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1. GENERAL CONTEXT

1.1. Convergence and economic development in the beneficiary Member States

1.1.1. Greece

In 2008, GDP per capita in PPS reached 94.3% of the EU-27 average. In 2009, the Greek economy contracted by the higher-than-expected rate of 2.0%, as the positive contribution from net exports was more than offset by weakened domestic demand. Public finances have worsened much further than could have been expected as a consequence of the downturn and the measures to support the financial sector. Expansionary fiscal policies, until recently, contributed to aggravating the external imbalances and to protracted losses of competitiveness. The 2009 general government deficit stood at 13.6% of GDP, up from 7.7% in 2008. Upon notifying a breach of the 3% of GDP reference value for 2007, Greece entered the Excessive Deficit Procedure in April 2009. The Council issued a recommendation under Article 104(7) TEC to end this situation by 2010 at the latest. In December 2009, the Council concluded, in accordance with Article 126(8), that Greece had not taken effective action in response to the April Council recommendation.

Greece's updated stability programme, as submitted in January 2010, sets a target of 8.7% of GDP for its 2010 budgetary deficit. The aim of the programme is to further reduce the deficit to 5.6% in 2011 and to 2.8% in 2012. The macroeconomic scenario underlying the programme anticipates a small contraction of GDP by 0.3% in 2010 followed by growth of 1.5% in 2011 and 1.9% in 2012. The spring 2010 forecast made by the Commission services projects that, assuming no change in policy, the general government deficit will be 9.3% of GDP in 2010 and 9.9% in 2011. The forecast expects real GDP to contract by 3.0% in 2010 and 0.5% in 2011.

In its opinion on the stability programme, dated 16 February, the Council concluded that the programme displays an appropriate degree of ambition given the sheer size of the consolidation need and the fact that it is frontloaded. Nonetheless, risks to the budgetary targets in the programme have been identified, related to the macroeconomic scenario, revenue and expenditure projections. On 8 March, in compliance with the Council Decisions of 16 February, Greece submitted a report which described the progress in implementing its stability programme. The measures announced by the Greek government on 3 March, which amounted to 2% of GDP (or EUR 4.8bn), consist of permanent revenue enhancing measures and permanent expenditure cuts in equal measure. On the basis of this report, the Commission assessed progress with fiscal consolidation and issued a Communication to the Council on 9 March. Based on that Communication, the Eurogroup concluded on 15 March that the fiscal measures announced by the Greek authorities on 3 March 2010, provided that they are implemented fully, effectively and in a timely manner, appear sufficient to safeguard the 2010 budgetary targets. In the Statement by the Heads of State and Government of 25 March, the Member States of the euro area reaffirmed their willingness to take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole.

1.1.2. Spain

Spain's GDP per capita in PPS attained 102.6% of the EU-27 average in 2008. In 2009, GDP fell by 3.6%, reflecting both the global economic downturn and a marked correction in the construction sector. The annual inflation rate fell to 0.3% in 2009 on the back of lower oil and average food prices. The downturn took a heavy toll on public finances. For 2009, the general government deficit reached 11.2% of GDP, compared to 4.1% in 2008, which reflects to a large extent the impact of the crisis on government finances, including the working of automatic stabilisers. However, the deterioration was also caused by stimulus measures, in line with the European Economic Recovery Plan (EERP), amounting to 2¼% of GDP. Upon notifying a breach of the 3% of GDP reference value for 2008, Spain entered the Excessive Deficit Procedure in April 2009. The Council issued recommendations under Article 104(7) TEC to end this situation by 2012 at the latest. In December 2009 the Council concluded that Spain had taken effective action in response to the Council recommendations. The Council issued a revised recommendation in accordance with Article 126(7) TFEU to correct the excessive deficit by 2013, due to unexpected adverse economic events involving major unfavourable consequences for government finances.

According to the latest update of the stability programme submitted in February 2010, the targets for the general government deficit are 9.8% of GDP in 2010, 7.5% in 2011, 5.3% of GDP in 2012 and 3% in 2013. These figures are based on the programme's assumptions that GDP will contract by 0.3% in 2010 and grow by 1.8% in 2011 and by 3% on average in 2012 and 2013. According to the Commission services' spring 2010 forecast, the government deficit is projected to reach 9.8% of GDP in 2010 and, based on an assumption of no policy change, 8.8% of GDP in 2011. The spring forecast predicts that real GDP will contract by 0.5% in 2010 and then increase by 0.8% in 2011.

The Council, in its opinion of 26 April 2010 on the stability programme, concluded that the current crisis is having a severe impact on the Spanish public finances, with a very high deficit being predicted for 2009 as well as a rapidly-rising government debt ratio. It was considered that additional efforts may be required in order to achieve the ambitious consolidation path, while the adjustment path is not fully supported by specific measures for the years beyond 2010.

In view of the above assessment, and also in the light of the Recommendation under Article 126(7) TFEU of 2 December 2009, Spain was invited to:

(i) implement rigorously the ambitious fiscal plans proposed in the programme so as to correct the excessive deficit by 2013, backing these up with practical measures in the years beyond 2010, and to be ready to adopt further consolidation measures in case the risks related to the fact that the macroeconomic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) TFEU Recommendation actually materialise; seize, as prescribed in the EDP recommendation, any further opportunity in addition to the fiscal efforts, including opportunities resulting from better economic conditions, to bring the gross debt ratio down at a faster rate towards 60% of the GDP reference value;

(ii) in view of the projected increase in age-related expenditure and the rapid rise of the government debt ratio, improve the long-term sustainability of public finances including by implementing reforms to the old-age pension scheme as proposed by the Government;

(iii) ensure that the budgetary framework effectively supports the achievement of the medium-term fiscal plans outlined at all levels of the general government sector, and closely monitor adherence to the budgetary targets throughout the year;

(iv) ensure that fiscal consolidation measures are also geared towards continuing the improvement in the quality of public finances in the light of the need for further adjustment of existing macroeconomic imbalances.

1.1.3. Portugal

Portugal's GDP per capita in PPS was 77.3% of the EU-27 average in 2008. In 2009, GDP contracted by 2.7% in real terms, after having stagnated in 2008, as a result of the sharp fall in investment and exports, due to the global economic crisis. The general government deficit came out at 9.4% of GDP in 2009, up from 2.7% in 2008. This outcome to a large extent reflects the impact of the crisis on government finances, but it was also caused by stimulus measures amounting to a planned 0.75% of GDP which the government adopted in line with the EERP and by other discretionary measures. By notifying a planned breach of the 3% of GDP reference value for 2009, Portugal entered the Excessive Deficit Procedure in December 2009. The Council issued a recommendation under Article 126(7) TFEU to bring this situation to an end by 2013 at the latest.

The most recent update of Portugal's stability programme, submitted in March 2010, aims to achieve government deficits of 8.3% of GDP in 2010, 6.6% in 2011, 4.6% in 2012 and 2.8% in 2013. The programme is predicated on the assumption that GDP will expand at gradually higher rates: 0.7% in real terms in 2010 up to 1.7% by 2013. The spring 2010 forecast by the Commission services projects the 2010 general government deficit at 8.5% of GDP and – if based on an assumption of no policy change – 7.9% in 2011. Real GDP is expected to grow by 0.5% in 2010 and by 0.7% in 2011.

In its opinion of 26 April 2010 on the stability programme, the Council concluded that the current crisis is seriously damaging to Portuguese public finances. Yet the considered view was that the current budgetary situation also reflects prior fiscal weaknesses, in particular the high structural deficits prior to the crisis.

In view of the above assessment and also in the light of the Recommendation under Article 126(7) TFEU of 2 December 2009, Portugal was invited to:

(i) rigorously implement the ambitious fiscal plans for 2010 envisaged in the programme, and further specify the measures to achieve the recommended average annual fiscal effort of 1¼% of GDP and to correct the excessive deficit by 2013 in accordance with the Article 126(7) recommendations; be ready to adopt further consolidation measures in case risks materialise that the programme scenario is more favourable than the scenario underpinning the Article 126(7) recommendation and any slippage is observed; consider a frontloading of consolidation efforts; seize any opportunity in addition to fiscal efforts, including opportunities resulting from better economic conditions, to speed up the reduction in the gross debt ratio to 60% of the GDP reference value;

(ii) implement an effective multi-annual budgetary framework in order to ensure adherence to budgetary targets across the entire government sector, and to firmly contain and reduce expenditure over the medium term;

(iii) enhance the quality of public finances, in particular by improving the efficiency and effectiveness of public spending in the various areas of government action; decisively address the situation of loss-making State-owned enterprises; and factor into the fiscal sustainability position the spending commitments and risks arising from public-private partnerships; (iv) combine fiscal consolidation measures with efforts to raise productivity and potential GDP growth in a sustained way, to boost competitiveness and to reduce the large external imbalances.

1.1.4. Cyprus

In 2008, GDP per capita in PPS reached 95.9% of the EU-27 average in Cyprus. In 2009, real GDP in Cyprus appears to have contracted by 1.7%. An adverse external environment resulting from the financial crisis and the global downturn – in particular, the worsening growth outlook of the key trading partners and weak domestic demand − weighed heavily on growth. In particular, exports of both goods and services declined due to lower external demand and the weak performance of tourism and shipping services. Investment picked up strongly, amidst a fall in foreign demand for housing, low utilisation of capacity and the restructuring of corporate balance sheets. These unfavourable economic conditions, coupled with the fading of the asset boom and an expansionary fiscal policy, partly due to measures amounting to 1½% adopted within the framework of the EERP, led to a deterioration in public finances. The general government balance posted a deficit of 6.1% of GDP, after a surplus of 0.9% in 2008.

In the latest stability update, submitted in April 2010, the Cypriot authorities predict that the general government deficit will reach 6.0% in 2010 before falling back to 4.5% in 2011, 3.4% in 2012 and 2.5% in 2013 respectively. The macroeconomic scenario underlying the programme envisages that real GDP growth will post modest growth of 0.5% in 2010, before recovering to an average rate of about 2½% for the remainder of the programme period. The Commission services' spring 2010 forecast predicts that the deficit will rise to 7.1% in 2010 and, assuming no policy change, will increase further in 2011. Real GDP is expected to contract by 0.4% in 2010 and to grow by 1.3% in 2011.

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 2013. However, this adjustment is due to be achieved mainly from the revenue side of the budget, while the ratio of expenditure-to-GDP remains at historically high levels. Additionally, the growth assumptions underlying the macroeconomic scenario of the programme were deemed to be favourable.

In view of the above assessment, Cyprus was invited to:

(i) limit the 2010 deficit to not more than 6% of GDP, if necessary by strengthening the consolidation measures, particularly if macroeconomic developments prove less favourable than under the programme scenario, and take timely action to define a more expenditure-driven consolidation strategy; seize opportunities beyond the announced fiscal effort to accelerate fiscal consolidation and reduce the gross debt ratio to below the reference value;

(ii) implement, as planned, an effective multi-annual budgetary framework in order to ensure adherence to the budgetary targets and to firmly contain expenditure during the medium term;

(iii) improve the long-term sustainability of public finances by implementing reform measures to control pension and health care expenditure in order to curb the projected increase in age-related expenditure.

1.1.5. Czech Republic

Czech GDP per capita in PPS reached 80.4% of the EU-27 average in 2008. The Czech economy experienced a sharp recession in 2009 when GDP contracted by 4.2% in real terms. The collapse in external demand was the main drag on growth. Annual inflation declined substantially in 2009, to 0.6% on average. This was mainly due to lower commodity prices, the vanishing of the effects of earlier changes to indirect taxes, and the economic downturn. The general government deficit in 2009 is estimated to have reached 5.9% of GDP, as compared to 2.1% in 2008. The significant deterioration reflects to a large extent the impact of the crisis on government finances, but it was also caused by stimulus measures in line with the EERP amounting to 2.2% of GDP. By notifying a planned breach of the 3% of GDP reference value for 2009, the Czech Republic entered the Excessive Deficit Procedure in December 2009. The Council issued a recommendation under Article 126(7) TFEU to bring this situation to an end by 2013 at the latest.

According to the most recent update of the convergence programme, which was submitted in February 2010, the general government deficit in the Czech Republic is due to decline from 5.3% of GDP in 2010 to 4.8% and 4.2% of GDP in 2011 and 2012 respectively. The macro-economic scenario underlying the programme forecasts real GDP growth of 1.3% in 2010, rising gradually to 3.8% of GDP in 2012. According to the Commission services' spring forecast, the deficit will be 5.7% of GDP in 2010 and is set to remain constant in 2011, assuming no changes in policy. Real GDP growth is estimated at 1.6% in 2011, rising to 2.4% in 2011.

In its opinion of 26 April 2010 on the convergence programme, the Council concluded that the budgetary strategy of the Czech Republic for 2010 is appropriate and in line with the Council Recommendation under Article 126(7) TFEU. However, it was felt that the fiscal strategy for the following years lacked ambition and fiscal targets were thought to be risky on both the revenue and the expenditure side.

In view of the above assessment, and also in the light of the recommendation under Article 126 TFEU of 2 December 2009, as well as taking account of the need to ensure sustainable convergence, the Czech Republic was invited to:

(i) implement the 2010 budget rigorously and avoid expenditure slippages; in line with the Council Recommendation under Article 126(7) in the context of the 2011 and 2012 budgets, target a larger budgetary adjustment than the one planned in the programme; and spell out in more detail the measures that are necessary in order to correct the excessive deficit by 2013 at the latest;

(ii) take action to improve budgetary procedures and to enforce and monitor more rigorously the medium-term budgetary targets; in particular, avoid upward revisions of expenditure ceilings beyond the revisions permitted by the budgetary rules;

(iii) implement the necessary reforms in order to improve the long-term sustainability of public finances.

