



EUROPEAN COMMISSION



EUROSTAT

Directorate C: National and European Accounts

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Ms Irena Tvarijonavičiūtė,
Head of National Accounts Division
Statistics Lithuania
Gedimino ave. 29,
LT – 01500 Vilnius

Subject: Accounting treatment of EEA and Norwegian financial support

Dear Ms Tvarijonavičiūtė,

In reply to your request for advice on the statistical recording of a financial support from the European Economic Agreement (EEA) countries as well as of an associated Norwegian financial support, I am in a position to inform you of Eurostat's preliminary observations.

The accounting issue

The issue for which an opinion is being sought concerns the correct accounting treatment of the support received by Lithuania from the EEA Financial Mechanism and from the Norwegian Financial Mechanism. Eurostat's opinion is being sought on whether the Eurostat Decision on *The treatment of transfers from EU budget to the Member States*, dated 15 February 2005, should apply also for the financial support provided via these Financial Mechanisms, or, whether, the financial support should be treated as voluntary transfers under *Current international cooperation* (D.74).

Documentation provided

A note from Statistics Lithuania proposing two recording alternatives (e-mail dated 15 January 2008).

Description of the case

The *European Economic Area (EEA) enlargement agreement* established the so-called EEA Financial Mechanism and the Norwegian Financial Mechanism, with the aim to contribute to the reduction of economic and social disparities in the EEA. In the period 2004-2009, the EU10 Member states as well as Portugal, Greece and Spain are entitled to 600 million EUR through the EEA financial support. In addition for the EU10, around 567 million EUR are foreseen through the Norwegian Financial Mechanism. Lithuania is entitled to 27 million and 40 million EUR through the EEA Financial Mechanism and the Norwegian Financial Mechanism, respectively. Although these financial mechanisms cover a period starting from 2004, the first financial flows were observed in Lithuania in 2007.

Methodological analysis and clarification by Eurostat

Applicable accounting rules

Relevant ESA1995 paragraphs are 4.122 (c), (d) and 4.123.

See also Eurostat's decision "*The treatment of transfers from EU budget to the Member States*", dated 15 February 2005.

Analysis

Treatment of transfers in the framework of EEA Financial Mechanism

It is our understanding, that under EEA Financial Mechanism rules, the beneficiaries could be government units as well as non-government units. As a general principle, assistance is given in the form of reimbursements of already incurred costs, but advance payments are possible in special circumstances.

The Financial Mechanism Office (FMO), based in Brussels, serves as administrative contact point for the processing of projects' proposals and claims. The FMO forwards a "reasoned recommendation" on proposed projects to assist the decision of the EEA Financial Mechanism Committee. Generally, disbursements are made by the FMO (or its disbursement agent) to the beneficiary country's government, which then makes payments to project promoters. Thus, the EEA financial support's flows generally transit via state's accounts. In some cases, the beneficiary country's government may compensate incurred costs of project promoters before receiving EEA grants.

Based on the information from Statistics Lithuania, Eurostat understands that the procedures in place for launching open calls for projects and the procedures for evaluation, selection, monitoring and verification of eligibility of expenses are quite similar to those designed for the EU grants, often involving the same institutions responsible.

In addition, it seems that the main objectives of the support given through the EEA Financial Mechanism are to a large extent similar to those of the EU Cohesion policy. Moreover, the European Commission is involved in the project evaluation process, by assessing their compatibility with Community objectives.

Having considered all the similarities between EU structural funds and the EEA Financial Mechanism, it would appear appropriate that the rules applied for the recording of EU transfers are to be applicable also to flows channelled through the EEA Financial Mechanism.

In case the final beneficiary is a non-government unit, the government shall be considered as acting "on behalf" of EEA countries. Therefore, there must be no entries under revenues and expenditures of government, and consequently no impact on government deficit/surplus. Any entries (i.e., payments received or made) would enter the financial accounts of general government. Any advance payment from government to project promoters is to be recorded as financial advance (a claim on the EEA), which is liquidated at the time of the reimbursement by the EEA.

In case the final beneficiary of a transfer is a government unit, the government revenue is recorded at the time the expenditure is incurred, which in practice would often be the moment, or close to the moment, in which the claim for reimbursement is sent.

Treatment of transfers within the framework of the Norwegian Financial Mechanism

It is our understanding that the procedures and basic institutional framework for the Norwegian Financial Mechanism are very similar in practice to the ones of the EEA. One difference is that the final decision on the acceptance of projects is not taken by the EEA Financial Mechanism Committee but by the Norwegian Ministry of Finance. Following ESA 1995 paragraph 4.123, defining the time of recording for Current international cooperation transfers: "*The time the regulations in force stipulate the transfers are to be made (obligatory transfers), or the time the transfers are made (voluntary transfers)*", one may wonder whether the Norwegian Financial Mechanism may be seen as involving voluntary transfers from Norwegian government to beneficiary countries.

However, the agreement signed, within the framework of the EEA enlargement agreement, between the Kingdom of Norway and the European Community (EC) defines the total amount of Norwegian financial contribution, describing yearly amounts to be paid as well as the distribution of funds (in percentage) by beneficiary states.

Moreover, given that the aforementioned agreement reads that the "*commitment undertaken by Norway is based on Norway's participation in the EEA*", the Norway Financial Mechanism may be seen as a partial compensation for the benefits Norway is drawing from its access to the internal market as well as cooperation in a range of EC activities.

Considering all of the above, the Norwegian Financial Mechanism could be assimilated with the EEA Financial Mechanism and with the EU structural funds, with the consequence that the accounting rules applied are to be similar.

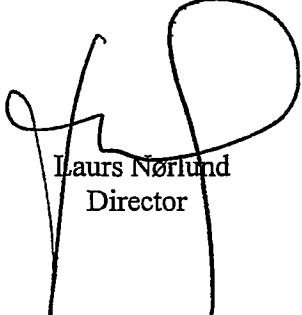
Conclusion

On the basis of the above considerations, it is Eurostat's view that the treatment in national accounts applied for EU transfers (revenue recognition and time of recording) are applicable also to flows provided through the EEA Financial Mechanism and the Norwegian Financial Mechanism.

Procedure

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with the amended Council Regulation 3605/93 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat is therefore publishing all official methodological advice (ex-ante and ex-post) given to Member States on the Eurostat website. In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than 15 April 2008.

Yours sincerely,



Laurus Nørlund
Director