EUROPEAN COMMISSION

Brussels, 14.11.2011
SEC(2011) 1352 final

COMMISSION STAFF WORKING PAPER

accompanying the

ANNUAL REPORT ON THE COHESION FUND (2010)

{COM(2011) 741 final}

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1. GENERAL CONTEXT

1.1. Convergence and economic development in the beneficiary Member States

1.1.1. Greece

In 2010, Greece's GDP per capita in PPS attained 89% of the EU-27 average. GDP fell by 4.5% in real terms in the same year, after having contracted by 2.5% in 2009. Annual inflation rose to 4.7% in 2010 from 1.3% in 2009, on the back of VAT rates increases and persisting market rigidities. The 2010 deficit outturn was 10.5% of GDP, which compares with the 8.0% of GDP target established last May. This was mostly because of a more-severe-than-anticipated revenue shortfall, a worse-than-estimated balance of the social security sector and the accumulation of arrears in the other-than-state sectors. In addition, the reclassifications of some state-owned enterprises (SOEs) within the general government sector will have a more durable impact on the deficit. The debt-to-GDP ratio was at 142.7% in 2010 up from 127.1% a year earlier.

In its recommendation of 20 June 2011 on the National Reform Programme, the Council concluded that Greece's growth performance over the last decade was based on unsustainable drivers. The 2008-2009 global crisis exposed the vulnerabilities of the Greek economy, including: unsustainable fiscal policies, partly hidden by unreliable statistics and temporarily high revenues; rigid labour and product markets; loss of competitiveness and rising external debt. The extent of the deterioration in the fiscal position was revealed late due to grave deficiencies in Greece's accounting and statistical systems. This delayed the implementation of corrective measures. As concerns about Greek fiscal sustainability arose and global risk aversion heightened, market sentiment vis-à-vis Greece worsened sharply in early 2010. In April 2010, Greece asked for international financial assistance as it was confronted with sizeable financing needs and not able to access international capital markets. On 3 May 2010, Greece presented an encompassing adjustment programme supported by financial assistance provided by the euro-area Member States and the IMF amounting to EUR 110 billion. The accompanying Memorandum of Understanding and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance is disbursed.

Greece committed to implementing the economic and financial adjustment programme with the aim of correcting fiscal and external imbalances and restoring confidence in the short term. In the medium run, it should lay the foundations for a growth model that relies more on investment and exports supporting growth and employment. The programme foresees comprehensive action on three fronts: (i) a frontloaded fiscal consolidation strategy, supported by structural fiscal measures and better fiscal control; (ii) structural reforms in the labour and product markets to address competitiveness and growth; and (iii) efforts to safeguard banking system stability. The key elements of policy conditionality have been enshrined in Council Decision 2010/320/EU and its subsequent amendments[1] addressed to Greece with a view to

[1] Council Decision of 10 May 2010 (2010/320/EU), (OJ L 145, 11.6.2010, p. 6); Council Decision of 7 September 2010 (2010/486/EU), (OJ L 241, 14.9.2010, p. 12); Council Decision of 20 December 2010 (2011/57/EU), (OJ L 026, 29.1.2011, p. 15); Council Decision of 7 March 2011 (2011/257/EU), (OJ L 110, 29.4.2011, p. 26).

reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit under the provisions of Articles 136 and 126(9) of the Treaty.

The Programme macroeconomic scenario is broadly conservative, with a cumulative loss in real GDP in 2010-11 of around 8%, driven by a decline in domestic demand, which is partly compensated by a significant contraction in imports and smooth export growth. Real GDP growth is expected to return to positive territory in 2012 (0.8%). The government deficit is projected to reach 7.6% of GDP in 2011, 6.3% in 2012, 4.9% of GDP in 2013 and 2.6% of GDP in 2014. The debt-to-GDP ratio is projected to peak at about 160% by 2012, decreasing thereafter.

The Council recommended that Greece:

(i) fully implement the measures laid down in the Decision 2010/320/EU, as amended by Decision 2011/257/EU, and as further specified in the Memorandum of Understanding of 3 May 2010 and its subsequent supplements.

1.1.2. Spain

Spain's GDP per capita in PPS attained 101% of the EU-27 average in 2010, compared to 103% in the preceding year. In 2010, GDP fell by 0.1%, reflecting both the global economic downturn and a marked correction in the construction sector. The annual inflation rate increased to 1.8% in 2010 on the back of higher commodity and administered prices as well as an increase in indirect taxes. The downturn took a heavy toll on public finances. For 2010, the general government deficit reached 9.2% of GDP, down from 11.2% in 2009. In June 2010, the Commission assessed the action taken by Spain in response to the Council recommendations under Article 126(7) of Treaty on the Functioning of the European Union of December 2009, to end this the excessive deficit situation by 2013 at the latest, and concluded that Spain had up to then acted in accordance with the Council's recommendations to correct the excessive deficit and that no additional step in the excessive deficit procedure was therefore necessary at that stage.

According to the latest update of the stability programme submitted in April 2011, the targets for the general government deficit are 6% of GDP in 2011, 4.4% in 2012, and 3% in 2013. These figures are based on the programme's assumptions that GDP will grow by 1.3% in 2011, by 2.3% in 2012 and by 2.5% on average in 2013 and 2014. According to the Commission services' spring 2011 forecast, the government deficit is projected to reach 6.3% of GDP in 2011 and, based on a no policy change assumption, 5.3% of GDP in 2012. The spring forecast projects that real GDP will grow by 0.8% in 2011 and by 1.5% in 2012.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Stability Programme of Spain pursuant to Regulation 1466/1997. In this opinion the Council concluded that while the macroeconomic scenario underpinning the budgetary projections is favourable in 2011 and 2012, the Programme plans to bring the budget deficit below the 3% of GDP reference value by 2013, in line with the Council recommendations of April 2009, and to reduce the deficit further in 2014. The medium-term objective (MTO), which remains a balanced budget in structural terms, is not expected to be achieved over the programme period. The adjustment path is appropriate and the annual average improvement of the structural balance of 1.5% of GDP during 2010-2013 is in line with the Council recommendation. The debt-to-GDP ratio is projected to rise to 69.3% in 2013 and to decline slightly in 2014. Downside risks to the consolidation path are related to the macroeconomic assumptions and to the respect of budgetary targets at regional level.

In relation to its opinion on the 2011 update of the Stability Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Spain should take action within the period 2011-2012 to:

(i) implement the budgetary strategy in 2011 and 2012 and correct the excessive deficit in the year 2013 in line with the Council recommendation under the EDP, ensuring the achievement of deficit targets at all levels of government, including by strictly applying the existing deficit and debt control mechanisms for regional governments; adopt further measures in case budgetary and economic developments do not turn out as expected; take any opportunity including from better economic conditions to accelerate the deficit reduction; set out concrete measures to fully underpin the targets for 2013 and 2014 which should bring the high public debt ratio on a downward path and ensure adequate progress towards the medium-term objective. Keep public expenditure growth below the rate of medium-term GDP growth, by introducing a binding expenditure rule at all levels of government, as envisaged. Further improve the provision of information in relation to regional and local government budgets and their execution.

1.1.3. Portugal

Portugal's GDP per capita in PPS attained 81% of the EU-27 average in 2010, having risen by 1 percentage point compared to the previous year. In 2010, GDP grew by 1.3% in real terms, after having contracted by 2.5% in 2009. This positive growth rate was, however, largely driven by exceptional factors that boosted exports and private consumption. Annual inflation rose to 1.4% in 2010 from -0.9% in 2009, on the back of base effects, VAT rates increases and rising commodity prices. The 2010 deficit outturn was 9.1% of GDP, which compares with the 7.3% of GDP target established last May. The difference was mostly due to a number of deficit-increasing one-off operations, notably the rescue costs of two troubled banks, and the reclassification of public-private partnerships (PPPs) into the general government sector. In addition, the reclassifications of some state-owned enterprises (SOEs) within the general government sector will have a more durable impact on the deficit. The debt-to-GDP ratio was at 93% in 2010 up from 83% a year earlier.

In its recommendation of 12 July 2011 on the National Reform Programme (NRP) 2011 of Portugal, the Council concluded that the macroeconomic and fiscal scenarios included in the NRP, submitted on 19 April 2011, have been overtaken by the Memorandum of Understanding (MoU) signed on 17 May 2011. The MoU and the accompanying Council Decision 2011/0122 are making available to Portugal medium-term financial assistance for a period of three years 2011-2014 in accordance with Council Regulation (EU) No 407/2010 of

11 May 2010 establishing a European financial stabilisation mechanism.[2] The MoU and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance is disbursed.

The Council recalled that unfavourable developments in public finances in 2009/10 and a bleak outlook for economic growth had led to a deterioration of confidence and rising pressures in sovereign bond markets. As a result, Portugal had requested international financial assistance from the European Union and the International Monetary Fund (IMF) on 7 April 2011.

The Economic Adjustment Programme for Portugal includes external financing from the European Union, the euro-area Member States and IMF of up to € 78 billion and a commitment by Portugal to undertake deep structural reforms, to follow a credible fiscal consolidation strategy and to make efforts to safeguard the financial sector. The Programme macroeconomic scenario is broadly conservative, with a cumulative loss in real GDP in 2011-12 of around 4%, mainly driven by a decline in domestic demand, which is partly compensated by a significant contraction in imports and smooth export growth. Real GDP growth is expected to return to positive territory in 2013 (1.2%). The government deficit is projected to reach 5.9% of GDP in 2011, 4.5% in 2012 and 3% of GDP in 2013. The debt-to-GDP ratio is projected to peak at about 108% by 2013, decreasing thereafter.

The Council recommended that Portugal:

(i) implement the measures as laid down in Implementing Decision 2011/344/EU and further specified in the Memorandum of Understanding of 17 May 2011 and its subsequent supplements.

1.1.4. Cyprus

In 2010, GDP per capita in PPS in Cyprus remained unchanged compared to the previous year, at 98% of the EU-27 average. Economic activity grew by 1% in the same year. Domestic demand (excl. inventories), hitherto the key driver of growth, continued to shrink, albeit at a slower pace than in the previous year. Private consumption picked up moderately, after a contraction in 2009, on the back of continued wage growth. Public consumption also supported growth. Nevertheless, with lacklustre foreign demand for housing and the restructuring of corporate balance sheets, investment remained on a downward path. Inventory accumulation provided a considerable positive impulse to economic activity, after the large destocking that took place in 2009. Furthermore, the improvement in the external environment also led to significant growth in exports of goods. Tourism receipts posted a mild recovery after a strong decline in 2009. Moreover, financial intermediation and business services continued to grow solidly. Inventory build-up and one-off factors, such as the import of buses and other equipment, led to growing imports, after a significant correction during the previous year. Public finances in Cyprus deteriorated substantially as a result of the global economic crisis and discretionary fiscal stimulus measures, as well as rather large

[2] The Council draws the same conclusion with regard to the macroeconomic and fiscal scenario underlying a Stability Programme for 2011-2014, submitted on 23 March 2011 by the Portuguese government to the national parliament, which rejected it.

composition effects due to a less tax-rich GDP growth pattern. The budgetary deficit in 2010 declined to 5.3% of GDP from 6% the previous year, also benefiting from a one-off revenue factor accounting for almost 0.5 percentage point of GDP.

In the latest update of the Stability Programme, submitted in May 2011, the Cypriot authorities plan that the general government deficit would fall to 4.0% of GDP in 2011 and remain of a declining trend reaching 2.6% in 2012, 2.0% in 2013 and 1.6% in 2014. The macroeconomic scenario underlying the programme envisages that real GDP will grow modestly by 1.5% in 2011, before recovering with an average rate of about 2.75% for the remainder of the programme period. The Commission services' spring 2010 forecast predicts that the deficit will decrease to only to 5.1% of GDP in 2011 and, assuming no policy change, will recede further to 4.9% in 2011. Real GDP is expected to grow by 1.5% in 2011 and by 2.4% in 2012.

The overall conclusion is that Cyprus' public finances have significantly deteriorated. The programme outlines a consolidation path, the aim of which is to bring the general government balance to below 3% of the GDP reference value by 2012. The projected adjustment is planned to be achieved mainly from the expenditure side, while the revenue-to-GDP ratio remains at around similar levels. However, most measures in 2011 are on the revenue side. Overall, there are downside risks to the consolidation path mapped out in the programme. In view of these risks, additional measures may need to be adopted if macroeconomic or budgetary developments turn out to be worse than expected.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the stability programme of Cyprus pursuant to Regulaton 1466/1997. In this opinion the Council concluded that the macroeconomic scenario underpinning the budgetary projections is plausible until 2012, but rather favourable thereafter, as assessed against the Commission services' spring 2011 forecast. The Stability Programme aims to correct the excessive deficit in 2012, in line with the Council Recommendation of 13 July 2010, and to continue consolidation afterwards. The programme projects the debt ratio to peak in 2012 and to decline thereafter. The annual average improvement in the structural balance for the period 2011-2012 is 1.5% of GDP, in line with the Council Recommendation of 13 July 2010, but the structural improvement is set to be below the requirements of the Stability and Growth Pact in both 2013 and 2014. The medium-term objective (MTO), reaffirmed as a balanced budget in structural terms, will not be reached within the programme period. While the overall adjustment planned is based on expenditure restraint, most measures in 2011 are on the revenue side. Overall, there are downside risks to the consolidation path mapped out in the programme. In view of these risks, the Council concluded that additional measures may need to be adopted if macroeconomic or budgetary developments turn out to be worse than expected.

In relation to its opinion on the 2011 update of the Stability Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Cyprus should take action within the period 2011-2012 to:

(i) adopt the necessary measures of a permanent nature to achieve the budgetary target in 2011 and the correction of the excessive deficit by 2012, in line with the Council recommendations under the EDP. Take measures to keep tight control over expenditure and make use of any better-than-expected budgetary developments for faster deficit and debt reduction. Ensure progress towards the medium-term objective by at least 0.5% of GDP annually and bring the public debt ratio on a downward path. Accelerate the phasing-in of an enforceable multiannual budgetary framework with a binding statutory basis and corrective mechanisms, as from the preparation of the 2012 Budget. The Programme and Performance Budgeting should be implemented as soon as possible;

(ii) improve the long-term sustainability of public finances by implementing reform measures to control pension and healthcare expenditure in order to curb the projected increase in age-related expenditure. For pensions, extend years of contribution, link retirement age with life expectancy or adopt other measures with an equivalent budgetary effect, while taking care to address the high at-risk-of-poverty rate for the elderly. For healthcare, take further steps to accelerate implementation of the national health insurance system.

1.1.5. Czech Republic

In 2010, Czech GDP per capita in PPS reached 80% of the EU-27 average. The recovery in 2010 started to take hold fuelled by robust export growth and the ensuing build up in inventories and real GDP rebounded to 2.3%, up from the 4.1% decline in 2009. Annual inflation increased only modestly in 2010, to 1.2% on average. This was mainly due to the only very limited growth in domestic demand. The general government deficit in 2010 is estimated to have reached 4.7% of GDP, as compared to 5.9% in 2009. The lower deficit reflects significant cuts in public investment, together with consolidation measures targeting mostly the revenue side (increase in the two VAT rates, in excise duties and in social contributions). In June 2010, the Commission assessed the action taken by the Czech Republic in response to the Council recommendations under Article 126(7) of Treaty on the Functioning of the European Union of December 2009, to end the excessive deficit situation by 2013 at the latest, and concluded that the Czech Republic had up to then acted in accordance with the Council's recommendations to correct the excessive deficit and that no additional step in the excessive deficit procedure was therefore necessary at that stage.

According to the most recent update of the convergence programme, which was submitted in May 2011, the general government deficit in the Czech Republic is due to decline to 4.2% of GDP in 2011, and further to 3.5% and 2.9% of GDP in 2012 and 2013 respectively. The macroeconomic scenario underlying the programme assumes real GDP growth of 1.9% in 2011, slightly rising to 2.3% of GDP in 2012 and further accelerating to an average ratio of 3.7% over the rest of the programme period. According to the Commission services' spring forecast, real GDP growth is estimated at 2% in 2011, rising to 2.9% in 2012. The deficit would reach 4.4% of GDP in 2011 and is set to decline to 4.1% of GDP in 2012, assuming no changes in policy.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Convergence Programme of the Czech Republic pursuant to Regulation 1466/1997. In this opinion the Council concluded that the proposed measures are broadly sufficient to reach the target by 2013, as recommended by the Council, but there are risks to the actual budgetary outcome of measures as presented in the programme. Moreover, the attainment of the targets for the outer years of the programme seems to rely on favourable cyclical conditions and further efficiency gains in public administration, which may become increasingly difficult to realise. The average annual fiscal effort over the period 2010-2013 would be slightly below 1% of GDP recommended by the Council under the EDP procedure of 2 December 2009.

In relation to its opinion on the 2011 update of the Convergence Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that the Czech Republic should take action within the period 2011-2012 to:

(i) implement the planned consolidation in 2011 and take countervailing measures of a permanent nature as needed in case of any revenue shortfalls or expenditure slippages. Adopt fiscal measures as planned in the Convergence Programme for 2012 and underpin the target for 2013 by more specific measures; subject to this, avoid cutting expenditure on growth-enhancing items. Improve the efficiency of public investments, and continue efforts to exploit the available space for increases in indirect tax revenue to shift taxes away from labour, improve tax compliance, and reduce tax evasion. Ensure an average fiscal effort over the period 2010-2013 of 1% of GDP, in line with the Council recommendations on correcting the excessive deficit, which will allow meeting the EDP deadline with a sufficient margin in 2013;

(ii) implement the planned pension reform in order to improve the long-term sustainability of public finances and to ensure the future adequacy of pensions. Additional efforts should focus on further changes to the public pillar to ensure that the system is not a source of fiscal imbalances in the future, and on the development of private savings. With a view to raising the effective retirement age, measures such as a link between the statutory retirement age and life expectancy could be considered. Ensure that the envisaged funded scheme attracts broad participation, and is designed to keep administrative costs transparent and low.

