-Ukraine).

In order to do so, we have analysed the payment systems in all ENI CBC programmes to identify a 'mainstream approach' (to be used for the case study), as well as to identify approaches that are unique to one or just a few programmes. You can get familiar with all of them in the TESIM document "[Payments to projects in ENI CBC programmes](#)", where a detailed analysis of the payment systems is provided.

3.3.1. Approach to pre-financing payments

30 days

The typical solution is pre-financing payments within 30 calendar days from the moment the Managing Authority (MA) receives the signed grant contract (GC). This applies in the case of 10 programmes.

40% of the total grant

The two most popular solutions are to calculate the payment as 30 to 40% payment from the total grant

or

80% of the first year

up to 80% from the grant amount planned in the first year of the project.

It must be highlighted that there is quite some diversity in the programmes in terms of calculating the amount of the payment. In fact, there are many nuanced differences in this respect, and up to four calculation methods can be found within one single programme.

3.3.2. Approach to interim payments

**30 days...
...and more**

In nine programmes, the deadlines for executing interim payments are of the same length as those used for pre-financing. The moment that the corresponding number of days starts counting for most programmes (12) is when the interim report (or progress report) is approved.

3 approaches

Overall, there are three types of interim payment systems to calculate the amount for interim payment:

1. As a percentage (15% - 50%) of the total ENI grant (8 programmes);
2. All (100%) eligible costs incurred for the reporting period (6 programmes);
3. A proportion (80%) of the estimated cost for the next period of 6 or 12 months (3 programmes).

3.3.3. Approach to final payments

**30 days...
...and more**

For all programmes, the approach to the timing of the payments of the final balance is exactly the same as for the interim payments, ranging from 30 day, 45 days, 60 days or 90 days as the payment deadline.

One principle

All programmes take the remaining, not yet financed eligible expenditure, as the basis for calculation.

3.3.4. Estimation of payment amounts

This is the key step in the model!

In order to make the estimations realistic, it is highly advised to take a look at the payment statistics¹² of your ENI CBC programme to **see the percentage of project budgets paid out with the first, second and further payments.**

In the case study, we have used the following proportions as funds paid to the projects in each instalment:

% of project funds paid as	
Pre-financing amount	40%
1st report payments	20%
2nd report payments	20%
Final payments	20%

¹² You already have the information in your monitoring systems, so this calculation should not take too much time!

When extrapolating these proportions to the scenario in our programme, the following proportion of funds would be paid to the projects at approximately the following points in time:

1 st call	Timing	% of project budgets	Total amount paid	EU share (Eur)
Advance payment	July-2023	40%	8 814 545	7 854 545
1st interim payment	September-2024	20%	4 407 273	3 927 273
2nd interim payment	June-2025	20%	4 407 273	3 927 273
Final payment	March-2026	20%	4 407 273	3 927 273
TOTAL		100%	22,04 MEur	19,64 MEur

2 nd call	Timing	% of project budgets	Total amount paid	EU share (Eur)
Advance payment	May-2024	40%	8 814 545	7 854 545
1st interim payment	July-2025	20%	4 407 273	3 927 273
2nd interim payment	April-2026	20%	4 407 273	3 927 273
Final payment	January-2027	20%	4 407 273	3 927 273
TOTAL		100%	22,04 MEur	19,64 MEur

3 rd call	Timing	% of project budgets	Total amount paid	EU share (Eur)
Advance payment	April-2025	40%	4 407 273	3 927 273
1st interim payment	June-2026	20%	2 203 636	1 963 636
2nd interim payment	March-2027	20%	2 203 636	1 963 636
Final payment	December-2027	20%	2 203 636	1 963 636
TOTAL		100%	11,02 MEur	9,82 MEur

3.4. Technical assistance

When it comes to the technical assistance needs, we have used the following estimation:

Expected technical assistance needs per year				
Year	Annual		Cumulative	
	Total amount (Eur)	EU share (Eur)	Total amount (Eur)	EU Share (Eur)
2021	409 091	409 091	409 091	409 091
2022	818 182	818 182	818 182	818 182
2023	818 182	818 182	818 182	818 182
2024	818 182	818 182	818 182	818 182
2025	818 182	818 182	818 182	818 182
2026	818 182	818 182	818 182	818 182
2027	409 091	409 091	409 091	409 091
TOTAL	4 909 091	4 909 091		

Please note that in this table we estimate the technical assistance needs as part of the internal planning, NOT the actual reimbursement, that will take the form of a flat rate!

