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REPORT FROM THE COMMISSION
ANNUAL REPORT ON THE COHESION FUND (2007)

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Regulation (EC) No 1084/2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94 does not require the presentation of an annual report on the Cohesion Fund.

Therefore this report is presented in conformity with Article 14(1) of Regulation (EC) No 1164/1994 and thus covers the implementation during 2007 of Cohesion Fund projects adopted under the 2000-2006 period.

As a consequence, this report covers Cohesion Fund operations in the thirteen beneficiary Member States as of end-2006, i.e. Greece, Spain, Portugal, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

Details on the implementation in 2007 of projects adopted under the 2000-2006 period for each Member State are presented in the Annex to this report.

1. FINANCIAL EXECUTION OF THE 2000-2006 PERIOD IN 2007 AND CLOSURE OF PROJECTS

In 2007, fifteen Member States (the 12 new Member States plus Greece, Portugal and Spain) were eligible to receive assistance from the Cohesion Fund. Bulgaria and Romania became eligible at the time of their accession on 1 January 2007. However, as this report covers only the implementation during 2007 of Cohesion Fund projects adopted under the 2000-2006 period, Bulgaria and Romania are not included. Furthermore, as a result of economic growth, Ireland has not been eligible since 1 January 2004.

Given that all commitments for the Cohesion Fund projects financed under the 2000-2006 programming period had been executed by 31 December 2006, the financial resources available for the Cohesion Fund in 2007 consisted only of payment appropriations.

Payments made in 2007 for projects adopted under the 2000-2006 period

The 2007 initial budget amounted to €3,250 million. However in September, DG Regional Policy requested a € 500 million reduction of payment appropriations. Another €172 million has been transferred to the Solidarity Fund. This reduction in credits was the result of an overall weak initial performance on the part of Member States and in particular of four significant beneficiaries for whom the total value of payment claims was less than 30% of their forecast by mid-September 2007.

Towards the end of 2007, the submission pace of payment requests accelerated and finally resulted in a 100 % execution rate in respect of the available appropriations. At the end of December 2007, following late adoption of 2007-2013 operational

programmes with the Cohesion Fund contribution, unused payment appropriations amounting to €167 million had been executed for reimbursement of payment requests for 2000-2006 projects.

At the end of 2007, the average absorption rate (payments vs. commitments) of all current beneficiary countries (excluding Ireland) for both the Cohesion Fund and former ISPA projects was 55 %. Three countries (Bulgaria, Romania and Poland) show the lowest absorption rates (below 40%), whereas another two countries (Portugal and Spain) show the highest absorption rates of between 63 % and 68 % of the decided amount.

Table 1: Implementation of the Cohesion Fund and ex-ISPA payments in 2007 (Euro)

Payment Appropriations	Initial	Movements	Final Resources	Outturn	Cancelled	Carryovers 2008
2007 Budget	3.880.000.000	- 672.195.985 +166.755.099	3.374.559.114	3.326.965.802	-	-
Appropriations carried over from 2006	60.776	-	-	60.776	-	-
Appropriations made available again	-	-	-	-	-	-
Repayments	-	-	-	-	-	-
TOTAL	3.880.060.776	-505.440.886	3.374.559.114	3.327.026.578	-	-

Table 2 shows the level of payments in 2007 for each Member State. The figures for the new Member States refer only to payments for projects adopted under the Cohesion Fund as of 1 May 2004 (i.e. not taking into account the pre-accession aid for ISPA projects). The implementation of payments to the former ISPA projects adopted before accession is presented in Table 3.