1.1.6. Estonia

In 2010, Estonia's GDP per capita in PPS amounted to 65% of the EU-27 average. The deterioration from almost 70% in 2007 was due to a steep contraction in 2008-2009 when the cumulative loss of GDP amounted to 18% following the reversal of the economic cycle and the severe global financial crisis. In 2010, economic recovery started gaining ground. The GDP growth of 3.1% was driven by exports and inventories, while domestic demand remained subdued. Inflation (HICP) increased to 2.7% in 2010 reflecting a spike in world commodity prices and tax changes, which added about 1% to average inflation. While the contraction in economic activity resulted in general government deficits in 2008-2009, the general government budget position was a surplus of 0.1% of GDP in 2010 due to a faster-than-expected recovery and the sizeable sales of so-called ‘Kyoto carbon credits’, which amounted to 1% of GDP.

The April 2011 update of the stability programme projects some deterioration of the general government budgetary position to a deficit of 0.4% and 2.1% of GDP in 2011 and 2012, respectively, due to the gradual expiring of several consolidation measures of a temporary nature and the one-off impact of environmental investment obligations related to sales of the ‘Kyoto carbon credits’. The programme targets reaching headline and structural surpluses from 2013. In the underlying macroeconomic scenario, real GDP is expected to grow at sustainable rates of around 3.75% on average in 2011-15, with growth becoming more balanced as domestic demand recovers. Projections from the Commission services' spring forecast point to the general government deficit reaching 0.6% and 2.4% in 2011 and 2012, respectively, with real GDP growing by 4.9% in 2011 and 4.0% in 2012.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 Stability Programme of Estonia pursuant to Regulation 1466/1997. In this opinion the Council concluded that the macroeconomic scenario underpinning the budgetary projections was plausible. The Council also found that the programme provided some information regarding measures to reach the targeted position, in particular vis-à-vis efficiency-seeking reforms in several areas. Taking into account previous track record of the Estonian authorities in meeting the fiscal targets, risks to the budgetary scenario were assessed as broadly balanced. The Council nevertheless concluded that it would be important for the upcoming budgets to provide the key details of measures to further enhance the efficiency of public spending, thus underpinning the implementation of the stability programme.

In relation to its opinion on the 2011 Stability Programme, the Council recommended that Estonia should take action within the period 2011-2012 to:

(i) achieve structural surplus by 2013 at the latest, while limiting deficit in 2012 to at most 2.1% of GDP, keeping tight control over expenditure and enhancing the efficiency of public spending.

1.1.7. Hungary

In 2010, GDP per capita in PPS stood at 64% of the EU-27 average. GDP grew by 1.2% the same year (following on the heels of a sharp contraction of -6.7% of GDP in 2009), led by a strong export performance. Domestic demand continued to decline, with unemployment at 11.2% and inflation relatively high at 4.7%. The general government deficit was 4.2% of GDP in 2010, slightly down from 4.5% in 2009 but not as low as targeted (3.8% of GDP). This broad stabilisation in the deficit level was achieved through a series of temporary revenue-increasing measures as well as expenditure freezes adopted in the second half of 2010, which largely compensated for the emerging budgetary slippages and some within-the-year tax cuts. Given the structural deterioration in both 2010 and 2011 and an expected deficit well above 3% of GDP in 2012 shown in the Commission services' autumn 2010 forecast, in January 2011 Commissioner Rehn addressed a letter to Hungary asking to reconfirm its commitment to fully respect the recommendations by the Council and to soon announce permanent, concrete and specific measures necessary to underpin this commitment.

The April 2011 update of the convergence programme contains a general government surplus target of 2.0% of GDP for this year, much better than the 2.9% of GDP deficit set in the 2011 budget adopted on 23 December 2010 thanks to the huge one-off revenues notably stemming from the pension reform reversal. Without these one-off revenues the 3% of GDP threshold would have been breached. For 2012, the authorities target a deficit of 2.5% of GDP and a further gradual decline to 1.5% in 2015. The macroeconomic baseline scenario forecasts real GDP to expand by 3.1% in 2011, followed by sustained growth in the range of 3-3.5% thorough the entire programme horizon (until 2015). According to the Commission services' spring forecast, the government balance is projected to be in surplus (1.6% of GDP) in 2011 and to return to a deficit of 3.3% of GDP in 2012. Real GDP is expected to increase by 2.7% in 2011 and again by 2.6% in 2012.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Convergence Programme of Hungary pursuant to Regulation 1466/1997. In this opinion the Council concluded that the macroeconomic scenario underpinning the budgetary projections is slightly favourable. The consolidation strategy is expected to reduce the budgetary deficit in a structural way and put the debt on a downward path to reach 64% of GDP by 2015. On the basis of the spring forecast, it cannot be excluded that the 3% of GDP deficit threshold may be breached again in 2012 unless further measures are taken. In addition, consolidation appears to be rather back-loaded with structural improvement starting only from 2012. The cumulative structural deterioration of over 3% of GDP over 2010 and 2011 is not in line with the Council recommendation of July 2009 asking Hungary to achieve a structural adjustment of at least 0.5% of GDP.

In relation to its opinion on the 2011 update of the Convergence Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Hungary should take action within the period 2011-2012 to:

(i) strengthen the fiscal effort in order to comply with the Council recommendation to correct the excessive deficit in a sustainable manner, inter alia by avoiding the structural deterioration in 2011 implicit in the planned 2% of GDP budget surplus and ensure that the budget deficit is kept safely below the 3% of GDP threshold in 2012 and beyond, contributing to the reduction of the high public debt ratio. Fully implement the announced fiscal measures and adopt additional measures of a permanent nature if needed at the latest in the 2012 budget to secure the budgetary target for that year. The 2012 budget should also identify the additional measures in order to attain the 2013 target in the Convergence Programme. Ensure progress towards the medium-term objective (MTO) by at least 0.5% of GDP annually until the MTO is reached and use possible windfall revenues to accelerate the fiscal consolidation;

(ii) adopt and implement regulations specifying the operational aspects of the new constitutional fiscal governance framework, including, inter alia, the numerical rules that will be implemented at the central and local level until the debt ratio has declined to below 50% of GDP. Regarding the fiscal framework, implement and strengthen multiannual fiscal planning, improve the transparency of public finances and broaden the remit of the Fiscal Council.

1.1.8. Latvia

In 2010, GDP per capita in PPS attained 52% of the EU-27 average. It was thus unchanged compared to 2009, when it had contracted from 56% in 2008 and 2007. After a steep deterioration in 2008-09, real GDP moved back to positive quarter-on-quarter growth rates in 2010, although a small decline was recorded in 2010 annualised terms, reflecting the negative carry-over from the previous year. Increased export demand supported the economic recovery in 2010, while domestic demand and investments remained relatively weak. Sizeable fiscal consolidation, as well as improving macroeconomic conditions, allowed lowering the general government deficit to 7.7% of GDP in 2010 from 9.7% in 2009. In January 2010, the Commission assessed the action taken by Latvia in response the Council recommendations under Article 104(7) TEC of July 2009, to correct the excessive deficit situation by 2012 at the latest, and concluded that, as Latvia had acted in accordance with the Council's recommendations, no additional step in the excessive deficit procedure was therefore necessary.

The April 2011 update of the convergence programme projects a further decline of the general government deficit to 4.5% of GDP in 2011, 2.5% in 2012, 1.9% in 2013, and 1.1% in 2013. According to the programme, and in line with commitments made in the framework of the international financial assistance, fiscal policy is set to remain restrictive throughout the programme period, with the envisaged measures being mostly expenditure based. The underlying macroeconomic scenario envisages that real GDP will rise by 3.3% in 2011 and by 4% annually in 2012-14. The spring 2011 forecast by the Commission services projects the general government deficit at 4.5% in 2011 and 3.8% in 2012 under no-policy-change terms. The Commission services' growth forecast for 2011-12 is fully identical to the projections in the convergence programme.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Convergence Programme of Latvia pursuant to Regulation 1466/1997. In this opinion the Council concluded that the macroeconomic scenario underpinning the budgetary projections in the programme was plausible although the inflation projection might be on the low side for 2011. The Council also found that, taking into account the measures implemented since the issuance of the recommendation to correct the excessive deficit situation and additional consolidation implied in the updated convergence programme, the planned fiscal effort for 2011-2012 was in line with the required adjustment. While, in view of the starting point, the programme did not foresee the achievement of the medium-term objective (MTO) by the end of the programme period, the Council found that the planned fiscal effort to reach the MTO after the correction of the excessive deficit situation could be accelerated in particular in 2013.

The Council also concluded that the budgetary targets were subject to downside risks, as the programme did not provide full information on measures to underpin the achievement of the set targets; these measures were expected to be spelled out in the forthcoming budgets. Finally, the Council found that reducing the primary deficit over the medium term, as foreseen in the programme, would help reduce the risks to the sustainability of public finances.

In relation to its opinion on the 2011 update of the Convergence Programme, also taking into account the central role of the medium-term financial assistance programme in bringing the economy and public finances on a sustainable path, the Council recommended that Latvia:

(i) implement the measures laid down in the Decision 2009/290/EC, as amended by Decision 2009/592/EC, and further specified in the Memorandum of Understanding of 20 January 2009 and its subsequent supplements, in particular the last supplement of 7 June 2011.

1.1.9. Lithuania

Lithuania's GDP per capita in PPS increased to 58% of the EU-27 average in 2010, up from 55% in 2009. This reflects a recovery after a deep economic recession, when output contracted by nearly 15% in 2009, following the burst of an externally-financed housing and credit bubble. In 2010 the economy returned to growth, expanding by 1.3%, on the back of determined policy action of the Lithuanian authorities and the global economic recovery. The upturn in the inventory cycle also supported the recovery, offsetting a contraction in domestic demand as consumers, non-financial corporations and the public sector continued to restore their balance sheets. Continued fiscal consolidation efforts and the improved macroeconomic environment resulted in a larger-than-expected reduction in the general government deficit, which declined to 7.1% of GDP in 2010 (1.0 percentage point below the target under the excessive deficit procedure).

According to the April 2011 update of the convergence programme, the general government deficit is to decline to 5.3% in 2011 and 2.8% in 2012. In the underlying macroeconomic scenario, real GDP growth is projected to stand at 5.8% in 2011, before slowing down to 4.7% in 2012. According to the Commission services' spring 2011 forecast, the general government deficit is expected to narrow to 5.5% in 2011 and 4.8% in 2012 under the customary assumption of no policy change. Real GDP is set to expand by 5.0% and 4.7% in 2011 and 2012 respectively.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Convergence Programme of Lithuania pursuant to Regulation 1466/1997. In this opinion the Council concluded that the macroeconomic scenario underlying the 2011 Convergence Programme is plausible although economic growth and inflation may turn out higher than currently projected. While the programme plans to bring the deficit below the 3% reference value by 2012, the deadline set by the Council, it is not sufficiently underpinned by measures for 2012. At the same time, the accelerating economic momentum may lead to better 2011 budgetary outcomes than expected in the programme. This should allow a faster deficit reduction than expected at the time of the Council EDP Recommendation. Yet, the Council foresees that if temporary consolidation measures that will expire at the end of 2011 are not renewed and complemented by sizable permanent measures, Lithuania is not likely to meet the Convergence Programme's budgetary targets for 2012 despite the improving macro-economic outlook. The average annual fiscal effort over the period of 2010-2012 is well below the 2.25% of GDP recommended by the Council under the excessive deficit procedure adopted on 16 February 2010. The medium-term objective (MTO) of a structural surplus of 0.5% of GDP is not foreseen to be achieved within the programme period and the Council considers that progress towards the MTO should be accelerated. According to the Commission's latest assessment, the risks with regard to long term sustainability of public finances appear to be high.

In relation to its opinion on the 2011 update of the Convergence Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Lithuania should take action within the period 2011-2012 to:

(i) adopt additional fiscal measures of a permanent nature by the time of the 2012 budget to correct the excessive deficit in line with the Council recommendations under the EDP; reinforce tax compliance and take full advantage of the economic recovery to further accelerate deficit reduction and ensure progress towards the medium-term objective by at least 0.5% of GDP annually. Strengthen the fiscal framework, in particular by introducing enforceable and binding expenditure ceilings in the medium-term budgetary framework;

(ii) adopt the proposed implementing legislation on Pension System Reform. In order to enhance participation in the labour market, remove fiscal disincentives to work, especially for people at pensionable age.

1.1.10. Malta

In 2010, Malta's GDP per capita in PPS was 83% of the EU-27 average, having risen from 81% the previous year. After declining by 3.3% in 2009 as a result of the global crisis, real GDP rebounded strongly in 2010, with growth estimated at 3.2%, driven by exports and business investment. The general government deficit remained broadly stable in 2010, at 3.6% of GDP, compared to 3.7% in 2009. In February 2010, the Council extended the deadline for the correction of the excessive deficit by one year, to 2011. In January 2011 the Council concluded, based on a Commission communication and according to the information available at the time, that Malta had taken action representing adequate progress towards the correction of the excessive deficit within the time limit set by the Council and that no further steps in the excessive deficit procedure were therefore necessary at that stage.

According to the 2011 update of the stability programme, the general government deficit is planned to decline gradually, to 2.8% of GDP in 2011 and 1.0% of GDP in 2014. The macroeconomic scenario underlying the programme projects real GDP growth to strengthen from 2.4% and 2.3% in 2011-2012 to 2.6% in 2013 and 2.8% in 2014. The Commission services' spring 2011 forecast projects the deficit at 3.0% of GDP in both 2011 and 2012, the latter under the usual no-policy change scenario. Real GDP is expected to grow by 2.0% in 2011 and 2.2% in 2012.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Stability Programme of Malta pursuant to Regulation 1466/1997. In this opinion the Council concluded that the general government deficit is due to return below the 3% of the GDP reference value in 2011, which is the deadline set by the Council for the correction of the excessive deficit, and to gradually decline thereafter towards the medium-term objective (MTO) of a balanced position in structural terms, at a pace that is broadly in line with the Stability and Growth Pact. The Council further concluded that the budgetary outcomes could be worse than targeted because of possible expenditure overruns and lack of information on the measures underpinning the consolidation effort after 2011.

In relation to its opinion on the 2011 update of the Stability Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Malta should take action within the period 2011-2012 to:

(i) ensure correction of the excessive deficit in 2011, in line with the EDP recommendations, standing ready to take additional measures so as to prevent possible slippages, and adopt concrete measures to back up the 2012 deficit target. Bring the high public debt ratio on a downward path and ensure adequate progress towards the MTO. With a view to strengthening the credibility of the medium-term consolidation strategy, define the required broad measures from 2013 onwards, embed the fiscal targets in a binding, rule-based multi-annual fiscal framework and improve the monitoring of budgetary execution;

(ii) take action to ensure the sustainability of the pension system such as by accelerating the progressive increase in the retirement age and by linking it to life expectancy. Accompany the higher statutory retirement age with a comprehensive active ageing strategy, discourage the use of early retirement schemes and encourage private pension savings.

1.1.11. Poland

In 2010, Poland's GDP per capita in PPS was 62% of the EU-27 average. The global financial crisis led to a deceleration in the real GDP growth rate, but Poland avoided recession. Real GDP increased by 1.6% in 2009, down by 3.5 percentage points from 2008. In 2010 real GDP grew by 3.8%, as rebounding external demand fuelled the domestic manufacturing sector and strengthened the turnaround in the inventories cycle and the resilient labour market supported private consumption. The economic crisis has taken a heavy toll on public finances. General government deficit rose steadily from 1.9% of GDP in 2007 to 3.7% in 2008 and 7.3% of GDP in 2009. In February 2010, the Commission assessed the action taken by Poland in response the Council recommendations under Article 104(7) TEC of July 2009, to end the excessive deficit situation by 2012 at the latest, and concluded that Poland had up to then acted in accordance with the Council's recommendations to correct the excessive deficit and that no additional step in the excessive deficit procedure was therefore necessary at that stage. The general government deficit rose further to 7.9% of GDP in 2010, 1 percentage point above the target presented in the 2010 update of the convergence programme. The budgetary slippage was due to lower revenues from corporate income tax, higher consumption and investment expenditure by local government entities and higher interest expenditure. Given the above, in January 2011 Commissioner Rehn addressed a letter to Poland asking to reconfirm its commitment to fully respect the recommendations by the Council and to soon announce permanent, concrete and specific measures necessary to underpin this commitment.

According to the 2011 update of the convergence programme, the general government deficit will decrease to 5.6% of GDP in 2011, before shrinking further to 2.9% in 2012, driven by an ambitious budgetary consolidation package supported by a strong GDP growth projected to amount to 4% in real terms in both 2011 and 2012. The Commission services' spring 2011 forecast projects that the budget deficit will reach 5.8% in 2011, before declining to 3.6% in 2012. The macroeconomic forecast puts real GDP growth at 4% in 2011 and 3.7% in 2012.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Convergence Programme of Poland pursuant to Regulation 1466/1997. In this opinion the Council concluded that the Convergence Programme was based on a plausible macroeconomic scenario and noted that it plans to bring the deficit below the 3% of GDP reference value by 2012, the deadline set by the Council. It further stressed that the average annual fiscal effort over the period 2010-2012 was fully in line with the 1.25% of GDP recommended by the Council and that the amendment to the pension reform reducing the structural budget deficit by 0.7% in 2011 and by a further 0.5% of GDP in 2012 did not substantially improve the underlying budgetary situation as an improvement in the initial budgetary position was accompanied by an increase in long-term liabilities. The Council stated that risks to budgetary targets are tilted to the downside as direct tax revenues might turn out lower than projected, programme projections on social contributions rely on favourable scenarios for employment and wage growth and potential implementation delays and changes to the deficit-reducing measures, also beyond the direct control of the government, could result in a slippage in the consolidation path.