1.1.6. Estonia

In 2008, Estonia's GDP per capita in PPS amounted to 67% of the EU-27 average. After several years of above-potential growth, the 2008-2009 period marked an abrupt reversal, with the economy contracting by a cumulative 18%. The reversal of the cycle was aggravated by the severe global financial crisis. With confidence plummeting and banks becoming increasingly cautious in their lending decisions, domestic demand contracted by more than 10% in 2008 and by 24% in 2009, while the downturn was exacerbated by a contraction of external demand (-11% in 2009) . Inflation (HICP) declined sharply and turned negative in mid-2009, reflecting a rapid fall in world commodity prices, the fading impact of earlier administrative price increases, and also negative price pressure from lower wages and subdued domestic consumption. Following six years of nominal surpluses, the contraction in economic activity resulted in general government deficits of 2.8% and 1.7% of GDP in 2008 and 2009 respectively.

The January 2010 update of the convergence programme projects a general government deficit of 2.2% of GDP in 2010, declining steadily to 2.0% in 2011, 1.0% in 2012 and 0.2% in 2013. In the underlying macroeconomic scenario, real GDP is expected to be flat in 2010, before reaching an average growth rate of 3.7% in 2011-2013. Projections from the Commission services' spring forecast point to the deficit reaching 2.4% in 2010, and remaining steady in 2011 on the assumption of no policy change. Real GDP is set to grow by 0.9% in 2010 and by 3.8% in 2011.

In its opinion of 26 April 2010 on the convergence programme, the Council concluded that Estonia had implemented a decisive consolidation of public finances in 2009 against the background of a significant deterioration in the economic situation. It was considered, however, that achieving budgetary outcomes is bound to involve downside risks in the short and medium term.

In the light of the above assessment, and also given the need to ensure sustainable convergence and smooth participation in ERM II, Estonia was invited :

(i) to ensure that the general government deficit remains below 3 % of GDP and take the necessary measures to underpin the targeted return to the MTO in the medium term;

(ii) to strengthen the medium-term budgetary framework, particularly by improving expenditure planning, and further strengthen the system of monitoring and reporting on strategic targets.

1.1.7. Hungary

In 2008, Hungary's GDP per capita in PPS reached 64.4% of the EU-27 average. In 2009, GDP fell by 6.7%, due to the marked slowdown in domestic demand and investments, partly offset by external demand in view of a slight recovery in the global economic environment. Inflation fell to an annual average of 4.2%. The general government deficit is estimated to have reached 4.0% of GDP in 2009, up from 3.8% in 2008. Given the sizeable macroeconomic and public finance imbalances, the Government supported the economy by taking measures that did not have a significant budgetary impact. Hungary, having been in the Excessive Deficit Procedure since 2004, received revised recommendations from the Council under Article 104(7) TEC in July 2009 due to unexpected adverse economic events with major unfavourable consequences for government finances. Under the revised recommendations, Hungary must bring the excessive deficit situation to an end by 2011.

The January 2010 update of the convergence programme set a general government deficit target of 3.8% of GDP for the year 2010, in line with the 2010 budget adopted on 30 November 2009. For 2011 the projected deficit is 2.8%, with a further fall to 2.5% in prospect in 2012. The macroeconomic scenario forecasts a contraction of 0.3% in real GDP in 2010, followed by growth of 3.7% and 3.8% in 2011 and 2012 respectively.

In its opinion of 26 April 2010 on the convergence programme the Council concluded that, despite the sharp economic contraction in 2009 as a result of the financial crisis, the budget deficit had stabilised. However, it was noted that the budgetary path provides the prospect of only a small structural improvement in 2010, none in 2011, and a deterioration in 2012. Moreover, this path was considered to be subject to considerable downside risks.

In view of the above assessment and also in the light of the recommendation under Article 104(7) TCE on 7 July 2009, Hungary was invited to:

(i) ensure that the 3.8% of GDP deficit target for 2010 is achieved through tight expenditure control as well as through a possible freezing of budgetary reserves and the implementation of contingency expenditure cuts, if needed;

(ii) specify the measures underlying the budgetary targets from 2011 onwards and stand ready to strengthen the fiscal effort in case the risks due to the fact that the programme scenario is more favourable than the scenario underpinning the Article 104(7) TEC Recommendation actually materialise, in order to ensure that the deficit is brought below 3% of GDP in 2011; and considerably strengthen the strategy for 2012 to ensure an adjustment towards the MTO in line with the requirements of the Stability and Growth Pact;

(iii) improve the quality of public finances by preparing and adopting a 2011 budget in full compliance with the fiscal framework and by supporting expenditure moderation through a further reform of public administration and by addressing the situation of loss-making enterprises through structural reforms.

1.1.8. Latvia

In 2008, Latvia's GDP per capita in PPS was 56% of the EU-27 average. The global financial crisis amplified the shock of the reversal in Latvia's domestic lending and house price boom by tightening credit availability and terms. The concomitant downturn in external markets hit the tradeables sector. Despite the adoption of a restrictive supplementary budget on 16 June 2009 in consultation with international lenders, which involved a consolidation effort of 4.4% of GDP, the general government deficit rose to 9.0% of GDP in 2009, up from 4.1% in 2008. By notifying a breach of the 3% of GDP reference value for 2008, Latvia entered the Excessive Deficit Procedure in July 2009. The Council issued a recommendation under Article 104(7) TEC to end this situation by 2012 at the latest.

The January 2010 update of the convergence programme projects the general government deficit at 10.0% of GDP in 2010, followed by a decline to 8.5% in 2011, 6.0% in 2012 and 2.9% in 2013. According to the programme, and in line with commitments made in the framework of international financial assistance, fiscal policy is set to remain severely restrictive throughout the programme period, given the absence of fiscal room for manoeuvre and the need to correct economic imbalances. The underlying macroeconomic scenario envisages that, after the exceptionally severe fall in output , which is estimated at 18% in 2009, real GDP will fall by a further 4.0% in 2010 before rising by 2.0% in 2011, and by 3.8% in 2012. The expected transition back to positive growth is led by the external sector and to a lesser extent by fixed investment, with private consumption and overall domestic demand not registering significant expansion until relatively late in the programme period. The spring 2010 forecast by the Commission services projects the 2010 deficit at 8.6%, climbing to 9.9% in 2011, assuming no policy change. The economic forecast estimates a contraction of 3.5% in real GDP in 2010, followed by growth of 3.3% in 2011.

In its opinion of 26 April 2010 on the convergence programme, the Council concluded that Latvia is undertaking a significant fiscal consolidation and economic adjustment in line with the Council's recommendations. Looking forward, it was considered that the risks concern the size of the remaining adjustment in the context of a sluggish economy, uncertainty over future revenue trends and which measures should be taken to underpin the consolidation.

In view of the above assessment and in the light of the recommendation under Article 104(7) TEC, and also given the need to ensure sustainable convergence and a smooth participation in ERM II, Latvia was invited to:

(i) fully implement the 2010 budget as adopted on 1 December 2009; prepare a menu of budgetary options to generate savings or additional revenues allowing the 2011 budget to be adopted in accordance with the consolidation needs; adopt a 2012 budget that is also consistent with the targeted fiscal path, in line with the Council Recommendation under Article 104(7);

(ii) carry out the thorough and forward-looking analysis needed for a wide-ranging reform of social benefits, with a view to implementing such a reform in the course of 2011, together with further measures on the revenue side;

(iii) improve fiscal governance and transparency, inter alia by adopting the draft law on fiscal discipline, by strengthening the binding nature of the medium-term budgetary framework, and by putting in place effective sanction procedures for misuses of public funds by individuals; strengthen control, coordination and sanction mechanisms aimed at tackling the grey economy;

(iv) foster economic growth by promoting the shift towards the tradeable sector and productivity improvements, including by ensuring that the available EU Structural Funds reach the real economy, and by restructuring state-owned banks in a timely manner, as part of a medium-term strategy.

1.1.9. Lithuania

In 2008, Lithuania's GDP per capita in PPS reached 62% of the EU-27 average. Several years of rapid economic convergence in Lithuania gave way to a deep economic recession in 2009, when output fell by 15%. The downturn reflects tight credit conditions, adjustment in the real estate market and sharp falls in confidence among businesses and consumers, exacerbated by the substantial deterioration in the external environment. Owing to the worsening macroeconomic situation and financing constraints, public finances have come under significant strain. The general government deficit grew to 3.2% of GDP in 2008 and rose further to 8.9% of GDP in 2009, despite significant fiscal consolidation measures in 2009. By notifying a breach of the 3% of GDP reference value for 2008, Lithuania entered the Excessive Deficit Procedure in July 2009. The Council issued a recommendation under Article 104(7) TEC to end this situation by 2012 at the latest.

According to the February 2010 update of the convergence programme, the general government deficit is due to reach 8.1% of GDP in 2010, 5.8% in 2011 and 3.0% in 2012. In the underlying macroeconomic scenario real GDP is predicted to increase by 1.6% in 2010, accelerating to 3.2% in 2011, but slowing back to 1.2% in 2012. According to the Commission services' spring 2010 forecast, the deficit should be 8.4% in 2010 and 8.5% in 2011, under the customary assumption of no policy change. Real GDP is set to decline by 0.6% in 2010 and to rise by 3.2% in 2011.

In its opinion of 26 April 2010 on the convergence programme, the Council concluded that Lithuania had implemented a decisive consolidation of public finances in 2009 in the context of a significant deterioration in the economic situation. The Council took the view, however, that budgetary outcomes are subject to downside risks over the whole programme period.

In view of the above assessment and also in the light of the recommendation under Article 126 TFEU of 16 February 2010, and given the need to ensure sustainable convergence and a smooth participation in ERM II, Lithuania is invited to:

(i) consider additional corrective measures in 2010 if these are necessary in order to achieve the envisaged consolidation, in addition to implementing rigorously the measures planned in the budget;

(ii) specify the necessary measures to fully underpin the required adjustment over the programme period recommended by the Council under Article 126(7), and stand ready to adopt further consolidation measures in case risks related to the fact that the macroeconomic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise;

(iii) implement planned social security system reforms, including pension reform, so as to reduce the high risks to long-term sustainability of public finances due to significant projected increases in pension expenditure during the coming decades;

(iv) strengthen fiscal governance and transparency by enhancing the medium-term budgetary framework and improving reporting of budgetary data, thus ensuring comparability of the budgetary indicators on a cash and accrual basis.

1.1.10. Malta

In 2008, Malta's GDP per capita in PPS was 76% of the EU-27 average. Real GDP declined by 1.9% in 2009 after growing by 2.1% in 2008. The global crisis affected Malta primarily through the trade channel, even though the drop in foreign sales in 2009 was less pronounced than the contraction in world trade. Within domestic demand, investment contracted sharply, while private consumption remained relatively stable on the back of resilient employment numbers, lower inflation and some recovery measures in line with the EERP. The impact of the downturn led to a significant widening of the general government deficit to 4.7% of GDP in 2008 and to 3.8% in 2009. Upon notifying a breach of the 3% of GDP reference value for 2008, Malta entered the Excessive Deficit Procedure in July 2009. The Council issued a recommendation under Article 104(7) TEC to end this situation by 2010 at the latest.

According to the most recent update of the stability programme submitted in February 2010, the general government deficit is due to broadly stabilise in 2010 at 3.9% of GDP, before declining to 2.9% in 2011 and to 2.8% in 2012. The macroeconomic outlook for 2010 projects real GDP growth at 1.1%, before accelerating to 2.3% in 2011 and 2.9% in 2012. The spring 2010 forecast made by the Commission services projects the general government deficit to be 4.3% in 2010 and 3.6% in 2011, assuming no policy change. Real GDP is expected to grow by 1.1% in 2010 and 1.7% in 2011.

In its opinion of 26 April 2010 on the stability programme, the Council concluded that, according to the programme, the general government deficit ratio is due to broadly stabilise in 2010 (at 3.9% of GDP), followed by a return to just 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. It was considered, however, that both debt and deficit are subject to downward risks, which will need to be addressed as a matter of importance.

In view of the above assessment and also in the light of the recommendation under Article 126(7) TFEU of 16 February 2010, Malta was called upon to:

(i) achieve the 2010 deficit target of 3.9% of GDP, if necessary by adopting additional consolidation measures; back up the strategy to bring the deficit below 3%

of GDP in 2011 with concrete measures, while standing ready to adopt further consolidation measures in case risks related to the fact that the macroeconomic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) Recommendation actually materialise; and considerably strengthen the strategy for 2012 to ensure an adjustment towards the MTO in line with the requirements of the Stability and Growth Pact; seize, as set out in the EDP recommendation, any opportunity beyond the fiscal efforts, including better economic conditions, to accelerate the reduction of the gross debt ratio towards 60% of GDP reference value;

(ii) in view of the significant projected increase in age-related expenditure, improve the long-term sustainability of public finances by implementing further reforms of the social security system;

(iii) strengthen the binding nature of the medium-term budgetary framework and improve the monitoring of budget implementation throughout the year, and enhance the efficiency of public spending, especially in the area of health.