Table 2: Payments made in 2007 to the Cohesion Fund projects per Member State (including technical assistance)

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	%	Amount	%	Amount	Amount	% of total CF payments
Cyprus	5.744.483,00	48,7%	6.039.770,69	51,3%		11.784.253,69	0,5%
Czech Republic	50.944.092,45	47,7%	55.805.709,38	52,2%	154.834,69	106.904.636,52	4,4%
Estonia	20.588.710,28	44,5%	25.648.095,12	55,5%	9.458,15	46.246.263,55	1,9%
Greece	142.007.398,85	41,5%	200.498.998,20	58,5%		342.506.397,05	14,0%
Hungary	52.417.244,67	42,8%	70.048.195,27	57,2%		122.465.439,94	5,0%

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	%	Amount	%	Amount	Amount	% of total CF payments
Latvia	46.795.684,41	49,4%	44.224.991,28	46,7%	3.764.782,97	94.785.458,66	3,9%
Lithuania	43.673.969,15	49,5%	44.208.895,26	50,1%	290.280,00	88.173.144,41	3,6%
Malta	4.166.034,67	43,0%	4.946.842,98	51,0%	582.856,73	9.695.734,38	0,4%
Poland	200.750.047,49	52,1%	184.249.405,16	47,8%	512.396,12	385.511.848,77	15,7%
Portugal	205.426.616,57	47,8%	223.909.764,01	52,2%		429.336.380,58	17,5%
Slovakia	24.185.556,67	48,7%	25.445.895,17	51,3%		49.631.451,84	2,0%
Slovenia	14.064.896,65	59,9%	9.408.923,42	40,1%		23.473.820,07	1,0%
Spain	535.761.824,69	72,1%	206.543.470,15	27,8%	339.638,00	742.644.932,84	30,3%
TOTAL	1.346.526.559,55	54,9%	1.100.978.956,09	44,9%	5.654.246,66	2.453.159.762,30	100,0%

Table 3: Payments made in 2007 to ex-ISPA projects per Member State (including technical assistance)

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	%	Amount	%	Amount	Amount	% of total CF payments
Bulgaria	56.284.491,71	65,9%	22.055.005,42	25,8%	7.109.024,52	85.448.521,65	9,0%
Czech Republic	21.174.558,40	83,3%	4.243.770,33	16,7%		25.418.328,73	2,7%
Estonia	8.834.835,16	78,4%		0,0%	2.427.010,09	11.261.845,25	1,2%
Hungary	41.309.873,87	48,6%	43.203.427,21	50,8%	475.121,25	84.988.422,33	9,0%
Latvia	21.172.848,89	51,4%	19.993.648,99	48,6%		41.166.497,88	4,4%
Lithuania	19.430.221,47	66,7%	9.164.901,62	31,4%	551.651,01	29.146.774,10	3,1%
Poland	208.493.213,57	59,1%	137.384.678,36	39,0%	6.775.893,50	352.653.785,43	37,3%
Romania	120.081.126,61	44,2%	124.352.547,81	45,8%	27.171.189,06	271.604.863,48	28,7%
Slovakia	24.878.004,65	63,5%	13.562.033,45	34,6%	749.475,43	39.189.513,53	4,1%
Slovenia	3.554.814,46	80,9%	841.530,00	19,1%		4.396.344,46	0,5%
TOTAL	525.213.988,79	55,6%	374.801.543,19	39,7%	45.259.364,86	945.274.896,84	100,0%

Outstanding commitments from the 2000-2006 period

At the end of 2007, the outstanding commitments (RAL) corresponding to the 2000-2006 period (including two new Member States: Bulgaria and Romania) amounted to €14,800,243,181.27 (€11,259,182,886.39 for the Cohesion Fund and €3,541,060,294.88 for ex-ISPA projects). The current regulatory framework for commitments and payments implies a relatively large stock of outstanding commitments. They are equal to the amount corresponding to approximately three years of commitments, which may be caused in part by the fact that the rule of automatic decommitment ("N+2" rule) does not apply to the Cohesion Fund for the 2000-2006 period.