In relation to its opinion on the 2011 update of the Convergence Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Poland should take action within the period 2011-2012 to:

(i) implement the measures announced in the draft 2012 Budget Law and take additional measures of a permanent nature if needed to reduce the general government deficit to below 3% of GDP in 2012, in line with the Council recommendations under the EDP. While ensuring adequate progress towards the medium term objective, minimise cuts in growth-enhancing expenditure in the future;

(ii) enact legislation with a view to introducing a permanent expenditure rule by 2013. This rule should be based on sufficiently broad budgetary aggregates and should be consistent with the European system of accounts. Moreover, take measures to strengthen the mechanisms of coordination among the different levels of government in the medium term and annual budgetary processes.

1.1.12. Slovakia

In 2010, GDP per capita in PPS in Slovakia further increased slightly to 74% of the EU-27 average, compared to 73% in the preceding year, and 72% in 2008. In the same year growth rebounded to 4%, mostly on account of the recovery in external demand and investment. After an unprecedented slump in 2009, investment grew by 3.6% in 2010, partly in response to the need to replace fixed capital in the wake of the crisis, but also as a result of a return to higher corporate profitability and a gradual improvement in access to credit. However, the labour market deteriorated further and the unemployment rate reached 14.5%. Due to the rapid worsening of labour market conditions and with wages increasing only moderately, private consumption growth stalled. Inflation decelerated further to 0.7%. The general government deficit remained high at 7.9% of GDP in 2010. In June 2010, the Commission assessed the action taken by Slovakia in response to the Council recommendations under Article 126(7) of Treaty on the Functioning of the European Union of December 2009, to end the excessive deficit situation by 2013 at the latest, and concluded that Slovakia had up to then acted in accordance with the Council's recommendations to correct the excessive deficit and that no additional step in the excessive deficit procedure was therefore necessary at that stage.

The April 2011 update of the stability programme targets a reduction of the headline deficit from 4.9% of GDP in 2011 to 2.9% of GDP in 2013 and 2.8% in 2014. The macroeconomic scenario underlying the programme forecasts real GDP growth of 3.4% in 2011 and 4.8% in 2012-14. The Commission services' spring 2011 forecast projects the deficit at 5.1% of GDP in 2011 and, on the usual no-policy-change basis, 4.6% of GDP in 2012. Real GDP is projected to grow by 3.5% in 2011 and 4.4% in 2012.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Stability Programme of Slovakia pursuant to Regulation 1466/1997. In this opinion the Council concluded that the macroeconomic scenario underlying the programme is plausible for the initial two years but favourable towards the end of the programme period. The proposed consolidation measures appear to be sufficient to meet the fiscal targets but there are downside risks mainly related to the implementation of proposed measures. For the period 2011-2013 meeting the budgetary targets would imply an average annual fiscal effort of around 1.4% of GDP. In addition, the challenge for Slovakia is to ensure that consolidation safeguards expenditure on growth-enhancing items, such as education and transport infrastructure. The programme does not foresee the achievement of the medium-term objective (MTO) during the programme period.

In relation to its opinion on the 2011 update of the Stability Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Slovakia should take action within the period 2011-2012 to:

(i) rigorously implement both the 2011 budget as envisaged and the planned specific measures of a permanent nature in 2012 and 2013, to reduce the deficit below 3% of GDP by 2013 in line with Council recommendations on correcting the excessive deficit and ensure adequate progress towards the medium-term objective. Subject to this, safeguard growth-enhancing expenditure, and use available room to increase revenue through environmental and property taxes and by increasing the efficiency of VAT collection;

(ii) strengthen fiscal governance by adopting in 2011 and implementing from 2012 binding multi-annual expenditure ceilings, covering the central government and the social security system. In addition, introduce an independent Fiscal Council and ensure timely publication of budgetary data at all levels of the government;

(iii) enhance the long-term sustainability of public finances by further adjusting the pay-as-you-go pillar of the pension system also by changing the indexation mechanism and implement further measures with a view to raising the effective retirement age, in particular by linking the pensionable age to life expectancy. Introduce incentives to ensure the viability of the fully-funded pension pillar so as to progress towards fiscal sustainability while assuring adequate pensions.

1.1.13. Slovenia

In 2010, Slovenia's GDP per capita in PPS further declined to 87% of the EU-27 average, from 88% in the preceding year, and 91% in 2008. A halting export-led recovery has been underway since the second quarter of 2009 and in 2010 real GDP is estimated to have grown by 1.2%, driven by net exports and the turning of the inventory cycle. A weak labour market, high corporate indebtedness, adverse banking sector developments and the slump in the construction sector have all contained domestic demand. The resumption of growth and the first steps made in fiscal consolidation have helped to decrease the general government deficit to 5.6% of GDP in 2010, from 6% in 2009. In June 2010, the Commission assessed the action taken by Slovenia in response to the Council recommendations under Article 126(7) of Treaty on the Functioning of the European Union of December 2009, to end the excessive deficit situation by 2013 at the latest, and concluded that Slovenia had up to then acted in accordance with the Council’s recommendations to correct the excessive deficit and that no additional step in the excessive deficit procedure was therefore necessary at that stage.

The April 2011 update of the stability programme targets a gradual narrowing of the general government deficit from 5.5% of GDP in 2011 to 2.0% in 2014. The macroeconomic scenario underlying the programme forecasts a gradual strengthening of real GDP growth, from 1.8% in 2011 to 2.8% in 2014. The Commission services' spring 2011 forecast projects the deficit at 5.8% of GDP in 2011 and, on the usual no-policy-change basis, 5.0% of GDP in 2012. Real GDP is projected to grow by 1.9% in 2011 and 2.5% in 2012.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Stability Programme of Slovenia pursuant to Regulation 1466/1997. In this opinion the Council concluded that the average annual change in the structural balance over the period 2010-13, as calculated by the Commission services based on the commonly agreed methodology, is planned to be below the level recommended by the Council and that deficit and debt outcomes could fall short of the targets.

In relation to its opinion on the 2011 update of the Stability Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Slovenia should take action within the period 2011-2012 to:

(i) achieve the 2011 deficit target, underpin the 2012 deficit target with concrete measures and implement the necessary consolidation rigorously, standing ready to adopt additional measures to prevent possible slippages. Underpin this required adjustment process over the programme period with additional measures to ensure the average annual fiscal effort in line with the Council recommendations under the EDP and adequate progress towards an appropriate medium-term objective; To this purpose, use structural measures to contain expenditure and address identified inefficiencies and implement a more binding medium-term budgetary framework. Accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected;

(ii) take the required steps to ensure the long-term sustainability of the pension system, while preserving the adequacy of pensions. Increase the employment rate of older workers through later retirement, and by further developing active labour market policies and lifelong learning measures.

1.1.14. Bulgaria

In 2010, Bulgaria's GDP per capita in PPS reached 43% of the EU-27 average, thus having declined by 1 percentage point from the previous year. Following five consecutive quarters of decline, which left real GDP around 7% below the peak reached at the end of 2008, the economy bottomed out in 2010 with growth returning to positive territory in the second quarter. Recovery gained momentum in the second half of the year leading to 0.2% real GDP growth for 2010 as a whole, against a severe contraction by -5.5% in 2009. A strong upturn in exports, restocking of inventories, and improved utilization of EU funds were the main growth drivers. The economic downturn led to a significant deterioration of public finances. The general government balance turned into a deficit of 4.7% of GDP in 2009 and 3.2% in 2010 compared to a surplus of 1.7% in 2008. Upon notifying a breach of the 3% of GDP reference value for 2009, Bulgaria entered an excessive deficit procedure in July 2010. The Council issued recommendations under Article 126(7) of Treaty on the Functioning of the European Union to end this situation by 2011 at the latest. In January 2011, the Commission assessed the action taken by Bulgaria in response to the Council recommendations and concluded that Bulgaria had up to then acted in accordance with the Council's recommendations to correct the excessive deficit and that no additional step in the excessive deficit procedure was therefore necessary at that stage.

The most recent update of Bulgaria's convergence programme, submitted in April 2011, projects the general government deficit to continue to decline to 2.5% of GDP in 2011, 1.5% in 2012, 1% in 2013, and 0.5% in 2014. According to the macroeconomic scenario underlying the programme, real GDP will increase by 3.6% in 2011 and further accelerate to an average rate of 4.25% over the remainder of the programme period. In the Commission services' spring 2011 forecast the general government deficit is projected to decline to 2.7% of GDP in 2011 and, assuming a no policy change, to 1.6% of GDP in 2012. Real GDP is expected to grow by 2.8% in 2011 before picking up by 3.6% in 2012.

In its recommendation of 12 July 2011 the Council delivered an opinion on the 2011 update of the Convergence Programme of Bulgaria pursuant to Regulation 1466/1997. In this opinion the Council concluded that after the achieved considerable and frontloaded budgetary adjustment of more than 2 percentage points in structural terms in 2010, fiscal consolidation plans for 2011 should be implemented as envisaged and the deficit should be brought below the 3% reference value in line with the Council Recommendation under the excessive deficit procedure. However, it was considered that the update does not provide sufficient details for planned budgetary measures to achieve the fiscal targets in 2012-14. In addition, the full implementation of the programme depends on an optimistic macroeconomic scenario, while the projected expenditure growth in 2012-13 seems to be on the high side, when assessed against a prudent estimate of medium-term rate of growth, posing a risk to the structural fiscal position in the medium term. In that vein, strengthening of the domestic fiscal framework would permit to further enhance predictability and credibility of government policy in the medium-term, while anchoring fiscal discipline.

In relation to its opinion on the 2011 update of the Convergence Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Bulgaria should take action within the period 2011-2012 to:

(i) proceed with effective budget implementation so as to correct the excessive deficit in 2011, in line with the Council recommendation of 13 July 2010 under the EDP; specify the measures underpinning the budgetary strategy for 2012-2014; take advantage of the economic recovery to ensure adequate progress towards the medium-term objective, primarily by keeping tight control over expenditure growth, while prioritizing growth-enhancing expenditure;

(ii) take further steps to improve the predictability of budgetary planning and the implementation control, including on an accruals basis, in particular by strengthening fiscal governance. To this end, design and put in place binding fiscal rules and a well-defined medium-term budgetary framework that ensures transparency at all government levels.

1.1.15. Romania

Romania's GDP per capita in PPS was 45% of the EU-27 average in 2010. In the same year, real economic activity declined by -1.3%, after having fallen by -7.1% in 2009. The long duration of the recessionary period was a result of a sharp downward adjustment in domestic demand, which in the run-up to the crisis had been fuelled by lax fiscal policy and a boom in credit lending, mostly in foreign currencies. The current-account balance in 2009-10 remained in negative territory (at -4.2% in both years) despite the sharp economic decline and depreciation of the exchange rate. Following the Council's decision under Art. 104(6) TEC of July 2009 establishing the existence of an excessive deficit, in February 2010 the Council issued revised recommendations under Art. 126(7) of Treaty on the Functioning of the European Union to end the excessive deficit in 2012 at the latest. In September 2010, the Commission assessed the action taken by Romania in response to the Council recommendations, and concluded that Romania had up to then acted in accordance with the Council's recommendations to correct the excessive deficit and that no additional step in the excessive deficit procedure was therefore necessary at that stage.

The May 2011 update of the convergence programme projects a further decline of the general government deficit to 4.9% of GDP in 2011, 3.0% in 2012, 2.6% in 2013, and 2.1% in 2014. The underlying macroeconomic scenario envisages that real GDP will rise by 1.5% in 2011 and 4% in 2012, rising to 4.5% and 4.7% in 2013 and 2014. The spring 2011 forecast by the Commission services projects the general government deficit at 4.7% in 2011 and 3.6% in 2012 under no-policy-change terms. The Commission growth forecast for 2011 is fully identical to the projections in the convergence programme, for 2012 it is slightly more cautious (3.7%). The implementation of the fiscal governance reforms decided upon within the context of the EU balance of payments assistance programme in Romania should help in achieving the budgetary targets. In February 2011, a follow-up joint EU/IMF precautionary financial assistance program was requested to support the re-launch the economic growth with a focus on structural reforms, while consolidating fiscal and financial stability. It also contains explicit targets for the absorption of EU structural funds. The World Bank will continue providing earlier committed support to Romania under its development loan programme (DPL3) and support for social assistance and health reforms. The Council has adopted the relevant decisions for the new precautionary Balance-of-payments (BoP) programme on 12 May 2011, thus making available precautionary EU medium-term financial assistance of up to EUR 1.4 billion. The last instalment of EUR 150 million under the previous BoP programme was disbursed on 22 June, meaning that the total amount of the EU loan to Romania of EUR 5 billion has been made available.

In its recommendation of 12 July 2011, the Council delivered an opinion on the 2011 update of the Convergence Programme of Romania pursuant to Regulation 1466/1997. In this opinion the Council concluded that macroeconomic assumptions underpinning the programme are plausible. The programme aims to limit the general government deficit to 2.6% and 2.1% of GDP in 2013 and 2014, respectively. The envisaged consolidation is mostly expenditure-based and the structural improvement appears to be frontloaded in 2011 and 2012. In contrast, no such improvement is foreseen in 2013 and 2014. The medium-term objective (MTO) will not be reached in the programme period, according to the structural balance recalculated by Commission services. The main risks to the budgetary targets are linked to budget implementation risks, arrears of state-owned enterprises, and reservations expressed by Eurostat about Romania's fiscal notification under the excessive deficit procedure.

In relation to its opinion on the 2011 update of the Convergence Programme, also taking into account the Council Recommendation under Article 126(7), the Council recommended that Romania:

(i) implement the measures laid down in Decision 2009/459/EC as amended by Decision 2010/183/EU, together with the measures laid down in Decision 2011/288/EU and further specified in the Memorandum of Understanding of 23 June 2009 and its subsequent supplements, and in the Memorandum of Understanding of 29 June 2011 and its subsequent supplements.

1.2. Conditionality

Article 6 of the Council Regulation (EC) No 1164/1994 which governs the Cohesion Fund for projects approved prior to the end of 2006 attaches budgetary policy conditions to the disbursements by 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".

At the end of 2010, fourteen Member States that were eligible for support under the Cohesion Fund (Greece, Spain, Portugal, Bulgaria, Romania, Cyprus, Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) were in 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.

In 2010, there were eleven cases (Czech Republic, Spain, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia and Slovakia) where effective action taken in compliance with the Council recommendations under Article 126(7) of Treaty on the Functioning of the European Union (TFEU) was assessed. In three of those cases (Lithuania, Malta and Romania), the Council also issued new recommendations under Article 126(7) TFEU with a view to bringing the excessive deficit situation to an end, and later that year the Commission also concluded that action had been taken in compliance with the renewed recommendations. The Council further decided to open an excessive deficit procedure in two cases (Bulgaria and Cyprus). For both, the Commission concluded in early 2011 that effective action had been taken in compliance with the Council's recommendations.

The Council decided to give notice under Article 126(9) TFEU to Greece, having had established in 2009 under Article 126(8) TFEU that the authorities had not taken effective action in response to the Council recommendations to end the excessive deficit, although suspension of payments from the Cohesion Fund was not recommended at the time. Since then, compliance with the Council decision is examined by the Commission on a quarterly basis. On each of these occasions, the Council (on a recommendation from the Commission) also revises its decision under Article 126(9) TFEU.

2. FINANCIAL EXECUTION OF THE 2000-2006 PERIOD IN 2010 AND CLOSURE OF PROJECTS

The Member States eligible for the Cohesion Fund support can be divided into three groups: a group of four Member States eligible from the beginning of the programming period 2000-2006 (Greece, Spain, Ireland and Portugal), a second group of ten Member States that joined the European Union in May 2004 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia), and the group of two Member States (Romania and Bulgaria) that joined the European Union in January 2007.

2.1. Extension of the final date of eligibility of expenditure

The "Guidelines on the Closure of Cohesion Fund and Ex-ISPA projects 2000-2006 refers to the period of eligibility of expenditure which is set out in each individual decision granting financial assistance. In accordance with the principle of sound financial management, and the guidance sent on 9 March 2005 by the Directorate-General for Regional Policy to the Member States, for all Cohesion Fund projects the Commission set the final eligibility date, as a general rule, not beyond 31 December 2010.

In April 2010, the Commission adopted as one of the measures in support of the European Economic Recovery Plan, the "Amendment of the Guidelines on the closure of Cohesion Fund and ex-ISPA projects 2000-2006"[3].This amendment stated that the Commission may under justified circumstances decide to extend the final date of eligibility. The Commission took into account that projects first approved from 2004 onwards may have been particularly affected by issues of providing the required national public or private co-financing, or by the ability of beneficiaries to respect the original schedule of works. The Commission reflected that such projects were in the midst or even only at the start of their implementation when the crisis set in.

For projects first approved by Commission decision after 1 January 2004 the Commission may decide, on the basis of a duly justified request, to extend the final date of eligibility to 31 December 2011. If, moreover, it concerns a project with a Cohesion Fund contribution of at least EUR 100 million, the final date of eligibility may be extended to 31 December 2012.

Exception for the extension of the final date of eligibility beyond the dates above is possible only under exceptional and duly justified circumstances (i.e. administrative or legal proceedings having suspensory effects, cases of force majeure which have serious repercussions for the implementation of the project supported by the Cohesion Fund, or manifest errors attributable to the Commission).