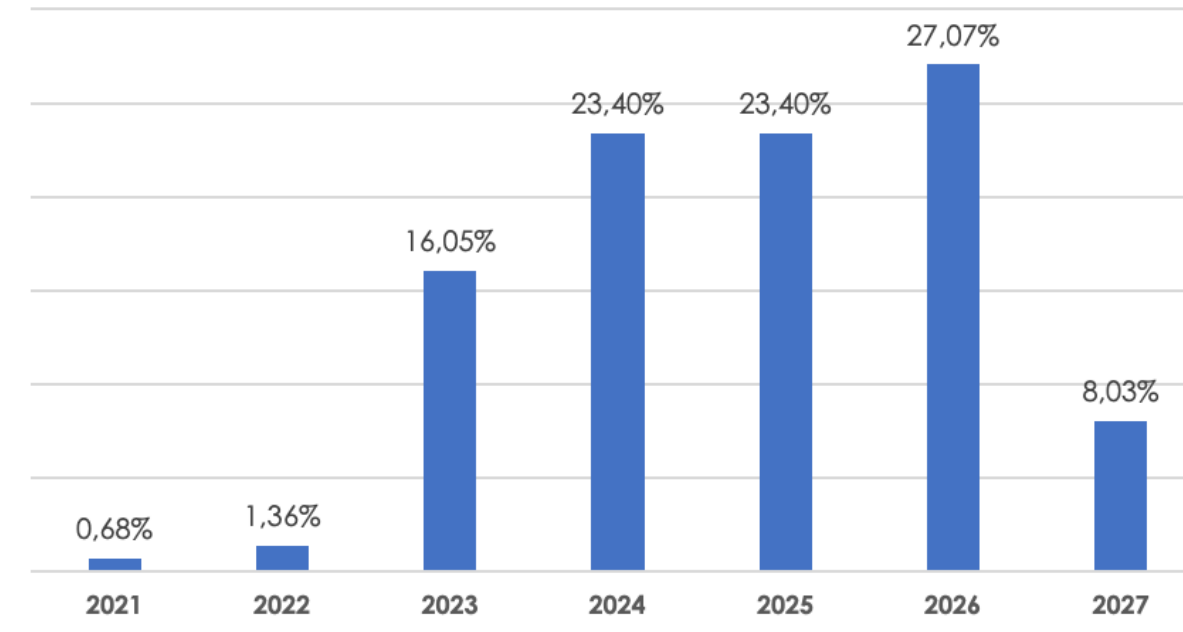
3.5. Financing flows at project level

Let's summarise! We have simulated a case for a fictitious Interreg NEXT programme with the following assumptions:

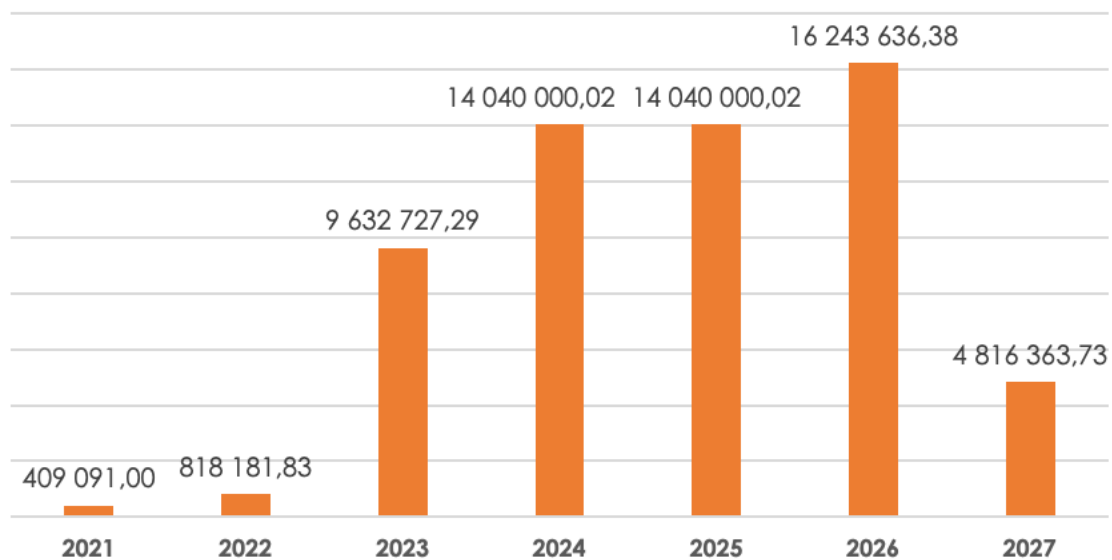
- 60 million EUR total budget;
- Three calls for proposals planned during its lifetime;
- We have used the average timing and duration for the calls and contracting phase from the ENI CBC programmes who organised two calls or more;
- We have followed the payment system most often applied by the ENI CBC programmes;
- We have estimated technical assistance needs.