Table 4.1: Cohesion Fund accepted amounts in 2000-2006 (including RAL)

Member State	Net Committed (until 12/2007)	Paid (until 12/2007)	RAL
Greece	3.623.591.038,72	2.255.055.185,63	1.368.535.853,09
Spain	12.935.250.808,79	9.198.976.311,34	3.736.274.497,45
Ireland	625.755.408,00	570.010.222,71	55.745.185,29
Portugal	3.505.110.859,45	2.239.884.294,52	1.265.226.564,93
TOTAL EU-4	20.689.708.114,96	14.263.926.014,20	6.425.782.100,76
Cyprus	54.014.695,00	22.844.221,33	31.170.473,67
Czech Republic	748.976.735,00	248.036.041,09	500.940.693,91
Estonia	242.449.651,00	86.011.929,46	156.437.721,54
Hungary	976.865.860,00	373.703.305,54	603.162.554,46
Latvia	388.206.109,00	181.497.966,25	206.708.142,75
Lithuania	521.392.688,00	188.680.965,59	332.711.722,41
Malta	21.966.289,00	12.287.371,40	9.678.917,60
Poland	3.369.015.816,00	768.422.849,76	2.600.592.966,24
Slovakia	410.520.447,00	128.052.263,94	282.468.183,06
Slovenia	172.654.702,00	63.125.292,01	109.529.409,99
TOTAL EU-10	6.906.062.992,00	2.072.662.206,37	4.833.400.785,63
TOTAL	27.595.771.106,96	16.336.588.220,57	11.259.182.886,39

Table 4.2: Accepted amounts for ex-ISPA projects (including RAL)

Member State	Net Committed (until 12/2007)	Paid (until 12/2007)	RAL
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Member State	Net Committed (until 12/2007)	Paid (until 12/2007)	RAL
Bulgaria	879.908.118,00	296.570.622,32	583.337.495,68
Czech Republic	479.117.989,65	376.462.763,84	102.655.225,81
Estonia	184.709.389,40	132.834.958,14	51.874.431,26
Hungary	505.736.480,16	326.977.250,88	178.759.229,28
Latvia	325.781.346,52	217.958.178,74	107.823.167,78
Lithuania	304.015.168,61	187.355.758,57	116.659.410,04
Poland	2.265.523.798,03	1.318.714.851,29	946.808.946,74
Romania	2.042.727.117,78	720.467.042,46	1.322.260.075,32
Slovakia	355.729.850,36	256.174.389,45	99.555.460,91
Slovenia	81.543.400,50	50.216.548,44	31.326.852,06
TOTAL	7.424.792.659,01	3.883.732.364,13	3.541.060.294,88

Closure of projects from the 2000-2006 period

During 2007, 40 Cohesion Fund projects with payments totalling €911 million were closed. This comprised 26 Spanish, 7 Portuguese and 7 Greek projects. As a result, the total number of closed CF projects for the 2000-2006 period reached 117 and the number of projects still to be closed is 721. Table 5.1 provides information on the projects closed up to the end of 2007.

Table 5.1: Number of CF projects closed in 2007 and in previous years

Member State	Total number of 2000-2006 CF projects	Projects closed in 2007		Projects closed in 2002-2006		Number of open projects as of end 2007
		Number of Projects	Total Paid in Euro	Number of Projects	Total Paid in Euro	
Czech Republic	31					31
Estonia	12					12
Greece	124	7	279.014.171,23	17	305.593.888,69	100
Spain	407	26	370.739.722,09	46	1.717.885.020,70	335
Ireland	10			3	250.368.797,00	7
Cyprus	2					2

Member State	Total number of 2000-2006 CF projects	Projects closed in 2007		Projects closed in 2002-2006		Number of open projects as of end 2007
		Number of Projects	Total Paid in Euro	Number of Projects	Total Paid in Euro	
Latvia	22					22
Lithuania	22					22
Hungary	10					10
Malta	3					3
Poland	65					65
Portugal	109	7	261.667.677,57	11	272.118.226,90	91
Slovenia	11					11
Slovakia	10					10
	838	40	911.421.570,89	77	2.545.965.933,29	721

There were 14 ex-ISPA projects with payments totalling €89 million closed during 2007. The total number of closed ex-ISPA projects for the 2000-2006 period thus reached 50 and the number of projects still to be closed is 304. Table 5.2 provides information per country on closed ex-ISPA projects.