The amendment of the guidelines on closure was welcomed by the respective Member States and the Commission believes it will contribute to more efficient and effective implementation of the 2000-2006 Cohesion Fund projects. As a consequence, a number of the Member States requested extensions of the final date of eligibility for several dozens of Cohesion Fund

[3] "Amendment of the Guidelines on the closure of Cohesion Fund and ex-ISPA projects 2000-2006", SEC(2010) 0405 of 19 April 2010

projects in 2010 which would mean that implementation of these projects will continue to the end of 2011 or 2012.

2.2. Payments made in 2010 for projects adopted during the 2000-2006 period

In general, there were fewer final payments for Cohesion Fund projects (and ex-ISPA) for the period 2000-2006 than initially expected. Closure payment claims require thorough analysis of the closure documents and, depending on their completeness and quality, it can result in final payments at later stage than initially foreseen.

The 2010 initial budget for payments for the 2000-2006 Cohesion Fund projects amounted to EUR 2,500 million. The transfer of appropriations resulted in a final budget of EUR 2,321 million. In order to close the gap between the available resources and the demand for payments, transfers have been made to the budget line related to the 2007-2013 Cohesion Fund programmes. For the period 2000-2006, the available appropriations of EUR 2,321 million were fully implemented by the end of 2010. This is a lower execution than in year 2009 (EUR 2,777 million) illustrating the fact that the Cohesion Fund project implementation cycle is reaching its final stage.

As far as the ex-ISPA budget lines are concerned, the budget initially foreseen for 2010 amounted to EUR 560 million. In September (during the Global Transfer procedure), the appropriations were reduced by an amount of EUR 184 million. After further transfers in December 2010, the final appropriations amounted to some EUR 368 million. The available appropriations were implemented in their entirety.

Table 1 presents the overall execution of payments in 2010 (including technical assistance) for the Cohesion Fund and the ex-ISPA projects.

Table 1. Implementation of the Cohesion Fund and ex-ISPA payments in 2010 (in EUR)

Payment appropriations	Initial	Movements	Final Resources	Outturn
Cohesion Fund	2 500 000 000	-179 383 717	2 320 616 283	2 320 616 283
Ex-ISPA	560 000 000	-191 878 478	368 121 522	368 121 522
TOTAL	**3 060 000 000**	**-371 262 195**	**2 688 737 805**	**2 688 737 805**

Table 2 shows the level of 2010 payments for each Member State and for each sector. The main beneficiary countries are Spain in the EU-4 group, Poland in the EU-10 group and Romania in the EU-2 group.

In 2010, payments were higher in comparison to the payments made in 2009 for the following countries: Poland (+ EUR 108 million or 13% increase of payments made in 2009), Slovakia (+ EUR 14 million or 29% increase of 2009 payments).

Table 2. Payments made in 2010 to the Cohesion Fund and ex-ISPA projects per Member State and per sector

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	% (as compared to the CF 2010 outturn by MS)	Amount	% (as compared to the CF 2010 outturn by MS)	Amount	Amount	% (as compared to the global CF amount)
Greece	196 285 182	7,3%	60 562 484	2,3%	0	256 847 666	9,55%
Portugal	109 709 657	4,1%	127 564 819	4,7%	985 244	238 259 720	8,86%
Ireland	0	0,0%	0		0	0	0,00%
Spain	328 329 637	12,2%	280 813 392	10,4%	0	609 143 029	22,66%
EU-4	**634 324 476**	**23,6%**	**468 940 695**	**17,4%**	**985 244**	**1 104 250 415**	**41,07%**
Cyprus	0	0,0%	0	0,0%	0	0	0,00%
Czech Republic	55 297 256	2,1%	30 680 718	1,1%	425 379	86 403 353	3,21%
Estonia	15 878 636	0,6%	22 039 712	0,8%	0	37 918 348	1,41%
Hungary	29 331 827	1,1%	17 526 811	0,7%	856 105	47 714 743	1,77%
Latvia	10 338 526	0,4%	25 859 859	1,0%	544 591	36 742 976	1,37%
Lithuania	8 740 955	0,3%	15 252 592	0,6%	6 138 958	30 132 506	1,12%
Malta	0	0,0%	0	0,0%	40 420	40 420	0,00%
Poland	448 619 538	16,7%	491 467 969	18,3%	4 116 085	944 203 592	35,12%
Slovakia	26 049 461	1,0%	34 584 958	1,3%	0	60 634 419	2,26%
Slovenia	11 790 480	0,4%	440 792	0,0%	96 250	12 327 522	0,46%
EU-10	**606 046 680**	**22,5%**	**637 853 411**	**23,7%**	**12 217 789**	**1 256 117 879**	**46,70%**
Bulgaria	47 080 251	1,8%	68 561 660	2,5%	3 351 764	118 993 675	4,43%
Romania	109 605 808	4,1%	97 810 588	3,6%	1 959 440	209 375 836	7,79%
EU-2	**156 686 059**	**5,8%**	**166 372 248**	**6,2%**	**5 311 204**	**328 369 511**	**12,21%**
TOTAL	**1 397 057 214**	**52,0%**	**1 273 166 354**	**47,4%**	**18 514 237**	**2 688 737 805**	**100,00%**

2.3. Outstanding commitments from the 2000-2006 period

At the end of 2010, the average absorption rate (payments vs. commitments) of all current beneficiary countries for both the Cohesion Fund and ex-ISPA projects was 83.7% (Table 3). The absorption rates range from 70.1% (Bulgaria) and 72.6% (Hungary) to 86.7% (Estonia) and 92.8% (Ireland).

At the end of 2010, the outstanding commitments ("reste à liquider", RAL) corresponding to the 2000-2006 period amounted to EUR 5.7 billion. During 2010, the outstanding RAL was reduced by EUR 2.7 billion. In terms of absorption, the most significant decreases in RAL compared to year 2009 were notified for Poland (-16.8 percentage points), Bulgaria (- 13.6 percentage points) and Romania (- 10.3 percentage points).

Table 3. Cohesion Fund and ex-ISPA accepted amounts in 2000-2006 (including RAL)

Member State	Committed (until 12/2010)	Paid (until 12/2010)	% Paid	RAL as at 31/12/2010	% RAL
Greece	3 546 948 416	2 972 182 523	83,8%	574 765 893	16,2%
Spain	12 884 382 648	11 128 639 199	86,4%	1 755 743 450	13,6%
Ireland	625 755 407	580 710 223	92,8%	45 045 184	7,2%
Portugal	3 482 652 576	2 979 319 277	85,5%	503 333 299	14,5%
TOTAL EU-4	**20 539 739 048**	**17 660 851 221**	**86,0%**	**2 878 887 827**	**14,0%**
Cyprus	54 014 695	40 029 810	74,1%	13 984 885	25,9%
Czech Republic	1 226 218 717	1 061 982 697	86,6%	164 236 020	13,4%
Estonia	425 431 731	368 686 651	86,7%	56 745 080	13,3%
Hungary	1 481 998 333	1 075 837 677	72,6%	406 160 656	27,4%
Latvia	713 737 155	578 052 034	81,0%	135 685 121	19,0%
Lithuania	825 210 750,63	691 544 300	83,8%	133 666 450	16,2%
Malta	21 966 289	17 573 031	80,0%	4 393 258	20,0%
Poland	5 634 539 614	4 652 759 522	82,6%	981 780 092	17,4%
Slovakia	765 689 903	646 665 528	84,5%	119 024 375	15,5%
Slovenia	254 129 012	214 745 183	84,5%	39 383 829	15,5%
TOTAL EU-10	**11 402 936 200**	**9 347 876 435**	**82,0%**	**2 055 059 765**	**18,0%**
Bulgaria	876 877 183	614 479 975	70,1%	262 397 209	29,9%
Romania	2 035 838 573	1 550 268 645	76,1%	485 569 928	23,9%
TOTAL EU - 2	**2 912 715 755**	**2 164 748 620**	**74,3%**	**747 967 135**	**25,7%**
TOTAL	**34 855 391 003**	**29 173 476 276**	**83,7%**	**5 681 914 727**	**16,3%**

2.4. Closure of Cohesion Fund projects

In total there are 1192 Cohesion Fund projects for 2000-2006 (including the ex-ISPA projects and bridge projects 1994-1999), of which 795 were still on-going in the Member States at the end of 2010.

At the end of 2010, the total number of closed 2000-2006 Cohesion Fund projects (including ex-ISPA projects) was 397 and 102 projects were closed in 2010. The majority of closures were notified for the following Member States: Spain (58 projects closed), Latvia (9), Greece and Czech Republic (8). Table 4 provides information on the projects closed until the end of 2010 per Member State.

Table 4. Cohesion Fund projects closed until the end of 2010 (including ex-ISPA)

Member State	Total number of CF projects	Projects closed as of end 2010			Number of open projects as of end 2010
		Total number of projects closed	Number of projects closed in 2010	Total paid in EUR	
Czech Republic	58	27	8	549 846 707	31
Estonia	37	21	1	129 290 305	16
Greece	124	58	8	1 298 010 305	66
Spain	407	164	57	4 272 630 917	243
Ireland	10	4	0	357 368 796	6
Cyprus	2	0	0	0	2
Latvia	46	19	9	143 251 895	27
Lithuania	51	16	1	171 791 687	35
Hungary	47	12	1	34 389 692	35
Malta	3	0	0	0	3
Poland	130	6	0	68 915 348	124
Portugal	109	36	6	825 206 357	73
Slovenia	28	13	3	81 180 871	15
Slovakia	39	11	3	145 781 900	28
EU-14	**1091**	**387**	97	**8 077 664 780**	**704**
Bulgaria	38	4	1	27 407 620	34
Romania	63	6	4	15 776 582	57
EU-2	**101**	**10**	5	**43 184 202**	**91**
TOTAL	**1 192**	**397**	**102**	**8 120 848 982**	**795**

3. THE IMPLEMENTATION OF THE 2000-2006 PROJECTS BY MEMBER STATE

3.1. Greece

3.1.1. Environment

In the environmental sector, 60 projects were under implementation in 2010, contributing to waste management, the treatment of waste water, drinking water supply, rehabilitation of a lake and prevention of forest fires. The aim of these projects is to contribute to implementing the relevant EU Directives.

Progress is noted during 2010 in particular in relation to those Cohesion Fund projects that concern waste water treatment plants however, the rate of performance of the environment projects differs from one sector to another. Projects on solid waste infrastructure in particular in Attiki Region, drinking water and nature protection projects, and in particular major projects such as the construction of dams, are seriously delayed due to administrative delays, archaeological findings, the economic crisis, violent public/social reactions or not full implementation of the EU relevant Directives. This is due to the condition that a number of requirements that should be implemented are deriving from relevant Directives and reflected in the specific terms of the funding decisions and are linked to payments. These specific clauses can be divided into those of an administrative nature (e.g. setting up of a solid waste management body or of an agency to manage the operation of a dam), and those of a legal or technical character (e.g. the completion of the legal framework relating to the solid waste management or certain actions considered necessary for the integrated management of solid waste). The timely and efficient application and implementation of these requirements are directly related to the implementation of the projects concerned.

Due to all the above, most of the granting decisions have been modified upon request of the Greek authorities. These modification decisions concerned mainly the extension of the final date of eligibility, the adaptation of the physical object and the financing plan.

3.1.2. Transport

In the transport sector there were 12 projects under implementation in 2010 and there is a stable progress of the physical and financial implementation of the projects, with higher absorption presented in the road projects while the rail and the port projects are still lagging behind.

Cohesion Fund transport projects contribute to the development of the sustainable transport policy in Greece and concern in particular the priority trans-European (TEN) road axes in Greece, i.e. the PATHE, EGNATIA; the modernisation of the PATHE railway axis, also part of the TEN, including its electrification and signalling systems, construction of a freight railway line from the Ikonio port to the railway freight centre of Thriassio; the infrastructure facilities in different ports; public transport infrastructures in Attica such as the metro. The transport projects are progressing better than the environment projects, with motorways projects being particularly well advanced.

3.2. Spain

The year 2010 was confined to physical and financial monitoring of ongoing projects leading, in particular, to interim payments based on their degree of advancement, to the closure of completed projects and to adjustments of the terms of assistance in relation to the actual situation on the ground via changes in the Commission decisions granting Community assistance.

A total of 57 projects were closed in 2010 and 243 projects remained open as at the end of 2010, including one from the 1993-1999 period, with a RAL of EUR 1,755.7 million, of which EUR 5.4 million was related to the 1993-1999 period. This represents a decrease of 26.7% in the RAL associated with the Cohesion Fund for 2010.

Despite a significant acceleration in the pace of closures compared to 2009 and 2008 when 34 and 18 project's closures was completed, the closure process remains not as fast as desired and complex mainly due to the problem concerning the transposition of EU Directives on public procurement into Spanish law, especially with regard to changes in the contracts being implemented by negotiated procedure.

Many projects are likely to present problems of irregularities related to non compliance with the said Directives, but they have to be completed pursuant to section H of Annex II to Regulation (EC) No. 1164/1994. The organisation and management of such a procedure involves an extremely heavy burden, both for the Member State and for the services of the Commission. However, four hearings took place in 2010 (11 March, 23 June, 14 July and 22 November) dealing with a total of 30 projects, compared to only one hearing in 2009 which dealt only with 3 projects.

As regards payments (intermediate and final balance), a total of 128 requests for payments have been implemented for an amount equivalent to EUR 609.1 million. Compared to the year 2009, this represents a decrease in terms of payment claims (162 in 2009) and a decrease in terms of amounts paid (EUR 712 million in 2009).

3.2.1. Environment

Regarding changes in the conditions for granting aid, in 2010 a total of 30 amending decisions were approved, all of which were within the environmental sector. In general, the changes affect the date of completion of works, often accompanied by - usually minor - changes to the physical subject of the projects. The changes have had no impact on either the total eligible costs of projects or Community assistance.

Also, in terms of changes, there was a significant reduction compared to 2009 when 71 amending decisions were approved. This is probably due to the unusual high number of modification in 2009.

3.2.2. Transport

In 2010, the Commission services paid particular attention to the implementation of high speed trains projects. In particular in September 2010 two new lines started operating: Madrid-Albacete and Madrid-Valencia (adding 438 km to the global network). The trip between Madrid and Valencia takes now only 1 hour and a half (for 391 km) what can be considered a very good result of the cohesion policy in Spain. The total EU co-financing of this infrastructure was EUR 1,949 million. For the programming period 2000-2006 the total EU aid was EUR 747.3 million (EUR 574.6 million from the Cohesion Fund). The total cost of the infrastructure was EUR 12,410 million.

3.3. Portugal

3.3.1. Environment

The projects under implementation help to promote, develop and complete the basic environment infrastructure as well as to ensure the conditions for sustainable development, environmental protection and management of natural resources. These projects relate to the priority sectors of "Water Supply", "Sewerage and Wastewater Treatment" and "Urban Waste Management", in line with the reference framework.

During 2010, 12 amending decisions were adopted to make general adjustments to the final specifications of projects, mostly in order to include new additional elements and/or to revise others, and to extend the final date of eligibility.

In 2010, 4 environmental projects were closed: "Resíduos Cova da Beira", "Sistema multimunicipal de Valorizaçao eTratam. De RSU do Norte Alentejano", "Residuos Solidos Acçoes Vomplementaires para o Ano 2001-EGF" and "Sistema Multimunicipal de Abastecimento de Agua e de Saneamento do Vale do Ave-Estudos/Projectos/Assessorias".

As at December 2010, 16 environmental projects were already in the process of closure. From a financial point of view the most significant projects are "Tratamento de Resíduos da Madeira" (with a total Fund contribution of EUR 72 million), "Abastecimento e Saneamento de Águas de Trás-os Montes e Alto Douro – Fase 1" (EUR 52 million), "Abastecimento de Água e Saneamento de Trás-os-Montes e Alto Douro – 3ª. Fase" (EUR 50 millions), "Multisectorial Raia, Zêzere, Nabão- 1a fase" (EUR 45 millions), and "Abastecimento e Saneamento de Águas de Trás-os Montes e Alto Douro – Fase 2" (EUR 43 million).

The other 37 open projects arrived at the end of eligibility date on 31 December 2010. However, following the Amendment of the Guidelines on the closure of Cohesion Fund and ex-ISPA projects 2000-2006, the national authorities requested the extension of the deadline of 18 projects/group of projects to the end of 2011 and 1 cancellation (Resitejo). This means that 19 projects should enter in the closure procedure soon.

It should be noted that one project in the sector of waste treatment – "Braval" - has not yet received the advance payment.

3.3.2. Transport

The projects being implemented contribute to the development of the Trans-European Transport Network and enhance multimodal articulation between the various means of transport in place, in line with the objectives of the reference framework.

During the year, 2 amending decisions were adopted for the same general reasons of adjusting the description of the project and extending the final date of eligibility.

In 2010, 2 transport projects were fully closed, "Porto da Praia da Vitória" and "IC3 – Ligação Tomar/IP6" and 1 partially closed due to legal and administrative issues, "Linha do Minho – Nine/Braga.

Six transport projects were at the closure procedure stage in December 2010; from a financial point of view the most relevant ones are "Linha do Algarve – Coina / Pinhal Novo" (with a total Fund contribution of EUR 86 million), and "Porto do Caniçal" (EUR 41 million).

The other 9 projects arrived at the end of the eligibility date on 31 December 2010. The national authorities requested the extension of the deadline to the end of 2011 for one project

(Porto do Funchal) and to the end of 2012 for another one (Metro de Lisboa – GIL/Aeroporto). In the same request for modification, the Portuguese authorities asked for the fusion of this project with another project in the same underground line "Metro de Lisboa – Alameda/S. Sebastião".