1.1.11. Poland

In 2008, Poland's GDP per capita in PPS was 56% of the EU-27 average. The global economic and financial crisis affected Poland through three main channels: lower demand for exports, lower foreign direct investment, and a halt in credit growth. Nevertheless, with real GDP estimated to have increased by 1.8%, Poland was the only EU country to record positive growth in 2009. This resistance is explained by sound fundamentals at the outset of the crisis, a well capitalised and healthy financial sector, the relatively low level of openness of the economy, a sizeable depreciation of the Polish currency at an early stage of the crisis, the cushioning effect of the adjustment of real wages on employment, and timely reactions from monetary and fiscal policies. The general government deficit rose to 7.1% of GDP in 2009 from 3.7% of GDP in 2008. The main reason for this - besides slower growth - is the implementation of stimulus measures in line with the EERP amounting to about 2% of GDP. By notifying a breach of the 3% of GDP reference value for 2008, Poland entered the Excessive Deficit Procedure in July 2009. The Council issued a recommendation under Article 104(7) TEC to end this situation by 2012 at the latest.

According to the most recent update of the convergence programme, the general government deficit will reach 6.9% of GDP in 2010, before shrinking to 5.9% in 2011 and 2.9% in 2012. The scenario is based on the assumption of real GDP growth of 3.0% in 2010, 4.5% in 2011 and 4.2% in 2012. The Commission services' spring 2010 forecast projects that the budget deficit will reach 7.3% in 2010, before declining slightly to 7.0% in 2011. The macroeconomic forecast puts real GDP growth at 2.7% in 2010 and 3.3% in 2011.

In its opinion of 26 April 2010 on the convergence programme the Council concluded that, although Poland is planning to correct its excessive deficit by 2012 in line with the Council recommendation under the excessive deficit procedure, the fiscal adjustment was considerably backloaded and deficit targets in the programme were subject to significant downside risks, on both the revenue and expenditure sides.

In view of the above assessment and also in the light of the recommendation under Article 104(7) TEC of 7 July 2009, plus the need to ensure sustainable convergence, Poland was invited to:

(i) implement the 2010 budget rigorously, under-executing primary current expenditure plans wherever possible and allocating windfall revenue to deficit reduction;

(ii) strengthen the budgetary adjustment planned in 2011 in order to achieve the recommended average annual fiscal effort of 1¼% of GDP in line with the Article 104 (7) Recommendation and stand ready to adopt further consolidation measures in 2011 and 2012 in case the risks related to the fact that the programme scenario is more favourable than the scenario underpinning the recommendation under Article 104(7) TEC actually materialise;

(iii) proceed with strengthening the fiscal framework, including by introducing an expenditure rule covering a larger share of the general government primary expenditure than the "temporary" rule presented in the Convergence Programme, with appropriate monitoring and enforcement mechanisms. This would require the share of statutory spending in total expenditures to be reduced.

1.1.12. Slovakia

In 2008, Slovakia's GDP per capita in PPS reached 72.2% of the EU-27 average when the economy recorded growth of 6.2%. In 2009, real GDP fell by 4.7% mainly due to a steep fall in external demand and a consequent collapse of industrial production. Tamed by the downturn, annual inflation averaged 0.9% in 2009. To contain the effects of the crisis, the authorities allowed the full operation of automatic stabilisers and, in line with the EERP, adopted anti-crisis measures amounting to ½% of GDP for both 2009 and 2010 (financed through reallocations within the budget). In 2009, the government deficit amounted to 6.8% of GDP, up from 2.3% in 2008. Due the risk of breaching the 3% of GDP reference value for 2009, Slovakia entered the Excessive Deficit Procedure in December 2009. The Council issued a recommendation under Article 126(7) TFEU to end this situation by 2013 at the latest.

Slovakia's stability programme predicts a fall in the headline deficit from 5.5% of GDP in 2010 to 4.2% and 3.0% of GDP in 2011 and 2012, respectively. The underlying macroeconomic scenario projects a gradual recovery with real GDP growth reaching 1.9% in 2010, 4.1% in 2011 and 5.4% in 2012. The Commission services' spring 2010 forecast estimates that the 2010 deficit will be as high as 6.0%, declining somewhat to 5.4% in 2011 on the assumption of no policy change. Real GDP growth is likely to be 2.7% in 2010 and 3.6% in 2011.

In its opinion of 26 April 2010 on the stability programme, the Council concluded that the fiscal strategy presented in the programme was broadly in line with the Council recommendation under the excessive deficit procedure. However, the budgetary projections were considered to be subject to risks, owing to favourable growth assumptions for the coming years, and might require more specific measures in order to achieve the planned savings on the expenditure side.

In view of the above assessment and also in the light of the recommendation under Article 126 TFEU of 2 December 2009, Slovakia was invited to:

(i) implement the deficit reducing measures in 2010 as planned in the budget, and support the consolidation path for the following years with specific measures to secure the correction of the excessive deficit, if possible by 2012, and at the latest by 2013;

(ii) continue reforms of the pension system with a view to ensuring the sustainability of government finances;

(iii) implement the measures envisaged to further strengthen the fiscal framework, in particular the introduction of enforceable multiannual expenditure ceilings.

1.1.13. Slovenia

In 2008, Slovenia's GDP per capita in PPS reached 90.9% of the EU-27 average. The rapid expansion came to an end in the fourth quarter of 2008 when the Slovenian economy – owing to its high degree of openness - was hit hard and rather abruptly by the global crisis, chiefly through the trade channel. After an expansion of 3.5% in 2008, real GDP contracted by 7.8 % in 2009. The economic slowdown after a phase of growing risks of overheating and falling competitiveness is prompting some adjustment of the economy: since the end of 2008, the inflation differential with the euro area and the external deficit have both gradually decreased, with the latter approaching balance in 2009. The general government balance was 5.5% of GDP in 2009, up from 1.7% in 2008, due to the working of the automatic stabilisers and measures to respond to the crisis amounting to some 1½% of GDP, which the government adopted in line with the EERP. Upon notifying a planned breach of the 3% of GDP reference value for 2009, Slovenia entered the Excessive Deficit Procedure in December 2009. The Council issued a recommendation under Article 126(7) TFEU to end this situation by 2013 at the latest.

According to the January 2010 update of the stability programme, the general government deficit ratio is due to stabilise at 5.7% of GDP in 2010 and to gradually decline thereafter to 4.2% in 2011, 3.1% in 2012 and 1.6% in 2013. According to the macroeconomic scenario underlying the programme, the rise in real GDP will be 0.9% in 2010 and 2.5% in 2011, accelerating to 3.7% in 2012 and 3.5% in 2013. Taking only fully specified measures into account − as is customary − the spring 2010 forecast of the Commission services projects a deficit of 6.1% of GDP in 2010. Thereafter, it expects the deficit in 2011, on a no-policy-change basis, to fall to 5.2% of GDP. Real GDP is projected to grow by 1.1% in 2010 and by 1.8% in 2011.

In its opinion of 26 April 2010 on the stability programme, the Council concluded that under the programme the general government deficit ratio is due to stabilise at 5.7% of GDP in 2010 and to gradually decline thereafter to well below 3% of GDP in 2013, which is the deadline for the correction of the excessive deficit as set by the Council. The Council further concluded that the budgetary strategy is subject to downside risks, as economic growth might be lower than projected and as the measures to support the proposed of consolidation of expenditure have yet to be fully spelled out and adopted.

In view of the above assessment, and also in the light of the recommendation under Article 126(7) TFEU of 2 December 2009, Slovenia was invited to:

(i) rigorously implement the planned consolidation measures in 2010 and bring the deficit below the 3% of GDP reference value by 2013, as planned, by fully specifying, adopting and implementing the indicated measures to contain expenditure in line with the average annual fiscal effort recommended by the Council in Article 126(7), while standing ready to adopt further consolidation measures in the event that risks related to the fact that the macroeconomic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) Recommendation actually materialise;

(ii) pursue efforts to enhance expenditure control and the enforceable nature of the multi-annual budgetary plans, and improve public spending efficiency and effectiveness;

(iii) in view of the significant projected increase in age-related expenditure, carry out further reform of the pension system and set a more ambitious MTO that takes sufficient account of the implicit liabilities related to ageing.

1.1.14. Bulgaria

In 2008, Bulgaria's GDP per capita in PPS reached 41.3% of the EU-27 average. The unfolding global economic crisis hit the Bulgarian economy hard, mainly through the trade and investment channels, and economic growth figures moved into negative territory in 2009. Thus, real GDP contracted by 5% in 2009, against an average growth of above 6% in the period 2003-08. At the same time the financial crisis reinforced the need for adjustment. Some of the large macro-economic imbalances that had accumulated during the boom years started to unwind. Average HICP inflation decelerated sharply to 2.5% in 2009, down from its peak of 12% in 2008. The current account deficit also corrected rapidly, falling from 24% of GDP at the end of 2008 to 9.6% of GDP in 2009. The crisis led to a severe deterioration in public finances. The general government balance swung from a surplus of 1.8% of GDP in 2008 to a deficit of 3.9% of GDP in 2009. Reliance on public finances to cushion the negative impact of the crisis was restricted by the need to maintain a sound budgetary position in order to underpin macroeconomic stability.

The most recent update of Bulgaria's convergence programme, submitted in January 2010, targets a balanced budget for general government throughout the programme period 2010-2012. The macroeconomic scenario underlying the programme projects that real GDP will improve to 0.3% in 2010 before recovering to an average rate of 4¼% over the remainder of the programme period. In the Commission services' spring 2010 forecast the general government deficit is projected at 2¾% of GDP in 2010 and, assuming a no policy change, at 2¼% of GDP in 2011. Real GDP growth is expected to stagnate at 0% in 2010 before picking up to 2.7% in 2011.

In its opinion of 26 April 2010 on the convergence programme, the Council concluded that the programme's aim to maintain a sound budgetary position, reflected in planned balanced budgets of general government, was considered adequate at the present economic juncture and in view of the need to contain the economy's external imbalances. However, it was felt that the planned consolidation in 2010 was not fully underpinned by the measures outlined in the programme. In addition, the full implementation of this programme depends on an optimistic macroeconomic scenario, with further risks resulting from the upward revision of the 2009 deficit. For the period 2011 and beyond, the lack of specific information concerning the measures in the programme could further undermine the planned adjustment path.

In view of the above assessment and given the need to ensure sustainable convergence, Bulgaria was invited to:

(i) continue implementing strict fiscal policies and adopt further consolidation measures to achieve the programme target for 2010 with a view to sustaining the on-going adjustment in the external imbalances and safeguarding investor confidence in the economy; in particular, contain public sector wage growth in order to contribute to overall wage moderation and improve competitiveness;

(ii) strengthen the efficiency of public spending by vigorously implementing the planned structural reforms in the area of public administration, healthcare, education, and pensions, in order to boost productivity and ensure sustainable convergence within the European Union.

1.1.15. Romania

Romania's GDP per capita in PPS stood at 48% of the EU-27 average in 2008. After expanding by 7.3% in 2008, the Romanian economy contracted by 7.1% in real terms in 2009 as domestic demand fell sharply. The stronger decline in imports compared to exports resulted in a less pronounced external imbalance, with the current account deficit estimated to have decreased to 4.2% of GDP in 2009 from 12.7% in 2008. The government deficit, which was 5.4% in 2008, reached 8.3% of GDP in 2009. By notifying a breach of the 3% of GDP reference value for 2009, Romania entered the Excessive Deficit Procedure in July 2009. The Council issued a recommendation under Article 104(7) TEC to end this situation by 2011 at the latest.

The latest update of Romania's convergence programme, submitted in March 2010, sets a target of a government deficit of 6.3% of GDP in 2010, followed by further reductions to 4.4% in 2011 and 3% in 2012 respectively. The achievement of these targets depends on a positive economic growth scenario of 1.3% in 2010, 2.4% in 2011, and 3.7% in 2012. The Commission services' forecast for spring 2010 projects a worse general government deficit of 8% of GDP in 2010 and of 7.4% in 2011. The forecast predicts that real GDP growth will increase by 0.8% in 2010 and by 3.5% in 2011.

In its opinion of 26 April 2010 on the convergence programme the Council stated that, in view of worse-than-expected developments, the macro-economic scenario for 2010 appeared to be slightly optimistic, but plausible, for 2011-2012. As for public finances, the Council concluded that the consolidation path projected in the convergence programme is appropriate, but full implementation of the consolidation measures planned for 2010 is essential if the deficit target is to be reached. In addition, the programme does not go sufficiently into the specifics of the consolidation measures to be taken in 2011 and 2012. 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 for 2011 and 2012.

In view of the above assessment, in the light of the recommendation of 16 February 2010 under Article 126(7) TFEU and given the need to ensure sustainable convergence, Romania was invited to:

(i) rigorously implement the fiscal consolidation measures for 2010 agreed as part of the balance-of-payments support programme and take further corrective action, if needed, to achieve the 2010 target for the general government deficit. The Romanian authorities are also invited to specify, in the context of the Medium-Term Budgetary Framework to be prepared by end May 2010, the fiscal consolidation measures that are necessary in order to achieve the programme budgetary targets in 2011 and 2012;

(ii) improve the fiscal framework by adopting and implementing the fiscal responsibility law. In particular, take into account the analysis by the Fiscal Council of the design and conduct of fiscal policy;

(iii) adopt and implement the draft pension law, which is intended to contribute to a significant improvement in the long-term sustainability of public finances.

1.2. Conditionality

Article 6 of Council Regulation (EC) No 1164/94, which governs the Cohesion Fund for projects approved prior to the end of 2006, attaches budgetary policy conditions to 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 2009, eleven Member States that were eligible for support under the Cohesion Fund (Greece, Spain, Portugal, 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 2009 there were three cases (Greece, Spain and Hungary) where effective action taken in compliance with the Council recommendations under Article 104(7) TEC was assessed. The Council decided that Spain and Hungary had taken effective action and it issued new recommendations under Article 126(7). Only in the case of Greece did the Council decide 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.