Table 5.2: Number of ex-ISPA projects closed in 2007 and in previous years

Member State	Total number of 2000-2006 Ex-ISPA projects	Projects closed in 2007		Projects closed in 2002-2006		Number of open projects as of end 2007
		Number of Projects	Total Paid in Euro	Number of Projects	Total Paid in Euro	
Bulgaria	38					38
Czech Republic	27	2	36.838.453,19	7	124.496.115,65	18
Estonia	25	2	3.487.155,90	8	45.070.156,40	15
Latvia	24	2	17.530.155,17	2	18.416.589,32	20
Lithuania	29	1	19.816.800,00	5	66.724.564,61	23
Hungary	37			7	2.526.165,16	30
Poland	65	3	4.673.775,30	1	5.377.712,03	61
Romania	63	2	1.794.821,78	0	1.794.821,78	61
Slovenia	17			4	11.159.700,50	13

Member State	Total number of 2000-2006 Ex-ISPA projects	Projects closed in 2007		Projects closed in 2002-2006		Number of open projects as of end 2007
		Number of Projects	Total Paid in Euro	Number of Projects	Total Paid in Euro	
Slovakia	29	2	4.726.875,55	2	6.880.841,36	25
	354	14	88.868.036,89	36	282.446.666,81	304

2. ECONOMIC ENVIRONMENT AND CONDITIONALITY

Council Regulation (EC) No 1164/94, which governs the Cohesion Fund for projects approved prior to the end of 2006¹, attaches macro-economic conditions to the use of the Fund. It provides that "no new projects or, in the event of important projects, no new project stages shall be financed by the Fund in a Member State in the event of the Council, acting by a qualified majority on a recommendation from the Commission, finding that the Member State [...] has not implemented [its stability or convergence programme] in such a way as to avoid an excessive deficit". This reflects the role of the Cohesion Fund as an instrument of budgetary support at national level helping Member States to maintain macro-economic rigour.

In the course of 2007 three Member States eligible for support under the Cohesion Fund (the Czech Republic, Hungary and Poland) were involved in additional steps of the excessive deficit procedure (EDP) which, according to the aforementioned Regulation, may under certain conditions be associated with the suspension of transfers from the Fund. There was, however, no need to adopt such a measure for any of these countries. In 2008 the Council decided to abrogate the EDP for Poland and the Czech Republic.

The Czech Republic has been subject to the EDP since the Council decision in July 2004. The deadline for the excessive deficit correction was set to 2008. In July 2007 the Council decided that the Czech Republic had not adopted adequate measures in response to its July 2004 recommendations. Since the Czech Republic is not a member of the euro area, it has a specific derogation from the application of further steps of the EDP. In October 2007 the Council issued only a new set of recommendations under Article 104(7) of the Treaty². There has been no subsequent suspension of support from the Cohesion Fund. The Council delivered its opinion on the latest update of the Czech convergence programme on 4 March 2008. The overall conclusion was that the programme is consistent with a correction of the excessive deficit in 2008. In June 2008 the Council issued the decision to abrogate the EDP for the Czech Republic. The excessive deficit procedure for Hungary started in 2004. Since then, Hungary's failure to take effective action in response to Council recommendations has been noted on two occasions, in January 2005 and in November 2005. However, on neither of these occasions did the Commission

¹ Based on Article 6 of Council Regulation (EC) No 1164/94, as in the codified version presented by the Commission

² Treaty establishing the European Community, Article 104 on excessive government deficits

recommend a suspension of Cohesion Fund commitments to the Council. The latest set of recommendations concerning the Hungarian excessive deficit was adopted by the Council on the basis of a new Article 104(7) decision in October 2006. In July 2007 the Council decided that Hungary had been complying with the recommendations.

In November 2006, Poland was the subject of an Article 104(8) decision issued by the Council, establishing that the action taken to correct its excessive deficit in line with the 2004 Council recommendations was proving to be inadequate. New recommendations were issued for this country in February 2007. In December 2007 the Council decided that the measures taken by Poland were consistent with these latest recommendations. In July 2008 the excessive deficit procedure for Poland was abrogated by the Council.

At the end of 2007 two other Member States eligible for support under the Cohesion Fund (Portugal and Slovakia) remained subject to an excessive deficit procedure. No action associated with the EDP was, however, taken in regard to these countries in the course of 2007. Neither of the countries was subject to a suspension of transfers from the Cohesion Fund. In June 2008 the Council issued a decision to abrogate the EDP for both Member States.