3.3.3. Technical Assistance

At the end of 2010, 3 technical assistance decisions still remained open. No projects were closed. One amending decision was adopted in 2010 to extend the final date of eligibility to the end of 2011.

3.4. Cyprus

The Cohesion Fund for Cyprus amounts to approximately € 54 million Community contribution. Two projects are co-financed by the Cohesion Fund: one transport project (upgrade of Limassol motorway) and one environmental project (solid waste management covering the regions of Larnaka-Ammochostos).

The payments made by the Commission for 2 projects (including the advances) amount to approximately EUR 40 million (absorption rate 74%). During the year 2010, no payment claim was submitted by the Cypriot authorities.

The final payment request including the final report for the transport project was submitted on 22 June 2010, which is within the 6 months deadline after the final date of implementation. The winding-up declaration was submitted on 6 December 2010. All closure documents are under assessment and it is expected to complete it during the first semester of 2011.

For the environment project, the works have been completed and the project is operational. It is expected to receive the final payment claim within the 6 months deadline after the final date of implementation (at the end June 2011).

3.5. Czech Republic

3.5.1. Environment

The implementation of the Cohesion Fund projects in the environment sector is progressing satisfactorily. Out of 38 projects approved in the 2000-2006 programming period, 14 were closed (4 in 2010), 1 is in the closure procedure, and closure procedures have been initiated for 5 other projects. The majority of the on-going projects have been completed or are in the final stage of implementation. 81% of the committed amounts have already been paid by the Commission.

In 2010, the Commission dealt with 4 requests to amend the Commission decision in the sector of environment. Most of the modifications concerned the extension of the final date of eligibility. By the end of the year, all of the modification requests had been adopted.

3.5.2. Transport

In the transport sector, implementation is well advanced for almost all projects. 86% of the committed amounts have already been paid by the Commission. In 2010, the closure procedure was launched for 1 project. So far, 9 out of 13 approved projects have been closed (4 in 2010). One modification request was received in 2010 in the transport sector concerning the extension of the final date of eligibility.

In addition, there was also 1 mixed project – environment and transport (Floods 2002 relief: Reconstruction of transport and environment infrastructure damaged or destroyed by floods during August 2002) which was closed in 2004.

3.5.3. Technical Assistance

Regarding the technical assistance projects, their implementation is also well advanced - 3 out of 6 approved projects (2 in the field of transport, 2 in the field of environment and 2 general technical assistance) were closed, none of which in 2010. The closure procedure for one of the technical assistance projects in the field of transport has been launched in 2010.

A request for modification concerning the extension of the final date of eligibility of the technical assistance to the managing authority of the Cohesion Fund was submitted and approved in 2010. A request for modification concerning the extension of the final date of eligibility was submitted and approved in 2010 also for one of the technical assistance projects in the field of environment.

3.6. Estonia

3.6.1. Environment

The Commission has issued financial decisions for 21 environmental projects under the Cohesion Fund (4 of them are technical assistance projects). By the end of 2010, activities of all but 2 projects were finished on the ground. For 2 projects, the extension was asked as contractors were unable to fulfil their tasks and new contractors had to be found at the last moment. The residual works are minor compared to the whole project and there is no danger that the projects will not be operational as a result.

Cohesion Fund projects were subject to heavy cost increases in 2006 – 2007. The situation has normalized since 2008 and construction prices have been going down during the economic crises. The changing conditions have required that some projects had to be modified by the Commission and there are pending requests to decrease the physical objectives of certain projects. These proposals for modification are being analyzed in order to ensure the delivery of working projects that continue to fulfil the initial objectives and to avoid increasing Community contribution except in cases that are justified by unforeseeable increase in initial estimated inflation.

In environment, Cohesion Fund projects mainly concentrated to water sector. Estonia's larger urban areas – Tartu, Narva, Kohtla-Järve, Pärnu etc. were able to carry out separate projects while smaller settlements were grouped together according to the river or sub-river basin water management plans. In waste management the Cohesion Fund supported closure of one hazardous waste landfill and construction of modern landfill for the Western part of Estonia.

3.6.2. Transport

The Commission has issued financial decisions for 15 transport projects under the Cohesion Fund (5 of which are technical assistance projects). By the end of 2010, all projects were completed on ground. For a project concerning the extension of Muuga harbour, cost savings were encountered and the managing authority proposed to carry out additional works to use these savings for the benefit of the project during 2011.

All Estonian TEN-T roads have been systematically improved with Cohesion Fund resources. At the initial stage, projects comprised mainly improvements to existing roads that were in very bad condition when ISPA initially became available. At later stage, work has concentrated on full renewal of sections and junctions considered to be bottlenecks or black spots in terms of safety. No completely new roads or motorway sections have been built. In addition to roads, Tallinn Airport passenger terminal and surrounding area have been completely renovated and extended, allowing the airport to cope with increased passenger numbers. Also, major seaport has been extended with the assistance of the Cohesion Fund.

Technical assistance has helped preparing transport infrastructure projects for implementation in the new programming period. This is demonstrated by good progress in transport sector investments from 2007 – 2013 period resources.

3.7. Hungary

3.7.1. Environment

In the environment sector there are 31 Cohesion Fund/ex-ISPA projects, including 6 technical assistance projects (5 of which are closed) and 25 investment projects (2 are closed) of which 10 are waste water, 13 are solid waste, 1 drinking water and 1 recultivation project. The overall payment/commitment rate is 65% for investment projects and 87% for technical assistance projects. The contracting rate is mainly above 90% and in several cases it is 100%.

In 2010, the Commission adopted 3 amending decisions, 2 of which concerned the extension of the final date of eligibility until 31 December 2010 and 2012 respectively and another relating to the inclusion of new project elements. An additional 8 modifications are on-going. These are mainly related to cost savings and extension of the project eligibility date until 31 December 2011. The requested extension of the final date of eligibility to 31 December 2011 for 2 projects – namely North East Pest and North Balaton waste projects - was not eligible for the extension as these projects were first adopted in 2002 and 2003.

One environment project was closed in 2010. There are 4 pending project closures.

3.7.2. *Transport*

There are 16 Cohesion Fund/ex-ISPA projects in the transport sector including 7 technical assistance projects (4 of them are closed) and 9 investment projects – 1 for air transport (closed), 3 for road transport and 5 for rail. All transport projects reached the 80% payment/commitment rate. There are 3 pending project closures.

In 2010, the Commission adopted 3 amending decisions, mainly concerning the extension of the final date of eligibility until 31 December 2010 and an inclusion of new project elements. An additional modification is pending related to cost increase and extension of the final date of eligibility until 30 June 2012.

3.8. Latvia

3.8.1. *Environment*

The Commission has issued 26 Cohesion Fund decisions for environmental projects (including 4 technical assistance projects). In total, out of 26 projects by the end of 2010, 9 projects had been closed, 8 closure files and 1 cancellation request were pending with the Commission (7 projects were closed in 2010), and 8 projects were still ongoing.

For 5 of the pending closure files, financial corrections of EUR 4.45 millions were proposed as a result of the wrongful award of supplementary contracts. On 1 July 2010, a hearing was held for 4 projects, but no agreement was reached. Therefore a second stage hearing will be organized in 2011. Effort is put so that all the 5 remaining cases are closed in 2011.

In 2010, the Commission approved 5 modifying decisions mainly concerning extension of the final date of eligibility to 31 December 2010, increase of the ceiling of cumulative payments to the project to 90% and some minor adjustments of the physical scope.

3.8.2. *Transport*

The Commission has issued 18 Cohesion Fund decisions for transport projects (including 4 technical assistance projects). In total, by the end of 2010, 9 projects were closed (2 were closed in 2010), 1 closure file was pending with the Commission, and 8 projects were ongoing.

In 2010, the Commission approved 3 modifying decisions mainly concerning extension of the final date of eligibility to 31 December 2010 and some minor adjustments of the physical scope.

3.9. Lithuania

3.9.1. *Environment*

29 environmental projects were adopted under the Cohesion Fund (and ex-ISPA) for the period 2000-2006, of which 16 relate to the waste water sector, 11 relate to the solid waste sector, and 2 are for technical assistance.

Prior to 2010 one waste water project was closed and another one has been closed in 2010. Currently 7 other projects are under treatment for closure with the Commission.

3 amending decisions were adopted in 2010 and 13 other modification requests were still under treatment at the end of 2010, of which 1 was completed at the beginning of 2011. The modifications mainly concern reduction of scope of the project, adjustment of physical monitoring indicators, extension of the final date of eligibility to 31 December 2011 and increase, up to 90%, of the ceiling for advance and interim payments. Out of 13 requests, 9 included extension of the final date of eligibility and 10 the reduction in scope.

Two specific problems were identified in the environment sector:

1) A majority of projects in water and waste water sector showed only partial achievement of project objectives related to the connection rate of the new consumers to the central water supply and waste water collection networks.

2) A number of projects were affected by cost overruns due to unforeseen inflation, this has moved the Member State to request for a reduction of scope.

3.9.2. Transport

21 transport projects were adopted under the Cohesion Fund (and ex-ISPA) for the 2000-2006 period; 11 of these projects refer to the road sector, 6 refer to the railway sector, and 4 are for technical assistance.

Prior to 2010, 9 road projects and 2 technical assistance projects were closed. In 2010, the Commission services initiated closure procedures for 3 other projects which are currently under treatment.

4 amending decisions were adopted in 2010 and 2 more requests for amendment were under treatment end 2010. These request for modification mainly include, adjustments of the physical monitoring indicators, inclusion of new components, extension of the final date of eligibility and increase, up to 90%, of the ceiling for advance and interim payments.

3.9.3. Technical Assistance

In addition to the sectoral assistance, co-financing has been granted to the project aimed at strengthening the administrative capacity of Cohesion Fund management in Lithuania. Project activities are directly related to the monitoring of the Cohesion Fund projects, verification of the closure documents and ex-ante evaluation of all Cohesion Fund projects of the 2000-2006 programming period.

3.10. Malta

3.10.1. Environment

The project "Upgrading of Sant' Antnin waste treatment facilities" covers the construction of a mechanical treatment plant for the pre-treatment of household waste, a material recycling facility, an anaerobic digestion plant for the treatment of biodegradable waste, as well as an installation of a waste water treatment facility. The main outcome is the reduction of the negative environmental impact of the waste cycle, and notably the reduction of the amount of landfilled waste, which is of utmost importance for the Malta main island due to its very high population density (1,500 inhabitant / km²).

The request for the second modification of the Commission decision regarding the extension of the final date of eligibility until 31 December 2011 was received by the Commission on 8 October 2010. The modification request, motivated by the significant economic and social challenges faced by Malta in the light of the global financial crisis and their impact on the timely completion of the project, was accepted by the Commission and an amending Commission Decision was adopted on 11 February 2011.

The project is progressing well, the Commission's payment/commitment ratio of the project reached the ceiling of 80%; the actual realised payments/total eligible cost ratio amounts to 83.51%. The material recycling facility has been completed; the digestion plant and mechanical treatment plant are completed by 85% and 97% respectively.

3.10.2. Transport

The project "Restoration and upgrading of sections of TEN-T" consists of the upgrading of three lots of the TEN-T network in Malta and Gozo (St. Paul's Bay by-pass, Civil Aviation Avenue in Luqa and Mġarr Road in Għajnsielem in Gozo) with the objective to reduce travel time, accident rates, transport costs and facilitate competitiveness in the transportation of goods.

The Commission decision approving this project was modified on 17 October 2008, covering transfer of funds between the project sections and extending the deadline for the eligibility of expenditure until 31 March 2010. A request for the second modification of the project was submitted to the Commission in July 2009 to make use of savings encountered in the project (519,496.91 €) for the upgrading of an additional 350 m stretch of the Mġarr Road. The modifying decision was adopted by the Commission on 5 February 2010. A Commission decision correcting an administrative error in the second modifying decision was adopted on 23 March 2010. The deadline for the eligibility of expenditure has been extended until 31 December 2010.

The project (including the additional works on the Mġarr Road) was physically and financially completed in the course of 2010. The documents required for the closure of the project are to be submitted to the Commission by the end of June 2011.

3.10.3. Technical Assistance

The technical assistance project aims at preparing the environmental projects pipeline for 2007-2013 Cohesion Fund projects (mechanical biological waste treatment plants and storm water master plan).

The Commission decision approving this project was modified on 30 July 2008 in order to take into account delays in the identification of potential sites for the waste treatment plant and the need to comply with obligations arising from Directive 2001/42/EC. Consequently, the environmental impact assessment component was taken out of the first sub-project and strategic environmental assessment included in the second sub-project. In addition, the deadline for the eligibility of expenditure has been extended until 31 December 2010.

The project was physically and financially completed in the course of 2010. The documents required for the closure of the project are to be submitted to the Commission by the end of June 2011.

3.11. Poland

In 2010, the Commission adopted 43 amending decisions granting assistance from the Cohesion Fund – 36 in the environment sector and 7 in the transport sector. These mostly concerned changes in the physical scope, the end date of the project and raising the threshold for interim payments from 80% to 90%. In addition, the Commission adopted 2 corrigenda. Out of the total 130 Cohesion Fund projects, only 6 projects were closed before 2010.

27 projects were under closure as at the end of 2010 of which 12 projects were submitted for closure before 2010 and were delayed due to a contradictory procedure resulting from two public procurement audits conducted by the Commission (Directorate-General for Regional Policy). Two hearings took place in April and June 2010, which led to an agreement between Poland and the Commission to apply a 2% net flat-rate correction for 5 systemic public procurement findings to all 124 unclosed projects. The complementary information to winding-up declarations reflecting the outcome of the hearing was submitted to the Commission only in the fourth quarter of 2010. Consequently the closure of these files is expected to be finalised in 2011.

As a large majority of the remaining 97 unclosed projects finalised works by December 2010, the main bulk of closures will be due on 30 June 2011. However, the Commission registered (mostly in the fourth quarter of 2010) 29 requests for extension of the final date of eligibility beyond 2010 due to force majeure (floods in spring 2010), implementation difficulties and/or impact of the financial and economic crisis. The analysis of these requests would take place in the first quarter of 2011.

The implementation of projects has been strongly influenced by large cost overruns amounting to one third of the entire Cohesion Fund allocation for Poland. The national authorities secured the additional financing for all projects affected by cost-overruns by national funds and loans, with the exception of 5 projects in the environment sector and 1 transport project. Poland has requested a reduction of the physical scope in all 6 projects. The decision on these modifications was not taken in 2010 due to pending replies to the requested additional information by the Commission from the national authorities. On the other hand, there were 29 projects which achieved cost-savings totalling EUR 44 million of the Cohesion Fund grant.

At the end of 2010, there was no project left with an outstanding issue relating to the Environmental Impact Assessment (EIA).

In 2010, the Commission authorised payments amounting to EUR 944.2 million.

3.11.1. Environment

The level of contracting corresponds to 123% of the originally estimated costs in environmental projects, or 98% of the total estimated costs when cost overruns are taken into account. The physical and financial progress on the ground, aggregated for the sector, was recorded at 89% (both physical and financial). 13 closures were ongoing for an investment project in the environment sector.

3.11.2. Transport

The level of contracting was over 129% of the originally estimated cost for transport projects, or 97% if the cost overruns are taken into account. The physical and financial progress aggregated for the sector was about 85% (both physical and financial). The closure procedure for 11 investment projects was ongoing in the transport sector.

3.11.3. Technical assistance

3 closures were ongoing for technical assistance projects.

3.12. Slovakia

3.12.1. Environment

As a result of common efforts and measures taken in the previous period (action plans and strengthened monitoring) all Cohesion Fund environment projects with an exemption of the "Prešov - Drinking water and sewerage in the basin of Torysa river" project were physically completed in 2010. Prešov project, due to a damaged infrastructure as a result of extreme flooding in June 2010, asked for extension of the final date of eligibility until 2011.

Financial closure was completed in 2010 only for 1 technical assistance project – Technical assistance for the preparation of the Cohesion Fund projects in the water sector. Another project - Komárno - was interrupted due to additional verifications of the public procurement procedure. For 4 projects under closure (Poprad, Zvolen, Liptov, South East Zemplín) due to financial corrections proposed by the Commission (additional works and services not fulfilling public procurement requirements), a hearing was organised in December 2010. For other 5 projects (Žilina, Šaľa, Pieštany, Košice, Humenné) closure documents were received in June 2010 and are being examined by the Commission. Modifying decisions were prepared for Veľky Krtíš due to adjustment of physical indicators and for Trnava project due to adjustment of the text in the granting decision.

3.12.2. Transport

All Cohesion Fund transport projects were physically completed in 2010. Administrative closure of two transport projects (Construction of D61 Motorway Section Vienna Road-Riverport Bridge in Bratislava and Modernisation of the Rail Track Šenkvice-Cífer and Stations Rača-Trnava) was also successfully completed with the reimbursement of their final payment claims.

3.13. Slovenia

The Commission approved 28 Cohesion Fund projects in Slovenia for the period 2000-2006, of which 16 relate to the environment sector, 8 relate to transport sector and 4 are for technical assistance. Total commitment was EUR 254.3 million was distributed to environment (EUR 129.5 million), transport (EUR 122.1 million) and technical assistance (EUR 2.7 million). In terms of commitments, the desirable 50/50 balance between the two main sectors of intervention, namely environment and transport, was achieved for the period 2000-2006.

During 2010, about EUR 12.3 million were paid out from the Cohesion Fund in terms of intermediate and final payments. Three projects were closed during the year. This means that the total payments for the Cohesion Fund have reached 85% of the total decided funding for 2000-2006.