With all conditions in place, we can estimate that the annual financial needs of the case study programme, including both projects and technical assistance, are as follows:

A) in terms of percentage of the programme budget:



B) In terms of amounts:



C) In terms of cumulative payment needs of the programme (the projects and the technical assistance):

	Amount (Eur)	% of Total budget	EU share (Eur)
2021	409 091	0,68%	409 091
2022	1 227 273	2,05%	1 227 273
2023	10 860 000	18,10%	9 900 000
2024	24 900 000	41,50%	22 500 000
2025	38 940 000	64,90%	35 100 000
2026	55 183 637	91,97%	49 663 637
2027	60 000 000	100,00%	54 000 000

We have arrived!

By using our common experience,
**you can estimate the financial flows of your programme
 with increased accuracy.**

Undoubtedly, there will be many nuances that will change the realities on the ground, and some of the assumptions might not hold fully. At the same time, we can strive to make our financial planning as realistic as possible.

3.6. Consequences for decommitment

Interreg NEXT programmes cannot automatically count on the two mitigating factors for diminishing decommitment risk that exist in 2014-2020, namely:

- receiving 80% of the annual pre-financing payments from the European Commission in all cases (i.e., receiving by default the maximum amount possible);
- the N+5 rule.

To understand the decommitment risks in Interreg NEXT, **we tested three scenarios** on the basis of the actual financial performance¹³ of the ENI CBC programmes:

- ENI CBC - N+5 and 80% of pre-financing payments;
- Adjusted ENI CBC - N+3 and 80% of pre-financing payments;
- Interreg NEXT - N+3 and actual payment needs of ENI CBC programmes against the annual commitments.

And these are the conclusions...

A) Scenario 1 - ENI CBC:

Following the N+5 rule as in ENI CBC, the first year when the commitment target has to be reached is 2020 - meaning all payments made by the EC from the beginning of the programme implementation until the end of 2020 would contribute to the first commitment target (and following payments against subsequent targets).

Conclusion no.1: The ENI CBC programmes with N+5 decommitment rule and 80% pre-financing payments face virtually no decommitment risk¹.

B) Adjusted ENI CBC

The second scenario involved testing whether there is a decommitment risk in the ENI CBC programmes in case the N+3¹⁴ rule is applied (with 80% pre-financing payments kept).

¹³ On the basis of financial information available in the annual implementation reports.

¹⁴ With the N+3 rule, the first year when the decommitment target has to be reached is 2018, meaning that all payments done by the EC from the beginning of the programme implementation until the end of 2018 would count against the decommitment (and so forth for following years).

Conclusion no. 2: In case of N+3 rule and 80% pre-financing payments, with their ENI CBC performance some of the NEXT programmes (with significant delays in implementation) might face some decommitment risk.

C) Interreg NEXT:

The stricter budgetary requirements for Interreg NEXT imply, for example, that the calculation of pre-financing requests will be closely related to the status of implementation of each programme. Put quite simply, and by means of example, if the programme is delayed in launching the calls there may not be enough justification to request in full the 80% pre-financing of an annual commitment.

Therefore, we tested a scenario on the basis of actual performance¹⁵ of the ENI CBC programmes, where the amounts paid by the EC would be based on the actual financing needs, notably for what concerns the payments to the projects.

Conclusion no. 3: With the current financial performance, but applying NEXT requirements (N+3 and payments by the EC based in the actual financial needs), implementation delays similar to those of ENI CBC, where significant, will certainly lead to a decommitment risk and must be therefore avoided!

This is why it is important to carefully plan the **implementation of the programme** in a way that takes into account (and adjusts accordingly, where needed!) **the tempo of financial absorption in relation to the annual commitments**. Using the simulation model described in this case study can help you in this respect.

¹⁵ As reported in the annual implementation reports.

4. Next steps

We hope that the case study will give you the inspiration for the important, but sometimes tedious task, that is the financial planning.

Simulating different scenarios depending on the programme implementation timeline, the financial commitments and the arrangements of the reporting and payments to projects will allow for more precise estimation of financial needs.

The **tool annexed to this document** will provide you with the following outputs to support the decision making:

- visualisation of the programme's implementation timeline;
- simulation of annual financial commitments;
- the timeline of expected payments to the projects over the programme lifetime;
- estimations of annual and cumulative financial commitments (per call / per year).

You can use any of the outputs separately. For example, the visualisation of the programme's implementation timeline is useful to discuss with your stakeholders the arrangements for the calls and the implementation of projects. For what concerns the financial estimations, you can use them in the discussions with your stakeholders to demonstrate how the implementation arrangements affect the annual financial needs and simulate different scenarios, depending on the size and timing of the payments to the projects. You can also use the estimations to benchmark whether the financial plan that you have in mind possesses or not any implicit decommitment risk. Or use them any other way that you find useful!

THE TIME IS NOW!

The third quarter of 2021 is a very good time to review the financial performance of your ENI CBC programmes with a view to the future! It will allow to identify the good elements to be kept, avoid the bottlenecks and seek the improvements that will impact positively not only the programme, but also the beneficiaries!