2. FINANCIAL IMPLEMENTATION OF THE 2000-2006 PERIOD IN 2008 AND CLOSURE OF PROJECTS

2.1. Payments made in 2009 for projects adopted during the 2000-2006 period

The report concerns a total of sixteen Member States who are benefitting from Cohesion Fund interventions in the period 2000-2006 (Ireland has no longer been eligible since 1 January 2004 and Bulgaria and Romania became eligible from 1 January 2007).

The Member States can be divided into three groups: a group of four Member States already eligible from the beginning of the programming period 2000-2006, a second group of ten Member States that joined the European Union in May 2004, and the group of two Member States (Romania and Bulgaria) who joined the European Union in 2007. The tables present the information by individual Member State and by group.

Given that all commitments for the Cohesion Fund projects financed under the 2000-2006 programming period were executed by 31 December 2006, the financial resources available for the Cohesion Fund in 2009 were confined to payment appropriations only.

The 2009 initial budget for the 2000-2006 Cohesion Fund projects amounted to EUR 3,892 million. However, the final budget was reduced to EUR 2,777 million. The cut is justified by significantly better implementation in 2008, where payments exceeded the voted budget by nearly 30 %. In order to bridge the gap between the available resources and the demand for payments, transfers have been made from the budget line related to the 2007-2013 Cohesion Fund programmes. This was due to a slower start-up of the 2007-2013 period, and thus in 2008 the Member States opted to counterbalance the delay by focusing on the implementation of the 2000-2006 projects. In 2009 the trend was reversed and the outstanding 2000-2006 payment appropriations were transferred to the 2007-2013 Cohesion Fund and ERDF programmes, which provided for 100 % execution of payment appropriations for the Cohesion Fund programmes and projects financed under both programming periods. The available appropriations of EUR 2,777 million were fully implemented by the end of 2009, resulting in additional payments of nearly EUR 300 million made in 2009 when compared with 2008 (EUR 2,489 million).

As far as the former ISPA budget lines are concerned, the budget voted in 2009 amounted to EUR 400 million. In September (during the Global Transfer procedure), additional appropriations of an amount of EUR 125 million were added to the relevant budget lines. After further reinforcements in December 2009, the final appropriations amounted to some EUR 529 million (an amount comparable to the implementation in 2008, namely EUR 531 million). The available appropriations were implemented in their entirety.

As at the end of 2009, the average absorption rate (payments vs. commitments) of all current beneficiary countries for both the Cohesion Fund and former ISPA projects, was 75.8 % (Table 3). Bulgaria's low absorption rate at the end of 2008 (39.8 %) improved significantly in the course of 2009, resulting in a rate of 56.5 %. The other absorption rates range from 65.8 % (Poland and Romania) to 92.8 % (Ireland).

Table 1 presents the overall execution of payments in 2009 (including technical assistance) for the Cohesion Fund and the former ISPA projects.

Table 1. Implementation of the Cohesion Fund and former ISPA payments in 2009 (Euro)

Payment Appropriations	Initial	Movements	Final Resources	Outturn	Carryovers 2010
Cohesion Fund	3.892.453.278	-1.115.315.452	2.777.137.826	2.777.137.825	-
Ex-ISPA	400.000.000	+128.969.059	528.969.059	528.969.059	-
TOTAL	**4.292.453.278**	**-986.346.395**	**3.306.106.885**	**3.306.106.885**	**-**

Table 2 shows the level of 2009 payments for each Member State. 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 2009, payments were significantly higher in comparison to the payments made in 2008 for the following countries: Hungary (+ EUR 169 million or 312 % of payments made in 2008), Bulgaria (+ EUR 92 million or 272 % of 2008 payments), Portugal (+ EUR 119 million or 161 % of 2008 payments) and Greece (+ EUR 68 million or 134 % of 2008 payments). On the other hand, lower payments compared to the 2008 execution were notified, in particular, for Slovakia (- EUR 98 million or 30 % of payments made in 2008) and Latvia (- EUR 58 million or 42 % of 2008 payments).

Table 2. Payments made in 2009 to the Cohesion Fund and former ISPA projects per Member State (including technical assistance)

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	% (as compared to the CF 2009 outturn by MS)	Amount	% (as compared to the CF 2009 outturn by MS)	Amount	Amount	% (as compared to the global CF amount)
Greece	87.787.992	32,8%	179.354.927	67,0%	483.890	267.626.809	8,1%
Portugal	217.958.948	69,4%	95.310.572	30,4%	662.867	313.932.387	9,5%
Ireland	10.700.000	46,7%	12.231.279	53,3%	-	22.931.279	0,7%
Spain	438.942.360	61,6%	273.080.132	38,4%	-	712.022.492	21,5%
EU 4	**755.389.300**	**57,4%**	**559.976.910**	**42,5%**	**1.146.757**	**1.316.512.967**	**39,8%**
Cyprus	8.236.548	100,0%	-	-	-	8.236.548	0,2%
Czech Republic	110.536.127	61,8%	68.256.254	38,2%	-	178.792.381	5,4%

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	% (as compared to the CF 2009 outturn by MS)	Amount	% (as compared to the CF 2009 outturn by MS)	Amount	Amount	% (as compared to the global CF amount)
Estonia	26.598.027	63,9%	11.887.556	28,6%	3.131.117	41.616.700	1,3%
Hungary	101.174.649	40,8%	145.002.371	58,5%	1.843.895	248.020.915	7,5%
Latvia	23.221.184	55,6%	18.360.386	43,9%	205.401	41.786.971	1,3%
Lithuania	54.895.917	54,1%	43.992.426	43,4%	2.548.928	101.437.271	3,1%
Malta	-	-	-	-	2.909	2.909	0,0%
Poland	473.658.296	56,6%	351.643.624	42,0%	11.512.473	836.814.393	25,3%
Slovakia	46.574.012	99,5%	-	-	244.253	46.818.265	1,4%
Slovenia	20.483.408	51,4%	19.354.671	48,6%	-	39.838.079	1,2%
EU 10	**865.378.168**	**56,1%**	**658.497.288**	**42,7%**	**19.488.976**	**1.543.364.432**	**46,7%**
Bulgaria	67.755.746	46,6%	69.324.323	47,7%	8.384.684	145.464.754	4,4%
Romania	198.052.988	65,8%	95.213.178	31,7%	7.498.566	300.764.732	9,1%
EU 2	**265.808.734**	**59,6%**	**164.537.501**	**36,9%**	**15.883.250**	**446.229.486**	**13,5%**
TOTAL	**1.886.576.202**	**57,1%**	**1.383.011.699**	**41,8%**	**36.518.983**	**3.306.106.885**	**100,0%**

2.2. Outstanding commitments from the 2000-2006 period

At the end of 2009, the outstanding commitments (RAL) corresponding to the 2000-2006 period amounted to EUR 8.4 billion

During 2009, the outstanding RAL was reduced by EUR 3.3 billion. In terms of absorption, the most significant decreases in RAL were notified for Hungary (- 16.8 percentage points), Bulgaria (- 16.7 percentage points), Slovenia (- 15.7 percentage points), Poland and Romania (both – 14.9 percentage points).

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

Member State	Committed (until 12/2009)	Paid (until 12/2009)	% Paid	RAL as at 31/12/2009	% RAL
Greece	3.565.195.978	2.715.334.857	76,2%	849.861.122	23,8%
Spain	12.915.179.288	10.519.496.170	81,5%	2.395.683.119	18,5%
Ireland	625.755.407	580.710.223	92,8%	45.045.184	7,2%
Portugal	3.497.201.489	2.741.059.557	78,4%	756.141.931	21,6%
TOTAL EU-4	**20.603.332.162**	**16.556.600.807**	**80,4%**	**4.046.731.356**	**19,6%**
Cyprus	54.014.695	40.029.810	74,1%	13.984.885	25,9%
Czech Republic	1.226.581.086	975.579.344	79,5%	251.001.742	20,5%
Estonia	425.431.731	330.768.303	77,7%	94.663.429	22,3%
Hungary	1.481.998.333	1.028.122.934	69,4%	453.875.399	30,6%
Latvia	713.987.456	541.309.058	75,8%	172.553.278	24,2%
Lithuania	825.354.775	661.411.795	80,1%	163.942.980	19,9%
Malta	21.966.289	17.532.611	79,8%	4.433.678	20,2%
Poland	5.634.539.614	3.708.555.930	65,8%	1.925.983.684	34,2%
Slovakia	766.117.246	586.031.109	76,5%	180.086.137	23,5%
Slovenia	254.197.825	202.417.662	79,6%	51.780.164	20,4%
TOTAL EU-10	**11.404.063.930**	**8.091.758.556**	**71,0%**	**3.312.305.376**	**29,0%**
Bulgaria	876.947.183	495.486.300	56,5%	381.460.884	43,5%
Romania	2.037.250.711	1.340.892.809	65,8%	696.357.902	34,2%
TOTAL EU 2	**2.914.197.894**	**1.836.379.109**	**63,0%**	**1.077.818.786**	**37,0%**
TOTAL	**34.921.593.986**	**26.484.738.472**	**75,8%**	**8.436.855.518**	**24,2%**

2.3. Closure of projects from the 2000-2006 period

At the end of 2009, the total number of closed Cohesion Fund projects for the 2000-2006 period (including former ISPA projects) was 299. The number of projects remaining for closure fell from 976 at the end of 2008 to 893 at the end of 2009.

Table 4 provides information on the projects closed up to the end of 2009 (per Member State).

In total, 83 projects were closed in 2009. The majority of closures were notified for the Member States with the largest number of Cohesion Fund projects: Spain (30 projects closed), Greece (15 projects closed) and Portugal (8 projects closed).

Table 4. Number of CF projects closed up to the end of 2009 (including ex-ISPA)

Member State	Total number of CF projects	Projects closed as of end 2009		Number of open projects as of end 2009
		Number of Projects	Total Paid in Euro	
Czech Republic	58	19	350.331.885	39
Estonia	37	20	106.548.425	17
Greece	124	49	1.150.632.586	75
Spain	407	110	2.969.559.629	297
Ireland	10	4	357.368.796	6
Cyprus	2	0	0	2
Latvia	46	10	44.331.604	36
Lithuania	51	13	159.495.999	38
Hungary	47	11	26.071.037	36
Malta	3	0	0	3
Poland	130	6	68.915.348	124
Portugal	109	32	810.129.887	77
Slovenia	28	10	72.460.238	18
Slovakia	39	9	60.041.606	30
EU 14	**1.091**	**293**	**6.175.887.040**	**798**
Bulgaria	38	3	27.044.270	35
Romania	63	3	2.191.214	60
EU 2	**101**	**6**	**29.235.484**	**95**
Total	**1.192**	**299**	**6.205.122.524**	**893**

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

3.1. Greece

3.1.1. Environment

In the environmental sector 94 projects were adopted, 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 was noted during 2009, in particular in relation to those Cohesion Fund projects that involve waste water treatment plants. However, the rate of performance of the environment projects differs from one sector to another. While the waste water treatment projects are relatively well advanced, projects on solid waste infrastructure, drinking water and nature protection projects − and in particular major projects such as the construction of dams − are being seriously delayed due to administrative hold-ups or public reactions. Close monitoring, including site visits, continued to be implemented by the Commission services in 2009 in order to ensure that the projects would be completed and operational within the allotted timeframes. A number of projects continue to pose problems of low uptake and implementation in the field of waste management mainly in Attiki, including major Cohesion Fund projects for drinking water supply and a nature project.

However, it should be noted that delays in the implementation of projects may also be due to social reactions. The slow implementation of certain projects may also be linked to the requirement to implement a number of requirements that derive from relevant Directives and are reflected in the specific terms of the funding decisions. Since 2002, Cohesion Fund decisions include certain specific clauses the fulfilment of which, in a number of cases, is a precondition for the execution of either the advance or interim and final payments. These specific clauses can be divided into those of an administrative nature (e.g. setting up of a management body for solid waste or of an agency to manage the operation of a dam), and those of a legal or technical nature (e.g. the completion of the legal framework relating to 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.

Most of the granting decisions have been modified following the relevant request from the Greek authorities. These modification decisions mainly concerned the extension of the final date of eligibility, the adaptation of the physical object of the funding and the financing plan.

3.1.2. Transport

Cohesion Fund projects on transport contribute to the development of a sustainable transport policy in Greece and concern in particular the priority trans-European (TEN) road axes in Greece, i.e. the PATHE, EGNATIA, IONIA; the modernisation of the PATHE railway axis, which is also part of the TEN, including its electrification and signalling systems; construction of a freight railway line from the port of Ikonio to the railway freight centre of Thriassio; the infrastructure facilities in different ports; and public transport infrastructures in Attica, such as the metro.

A number of requests for modifications were dealt with in 2009 which mainly concern the extension of the final date of eligibility, the adaptation of the physical object and the financing plan. The transport projects are progressing better than the environment projects, with motorway projects being particularly well advanced.

3.2. Spain

The year 2009 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.

On 1 January 2009, 328 Commission decisions (projects) granting assistance from the Cohesion Fund in Spain were open, eight of them dating from the period 1993-1999. RAL associated with these decisions amounted to EUR 3.128 million, of which 51.1 million corresponded to the period 1993-1999.