A close monitoring of implementation has been put in place both by the Commission services and the national authorities so as to ensure a timely closure of projects. There is an overall delay in implementation which is mainly attributable to delays in public procurement and related appeals by bidders as well as to the negative impacts of the crisis (i.e. shortage of national/municipal co-financing). In addition, VAT has become a non-eligible expenditure due to a change of the national legislation (VAT became recoverable for municipalities).

3.13.1. Environment

In line with the Strategic Reference Framework for the Cohesion Fund, the main aim of assistance from the Cohesion Fund and ex-ISPA during the period 2000-2006 was to help municipalities and regions to improve drinking water supplies, sewerage networks and wastewater treatment (a total of 12 projects in the water sector) and waste management (4 projects in total).

In 2010, the last contract for works was successfully concluded bringing to an end a period of several years which had been characterized by delays in public procurement. As many projects are set up as design-build, the actual construction lagged several months behind the date of the contract signature. All projects made significant progress, both physically and financially. Construction was completed on a considerable number of projects and the trial operation phase for infrastructure began.

The crisis led to a significant drop in municipal revenues, reduced transfers from the state budget, worsened access to bank loans and yet an increasing demand for municipal subsidies which negatively influenced the municipality's ability to respect the original work schedules for infrastructure projects. In addition, VAT has become a non-eligible expenditure due to a change of the national legislation. In this context, Directorate-General for Regional Policy received at the end of 2010 five requests for an extension of the final dates of completion and/or payment until 31 December 2011. These requests have been screened at the end of 2010 and shall be treated in early 2011.

2 completed projects in the water sector and 1 technical assistance project were closed. 5 other environmental projects entered the closure stage. In compliance with the relevant procedures, closure of these projects and processing of final payments is due in 2011.

3.13.2. Transport

In 2003 the national authorities defined a National Cohesion Strategy for the transport sector which identified the objectives of its transport strategies and the projects to be financed through the Cohesion Fund. It involves the country establishing itself as a maritime transit country within the European Union and marketing its geopolitical position at the crossroads of two important European corridors (Corridors V and X) along the existing southern border of the EU. To this end, bottlenecks on corridors must first be removed, which involves the completion of the motorway network, upgrading, modernisation and completion of the rail network and increasing the range of logistical services.

The Cohesion Fund co-finances 6 railway projects and 2 motorway projects in the transport sector. Following reports of delays due to public procurement in previous years, all railway projects in 2010 were fully contracted and made satisfactory progress in physical and financial terms (all projects reached the 80% ceiling). 5 transport projects entered the closure stage. In compliance with the relevant procedures, closure of these projects and processing of final payments is due in 2011.

3.14. Bulgaria

3.14.1. Environment

Despite progress in 2010 the implementation of the 25 Cohesion Fund/ex-ISPA environmental projects (19 in the water sector, 2 in the waste sector, 1 in the energy sector and 3 technical assistance) was significantly below target. Net financial implementation (without advance payments) is approximately 46% after 10 years of implementation. So far only 1 project (technical assistance) has been completed.

Further to the Communication concerning Cohesion Fund/ex-ISPA projects closure, the national authorities requested for one year extension of the final of eligibility in June 2010 also for projects first approved by the Commission in December 2003 and co-signed by the Bulgarian authorities in 2004.

Bulgaria has submitted requests for the extension of the final date of eligibility in relation to 12 projects in the environment sector. Payments for 10 projects were interrupted in 2010 due to the extensive use of direct negotiation procedure following the cancellation of open tenders. Financial corrections were proposed for 8 of these projects. At this stage the responsible managing authority has accepted 6 financial corrections, while the other 2 may be the subject of a hearing procedure. In total, 6 of the proposed financial corrections have been implemented so far.

3.14.2. *Transport*

In 2010 Bulgaria made significant efforts to make up its considerable backlog in the implementation of pre-accession funds, reaching 50% net financial implementation of the total Cohesion Fund allocation after 10 years of implementation. Despite these efforts the end of year achievement was insufficient and performance was marked by a considerable divergence between the projects. Within the transport sector a budget of some 90 million € remained unabsorbed and will be de-committed at a later stage.

In 2010 the closure of 1 project was concluded, which increases to 2 the total number of closed projects out of the 11 projects decided in the 2000-2006 programming period. Following the modification of the closure guidelines, Bulgaria has submitted requests for the extension of the final date of eligibility in relation to 4 projects in the transport sector.

3.15. Romania

In total 63 Cohesion Fund projects were approved by the Commission in the 2000-2006 programming period for Romania: 36 for the environmental protection-related measures in the water resources management and waste management sectors, 12 projects in the transport sector covering mainly rail and roads, and 15 technical assistance projects linked both with the environment and transport sectors.

Considering the 2000-2006 programming period, the total amount of grant decisions for Romania is almost EUR 2,036 million. These commitments are shared evenly between the environment sector (50.4%) and the transport sector (49.6%), including technical assistance related to these sectors.

The situation in terms of implementation progress for 2010 is diverse between the sectors and even the individual projects themselves. For about half of the projects, mainly those approved before 2004, measurable progress was achieved during 2010 and several have works completed by the end of 2010. The possibility to extend the final date of eligibility beyond 2010, granted to the other half of all projects, provided a possibility to complete those projects in 2011 and increase the absorption of Cohesion Fund. Altogether 4 projects have been closed in year 2010, 1 infrastructure in environment and 3 technical assistance projects.

For 7 projects the Commission adopted the corresponding amending decisions in 2010, mostly to extend the final dates of their eligibility and initiated the modification procedures for the extension of the final date of eligibility beyond 2010 for 24 projects (17 in environment and 7 in transport).

Total payments from the European Commission to Romania in 2010 fell by 6% compared to 2009 (from EUR 300.7 million to EUR 209.4 million), bringing the total accumulated payments to EUR 1,550.27 million. Payments per sector were: EUR 109.61 million in the environment sector, EUR 97.81 million in transport and EUR 1.9 million for technical assistance.

3.15.1. *Environment*

Payments from the Commission to the environment-related infrastructure projects in 2010 amounted to EUR 109.61 million with additional projects reaching in 2010 payment levels that were more than 80% or 90% of their existing EU funding commitment, signifying that works are either well under way or have actually been completed. There are only 3 projects with total paid per total grant lower than 70%.

In the environment sector, most of the projects behind schedule were those approved in the 2004-2006 period. For projects approved before 2004, project implementation is more advanced, but overall not sufficient to exclude the risk of loss of EU funds. In this second group, 5 projects were not fully completed on the ground in 2010 and will in principle be completed in 2011.

3.15.2. *Transport*

Payments from the Commission to transport projects in 2010 amounted to EUR 97.81 million. There are only 2 projects where the Commission's payment levels are lower than 70% of the existing EU funding commitment per project.

One particular transport project (Deva-Orastie by-pass) achieved little progress in 2010, reflected by payments that are 10% of the committed grant, partly because of a re-launched tendering procedure following the cancellation of the initial contract.

Delays in the transport sector also affected technical assistance projects, especially the ones dealing with the railway project preparation and motorways, therefore delaying also the launch of major infrastructure projects within the Operational Programme for Transport (2007-2013).

In addition, in 2010 the Commission and the Member State decided to cancel 1 infrastructure project in the transport sector due to the impossibility to complete the project within the existing final date of eligibility of the 2000-2006 programming period.

3.15.3. *Technical assistance*

There are 6 technical assistance projects linked to the environment sector which focus mainly on project preparation and institutional capacity. 4 of these have been completed, one of the two ongoing projects reached a payment level of 80% and the other is already in the closure procedure. There are 8 technical assistance projects in the transport sector focusing mainly on project preparation. Two of them have been completed and one is already closed from the procedural point of view.

There is one technical assistance project for supporting the meetings of the monitoring committee.

4. MONITORING, INSPECTIONS, FINANCIAL CORRECTIONS AND IRREGULARITIES

4.1. Monitoring: committees and missions

4.1.1. Greece

No monitoring committee meeting took place in 2010 being the end of the programming period however a number of technical meetings were held with the managing authorities and letters were sent as warnings for the risks that could encounter by the closure. In particular in 2010, Directorate-General for Regional Policy, together with Directorate-General for Environment and in close collaboration with the Greek authorities made significant efforts to ensure proper implementation and respect of the relevant Directives.

4.1.2. Spain

Monitoring Committees

The meeting of Monitoring Committee, which reviews projects co-financed by the Cohesion Fund, was held in Madrid on 29 April 2010.

To prepare the meeting, national authorities sent the reports reflecting the state of implementation as at 31 December 2009 for all decisions (covering a project or a group of projects) that were being implemented on that date. From among these, the managing authority - in partnership with the Commission - selected 20 projects which, by virtue of their particular situation, were subject to monitoring and a specific analysis during the sessions of Monitoring Committee.

In the course of the meeting, the Commission services sent all participants the following information:

The need to submit all closure documents (final payment claim, final report, audit declaration) within the established deadlines was recalled. In fact, current practices reveal significant delays in the submission of certain documents, and of audit declarations in particular.

The Spanish authorities were informed of the Amendment of the Guidelines on the closure of Cohesion Fund and ex-ISPA projects 2000-2006. In particular, the extension of the final date of eligibility until 31 December 2011 and 31 December 2012 may be granted under certain conditions for projects which were first approved by the Commission's decision after 1 January 2004. The Spanish authorities welcomed this Amendment as this would allow them to fulfil the objectives of certain projects in due time.

Monitoring missions

Three technical meetings took place in Madrid on 21 April, 21 September and 12 November 2010 respectively. Represented at the meetings were the managing authority, the certification authority and the Directorate-General for Regional Policy. Their aim was to address the problems faced during the day-to-day management of projects and the measures required to overcome them. In addition, three monitoring missions were conducted in 2010, during which projects were visited.

The first mission was on 10 February for a follow-up project of the HST Madrid-Valencia, in particular Motilla del Palancar-Valencia. In this mission Directorate-General for Regional Policy joined TEN-T European Agency in order to ensure that Commission service response was coordinated and systematic across the different funding streams. The meeting was held in order to determine what would be the proposed solution to the environmental deficiencies found.

A second mission was the visit to several environmental projects on 21 September in Catalonia, in particular projects "Planta de selección y biotratamiento de residuos municipales de Sant Adrià del Besòs" and "Construccion y Adecuacion de las infraestructuras de Tratamiento de Residuos Municipales de Cataluña"(projects 17 and 18). The objective was to clarify issues concerning the closure of the projects and findings mentioned by the European Court of Auditors.

The third mission was the visit to the high-speed train project Madrid- Valencia on 18 December. The Commission officials took the high-speed train, inspecting 17 projects in a return trip (Cohesion Fund and ERDF). The Spanish authorities are pride of the high-speed rail network in Spain and the contribution of the cohesion policy has been significant and recognised.

4.1.3. Portugal

Monitoring Committees

According to the internal regulation of the Portuguese Monitoring Committee relating to the Cohesion Fund infrastructures for the 2000-2006 period, these meetings are held twice a year.

Exceptionally, in 2010 only one meeting was held which took place on 1 June 2010 in Lisbon. The second Monitoring Committee was postponed to the beginning of 2011 and was replaced by a technical meeting held in Lisbon on 15 November 2010.

The aim of the Monitoring Committee meeting was to follow up the implementation of the projects, and to resolve problems related to deadlines, closures and audits, as well as to examine the prospects for completing their implementation in the short time that remained available. At the end of 2010, of the 49 projects that had not yet got as far as the closure procedure, 26 investments had a closing date of 31 December 2010, 2 have a closure date of 31 December 2011 and 21 requested extension of closure date to 31 December 2011 or 31 December 2012. Out of 49 projects, 40 investments had received Cohesion Fund payments above 50% of the total EU contribution.

The meeting of the Monitoring Committee was preceded by technical meeting between the Cohesion Fund national authorities and the Commission, in order to discuss the main outstanding issues, such as closure of projects, amending decisions and procedures that were interrupted for various reasons.

Monitoring missions

In the course of 2010, the Commission services visited two projects ("Metro de Lisboe: GIL-Aeroporto"and "Infraestruturas de tratamento de RSU – Tratolixo) in order to take note of their progress and, in certain cases, to discuss with the national authorities any technical or legal problems which had arisen.

4.1.4. Cyprus

No monitoring committee took place in 2010 while technical meetings review the progress of the above mentioned projects.

4.1.5. Czech Republic

In general, meetings of the Cohesion Fund Monitoring Committee are held twice a year. In 2010, the first meeting of the Monitoring Committee took place on 22 June 2010 and the second one was held on 14 December 2010. Discussions in the Monitoring Committees are organised on a project-by-project basis, using the monitoring sheets and allowing substantial time for the national authorities, beneficiary and the Commission to clarify any outstanding issues. Issues of a general nature are discussed in the Core Group meeting with the national authorities.

No monitoring missions for ongoing projects were carried out in 2010.

4.1.6. Estonia

There were no major changes in the management and control system. A contract of confidence was signed on 12 February 2008 between the Commission and the National Audit Authority. Final Monitoring Committee meeting was held in 2010, discussing the final modification proposals and drawing conclusions for new period.

The Commission has mainly highlighted the need to learn from the past and to try to improve and build on existing experience for the 2007-2013 programming period.

4.1.7. Hungary

Two Monitoring Committee meetings were held, in April and October 2010. Horizontal issues and progress in individual projects were discussed. Several projects have to be extended beyond end 2010. The Budapest wastewater projects have been extended until 2012. Furthermore, a railway project (Budapest – Lokoshaza) is being extended to June 2012. On 27 October 2010, a Commission representative was taken onboard a rail trip from Budapest to Bekescaba to inspect the developments on the corridor 22, financed by three different projects under the CF.

4.1.8. Latvia

In 2010, two "electronic" Cohesion Fund Monitoring Committees and one project visit took place. Main problems concerning implementation and closure of the projects were discussed.

4.1.9. Lithuania

Two Monitoring Committee meetings took place in Lithuania, on 14-15 May and 24-25 November 2010. The committee examined the progress reports submitted by the national authorities and discussed the implementation and closure issues of all ex-ISPA and Cohesion Fund projects.

Five technical meetings of the Cohesion Fund took place during 2010:

- March 2010 (Mission to Vilnius, Lithuania) – Meeting with the managing authority to discuss the proposed amendment of the project "Technical assistance for the support to the project preparation activities for ISPA projects for environment sector";

- April 2010 (teleconference with national authorities) - Meeting with the managing authority, Ministry of Environment and national experts on the issues related to the low connection rates of the new users to the central water and waste water networks;

- June 2010 (technical meeting in Brussels, Belgium) - Meeting with the managing authority, Ministry of Environment and Directorate-General for Regional Policy audit on the issues related to the low connection rates of the new users to the central water and waste water networks. Non-paper with situation analysis and the action plan was presented by the Member State;

- June-July 2010 (entire country) – Monitoring visit to 3 waste projects "Hazardous Waste", "Regional Waste Management System Development for Taurage region" and "Siauliai Regional Waste Management System Development" and 3 water projects "Water Supply and Waste water Collection Network Development in Klaipeda", "Nemunas Lowland River Basin - 1st Package" and "Neringa waste water treatment plant reconstruction, sewer network extension and potable water network rehabilitation";

- October 2010 (Mission to Vilnius region, Lithuania) - Monitoring visit to a waste water project "Vilnius: Rehabilitation and extension of water supply and sewage collections systems", "Neris river basin investment programme, 1st stage (Vilnius city and district municipalities)" and waste project "Vilnius: Regional waste management".

4.1.10. Malta

Monitoring Committees

Meetings of the Monitoring Committee for all three Cohesion Fund projects were held on 20 May 2010 and on 17 November 2010. The Commission representatives attended both Monitoring Committee meetings.

Annual progress reports were submitted for all three projects in line with Article F.4 of Annex II to Council Regulation (EC) 1164/1994, as amended.

Monitoring missions

A site visit of the project "Upgrading of Sant' Antnin waste treatment facilities" (CCI No. 2004MT16CPE001) was carried out on 21 May 2010.

4.1.11. Poland

Monitoring Committees

Two meetings of the Cohesion Fund Monitoring Committee were held in 2010 (on 29 June and 8 December). The meetings were preceded by meetings of working groups for the Environment sector (on 19-20 May and 20-21 October) and the Transport sector (on 29 April and 29 October). The meetings were attended by representatives of the managing authority, the paying authority, intermediate bodies, implementing agencies, social and economic partners and, in the case of working groups, also the final beneficiaries of ongoing projects.

The meetings were dedicated to a review of the progress in implementing individual projects. In addition, the following horizontal issues were discussed: payment rate and financial forecasts, cost overruns, environmental impact assessment conditions, closure forecast, modifications to projects in terms of scope and timeline, and delays in implementation. Particular attention was paid to the projects facing delays in the implementation and projects requesting extension of the final date of eligibility beyond 2010 due to force majeure (floods).

Monitoring missions

No monitoring missions specific to the Cohesion Fund were carried out.

4.1.12. Slovakia

Monitoring Committees

Two monitoring committee meetings were held in 2010: in Terchová, Central Slovakia (April) and Bratislava, Western Slovakia (October). The monitoring committees reviewed the state of progress of all current ex-ISPA and Cohesion Fund projects.

In addition, key horizontal issues were discussed at these meetings: closure of projects, quality of final reports, the impact of financial corrections. It was suggested to present in the last monitoring committee in autumn 2011 evaluation of impacts of projects in both sectors, i.e. environment and transport. It was also recommended to organize a press conference on the closure of the Cohesion Fund projects of the programming period 2000-2006 and to disseminate positive results and achievements in both sectors.

4.1.13. Slovenia

Monitoring Committees

Two Cohesion Fund Monitoring Committee meetings were held in Slovenia in 2010.