Council Regulation (EC) No 1084/2006, which governs the Cohesion Fund for the period 2007-2013³, has cleared up several uncertainties that surrounded the application of Cohesion Fund conditionality in the past. It foresees that, following an Article 104(8) decision the Commission may propose the suspension of Cohesion Fund support. In turn, the Council may decide to suspend all or part of the commitments, with effect from 1 January of the year following the decision. If the Council subsequently finds, in the context of the EDP, that the Member State has taken the necessary corrective action, this automatically implies a decision to lift the suspension of Cohesion Fund commitments. Rules for re-budgeting the suspended commitments have been laid down.

3. INSPECTIONS

The Cohesion Fund closure enquiry concerning the period 1994-1999 covered 10% of Cohesion Fund projects representing 20% of the co-financed expenditure during this period. The fieldwork was finalised in 2003 and the main deficiencies found were insufficient management verifications resulting in ineligible expenditure and numerous breaches of public procurement rules. In 2007, for Spain the procedures for three projects were concluded by Commission decisions and for Portugal the procedure for one project was concluded following acceptance by the Member State. The remaining financial correction procedures (8 projects: 4 in Spain, 1 in Greece and 3 in Portugal) resulting from this audit enquiry will be completed in 2008.

As regards the period 2000-2006, the audit work carried out in 2007 focused on follow-up audits to verify the effective implementation of system-related recommendations made in 2005 and further compliance testing of projects

³ Council Regulation (EC) No 1084/2006 of 11 July 2006, establishing a Cohesion Fund and repealing Regulation (EC) No 1164/1994

expenditure. Priority was also given to reviewing the work of the national audit bodies including checking the quality of system audits, sample checks and other issues in relation to the work of preparing the winding-up declaration. Some 20 audit missions were carried out: 7 missions under the EU-14 Cohesion Fund enquiry; 2 missions under the public procurement enquiry; 3 missions under the winding-up body enquiry and 8 missions concerning Romania and Bulgaria.

Financial correction procedures resulting from Cohesion Fund project audits carried out before 2007 were followed up. For Spain, final position letters were sent out for all 14 projects outstanding. For Portugal, the procedures for 3 projects were concluded with acceptance of corrections by the Member State and there are procedures for 3 projects outstanding. For Greece the procedure for a flat-rate correction for a horizontal issue on public procurement completed the hearing stage, and there are two further projects outstanding. All the remaining procedures will be completed in 2008.

In 2007, other audit work included examination of winding-up declarations submitted for the closure of 2000-2006 Cohesion Fund projects, the examination of the annual control reports under Article 12 of Regulation (EC) No 1386/2002, and participation in the relevant annual bilateral meetings with national audit bodies.

In the Directorate General's Annual Activity Report for 2007, for the functioning of the management and control systems, an unqualified opinion was given for the systems in seven Member States (Cyprus, Estonia, Hungary – transport sector, Latvia, Malta, Portugal and Slovenia).

For six Member States the opinion was qualified as a result of material deficiencies with a moderate impact affecting key elements of the systems (Bulgaria – environment sector, Greece, Ireland, Lithuania, Romania and Spain).

For the remaining five Member States the opinion was qualified with significant impact as a result of material deficiencies affecting key elements of the system (Bulgaria – transport sector, Czech Republic, Hungary – environment sector, Poland and Slovakia). In line with the criteria set out by the Directorate General in view of the material deficiencies to the systems giving rise to an unacceptable risk for payments in 2007, the Directorate General made a reservation for these five Member States.

4. IRREGULARITIES

In 2007, OLAF undertook two missions to conduct controls on the spot under Regulation (EC) No 2185/96⁴ in connection with four external investigation cases open in relation to Cohesion Fund matters. As these cases are ongoing, it is not possible to comment further upon them for operational and possible judicial reasons.