A total of 34 projects were closed in 2009, six of which related to the period 1993-1999. Most of the closed projects (28) concerned the environmental sector; the remaining eight were related to the transport sector. Therefore, a total of 294 projects remained open as at 31.12.2009, including two from the 1993-1999 period, with a RAL of EUR 2.394 million, of which EUR 9 million was related to the 1993-1999 period. This represents a decrease of 23.5% in the RAL associated with the Cohesion Fund for 2009.

Despite a significant acceleration in the pace of closures compared to 2008, when only 12 projects were approved, the closure process remains slow 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. 1164/94. However, 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 and, given the number of procedures that need to be initiated in the case of Spain, there is a case for looking into the technical and legal feasibility of a flat-rate solution, for example through a flat-rate financial correction.

3.2.1. Environment

Regarding changes in the conditions for granting aid, in 2009 a total of 71 amending decisions were approved, almost all of which were within the environmental sector. In general, the changes affect the date of completion of works, which is normally extended to 31.12.2010, 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, we are seeing a significant increase compared to 2008 when only 29 amending decisions were approved. This is probably due to the presentation to the COCOF in 2008 of the "Guidelines for the amendment of decisions taken by the Commission for Cohesion Fund projects on the basis of Regulation (EC) No 1164/1994 as amended" (COCOF 08/007/01) laying down the "one change rule".

As regards payments (intermediate and final balance), a total of 162 requests for payments have been implemented for an amount equivalent to EUR 712 million. Compared to the year 2008, this represents a decrease in terms of payment claims (184 in 2008) and an increase in terms of amounts paid (EUR 644.5 million in 2008).

3.2.2. Transport

In 2009, the Commission services paid particular attention to the implementation of projects in the port sector and the programming of the sector for 2007-2013, so as to ensure a coherent port policy in respect of co-financing by both the ERDF and the Cohesion Fund. In fact, the effort of European solidarity in financing this type of transport infrastructure during the period 2000-2006 represents EUR 1,586 million, of which EUR 1,170 million is from the Cohesion Fund. An aid amount of EUR 981 million is planned for the period 2007-2013, of which EUR 479 million comes from the Cohesion Fund.

On 1 April 2009, A meeting was therefore held in Madrid with the Spanish authorities in charge of port policy, at which the latter explained their strategic vision of port policy as a combination of local traffic forecasts for which the port authorities were responsible, and forecasts of international traffic and its distribution between different ports that depended on "Puertos de Estado". This policy is formalised in a plan in which the investments funded must be: consistent with the overall strategy, technically appropriate, and financially viable.

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 2009, nine 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 prolong the end date.

In 2009, three environmental projects were closed: "ETAR de Sobreiras", "Tratamento de Resíduos do Baixo Támega" and "Tratamento de Resíduos do Norte Alentejano"; this left 56 projects/groups of projects open at the end of 2009.

As at December 2009, thirteen 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 e Saneamento de Águas de Raia, Zêzere e Nabão – Fase 1" (EUR 45 million) et "Abastecimento e Saneamento de Águas de Trás-os Montes e Alto Douro – Fase 2" (EUR 43 million).

The other 43 open projects were still being implemented and had not got as far as the closure procedure; the most relevant projects from the point of view of the EU contribution are "Abastecimento e Saneamento de Águas de Trás-os Montes e Alto Douro – Fase 3", "Abastecimento e Saneamento de Águas de Raia, Zêzere e Nabão – Fase 2", "Abastecimento e Saneamento de Águas do Minho Lima – Fase 2" et "Abastecimento e Saneamento de Águas do Oeste (each intervention receiving a total assistance of EUR 50 million from the Cohesion Fund).

It should be noted that three projects in the sector of waste treatment – namely "Suldouro", "Braval" et "Resitejo" - have 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, three amending decisions were adopted for the same general reasons of adjusting the description of the project and extending the date of conclusion.

In 2009, four transport projects were closed, "Linha do Algarve – Ermidas / Faro", Linha do Minho – Lousada c/ Nine", "Eurominas" et "Aerogare de Lajes". At the end of the year, seventeen projects were still open.

Nine transport investments were at the closure procedure stage in December 2009; 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), "Linha do Minho – Nine / Braga" (EUR 47 million) et "Porto do Caniçal" (EUR 41 million).

The other eight open projects were still being implemented and had not yet reached the closure procedure stage; five of them receive a contribution in excess of EUR 100 million from the Fund, namely: "Linha do Norte – Vila Franca / Vale de Santarém", "Metro de Lisboa – Oriente / Aeroporto", "Linha do Norte – Entroncamento / Albergaria", "Metro de Lisboa – Baixa Chiado / Santa Apolónia" et "Linha do Norte – Quintans / Ovar".

Technical Assistance

At the end of 2009, three technical assistance decisions still remained open. No projects were closed. One amending decision was adopted in 2009.

3.4. Cyprus

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

A survey of both projects was carried out under the partnership with the Cypriot Authorities in order to ensure the sound financial management of the Cohesion Fund projects. The transport project has been completed and the final payment request is expected to be submitted in the coming months.

As for the environmental sector, it should be emphasized that the implementation of the project has been delayed due to reactions from the residents of nearby communities, due to the relocation of part of the project. In view of the above situation and the related slow absorption, this project was the subject of a specific technical meeting with the Cypriot Authorities in June 2009. An updated modification request, which included an extension of the eligibility date, was submitted at end 2009 and the amending decision adopted in January 2010 fixed the eligibility end date for the expenditure and works at 31.12.2010.

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, ten were closed, one is in the closure procedure, and closure procedures have been initiated for four other projects. The majority of the on-going projects are in the final stage of implementation.

In 2009, the Commission dealt with eight requests to amend the Commission decision. By the end of the year, seven amending decisions had been adopted. Most of the modifications concerned the extension of the end date of eligibility and changes to the scope of the project.

At the request of the Czech authorities, the services of the Directorate-General for Regional Policy launched an assessment to examine whether the specific condition governing the private operating contracts in the water sector, inserted in eleven Commission Cohesion Fund decisions, had been met. The final assessment report (June 2009) came up with clear recommendations which the Czech authorities have now begun to implement. The proper implementation of the recommendations of the Directorate-General for Regional Policy will be an important feature of the closure of the eleven environmental projects under the CF mentioned above.

3.5.2. Transport

In the transport sector, implementation is well advanced for most of the projects. In 2009, the closure procedure was launched for three projects. So far, five out of thirteen approved projects have been closed. No modification requests were received in 2009 in the transport sector.

3.6. Estonia

3.6.1. Environment

The Commission has issued financial decisions for 21 environmental projects under the Cohesion Fund (four of them are technical assistance projects). By the end of 2009, twelve projects were closed and one was in the process of being closed. Eight projects - including one technical assistance project -were being implemented, with a total allocation of EUR 192,187,936 (the average assistance rate under the Cohesion Fund is 76.19% or EUR 146,427,988).

Due to the overheating of the construction market, significant price increases occurred between 2006 and 2008 which delayed implementation, forcing a slimming down of the initial scope of projects and requiring an additional national contribution in order to finalise the projects. This situation was reversed in mid-2008. All environmental projects that had been delayed in 2007 and 2008 made good progress in 2009. All environmental projects are expected to be ready by the end of 2010.

The main problems hindering proper implementation are due to delays in the progress of project implementation, which themselves are mainly the result of delays in the design and/or construction, and/or cost overruns.

3.6.2. Transport

The Commission has issued financial decisions for fifteen transport projects under the Cohesion Fund (five of which are technical assistance (TA) projects). By the end of 2009, eight projects were closed.

Works have started on the ground on all projects. There have been delays due to cost increases, but to a lesser extent than in the environmental sector. No projects are at risk of not being implemented by the end of 2010.

Project 2006/EE/16/C/PT/001 "Eastern Extension of Muuga Harbour" was amended in 2009 to take into account the impact of crises (changed demands in relation to additional port capacity).

Technical assistance has helped prepare transport infrastructure projects for implementation in the new programming period. Two major project applications were developed in 2009 from the TA projects financed with technical assistance from the Cohesion Fund.

3.7. Hungary

3.7.1. Environment

In the environment sector there are 25 Cohesion Fund/ex-ISPA projects (one technical assistance project and 24 investment projects). The overall payment/commitment rate is 61%. The contracting rate is mainly above 90% and in several cases it is 100%. In the case of four projects, the contracting rate is between 75% and 85%: these projects concern Budapest (75%), South Balaton, North East Pest and the North Great Plain (86%).

Two projects - namely the North East Pest and North Balaton waste projects - are at risk of not being completed by 31 December 2010. The test run of the wastewater treatment plant at the Debrecen wastewater project will likewise extend beyond 2010.

In 2009, the Commission adopted ten (10) amending Decisions, mainly concerning the extension of the final date of eligibility until 31 December 2010, cost savings (mainly as a result of changes in the tax law of the Member State) and the inclusion of new project elements, as well as cost overruns in the case of waste projects. Decisions on another five requests for modifications in environment projects, submitted by the Hungarian authorities, are to be taken in 2010.

3.7.2. Transport

There are twelve Cohesion Fund/ex-ISPA projects in the transport sector (three technical assistance and nine investment projects – one for air transport (closed), six for road transport and two for rail). The overall payment/commitment rate is 78%. The contracting rate is mainly above 90% and in several cases is as high as 100%. One project has been closed.

The Hungarian authorities have not signalled any risks of non-completion for any specific projects.

In 2009, the Commission adopted four modification decisions, mainly concerning the extension of the final date of eligibility until 31 December 2010, cost savings (mainly due to changes in the tax law of the Member State) and the inclusion of new project elements, as well as cost overruns in the case of waste projects.

3.8. Latvia

3.8.1. Environment

The Commission has issued twenty-six Cohesion Fund decisions for environmental projects (including four technical assistance projects). In total, out of the twenty-six projects by the end of 2009, two projects had been closed, eleven closure files were pending with the Commission (although three additional projects were closed in early 2010), and thirteen projects were still ongoing.

During 2009 the Commission authorised ten interim payments amounting to EUR 23.29 million.

For six of the pending closure files, financial corrections of EUR 1.58 millions were proposed as a result of the wrongful award of supplementary contracts. The hearings are due to be held in 2010.

For one project the amount of works to be implemented by the final date of eligibility is still very substantial and, as a result, this is regarded as a high risk project. The Commission is monitoring progress closely.

In 2009, the Commission approved three modifying decisions. The approved requests for modifications included the following adjustments:

2002LV16PPE009 "Development of Water Services in Rēzekne City"

- Extension of the eligibility date until 31 January 2009;
- Adjustments to some of the physical indicators and to the description of the project as a result of a new technical solution found for the rehabilitation of the waste water treatment plant.

2005LV16CPE002 "Hazardous waste management system in Latvia, Stage I"

- Extension of the eligibility date until 31 December 2010.

2004LV16CPE001 "Development of Water Services in Ventspils, Stage II"

- Ceiling of the cumulative payments raised to 90%;
- Amendments of the physical indicators and description of the project due to readjustments caused by cost increases.

3.8.2. Transport

The Commission has issued eighteen Cohesion Fund decisions for transport projects (including four technical assistance projects). In total, by the end of 2009, seven out of the 18 projects were closed, two closure files were pending before the Commission (one of which was closed in early 2010), and nine projects were ongoing.

During 2009, the Commission authorised five interim payments amounting to EUR 18.36 million.

For one project the amount of works to be implemented by the final date of eligibility is still very substantial and, as a result, this project is regarded as a high risk project. The Commission is closely monitoring progress.

In 2009, the Commission approved one modifying decision which included the following adjustments:

2005LV16CPT003 "Reconstruction of access roads to Liepaja Port in Latvia"

- Extension of the eligibility date until 31 December 2010;
- Amendment of the physical indicators and the description of the project in the light of updated information obtained from the detailed design.

3.9. Lithuania

3.9.1. Environment

Twenty-nine environmental projects were adopted under the Cohesion Fund (and ex-ISPA) in the period 2000-2006, of which 16 are in the waste water sector, 11 are in the solid waste sector, and two are technical assistance projects.

Prior to 2009, two waste water projects were closed. No closure procedures were completed during 2009. The Commission services are currently assessing five closures: for one project the closure procedure was initiated in 2008 and for the other four projects the closure procedures were initiated during 2009.

Nine amending decisions were adopted in 2009. These mainly covered reduction of scope due to cost overruns, adjustment of physical monitoring indicators and extension of the end date. In addition, six requests for modification were received.

3.9.2. Transport

Twenty-one transport projects were adopted under the Cohesion Fund (and ex-ISPA) during the period 2000-2006; eleven of these projects are in the road sector, six are in the railway sector, and four are technical assistance projects.

Seven projects were closed before 2009. The closure procedure initiated in 2008 for one transport project was successfully completed in 2009. Two further projects were closed in the course of 2009 and one was completed in January 2010.

In 2009, Lithuania submitted four requests to modify transport sector projects. The modifications included extension of eligibility deadlines and adjustments of the physical monitoring indicators.

Technical Assistance

In addition to the sectoral assistance, co-financing has been granted to one project aimed at strengthening the administrative capacity of Cohesion Fund management in Lithuania. The project is on-going.

3.10. Malta

3.10.1. Environment

The project "Upgrading of Sant'Antnin waste treatment facilities" (CCI No. 2004 MT 16 C PE 001) 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 the installation of a waste water treatment facility (a reverse osmosis plant). The main outcome is the reduction of the negative environmental impact of the waste cycle, and in particular the reduction of the amount of landfilled waste, which is an issue of the utmost importance for the Malta main island on account of its very high population density (1.500 inhabitants / km^2).