The meetings took place on 16 April and 12 November 2010 and focused on the ongoing implementation of projects, delays in public procurement, changes in the national VAT legislation and their impact on the Cohesion Fund projects, cost overruns, project closure and publicity. The meetings included a detailed review of all ongoing environment and transport projects, as well as a discussion of financial data including payments and payment forecasts. The Commission highlighted in particular the need to further accelerate the implementation of those projects, which are experiencing substantial delays.

Monitoring missions

One project visit was carried out as part of the April Monitoring Committee meeting in 2010. The three projects visited (one for waste water and two for a railway) showed satisfactory progress towards completion or were already completed.

4.1.14. Bulgaria

In 2010 one Monitoring Committee took place in June and a number of projects site-visits were made. Due to the workload related to the final date of eligibility on 31 December 2010 the 2nd meeting took place in January 2011.

The meetings of the Committee were divided into two parts: project and sector based technical discussions, followed by the official meeting to address horizontal issues and draw conclusions from the technical discussions.

In January 2010 Directorate-General for Regional Policy organised a seminar for the closure of the ex-ISPA projects where all the national competent authorities and relevant beneficiaries were invited.

In order to enhance co-ordination and co-operation between Bulgaria and Romania, a Monitoring Sub-Committee for the construction of the Danube Bridge was set up at the initiative of the European Commission, involving all relevant parties with a stake in the construction of the Danube Bridge. One meeting was held in 2010 in Vidin- Calafat.

4.1.15. Romania

Monitoring Committees

During the year 2010 two monitoring committee meetings took place, both focusing on the two groups of projects, those with unchanged end dates and those that could benefit from the possibility of one year extension. Early preparation for the project closure procedure has been encouraged through addressing certain specific risks linked with closure such as contractual conflicts, payment to contractors and availability of financial resources necessary to complete the projects.

The Committee discussed also project specific issues, and the horizontal aspects of implementation that were currently affecting overall implementation: payment forecasts and contract management, public procurement, projects at risk of non-completion by the current end dates, problems of land acquisition, which were one of the reasons for delays in some of the transport projects, cost overruns and the corrective measures planned by the Romanian authorities to improve overall implementation and absorption of EU funding.

Monitoring missions

Ad-hoc monitoring was carried out for projects presenting higher risk of non-completion for both sectors. Several projects were also visited by the Commission services. The joint Bulgarian-Romanian Danube Bridge had special monitoring arrangements in terms of more frequent reporting and a dedicated monitoring committee joining both the Bulgarian and the Romanian part of the project.

4.2. Audits and financial corrections

4.2.1 On-the-spot audit work by the Directorate-General for Regional Policy

The Directorate-General for Regional Policy ensured a good audit coverage of the Cohesion Fund projects in all Member States concerned up to 2010, thanks to various audit enquiries focused on the specific risks linked to implementation.

Cumulatively, the Directorate-General for Regional Policy has carried out in total 162 system audits and 14 closure audits on the 2000-2006 programming period Cohesion Fund projects. The analysis below provides details on the work carried out up to 2010, grouped in accordance with the historical development of the Fund.

<u>EU-4 Member States (Greece, Ireland, Portugal and Spain)</u>

A significant amount of work has been carried out for EU-4 Member States since 2001 and a high level of audit coverage has been attained (between 18% and 56% of projects in each Member State, and up to 80% of allocations covered). Action plans were imposed to correct weaknesses found (for example verification of a representative sample of expenditure declared from 2000 to 2004 in Portugal) and/or financial corrections were made (for example in Greece as regards the award of public procurement contracts). For these four Member States the assessment on the reliability of the winding-up bodies is positive. In the case of Spain, the Directorate-General for Regional Policy established by the end of 2010 that the many of submitted winding-up declarations contain irregular expenditures not adequately quantified and corrected by the winding-up body, mainly related to irregular public procurement procedures (complementary works, contract modifications). The Directorate-General for Regional Policy takes mitigating actions by assessing each case individually at closure and by organising hearings with the Member State with a view to carrying out all necessary financial corrections at the closure of each project.

EU-10 Member States (first enlargement of the Cohesion Fund Member States: Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovakia and Slovenia)

As a result of the substantial amount of audit work carried out by the Directorate-General for Regional Policy, good audit coverage has been attained for most of the 2004 enlargement Member States (between 5% and 41% of projects). The assessment on the reliability of the work of the winding-up body varies for this group of Member States. When problems were detected, the Directorate-General for Regional Policy requested the Member State authorities to implement remedial action plans and to carry out additional retrospective verifications, to strengthen the preparatory work for closure before sending the winding-up declarations, and to apply appropriate financial corrections (for example audit findings in the public procurement area were addressed by application at closure of a net 2% flat rate correction on all Cohesion Fund projects in Poland). The main residual risk factors are: public procurement procedures and doubts about some winding-up bodies' ability to detect such irregularities or to impose financial corrections, and weaknesses in the functioning of the winding-up body. In one case (Hungary), serious issues and a relatively high error rate have been reported for transport projects, resulting in a reservation in the 2010 Annual Activity Report for the Directorate-General for Regional Policy. All the risks identified are mitigated by the thorough verifications by the Directorate-General for Regional Policy when analysing the winding-up declarations at the closure of each project. The Directorate-General for Regional Policy will also continue to monitor these risks through audits of samples of remaining open projects. In four Member States (Cyprus, Estonia, Malta, Slovenia) there are no outstanding audit issues and the Directorate-General for Regional Policy can place a high degree of reliance on the winding-up declarations to close the projects.

EU-2 Member States (second enlargement of the Cohesion Fund Member States: Bulgaria and Romania)

As a result of the significant amount of audit work carried out by the Directorate-General for Regional Policy on the EU-2 a good audit coverage has been attained (47% of projects audited for Bulgaria and 35% for Romania).

As pointed out in the Directorate-General's Annual Activity Report for 2010, public procurement audits and project audits carried out revealed deficiencies in the public procurement area (selection and award criteria, application of deadlines, use of negotiated procedures) and weaknesses in management verifications. This led to financial corrections initiated by the Commission. The financial corrections reported in 2010 for Cohesion Fund in Bulgaria amount to EUR 18.47 million. For Romania, cumulative financial corrections since 2008 have amounted to EUR 11.41 million. The Directorate-General for Regional Policy identified deficiencies in the work of the winding-up body in Bulgaria, made recommendations for improvement, and is monitoring closely the situation. For Romania, an audit mission on the work of the winding-up body carried out in 2009 has been closed with unqualified opinion, providing a good basis for relying on the winding-up declarations received.

Other audit work in 2010

Other audit work undertaken by the Commission services for the Cohesion Fund in 2010 included the examination of the national annual control reports under Article 12 of Regulation (EC) No 1386/2002, the annual summaries, and the review of national system audit reports submitted to the Commission by the Member States. By the end of 2010, the majority of the received reports had been analysed, and replies had been sent to the Member States with observations and, where necessary, requesting additional information in order to be able to extract as much assurance as possible from the results of national audit work.

Annual coordination meetings are held bilaterally between the Commission and national audit authorities to exchange information on the implementation of audit work and to discuss progress on sample checks and follow-up of audit findings. The meetings covering audit work conducted in the year 2009 were held during the first half of 2010. The annual bilateral coordination meetings covering audit work carried out in 2010 were held in spring 2011.

Management and control systems

In the Directorate-General's Annual Activity Report for 2010, for the functioning of the management and control systems (2000-2006), reported audit opinions expressed by the audit authorities may lead to three types of possible opinions: unqualified, qualified and adverse.

An unqualified opinion was given for the Cohesion Fund systems in six Member States (Cyprus, Estonia, Greece, Malta, Portugal and Slovenia). For nine Member States, the opinion was qualified with a moderate impact (Bulgaria – environment and transport sector, Czech Republic, Hungary - environment sector and technical assistance projects, Latvia, Lithuania, Poland, Romania, Slovakia and Spain).

In the 2010 Annual Activity Report of the Directorate-General, for one transport sector project in Bulgaria managed by the National Roads Infrastructure Agency, a qualified opinion with significant impact was given, due to breaches of public procurement rules and other weaknesses identified by the Commission and the European Court of Auditors, resulting in a reservation. As regards the Hungarian transport sector, a reservation and a qualified opinion with significant impact was given due to the high error rate identified by the national audit body, the results of the Commission audit in 2009 detecting several public procurement irregularities, weaknesses identified in the implementation of financial corrections recommended by the winding-up body, and in detection and correction of public procurement related irregularities at national level.

Table 5. Cohesion Fund financial corrections decided or agreed in 2010 by period and by Member State (in EUR)

Member State	Reservation 2009 AAR	Cohesion Fund		TOTAL	Reservation 2010 AAR
		1994-1999	2000-2006		
Bulgaria	YES – Environment sector		18 473 452	18 473 452	YES – 1 project
Cyprus	NO				NO

Czech Republic	NO		6 814 711	6 814 711	NO
Estonia	NO				NO
Greece	NO	31 141	-157 142	-126 001	NO
Spain	NO	115 666	21 006 031	21 121 697	NO
Hungary	NO				YES – transport sector
Ireland	NO		627 640	627 640	NO
Latvia	NO		506 270	506 270	NO
Lithuania	NO		30 177	30 177	NO
Malta	NO				NO
Poland	NO		111 246 392	111 246 392	NO
Portugal	NO		12 925 561	12 925 561	NO
Romania	NO		1 728 070	1 728 070	NO
Slovenia	NO				NO
Slovakia	NO		1 668 163	1 668 163	NO
TOTAL		**146 807**	**174 869 325**	**175 016 132**	

Remark: Includes corrections made by Member States, following agreement under the relevant procedure or as a result of implementation of action plans (which may cover many programmes) and formal Commission decisions.

Closure of 2000-2006 Cohesion Fund projects

For the closure of the 1192 projects of Cohesion Fund 2000-2006, 491 winding-up declarations have been received and out of this 475 (97%) have been assessed by the end of 2010 (in addition to the winding-up declarations that were rejected or sent back to the Member States for corrections) by the Directorate-General for Regional Policy.

Table 6. Result of the review of the winding-up declaration for Cohesion Fund at the end of 2010

Member State	Total number of projects	Received	Acceptance without financial correction	Acceptance with proposed financial corrections	Interruption (missing info/additional audit work to be carried out)	Rejection	Total reviewed	% of winding-up declarations reviewed to received
Bulgaria	38	5	4	0	1	0	5	100%
Cyprus	2	0	0	0	0	0	0	0%
Czech Republic	58	29	17	7	5	0	29	100%
Estonia	37	25	19	2	1	0	22	88%
Spain	407	199	44	65	0	90	199	100%
Greece	124	65	64	1	0	0	65	100%
Hungary	47	14	12	0	2	0	14	100%
Ireland	10	6	2	1	2	1	6	100%
Lithuania	51	21	14	0	7	0	21	100%
Latvia	46	25	18	0	7	0	25	100%
Malta	3	0	0	0	0	0	0	0%
Poland	130	30	6	8	3	0	17	57%
Portugal	109	26	13	7	0	6	26	100%
Romania	63	8	1	6	1	0	8	100%
Slovenia	28	14	14	0	0	0	14	100%
Slovakia	39	24	10	14	0	0	24	100%
Total	**1192**	**491**	**238**	**111**	**29**	**97**	**475**	**97%**

4.2.1. Greece

No audits were carried out in Greece on Cohesion Fund projects in 2010 by the Directorate-General for Regional Policy. However, an audit carried out in 2009 was followed-up and closed in 2010. Previous audits have identified some delays in implementation and weaknesses in public procurement procedures in Greece, and as a result a large financial correction relating to public procurement issues (use of "mathematical formula") was adopted in 2008. In addition, as a result of an OLAF investigation of one Greek water supply project during 2008 and 2009, the national authorities took corrective measures.

Out of a total 124 Greek Cohesion Fund projects, 65 (46 environmental projects and 19 transport projects) have submitted a winding-up declaration. Most declarations have been accepted by Directorate-General for Regional Policy, for one project a financial correction was proposed and for another project the closure was suspended for the project not being operational.

In the 2010 Annual Activity Report of the Directorate-General, an unqualified audit opinion was issued in respect of Cohesion Fund Greece as an action plan for the winding-up body EDEL had been closed in 2009, and the issues identified with public procurement were addressed with a large financial correction in 2008. Furthermore, each Cohesion Fund project is audited by EDEL at least once before closure. The Commission for its part also examines the winding-up declarations on an individual basis before the closure of the projects, ensuring that any irregular expenditure can be identified and deducted at the closure of each project.

4.2.2. Spain

During 2010 the Commission services undertook the follow-up of an audit mission carried out in November 2009 and a financial correction amounting to EUR 1.3 million was proposed. The main findings related to irregular modifications of contracts not being detected by the national authorities during the closure procedure.

In addition, the follow-up of several previous audit missions performed by the Directorate-General for Regional Policy and the European Court of Auditors was concluded, including hearings and Commission correction decisions, resulting in financial corrections amounting to a total of around EUR 9 million. The corrections mostly relate to public procurement issues, in particular, additional works and irregular award criteria. As a follow-up of previous Court of Auditors' audit findings, the audit services of the Directorate-General for Regional Policy concluded the financial correction procedure for the last DAS case of 2006. The correction proposed by the Commission for this project amounts to EUR 5.66 million.

Concerning the closure of Cohesion Fund projects an improvement in terms of number of treated and finalised closure cases was experienced during 2010, partly as a result of the creation of a specific closure task force for Spanish Cohesion Fund projects within the Directorate-General for Regional Policy. In March, June, July and November 2010 four hearings were held in Brussels with the purpose of finalising the closure of 28 projects affected by irregularities not decertified by the Member State. The Commission decision of the first hearing was adopted in September 2010 imposing a financial correction of around EUR 2.7 million and the other correction decisions will follow.

Cumulatively a total of 199 winding-up declarations for the closure of Spanish Cohesion Fund projects have been received so far. Out of these, 75 new winding-up declarations were analysed by the audit services of the Directorate-General for Regional Policy during 2010. In many cases, irregular expenditure declared to the Commission was detected, mainly in relation to public procurement procedures and VAT eligibility. In addition to the first assessment related to these 75 winding-up declarations, the Directorate-General for Regional Policy audit services made a second and third assessment in several cases, having received additional information from the Member State. Following this analysis of the winding-up declarations, the audit services identified irregular expenditure amounting to around EUR 9.35 million which was decertified by the Member State during 2010.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 was received and examined by the Commission in 2010 and it covered all the regional bodies of Spain.

The annual bilateral co-ordination meeting between Commission and Spanish auditors covering the 2009 audit exercise took place in Madrid in May 2010. During the meeting the auditors of the Directorate-General for Regional Policy insisted on corrective measures in relation to irregular additional contracts.

In the Annual Activity Report of the Directorate-General for 2010, a qualified opinion with moderate impact was given for the management and control systems of Cohesion Fund Spain 2000-2006. No reservation was proposed, as the financial risk to the Community budget is mitigated by the fact that the winding-up declarations are assessed by the winding-up body and the Commission services on an individual basis before the closure of projects, and any irregular expenditure can be identified and deducted at the closure of each project.

4.2.3. Portugal

In January 2008, the Directorate-General for Regional Policy signed a contract of confidence with "Inspecção-Geral de Finanças" (Portuguese winding-up body and audit authority) covering the Cohesion Fund and ERDF.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 and 11 winding-up declarations for the closure of Portuguese Cohesion Fund projects were analysed by the Directorate-General for Regional Policy in 2010. As a result, financial corrections were proposed for three projects.

In 2010, there were no audit missions carried out in relation to Cohesion Fund in Portugal. However, as a result of the follow up of previous audit missions and the assessment of winding-up declarations, the Commission proposed financial corrections in the amount of around EUR 12.9 million which were accepted by the Member State.

In the Annual Activity Report of the Directorate-General for Regional Policy 2010 an unqualified opinion was given for Cohesion Fund Portugal since the work of the audit bodies is considered reliable (contract of confidence) and the winding-up declarations are assessed individually before the closure of each project, allowing any irregular expenditure to be identified and corrected.

4.2.4. Cyprus

Based on the positive results of the review of the work of the winding-up body in 2008, the positive conclusions from other audit missions in Cyprus, and the desk work carried out, a contract of confidence for the Cohesion Fund and ERDF was signed between the Commission and the Cypriot Internal Audit Service (as the official audit body in Cyprus) in December 2008.

An unqualified opinion was issued for Cohesion Fund expenditure in Cyprus in the 2010 Annual Activity Report of the Directorate-General for Regional Policy.

4.2.5. Czech Republic

During 2010, follow up of Commission audits carried out in Czech Republic in previous years was undertaken. Two missions were closed without financial corrections and for a third mission the Czech authorities confirmed their acceptance of a finding. As regards a 2009 audit mission on retrospective verifications, which identified systemic issues related to the area of public procurement, the follow-up was continued in 2010 till 2011. Overall, as a result of the audit work the Czech authorities agreed to the implementation of corrections related to public procurement issues to the amount of EUR 6.8 million in the context of closure of Cohesion Fund projects in 2010. Some further financial correction procedures might be opened during 2011 as a result of the retrospective verification exercise and the scrutiny of the winding-up declarations.

As regards the European Court of Auditors' DAS 2006 audit of a Cohesion Fund transport project, the audit was closed in 2010 with a correction of around EUR 52,000 related to audit trail.

The Czech authorities have submitted the winding-up declarations and final payment claims for 29 Cohesion Fund projects, of which 10 in 2010. At the end of 2010 five winding-up declarations were interrupted as the Commission services requested further information from the Member State.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 concluded that "the functionality of the management and control systems was verified in 2009 with no major findings and no substantial discrepancies of a systemic character found".