⁴ O.J. L 292, 15.10.1996, p. 2

In 2007, the Member States communicated to the Commission, in accordance with Regulation (EC) No 1831/94⁵, 92 notifications of irregularities affecting co-financed projects and involving a sum of € 110.222.823. Out of this amount, € 63.686.298 has been recovered, and the remainder is to be recovered. The Member States reporting the majority of cases are Greece and Spain (26 and 34 respectively, more than 50% of the total). The cases reported by Greece involved an amount of €67.259.450 out of which €57.788.966 has been recovered. Ireland communicated to the Commission only one case but its financial impact, amounting to €6.638.190, is significant in relation to the average amount of the notifications. The number of notifications showed a decrease compared to the previous year⁶. The figures demonstrate a better reporting in conformity with the legal obligations by “old beneficiaries Member States”. However, taking into account the Community contribution involved in the projects co-financed by the Cohesion Fund, the reporting discipline of the Member States has to be improved.

The main types of irregularity reported are: ineligible expenditure and infringements of public procurement rules. These two categories cover almost 75% of all cases reported.

5. EVALUATION

The Commission and the Member States carry out appraisal and evaluation of all co-financed projects. The projects to be financed by the Fund are adopted by the Commission in agreement with the beneficiary Member States.

Each request for assistance is accompanied by a cost-benefit analysis (CBA) of the project. The CBA has to demonstrate that the socio-economic benefits in the medium term are proportionate to the financial resources mobilised. The Commission examines this CBA on the basis of the principles set out in the guide to cost-benefit analysis. The guide, first published in 2003, was recently updated to incorporate the development of Community policies, financial instruments and the new regulatory framework under which major projects will be financed during the 2007-2013 programming period. During 2007, the Commission assisted Member States through capacity-building measures aiming to improve the consistency of the ex-ante financial and economic analysis of projects. To this end, dedicated software is fully operational, and a guidance document, adopted in 2006, sets out the methodology to be used in carrying out CBA. The document presents some general principles of CBA along with a set of working rules and encourages the Member States to develop their own CBA guidelines.

In addition, the Commission carries out ex-post evaluation on samples of projects co-financed by the Cohesion Fund. The last evaluation was published in 2005 and looked at a sample of 200 projects implemented over the 1993-2002 period. The next

⁵ O.J. L 191, 29.07.94, p. 1, as amended by Regulation (EC) No 2168/2005, O.J. L 345, 21.12.2005, p. 15.

⁶ 2006: Number of communicated cases 228; overall amount related to the communications €186.604.797

ex-post evaluation is scheduled to be launched for 2009 and will look at projects implemented during the 2000-2006 period.

6. INFORMATION AND PUBLICITY

As indicated in the 2006 annual report, discussions with the Member States on Cohesion Fund issues are, as from 1 January 2007, dealt within the Coordination Committee of the Funds (COCOF), according to Regulation (EC) No 1083/2006.

Apart from issues of common interest for the ERDF and Cohesion Fund (technical assistance, audits, budget matters, etc.), some issues of specific interest for the Cohesion Fund were presented or discussed during the following meetings of the Coordination Committee of the Funds: in January "Implementation of transitional provisions (Article 5(2) of Council Regulation (EC) No 1084/2006)"; in February "Complementarities between funding for actions under Structural and Cohesion Funds and other community instruments"; in May "Updating at midyear of the various types of measures of technical assistance"; and in July "Guidelines for the determination of financial corrections in relation to infringements of rules concerning public procurement" and "Study on Regional expenditure of ERDF and Cohesion Fund".

As regards the Commission measures on information and publicity, the focus in 2007 was on implementation of the publicity requirements for the 2007-2013 period.

The Commission also organised a major conference in Brussels on 25 and 26 November on: "Telling the Story. Communicating Cohesion Policy Together". Over 500 communication officers from all over Europe participated (proceedings of that event are available on DG REGIO's website⁷). For the new programmes, enhanced networking between the Commission and the Member States and regions will be based on a network ("INFORM") which will permit the exchange of best practice in communicating the Structural and Cohesion Funds.

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http://ec.europa.eu/regional_policy/country/commu/conferences/november07/sources_en.cfm