The Commission decision approving this project was amended on 13 August 2008 in order to take into account the availability of more detailed designs suggesting the construction of a new mechanical treatment plant instead of upgrading the existing one, as well as a reverse osmosis plant to treat the waste water produced. The modification of the initial Commission decision likewise extended the deadline for the eligibility of expenditure until 31 December 2010.

The project is making good progress, and the Commission's payment/commitment ratio for the project reached the ceiling of 80%; the actual ratio of payments to total eligible costs is 73.26%. The material recycling facility has been completed, and the acceptance certificate for the final handover was issued on 17 May 2008. The digestion plant and the mechanical treatment plant are 70% and 80% completed respectively.

3.10.2. *Transport*

The project "Restoration and upgrading of sections of TEN-T" (CCI No. 2004 MT 16 C PT 001) 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 aim of reducing travel time, lowering accident rates and transport costs, and facilitating competitiveness in the transportation of goods.

The Commission decision approving this project was modified on 17 October 2008, to cover the transfer of funds between the project sections and to extend the deadline for the eligibility of expenditure until 31 March 2010. A request for a second modification of the project was submitted to the Commission in July 2009 in order to utilise savings made in the project (EUR 519,496.91) for the upgrading of an additional 350 m stretch of the Mġarr Road. The amending decision was adopted by the Commission on 5 February 2010. A Commission decision correcting an administrative error in the second amending decision was adopted on 23 March 2010. The new deadline for the eligibility of expenditure is 31 December 2010.

The physical elements of the original project are completed; financial completion (actual payments made/total eligible costs) is at 92.96%. A new works contract for the reconstruction of the additional stretch of the Mġarr Road was published on 14 July 2009. The Commission's payment/commitment ratio for the project reached the ceiling of 80%.

Technical Assistance

The aim of the TA project is to prepare the environmental projects pipeline for Cohesion Fund projects in the period 2007-2013 (mechanical biological waste treatment plants and storm water master plan).

The Commission decision approving this project was amended 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 out of Directive 2001/42/EC. Consequently, the EIA component was removed from the first sub-project and SEA was included in the second sub-project. In addition, the deadline for the eligibility of expenditure has been extended to 31 December 2010.

The project is making good progress and the Commission's payment/commitment ratio for the project is 80%; the actual realised payments account for 65.1% of total eligible costs.

3.11. Poland

In 2009, the Commission adopted 14 amending decisions granting assistance from the Cohesion Fund – eight in the environment sector and six in the transport sector.

In addition, the Commission adopted eight corrigenda. 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%.

A substantial number of projects will not be finalised until 2010, which means that the bulk of closures can be expected in 2011 and 2012. So far, six projects have been closed and thirteen projects were under closure procedures at the end of 2009. Numerous projects in both sectors posted significant cost overruns which, in total, represented approximately one third of the entire Cohesion Fund allocation for Poland. In both sectors the national authorities secured the additional financing for projects affected by cost-overruns, with the exception of three projects in the environment sector and one transport project. For the three environmental projects the managing authority has requested a reduction of the physical scope. For the transport project the request still has to be submitted.

On the other hand, there were twenty-six projects which achieved cost-savings totalling EUR 26 million of the Cohesion Fund grant.

Two EC audits carried out on Cohesion Fund projects in 2005 and 2006 detected systemic errors in the area of public procurement. The Directorate-General for Regional Policy sent a final position letter on 7 December 2009 (English language version sent on 31 July 2009). According to working contacts until the end of 2009, the Polish authorities do not agree with the financial corrections proposed by the Directorate-General for Regional Policy which add up to EUR 23 million for the twenty audited projects, but which will affect the overwhelming majority of the 130 Cohesion Fund projects in Poland.

At the end of 2009, there was only one project left with an outstanding issue relating to the Environmental Impact Assessment (EIA).

In 2009, the Commission authorised payments amounting to EUR 836.8 million.

3.11.1. *Environment*

The level of contracting exceeded 120% of the originally estimated costs in environmental projects, which represents 95% of the total expenditure when cost overruns are taken into account. The physical and financial progress on the ground, aggregated for the sector, was calculated at around 81% and 76% respectively. More than half of the projects reached the threshold for interim payments at the end of the reporting period.

Two closures were ongoing for an investment project in the environment sector.

3.11.2. *Transport*

The level of contracting was over 118% of the originally estimated cost for transport projects, or 87% if the cost overruns are taken into account. The physical and financial progress aggregated for the sector was about 75% (both physical and financial). All except four transport projects reached the threshold for interim payments.

The closure procedure for eight investment projects was ongoing in the transport sector.

Technical assistance

Three closures were ongoing for technical assistance projects.

3.12. Slovakia

3.12.1. Environment

Considerable progress was recorded in the implementation of environmental Cohesion Fund projects during 2009. Delays in a number of projects have now been reduced thanks to the measures taken following the action plans introduced by the Managing Authority on the Commission's recommendation. It seems likely that, as a result of common efforts, all environmental projects will be physically completed by 31 December 2010.

Financial closure was completed for four projects during 2009 - three infrastructure projects (Nitra, Martin, Považská Bystrica) and one technical assistance measure - and all four were initiated. However, another four environmental infrastructure projects (Poprad, Zvolen, Liptov and South East Zemplín) were interrupted owing to additional checks on procurement procedures. Closure procedures also started in December for another two environmental projects (Komárno and technical assistance). Amending decisions were adopted for three infrastructure projects (Galanta, Šamorín, Banská Bystrica) in order to extend the eligibility date and to adjust physical indicators. Another request for modification was received relating to the adjustment of physical indicators of the Prešov project.

3.12.2. Transport

Physical implementation continued to advance satisfactorily during 2009. For one road project, the D1 Mengusovce - Jánovce motorway, a modified decision was approved in order to extend the end date of eligibility until December 2010 so as to also include the period for notification of defects.

Two railway projects were submitted for closure: modernisation of the Rail Track Šenkvice-Cífer and Stations Rača-Trnava and modernisation of the section Trnava-Piešťany.

All Cohesion Fund transport projects will be physically completed in 2010.

3.13. Slovenia

The Commission did not approve any new projects for Slovenia in 2009, as the full allocation had been committed by 31 December 2006. The following table presents the total number of projects and the amounts committed by sector for the entire period 2000-2006:

	Number of projects adopted in 2000 - 2006	**Total commitments (EUR million)**	**% of total commitments**

Environment	16	129.5	50.9
Transport	8	122.1	48.0
Technical Assistance	4	2.7	1.1
Total CF	**28**	**254.3**	**100%**

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.

Two amending decisions were approved in 2009, neither of which had an impact on the forecasts of financial allocations.

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 former 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 twelve projects in the water sector) and waste management (four projects in total).

In 2009, 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.

Four completed projects in the water sector were closed. Two further investment projects and one technical assistance project entered the closure stage. In compliance with the relevant procedures, closure of these projects and processing of final payments is due in 2010.

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 six railway projects and two motorway projects in the transport sector. Following reports of delays due to public procurement in previous years, all railway projects in 2009 were fully contracted and made satisfactory progress in physical and financial terms (all projects reached the 80% ceiling). In 2010 two already completed transport projects are due to be closed.

3.14. Bulgaria

3.14.1. Environment

Despite slow progress in 2009, the implementation of the 25 Cohesion Fund/ ex-ISPA environmental projects (19 in the water sector – two in the waste sector – three technical assistance and one in the energy sector) was below target making it clear that a number of them will not be completed by the end of the eligibility period, i.e. 31 December 2010. So far not a single project has been completed.

In 2009, the Commission adopted six Modification Decisions, mainly concerning the extension of the final date of eligibility until 31 December 2010 and the inclusion of new project components in order to absorb accumulated savings.

Payments for two projects, "Construction of Flue Gas Desulphurisation Plants at Units 5 & 6 of TTP Maritsa East 2 EAD" and "Kardjali Regional Waste Management Center" were interrupted in 2009.

3.14.2. Transport

The implementation of the eleven transport projects – five major projects and six technical assistance projects – was speeded up slightly in 2009. Nevertheless, this acceleration will not be sufficient to make up the serious delays that these projects had accumulated during the previous years of implementation. As a result, some projects will inevitably lose Cohesion Fund assistance when eligibility comes to an end on 31 December 2010.

In the transport sector one major project was closed in 2009, while two others were successfully completed. Although the procedures for closing the two projects have been initiated, the process will not be finalised in 2010 due to delays in submission of the closure documents by the national authorities.

Decisions were taken in 2009 to modify four technical assistance projects for which the Bulgarian authorities had submitted modification requests. The requested modifications concern the extension of the final date of eligibility and the inclusion of new components in the projects in order to absorb the accumulated savings.

The suspension of intermediate payments for two projects in the road sector has been lifted and the related financial correction has been implemented.

3.15. Romania

Article 28 of the protocol concerning the conditions and arrangements for admission of the Republic of Bulgaria and Romania to the European Union from the Treaty of Accession of Bulgaria and Romania provides for ISPA measures to be considered as Cohesion Fund measures and become subject to Council Regulation (EC) No 1164/94 of 16 May 1994 establishing a Cohesion Fund, as amended.

In total sixty-three Cohesion Fund projects were approved by the Commission in the 2000-2006 programming period for Romania: thirty-six were for the environmental protection related measures in the water resources management and waste management sectors, twelve projects were in the transport sector covering mainly rail and roads, and fifteen technical assistance projects linked both the environment and transport sectors.

Considering the 2000-2006 programming period, the total amount of grant decisions for Romania is almost EUR 2,036[1] 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 implementation of Cohesion Fund projects is still ongoing, with several projects experiencing delays, but with some measurable progress being achieved during 2009. Three projects have made very slow progress, which is reflected by payments that are 20% or less than the amount of the committed grants, partly because these projects were adopted relatively late (mainly in 2005 and 2006). Nevertheless, this is a substantial improvement compared to 2008, when there were 10 projects with payments that were only 20% or less.

For twenty-three projects the Commission adopted the corresponding amending decisions in 2009, mostly to extend the end dates of their eligibility.

Total payments from the European Commission to Romania fell by 6% compared to 2008 (from EUR 319.7 million to EUR 300.7 million), bringing the total accumulated payments to EUR 1,392 million. Almost all of the total payments in 2009 were interim payments.

Measures to improve the management capacity of the responsible stakeholders are being planned, which should result in an increased number of signed contracts and progress on the ground. However, even this improvement still leaves a substantial amount of EU funds - almost EUR 1,109.7 million – to be absorbed and justified through eligible expenditure by the end of 2010.

3.15.1. *Environment*

Payments from the Commission to the environment-related infrastructure projects in 2009 amounted to EUR 193.24 million, showing a clear increase of 69.4% over 2008. Additional projects reached payment levels that were more than 80% of the existing EU funding commitment, signifying that works are either well under way or have actually been completed. In total, thirty-four projects reached payments exceeding 50% of the existing EU funding commitment, which left only four projects with a 50% threshold.

Technical assistance

There are six technical assistance projects linked to the environment sector which focus mainly on project preparation and institutional strengthening. Four of these have been completed and two have already been closed from a procedural point of

[1] Sign "." stands for separating decimals and sign "," for thousands.

view. One of the two ongoing projects reached a payment level of 80% and the other 75%, indicating that project implementation is well advanced. Payments from the Commission to technical assistance projects in 2009 amounted to EUR 7.37 million.

3.15.2. Transport

Payments from the Commission to transport projects in 2009 amounted to EUR 95.21 million − a decrease of about 22% compared to 2008. In addition, three projects reached payment levels exceeding 50% of the existing EU funding commitment.

Technical assistance

There are eight 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. One new project has payments that exceed 50% of the existing commitments. Payments from the Commission for technical assistance projects in 2009 amounted to EUR 4.44 million, which is a decrease of 67% compared to the situation in the previous year (2008).

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

A meeting of the monitoring committee was held in June 2009 in Thessaloniki, during which all current Cohesion Fund projects were discussed. In a spirit of good collaboration with the Greek authorities, a series of technical meetings and site visits took place to ensure close monitoring and follow up, identify the critical issues, give a further boost to implementation and identify actions that will ensure that all of the funds are utilised by 2010.

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 22 April 2009.

To prepare the meeting, national authorities sent the reports reflecting the state of implementation as at 31 December 2008 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 45 projects which, by virtue of their particular situation, were subject to monitoring and a specific analysis during the sessions of this Committee.

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

Given the large number of applications for the amendment of decisions taken by the Commission, it was recalled that, although the guidelines on the amendments to the Cohesion Fund decisions presented to the Committee of the Coordination of the Funds (COCOF) on 27 February 2008 allow greater flexibility for the second amendments, these latter amendments are not automatic and must meet the conditions stipulated by December 2010.

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

Lastly, the Commission wished to discuss the Commission Regulation (EC) No 621/2004 of 1 April 2004 concerning publicity measures. Committee members were reminded of the vital importance of effective information and publicity measures, in order to give greater visibility to the CF projects and raise awareness of the role that the European Union is playing through the Cohesion policy. The Commission thanked the Spanish authorities for the "information and publicity days" organised in 2007 by Puertos de Estado and by the national railway infrastructure company (ADIF) in 2008 and asked the Ministry of Environment to organise a similar day in 2009 for the projects that it manages.

Monitoring missions

Three technical meetings took place in Madrid on 19 February, 3 April and 17 June 2009 respectively. Represented at the meeting 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. One of the topics widely discussed was the analysis of closure dossiers of projects with proposed financial corrections so as to prepare for a hearing under section H of Annex II to Regulation (EC) No 1164/94.