In the 2010 Annual Activity Report of the Directorate-General a qualified opinion with moderate impact was given for Czech Republic Cohesion Fund projects. No reservation was proposed following the action taken by the Czech authorities under the retrospective verifications, and as the Commission is able to exercise close management of each Cohesion Fund project and to make a detailed check of the risk areas at closure.

4.2.6. Estonia

Following the positive results of audit work carried out in previous years, a contract of confidence was signed with Estonia in 2007, covering both the Cohesion Fund and the ERDF. No audit missions were carried out in Estonia in 2010, and the previous audit missions were followed up and closed before 2010.

Six winding-up declarations were examined in the context of the closure of Estonian Cohesion Fund projects in 2010. Directorate-General for Regional Policy also analysed the annual control report under Article 12 of Regulation (EC) No 1386/2002.

In the 2010 Annual Activity Report of the Directorate-General an unqualified opinion was given for Cohesion Fund Estonia.

4.2.7. Hungary

A closure audit mission covering two Hungarian environment projects was carried out by the Directorate-General for Regional Policy in November 2010. On the basis of preliminary assessments no major deficiencies were identified.

As regards the follow-up of a public procurement mission covering five Cohesion Fund projects carried out in December 2009, important findings were identified on significant variations of the quantities of work items and direct award of additional contracts. As a result, a financial correction of EUR 2.5 million has been proposed, and the follow-up of the audit continues in 2011.

At end of 2010, cumulatively 14 winding-up declarations had been received for Hungarian Cohesion Fund projects (7 Environment, 4 Transport and 3 technical assistance). No major issues have been detected in the winding-up declarations.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 reported an overall error rate of 1.28% for Cohesion Fund projects in Hungary (3.8% for the transport sector, and 0.3% for the environment sector).

In the 2010 Annual Activity Report of the Directorate-General, as regards the Hungarian transport sector, a reservation and a qualified opinion with significant impact was given due to the high error rate identified by the national audit body, the results of the Commission audit in 2009 detecting several public procurement irregularities, weaknesses identified in the implementation of financial corrections recommended by the winding-up body, and in detection and correction of public procurement related irregularities at national level.

For the environment sector and technical assistance projects a qualified opinion with moderate impact was given, due to the results of the Commission 2009 audit detecting several public procurement irregularities, weaknesses identified in implementation of financial corrections recommended by the winding-up body, and in detection and correction of public procurement related irregularities at national level.

4.2.8. Latvia

In 2010, there were no audit missions carried out in relation to Cohesion Fund in Latvia. For the environmental sector twelve winding-up declarations have been received and analysed by the Commission services. Seven of them have been accepted, but for the other five, financial corrections have been proposed for the lack of compliance with the requirements of Article 7.3 (d) of Directive 93/37 (in particular direct award of additional contracts). First hearings were organised in October 2009 for one project and in July 2010 for four projects and the follow-up continues in 2011. For the technical assistance projects three winding-up declarations have been received and assessed by the Commission. For two cases additional information has been requested from the national authorities. For the transport sector, ten winding-up declarations have been analysed and all have been accepted.

In the Annual Activity Report of 2010, for the Cohesion Fund in Latvia a qualified opinion with moderate impact was given, due to the deficiencies raised regarding the independence of the winding-up body, the weaknesses detected in public procurement procedures and in the implementation of sample checks, the reliability of MIS data and the separation of functions between implementing and intermediate bodies.

4.2.9. Lithuania

As follow-up of a mission carried out by the Directorate-General for Regional Policy in 2008 on three Cohesion Fund projects, a financial correction of around EUR 2.9 million was proposed by the Commission in 2010 relating to cost increases and public procurement issues. Furthermore, a European Court of Auditors DAS 2008 audit covering nine Cohesion Fund projects identified deficiencies in the public procurement procedures which may lead to financial corrections to be applied in 2011.

Seven winding-up declarations were submitted in 2010. Altogether, by the end of 2010, the Directorate-General for Regional Policy had accepted 14 winding-up declarations and a further seven winding-up declarations were interrupted due to issues identified in public procurement, and unachieved projects objectives. For one project the national authorities accepted to withdraw an amount of EUR 30,177 related to public procurement irregularities.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 was received and analysed by the Commission in 2010. The national authorities raised no major issues.

In the 2010 Annual Activity Report of the Directorate-General for Regional Policy a qualified opinion with moderate impact was given in respect of Cohesion Fund Lithuania on the basis of the deficiencies identified in public procurement, cost increases, and unachieved project objectives. No reservation was proposed, as the Directorate-General is able to exercise close management of each Cohesion Fund project and assess in detail the risk areas at closure.

4.2.10. Malta

No audit missions or financial correction procedures were carried out for the Cohesion Fund in 2010. Previous audit missions carried out in 2005 and 2007 did not give rise to any significant findings.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 was received and examined; it highlighted sufficient audit coverage and a zero error rate for Cohesion Fund projects.

An unqualified opinion was issued for Cohesion Fund 2000-2006 expenditure in the 2010 Annual Activity Report of the Directorate-General for Regional Policy. The management and control system in Malta can be considered as good practice.

4.2.11. Poland

In April and June 2010 a hearing took place in respect of two Commission public procurement audits from 2005 and 2006, during which the Polish authorities and the Commission services reached an agreement on a 2% flat rate correction in respect of the five systemic irregularities in public procurement area which the Commission detected in its audits. The 2% net correction will be applied to all not yet closed Polish Cohesion Fund projects at closure. In total this correction corresponds to over EUR 111 million.

In September 2010, the Directorate-General for Regional Policy organised another hearing for one Polish Cohesion Fund project for which a financial correction of around EUR 0.8 million had been proposed at the closure of the project. A Commission decision on financial correction will be adopted in 2011.

Documentation in relation to 11 winding-up declarations (including Polish authorities responses to the earlier interruption letters) was analysed during 2010. Cumulatively, out of 30 winding-up declarations received up to the end of 2010, 6 projects have been closed by the European Commission, 11 winding-up declarations have been analysed and for 13 projects the procedure was on-going at the end of 2010. Closure documentation received for projects in the transport sector revealed deficiencies in the quality and/or coherence of tender documentation (designs, technical specifications, bills of quantities). Consequently tender procedures and contract implementation were in some cases delayed which resulted in claims for deadline extensions by contractors and in contract price increases, unjustified direct award of additional works and services and litigation, potentially risking irregular expenditure being declared to the Commission.

Consequently, a qualified opinion with moderate impact was expressed in 2010 Annual Activity Report for Cohesion Fund Poland, due to deficiencies identified in detection and correction of public procurement issues (mainly in relation to direct awarding of additional works and services). It was considered that this risk is mitigated by the agreement of the Polish Audit Authority to verify compliance with public procurement rules of contracts at project closure and by the thorough assessment of closure documents by the Commission services at closure.

4.2.12 Slovakia

As for follow-up of Directorate-General for Regional Policy audit missions carried out in previous years, in 2010 for one audit, one finding was closed with a deduction of irregular expenditure of around EUR 1.7 million by the Member State, with a further correction of around EUR 0.11 million to be followed-up in 2011. A second public procurement audit from 2005 was closed in 2010 with a proposed financial correction of around EUR 0.86 million.

For the closure of projects, during 2010, nine winding-up declarations were analysed by the Commission services resulting in proposed corrections, some accepted by the Member State and some having no net financial impact. For five of these projects a hearing was held in December 2010, after which a financial correction decision of around EUR 1.28 million covering three projects is in preparation. There are a further five winding-up declarations pending finalisation with potential corrections amounting to around EUR 10.3 million. All the financial corrections related to the winding-up declarations concern non-compliance with public procurement rules.

In the 2010 Annual Activity Report of the Directorate-General for Regional Policy, the opinion for Cohesion Fund Slovakia was qualified with moderate impact due to weaknesses in management verifications of public procurement by the intermediate bodies. However, the risk is mitigated by the fact that risks have been identified during audits carried out in Slovakia and can be thoroughly followed up by Commission services when assessing the winding-up declarations for each Cohesion Fund project.

4.2.13 Slovenia

On the basis of audit work carried out in the years 2005-2007, a contract of confidence was signed with Slovenia in February 2008, covering the Cohesion Fund and ERDF. Following that contract, no Cohesion Fund audit missions were carried out by the Directorate-General for Regional Policy in Slovenia in 2010.

The audit work in 2010 included the examination of the annual control report under Article 12 of Regulation (EC) No 1386/2002 and of the annual summary for 2010. Of the 28 projects to close, altogether fourteen winding-up declarations have been submitted and out of these four were examined and accepted without major remarks in 2010.

Accordingly, the 2010 Annual Activity Report of the Directorate-General for Regional Policy presented an unqualified opinion for Cohesion Fund expenditure in Slovenia.

4.2.14. Bulgaria

One closure audit mission was carried out in April 2010. The objective of the audit was to check the adequacy of the audit work of the winding-up body - Executive Agency for the Audit of EU Funds (EAAEUF). The main findings relate to insufficiency of checks on revenues generated by projects and public procurement, and a breach of publicity requirements. In addition, it was noted that the sample checks did not cover any of the Cohesion Fund projects which received EIB loans.

In 2009 the EAAEUF was requested to examine the direct award of contracts in the environment sector. The results of this national audit were received in February 2010, and revealed an illegal use of the negotiated procedure without prior advertising (i.e. direct award) for 16 contracts in the environment sector. In November 2010 the managing authority accepted to implement a correction of around EUR 18 million. Furthermore, proposed corrections amounting to approximately EUR 0.7 million in relation to two service contracts are followed up by the Directorate-General for Regional Policy in 2011.

The European Court of Auditors audited in their DAS 2010 exercise two Bulgarian Cohesion Fund projects. For one of the projects the Court identified a compliance issue related to delays in the tender award procedure without financial impact. For the second project, the Court identified some important findings in respect of a lack of supporting tender documentation, irregular direct award of additional works, design issues resulting in safety concerns, and the necessity for some of the structures built. For these cases a detailed follow-up continues in 2011.

During 2010 five winding-up declarations were received and analysed. The closure of one project was interrupted because additional audit work had to be carried out.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 was received and analysed in 2010. The report highlighted weaknesses in public procurement issues for the environment sector. For the transport sector the opinion of the Bulgarian audit authority was unqualified.

In the 2010 Annual Activity Report of the Directorate-General, the environment and transport (excluding National Roads Infrastructure Agency) sectors were give a qualified opinion with moderate impact, as the management verifications are not detecting breaches of the public procurement law, and there is limited reliance on the work of the winding-up body. For one transport sector project managed by the National Roads Infrastructure Agency, a qualified opinion with significant impact was given, due breaches of public procurement rules and other weaknesses identified by the Commission and the European Court of Auditors.

4.2.15. Romania

During 2010, follow-up was done for a closure audit carried out in December 2009. In general, the audit concluded that there was reasonable assurance that the Romanian winding-up body complied with its obligations, but improvements were recommended for future winding-up declarations in consistency of financial information, error rate computing, and irregular expenditure arising due to subcontracting.

As follow-up to a public procurement audit mission carried out in 2009, a hearing was held in April 2010. During the contradictory procedure the financial corrections relating to irregularities found in public procurement contracts in amount of EUR 1.4 million were accepted by the Member State.

The annual control report under Article 12 of Regulation (EC) No 1386/2002 was submitted and examined by the Commission in 2010. One winding-up declaration was analysed during 2010, leading to further clarifications being requested from the Romanian authorities.

In the 2010 Annual Activity Report of the Directorate-General the opinion issued for Cohesion Fund Romania was qualified with moderate impact.

4.3. Irregularities notified by the Member States

In 2010, OLAF opened 8 operational cases related to the Cohesion Fund and undertook 4 on the spot checks on economic operators4 as well as 2 missions to gather information. Typical problems identified by OLAF include the failure to abide by public procurement rules.

As this report covers the implementation during 2010 of Cohesion Fund projects adopted under the 2000-2006 only notifications made under Regulation (EC) 1831/1994 are taken into account. 76 notifications of irregularities involving a total affected amount of EUR 34 564 486 in respect of projects co-financed by the EU related to the above mentioned period have been reported to the Commission. From the affected amount of EUR 34 564 486, an amount of EUR 9 089 496 still needs to be recovered. Most of the cases were reported by Greece, Poland, Portugal and the Czech Republic (16, 15, 11 and 10 respectively). However, Greece, Czech Republic, Spain and Lithuania reported approximately 75% of the involved amount. Table 7 shows the details by Member State.

The two main types of reported irregularities are infringements of public procurement rules (60%) and ineligible expenditure (30%).

Table 7. Irregularities and EU financial impact reported by Member State in 2010 under Regulation (EC) N 1831/1994– programming period 2000-2006 (in EUR)

Member State	Number of irregularities	Affected amounts	%	Amounts to be recovered	%
Bulgaria	0				
Cyprus	0				
Czech Republic	10	5 900 612	17,07%	467 210	5,14%
Estonia	0				
Greece	16	8 011 028	23,18%	18 046	0,2%
Spain	8	6 661 294	19,27%	5 779 950	63,59%
Hungary	3	1 748 494	5,06%	1 748 494	19,24%
Ireland	3	1 627 701	4.71%	0	
Latvia	2	120 155	0,35%	0	
Lithuania	7	5 055 374	14,63%	626 036	6,89%
Malta	0				
Poland	15	939 617	2,72%	0	
Portugal	11	4 372 226	12,65%	321 775	3,54%
Romania	0				
Slovenia	0				
Slovakia	1	127 985	0,37%	127 985	1,41%
TOTAL	**76**	**34 564 486**	**100**	**9 089 496**	**100**

[4] Regulation (EC) N° 2185/1996, OJ L 292, 15 October 1996, p.2

4.4. Irregularities and financial corrections

During 2010, two decisions on a financial correction were adopted for the 2000-2006 Cohesion Fund projects in Spain for an amount of EUR 10.5 million. In addition, at the request of the Commission, the Member States agreed to exclude a further EUR 164.5 million from their statements of expenditure.

Table 8. Financial corrections decided or agreed in 2010 for the Cohesion Fund, period 2000-2006

Member State	Accepted by Member State	Commission Decision
Bulgaria	18 473 452	
Cyprus	-	
Czech Republic	6 814 710	
Estonia		
Greece		-157 141.71
Spain	10 502 068	10 503 963
Hungary		
Ireland	627 640	
Latvia	506 270	
Lithuania	30 177.08	
Malta		
Poland	111 246 392.49	
Portugal	12 925 560.66	
Romania	1 728 070.44	
Slovenia		
Slovakia	1 668 162.81	
TOTAL	**164 522 505.16**	**10 346 821.29**

The above table does not include the results of the Member States' own checks of Cohesion Fund expenditure.

5. EVALUATION

The Commission in close cooperation with the Member State and managing authorities carries out the ex-post evaluation. The most recent Cohesion Fund ex-post evaluation was launched in 2009 examining all Cohesion Fund and ex-ISPA projects implemented during the years 2000-2006, and the final report is expected in January 2012. The evaluation assesses the contribution of the Cohesion Fund and ISPA (i) to the development of the EU transport system, (ii) to achieving the EU acquis in the field of environment and (iii) to the impact of ISPA as a preparation for the programmes of the Structural and Cohesion Funds. As part of the overall Cohesion Fund ex-post evaluation, ex-post cost-benefit analyses were conducted for a sample of transport and environment projects, to identify lessons for future programming periods.

The first results from the ex-post evaluation for transport infrastructure show that the Cohesion Fund co-financed 1,281 km of new roads and 3,176 km of reconstructed roads

(4,457 km roads in total). As regards, the rail sector 2,010 km of new rail and 3,840 km of reconstructed rail (5,350 km rail in total) were co-financed by the Cohesion Fund.

6. INFORMATION AND PUBLICITY

6.1. Information to/from the Member States

As from 1 January 2007 all issues concerning the Cohesion Fund have been dealt within the Coordination Committee of the Funds (COCOF, established according to Regulation (EC) No 1083/2006).

Several issues relevant for the Cohesion Fund were presented and/or discussed during the meetings of the COCOF. These include:

- DG Regional Policy informed about a proposal for a more flexible final date of eligibility (33rd and 34th meeting of the Coordination Committee of the Funds, Brussels, 28 January 2010 and 10 March 2010);
- DG Regional Policy informed the Member States about the adoption of the Amendment of the Guidelines on the closure of Cohesion Fund and ex-ISPA projects 2000-2006 (April 2010);
- DG Regional Policy held a debate on the Revised Guidance note on the amendment of decisions taken by the Commission for Cohesion Fund projects on the basis of Regulation (EC) No 1164/1994 as amended (38th meeting of the Coordination Committee of the Funds, Brussels, 22 September 2010);
- DG Regional Policy presented the final version of the COCOF note 08/0007/03 "Revised guidance note on the amendment of decisions taken by the Commission for Cohesion Fund projects on the basis of Regulation (EC) No 1164/1994 as amended" of 24 September 2010 which became available in all three working languages (39th Coordination Committee of the Funds meeting, Brussels and Mons, 20 and 21 October 2010).

6.2. Commission measures on publicity and information

In 2010, the Directorate-General for Regional Policy has continued to report in great detail on the Cohesion Fund in its Annual Activity Report[5] and to publish details of major projects, including those financed by the Cohesion Fund, for both of the periods 2000-2006 and 2007-2013. The details of many of these projects are available in a searchable database on the INFOREGIO website. Cohesion Fund projects have also been included in a specific publication showcasing 150 examples of projects co-financed by European regional policy.

[5] Published at http://ec.europa.eu/atwork/synthesis/aar/index_en.htm