In addition, four monitoring missions were conducted in 2009, during which ten projects were visited. The first mission was the follow-up meeting with port authorities mentioned above, which allowed the Commission to visit the ports of Barcelona, Valencia and Sagunto on 17 and 18 September 2009.

The second mission was a visit to the projects CCI 2005ES16CPE032 (desalination of seawater of Santa Eulalia) and CCI 2002ES16CPE030 (waste water treatment plant of San Antonio) on 15 November 2009, in order to check the progress of these projects on the ground as well as to verify the related certified expenditure.

The third mission took place on 25-27 November 2009 and concerned the projects CCI 2002ES16CPE006 (desalination of seawater Tordera), CCI 2001ES16CPE054 (EDAR of Granllers) and CCI 2002ES16CPE064 (improved treatment of residues in Tarragona).

The visits were necessary in order to verify certain environmental conditions in the first project, to investigate a problem of description of the works in the second case and to ensure that the project was functioning correctly in the last case.

The fourth and last visit took place on 26 and 27 November 2009, to see and discuss the project CCI 2000ES16CPE140 (underground containers for selective recycling in Ciudad Real) and CCI 2005ES16CPE020 (wastewater treatment in Tablas Daimiel). For the first project, the purpose of the visit was to verify certain points included in the Winding-Up Declaration to accelerate project closure, whereas - in the second case - the objective was to discuss on the ground a request by the Member State for an amendment to the decision.

4.1.3. Portugal

Monitoring Committees

Pursuant 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.

The two 2009 Monitoring Committee meetings were held in Lisbon, the first taking place on 14 May 2008 and the second on 27 November 2008.

Given that it has been impossible since the end of 2006 to approve any financial changes, the aim of the Committee 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 2009, of the 54 projects that had not yet got as far as the closure procedure, 38 investments had a closing date of 31 December 2010 and only 22 investments had received Fund payments below 50% of the total EU contribution.

Both meetings of the Monitoring Committee were preceded by technical meetings 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 2009, the Commission services visited four projects ("Saneamento de Águas de Braga", "Abastecimento e Saneamento de águas do Minho Lima – Fase 4", "Tratamento de Resíduos do Grande Porto – LIPOR" and "Saneamento de Águas da Ria de Aveiro – Barrinha de Esmoriz") 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

A meeting of the Monitoring Committee for the Cohesion Fund took place in June 2009 in Cyprus. Progress in implementing the two Cohesion Fund projects was presented, while other technical issues related to monitoring and reporting were also addressed. In addition, a specific technical meeting for the environmental project (solid waste management covering the regions of Larnaka-Ammochostos) was also held, during which a detailed presentation was made of the progress achieved.

4.1.5. Czech Republic

In general, meetings of the Cohesion Fund Monitoring Committee are held twice a year. In 2009, the first meeting of the Monitoring Committee took place on 23-24 June 2009 and the second one was held on 15 December 2009. 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 2009.

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. One monitoring committee meeting was held in 2009 covering implementation, quality of spending, financial progress and publicity actions.

The situation with regard to time-lags in implementation has been continuously monitored. 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

Monitoring committees

Two Monitoring Committee meetings were held, in April and October 2009 respectively. Horizontal issues and progress in individual projects were discussed. None of the projects reported non-completion by the end of 2010. Beneficiaries were confident of completing their projects by this deadline, except Debrecen (where the test run period is to be extended until mid 2011) and Budapest wastewater projects. The latter will most probably be extended until 2012.

Monitoring missions

The Directorate-General for Regional Policy took part in a five-day monitoring mission, involving the European Investment Bank, and visited six wastewater projects and one drinking water project.

4.1.8. Latvia

In 2009, two Cohesion Fund Monitoring Committees took place:

- The 10th Cohesion Fund Monitoring Committee meeting was held in Riga on 24 March 2009;

- The 11th Cohesion Fund Monitoring Committee meeting was held in Riga on 15 October 2009.

The meetings were used for monitoring and assessing progress in implementation, as well as for discussions on any problems that were encountered and on horizontal issues such as financial implementation, publicity, and technical assistance for the Cohesion Fund Managing Authority.

In both meetings the following problematic projects were closely monitored and discussed: 2004LV16CPT002 "Track renovation on stages of the East-West rail corridor in Latvia", 2001LV16PPT006 "Modernisation of rail signalling systems" and 2005LV16CPE001 "Development of the district heating supply system in Ventspils".

4.1.9. Lithuania

Two Monitoring Committee meetings took place in Lithuania, on 28-29 April and 21-22 October 2009. The committee examined the progress reports submitted by the national authorities and discussed the implementation of all ex-ISPA and Cohesion Fund projects.

Four technical meetings of the Cohesion Fund took place during 2009:

March 2009 (Mission to Vilnius, Lithuania) – Meeting with the Managing Authority to discuss the proposed amendment of the TA project 2001LT16PPA002;

June 2009 (Mission to Luxembourg) - Trilateral meeting concerning the preliminary findings by the Court of Audit during their review of 10 CF projects in Lithuania;

July 2009 (Mission to Panevezys, Lithuania) - Monitoring visit to a waste project 2005LT16CPE003, combined with a meeting on Cohesion Fund Major Projects of 2007-2013;

November 2009 (technical meeting in Brussels, Belgium) - Meeting with the Managing Authority and National Audit Authority on the issues related to the closure of Cohesion Fund projects.

4.1.10. Malta

Monitoring Committees

Meetings of the Monitoring Committee for all three Cohesion Fund projects were held on 11 May 2009 and on 20 November 2009. The Commission representatives attended both Monitoring Committee meetings.

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

Monitoring missions

No monitoring missions took place in 2009.

4.1.11. Poland

Monitoring Committees

Two meetings of the Cohesion Fund Monitoring Committee were held in 2009 (on 26 May and 2 December). The meetings were preceded by meetings of working groups for the Environment sector (on 22-23 June and 28-29 October) and the Transport sector (on 28 April and 3 November). 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, EIA conditions, closure forecast, modifications to projects in terms of scope and timeline, and delays in implementation. Particular attention was paid to the monitoring of projects that were making poor progress and to the results of the audits performed by the Commission in 2005 and 2006. For more than one third of the overall number of projects the managing authority submitted proposed modifications concerning the end date, physical scope and threshold for interim payments to be presented to the Commission by the end of 2009.

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 2009: in Štrbské Pleso, Northern Slovakia (March) and Vyhne, Central 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, impact of financial corrections, and the need to apply lessons learned from the 2000-2006 period in future major projects. It was suggested that the Managing Authority should undertake a review of positive and negative aspects of project implementation in the period 2000-2006. It was also recommended that appropriate publicity should be given to projects completed and successes achieved (through press conferences, publicity leaflets, etc.) in order to emphasize the benefits of the EU's cohesion policy.

Monitoring missions

The geographical unit made a site visit to the Mengusovce-Jánovce project, which had been identified as a project at risk of non-completion by end-2010. However, the mission proved the contrary, i.e. the project was on track to be completed by mid 2010 and, consequently, a request for modification of this project was able to be discussed on site. In addition, on the occasion of the same March 2009 monitoring committee meeting, a visit was made to the completed Poprad wastewater treatment project. During the October 2009 monitoring committee, water supply and waste water treatment projects in Banská Bystrica and Veľký Krtíš were visited, both of which were nearing completion.

4.1.13. Slovenia

Monitoring Committees

Two Cohesion Fund Monitoring Committee meetings were held in Slovenia in 2009.

The meetings took place on 21 April and 4 December 2009 and focused on the ongoing implementation of projects, delays in public procurement, 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 2009. The two projects visited (one for waste water and one for a railway) showed satisfactory progress towards completion.

4.1.14. Bulgaria

In 2009 two Monitoring Committee meetings took place and a number of projects site-visits were made. 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.

National authorities were asked to prepare Action Plans indicating the steps to be taken in order to speed up project implementation. Furthermore, they were requested to estimate and secure the national funds that might be needed in order to complete the projects after the Cohesion Fund eligibility period had expired.

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 Bridge. Two meetings were held in 2009, one in Bucharest and the other in Sofia.

4.1.15. Romania

Monitoring Committees

Two meetings of the Cohesion Fund Monitoring Committee for the former ISPA environment and transport projects were held in combined sessions in 2009. Some visits were also made to project sites.

The Committee discussed project specific issues, in particular for those projects that were regarded as more critical in terms of the progress of their implementation and the horizontal aspects of implementation that were currently affecting overall implementation as a whole, such as low rates of payment and the need to improve payment forecasts and contract management in order to achieve a better level of expenditure to ensure timely completion of projects and full absorption of EU funds. Discussions also covered public procurement, contract management, 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

Specific missions were conducted for one of the transport projects relating to navigation on the Danube, for which a specific monitoring subcommittee had been set up.

4.2. Audits and financial corrections

In 2009, the focus of the audit services for the 2000-2006 period was on preparing for closure, with missions to review the work of national winding-up bodies and the practical closure of the Cohesion Fund projects for the 2000-2006 period via an analysis of the winding-up declarations.

Audit work for the programming period 1994-1999 EU 4 (Greece, Ireland, Portugal, Spain)

The closure enquiry by the Cohesion Fund for the period 1994-1999 covered 10% of Cohesion Fund projects, representing 20% of the co-financed expenditure during this period. The fieldwork was finalised in 2003 and the main deficiencies found were insufficient verification, resulting in ineligible expenditure and breaches of public procurement rules. The follow-up and financial correction procedures resulting from the closure enquiry were all concluded by the end of 2009, apart for one remaining case (in Spain) which is due to be finalised in spring 2010.

Audit work for Programming period 2000-2006 EU 16 (EU 10 + EU 4 + EU 2)

For EU-14 Member States, three audit missions for the review of winding-up bodies were carried out by the Directorate-General for Regional Policy in 2009 (in Spain, Portugal, and Greece) in order to check the preparations of Member States for closure and to identify and mitigate related risks. In addition, six further audit missions were carried out (one each in Bulgaria, Czech Republic, Greece, Hungary, and two in Romania).

For the closure of 2000-2006 Cohesion Fund projects, the audit services of the Directorate-General for Regional Policy examined the winding-up declarations submitted by the Member States.

Other audit work undertaken for the Cohesion Fund included the examination of the national annual control reports under Article 12 of Regulation (EC) No 1386/2002 and the review of national system audit reports submitted to the Commission. By the end of 2009, the majority of 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 2008 were held during the spring and summer of 2009. The annual bilateral coordination meetings covering audit work carried out in 2009 were held in spring and summer 2010.

Impact of controls

Cohesion Fund suspension decisions and financial corrections in 2009

As part of its supervisory role, the Directorate-General for Regional Policy established a policy in 2008 to ensure more rapid adoption of decisions for the suspension of payments and financial corrections when serious systems weaknesses are detected. This more rigorous approach was continued in 2009.

The overall figure of financial corrections for Cohesion Fund in 2009 was approximately EUR 70 million, compared to approximately EUR 92.7 million in 2008. This increases the total cumulative financial corrections for the Cohesion Fund in the period 2000-2009 to EUR 227 million. No suspension decisions were adopted for Cohesion Fund projects in 2009.

At the end of 2009, suspension and correction procedures were in progress for a total of approximately 99 Cohesion Fund projects (2000-2006) for an amount of around EUR 153 million.

Table 5: Cohesion Fund financial corrections in 2009 by period and country (in EUR)[2]

Table: Cohesion Fund financial corrections in 2009 by period and country (in EUR) **(**Includes corrections made by Member States, following agreement under the relevant procedure or as a result of implementation of action plans - which may cover more than one programme - and formal Commission decisions.) (Includes corrections implemented as a result of Commission audit work, but also corrections carried out in the course of implementation or closure of projects)			
Member State	**Cohesion Fund**		**TOTAL**
	Period	**Period**	

[2] Includes corrections made by Member States, following agreement under the relevant procedure or as a result of implementation of action plans and formal Commission decisions. Includes corrections implemented as a result of Commission audit work but also corrections carried out in the course of implementation or closure of projects.

	2000-2006	1994-1999	
Bulgaria	2.413.615	-	2.413.615
Cyprus	-	-	-
Czech Republic	113.008	-	113.008
Estonia	-	-	-
Greece	2.452.289	-	2.452.289
Spain	21.592.738	4.771.861	26.364.599
Hungary	40.497.367	-	40.497.367
Ireland	-	-	-
Latvia	-	-	-
Lithuania	649.156	-	649.156
Malta	-	-	-
Poland	-	-	-
Portugal	205.714	4.987.861	5.193.575
Romania	8.067.402	-	8.067.402
Slovenia	-	-	-
Slovakia	-	-	-
TOTAL	75.991.289	9.759.722	**85.751.011**

Audit opinions in the Directorate-General's Annual Activity Report for 2009

In the Annual Activity Report of the Directorate-General for Regional Policy for 2009, an unqualified opinion was given for the Cohesion Fund systems in six Member States (Cyprus, Estonia, Greece, Malta, Portugal and Slovenia) In respect of the functioning of the management and control systems (2000-2006).

For nine Member States, the opinion was qualified as having a moderate impact due to material deficiencies affecting key elements of the systems (Bulgaria - transport sector, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Spain).

Only one CF sector in a single Member State (Bulgaria - environment sector) was under a reservation in the Directorate-General's Annual Activity report for 2009, primarily owing to breaches of public procurement rules. Work is on-going in conjunction with the national authorities in 2010 to rectify the problems identified.

4.2.1. Greece

In 2009, the Directorate-General for Regional Policy carried out two audit missions in Greece for the Cohesion Fund. The first involved a closure audit of four closed projects. The mission found one sub-project which was not completed or operational, but which had not been identified as ineligible by the winding-up body. Secondly, a follow-up audit of ERDF and the Cohesion Fund winding-up body (EDEL) was carried out in 2009, in which an action plan for the winding-up body was closed, since EDEL had finalised its guidance documents for closure and updated its categorisation of the findings and assessment of the systemic nature of the irregularities.

As regards the follow-up of previous audits, in 2009 the Commission closed the follow-up of two missions which had been carried out in 2008 and in 2007. One audit carried out in 2008 is still open in 2010. These missions identified delays in the implementation of projects, issues around revenue-generating projects, and weaknesses in public procurement procedures.

In 2009, a financial correction of EUR 313,503 was applied by the Greek Authorities for the use of an irregular selection criterion in the public procurement procedure. In addition, as a result of an OLAF investigation of one Greek water supply project during 2008 and 2009, the national authorities took some corrective measures.

The Greek authorities submitted twelve national audit reports and seventeen winding-up declarations, which were examined by the Commission services in 2009.

The annual bilateral meeting with Greek audit bodies covering audit activities in 2008 was held in May 2009. The annual bilateral meeting covering the year 2009 took place in spring 2010.

In the Annual Activity Report of the Directorate-General for 2009, 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. In addition, as the Commission examines the winding-up declarations on an individual basis before the closure of the projects, any irregular expenditure can be identified and deducted at the closure of each project.

4.2.2. Spain

The Commission conducted one audit mission relating to the Cohesion Fund closure 2000-2006, which took place in Spain in 2009. The aim was to assess four closed Cohesion Fund projects and the procedure used by the winding-up body for these closures. The main finding of the mission was related to irregularities involving changes to the contract not being detected by the national authorities during the closure procedure.

As to the follow-up of previous Commission audit missions and Court of Auditors' findings, the audit services of the Directorate-General for Regional Policy concluded the financial correction procedures for ten Cohesion Fund 2000-2006 projects during the year 2009 with a total corrected amount of EUR 6.8 million. In six cases the corrections were accepted and implemented by the Spanish authorities, and in four cases a Commission correction of 1.3 million was made, with Spain accepting the financial correction. The final Commission correction relating to the CF closure enquiry for the period 1994-1999 will be finalised during spring 2010.

A total of 87 winding-up declarations for the closure of Spanish Cohesion Fund projects had been analysed by the audit services of the Directorate-General for Regional Policy by the end of 2009 (and 157 by 24.3.2010). In many cases, irregular expenditure declared to the Commission was detected, mainly in relation to public procurement procedures and certain issues of VAT eligibility.

The Article 12 reports received and examined by the Commission covered all the Regional Communities of Spain, except Navarra and Cantabria and the part of the fund that was centrally managed.

The annual bilateral co-ordination meeting between Commission and Spanish auditors covering the 2008 audit exercise took place in Madrid in June 2009. During the meeting the auditors of the Directorate-General for Regional Policy regretted the absence of corrective measures by the national authorities in relation to irregular additional contracts included in Cohesion Fund projects, compared to the effective corrective actions taken for the ERDF to resolve the same issue. The annual bilateral meeting covering year 2009 is to be held in Madrid in May 2010.

In the Annual Activity Report of the Directorate-General for 2009, a qualified opinion with moderate impact was given for the management and control systems of Cohesion Fund Spain 2000-2006, owing to material deficiencies affecting key elements of the systems. However, no reservation was proposed, as it was concluded that the financial risk to the Community budget is mitigated by the fact that the winding-up declarations are assessed 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 2009, one closure audit mission concerning the Cohesion Fund was carried out by the Directorate-General for Regional Policy in Portugal. As a result, financial corrections were proposed for four projects. The adversary procedure with Portuguese authorities was on-going in early 2010.

As for the follow-up of previous audit work, financial corrections proposed by the Commission were accepted by the Member State in 2009 as follows: (i) a total of EUR 1,962,691.22 EUR relating to the 1994-1999 programming period; (ii) a total of EUR 181,162.39 EUR concerning the 2000-2006 programming period.

The Article 12 report and one national audit report were submitted and examined by the Commission in 2009. Certain elements of the report were followed up during the audit mission of the Directorate-General for Regional Policy in 2009.

Six winding-up declarations for the closure of Portuguese Cohesion Fund projects were analysed by the Directorate-General for Regional Policy in 2009. Financial corrections were proposed for two projects as a result of the WUD review for one project and in the light of the audit mission carried out in 2009.

The annual bilateral meeting between Community and Portuguese audit bodies was held in May 2009 and concerned the controls implemented as at the end of 2008. The annual bilateral meeting covering 2009 audit issues is due to be held in Brussels in April 2010.

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.

In the Annual Activity Report of the Directorate-General for 2009 an unqualified opinion was given for Cohesion Fund Portugal since the winding-up declarations are assessed individually before the closure of projects, in order that any irregular expenditure can be identified and deducted at the closure of each project.

4.2.4. Cyprus

The Directorate-General for Regional Policy carried out no audit missions in Cyprus in 2009. One audit which had been carried out in 2008 to review the work of the winding up body for the ERDF and Cohesion Fund was closed in 2009. No financial corrections were made and no Cohesion Fund projects were closed in 2009 in Cyprus. The Directorate-General for Regional Policy received and analysed the Article 12 report and four national audit reports in 2009.

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

In accordance with the above, an unqualified opinion was issued for Cohesion Fund expenditure in Cyprus in the Annual Activity Report 2009 of the Directorate-General for Regional Policy.

4.2.5. Czech Republic

At the beginning of 2009, the Czech authorities submitted their final report on the retrospective verification exercise initiated in 2008 at the Commission's request, in the context of the Action Plan to strengthen the Commission supervisory role in the management of structural actions. The Commission services reviewed the quality of the verifications carried out by the Czech authorities during an audit mission in July 2009. Some systemic findings concerning public procurement were reported from the exercise and the Czech authorities were requested to take appropriate corrective action.

The Czech authorities submitted the winding-up declarations and final payment claims for eight Cohesion Fund projects in 2009. After examining the winding-up declarations, the Commission services requested further information on six declarations, in relation to the systemic findings identified by the retrospective verification exercise.

A financial correction procedure that was opened in 2008 with respect to a railway project was closed in 2009 without correction, after completion of the required adversary procedure. The Commission services opened two other correction procedures in 2009 following two audits performed in the previous years, including one carried out by the European Court of Auditors as part of its declaration of assurance for 2006. For this case, the Czech authorities accepted a correction amounting to EUR 52,452 in the Cohesion Fund assistance. The Czech authorities applied another correction of EUR 60,608 (corresponding to a Cohesion Fund amount of EUR 45,456) in 2009 following the detection of an infringement of public procurement rules in one Cohesion Fund project. It is expected that further financial correction procedures will be opened during 2010 as a result of the retrospective verification exercise and the scrutiny of the winding-up declarations.

An annual bilateral coordination meeting with the Czech auditors covering 2008 issues was held in Brussels in April 2009. The coordination meeting covering issues from 2009 will be held in early 2010.

In the Annual Activity Report of the Directorate-General for 2009 a qualified opinion with moderate impact was given for Czech Republic Cohesion Fund projects for the period 2000-2006 on the basis of the above material deficiencies affecting key elements of the systems. No reservation was proposed, as the Commission is able to exercise close management of each Cohesion Fund project and 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 had been signed with Estonia in 2007, covering both the Cohesion Fund and the ERDF.

The Directorate-General for Regional Policy carried out no Cohesion Fund audit missions in Estonia in 2009, and the previous audit missions were followed up and closed in 2008. No financial correction procedures were either carried out or in the pipeline for Cohesion Fund Estonia in 2009.

Five winding-up declarations were examined in the context of the closure of Estonian Cohesion Fund projects in 2009 and, additionally, the Directorate-General for Regional Policy received and analysed the Article 12 report for the Cohesion Fund. The annual bilateral meeting with the Estonian Authorities was held on 30 April 2009. The next meeting is scheduled for April 2010.

In the Annual Activity Report of the Directorate-General for 2009, concerning the functioning of the management and control systems (2000-2006), an unqualified opinion was given for Cohesion Fund Estonia.

4.2.7. Hungary

One public procurement audit mission was carried out in Hungary by the Directorate-General for Regional Policy in December 2009 in relation to the Cohesion Fund. The audit report is already being prepared in early 2010. Some possible breaches of public procurement have been identified.

The Directorate-General's 2009 Annual Activity Report for the Cohesion Fund in Hungary expressed a qualified opinion. The qualified opinion was linked to a reservation in 2008 originating from a significant public procurement-related finding identified during the project audit of the Budapest Wastewater Treatment Plant in November 2007. A follow-up of an ECA DAS 2008 finding, which was based on an audit conducted by the Directorate-General for Regional Policy (which reached the same findings), was carried out in 2009. The resulting financial correction amounted to EUR 40.5 million and was accepted by the Member State in February 2009.

One Article 12 report was examined in 2009. Some shortcomings of a systemic nature were revealed in respect of accounting for and registering financial transactions, and error rates above the materiality level were identified for projects in both the transport and environmental sectors.

The annual bilateral meeting between Commission and Hungarian auditors covering audit work in 2008 was held in April 2009. The annual bilateral meeting covering 2009 issues took place in March 2010.

Three winding-up declarations relating to the closure of Cohesion Fund projects were examined during 2009.

4.2.8. Latvia

The Directorate-General for Regional Policy carried out no Cohesion Fund audit missions in Latvia in 2009, and all audit missions from previous years are closed.

However, during the assessment of several winding-up declarations submitted at the closure of Latvian Cohesion Fund projects, it was noted that the award of additional works did not comply with the EU public procurement directives, which allow the use of negotiated procedure for additional works only on the basis of unforeseen circumstances. The same issue was also detected during an ERDF project audit in Latvia. In the case of ERDF, the Latvian authorities agreed to make the required financial corrections. For the Cohesion Fund, however, the issue of supplementary contracts requires further follow-up by the Commission services. As a mitigating factor, the Latvian Authorities have issued revised guidance, to ensure that the same irregularities do not recur in future contract amendments.

As a result of the above, a hearing concerning one of the Cohesion Fund projects under the closure procedure was held in October 2009, and five further projects under the winding-up process will be subject to a hearing to be held in the first half of 2010 with the possibility of financial corrections as a result.

Consequently, the opinion on Latvian projects under the 2000-2006 Cohesion Fund expressed in the 2009 Annual Activity Report of the Directorate-General for Regional Policy is a qualified opinion. However, given that the main risks are being identified by the winding up body at closure of the projects and the fact that the Commission services are in a position to correct ineligible expenditure from these deficiencies by assessing individual winding-up declarations, the impact of such deficiencies is deemed to be moderate.

In addition to the above, the Commission received and analysed the Article 12 report, four national system audit reports and three winding-up declarations in the course of 2009. The annual bilateral coordination meeting with the Latvian audit bodies covering 2008 issues was held in May 2009 in Brussels and the meeting covering 2009 issues took place in March 2010 in Riga.

4.2.9. Lithuania

The Directorate-General for Regional Policy carried out no audits on Cohesion Fund projects in Lithuania in 2009, although a DAS 2008 audit by the European Court of Auditors, covering nine Cohesion fund projects, did identify some deficiencies in the public procurement procedures (lack of competition, inadequate use of negotiated procedure). The DAS 2008 case was followed up by the Commission services in conjunction with the Lithuanian authorities in 2009.

Apart from one mission conducted in 2008, and followed up in 2009, all other Cohesion Fund audits from previous years are closed. The main findings of the 2008 mission related to cost increases, tendering issues and the IT monitoring system. One financial correction of EUR 0.7 million in respect of public procurement issues was concluded in 2009, with the Lithuanian authorities agreeing to apply the correction themselves.

Altogether, by the end of 2009, the Directorate-General for Regional Policy had analysed 15 winding-up declarations in the context of the closure of Cohesion Fund projects in Lithuania. The Article 12 report was received and analysed by the Commission in 2009. The national authorities raised no major issues. No national system audit reports were received in 2009.

The annual bilateral meeting covering audit issues in 2008 was held in spring 2009 and the annual bilateral meeting covering audit issues in 2009 was held in April 2010.

In the Annual Activity Report of the Directorate-General for Regional Policy for 2009 a qualified opinion with moderate impact was given in respect of Cohesion Fund Lithuania on the basis of the above material deficiencies affecting key elements of the systems in Lithuania. No reservation was proposed, as the Directorate-General is able to exercise close management of each Cohesion Fund project and check in detail the risk areas at closure, and because the maximum interim payments prior to closure are capped at 80% of the Community contribution for Cohesion Fund projects.

4.2.10. Malta

The Directorate-General for Regional Policy carried out no audit missions or financial correction procedures for the Cohesion Fund for Malta in 2009. Previous audit missions conducted in 2005 and 2007 did not give rise to any significant findings.

The Article 12 report was received and examined; it highlighted sufficient audit coverage and a zero error rate for Cohesion Fund projects in Malta. No national system audit reports were received in 2009.

Accordingly, an unqualified opinion with no reservations was issued for Cohesion Fund 2000-2006 expenditure in Malta in the 2009 Annual Activity Report of the Directorate-General for Regional Policy. The management and control system in Malta can be classified as good practice.

4.2.11. Poland

In 2007 and 2008, the Polish authorities undertook to implement a remedial action plan to ensure that all bodies in charge of carrying out public procurement checks apply financial corrections when irregularities are detected, and to revise their methodology for public procurement checks in order to ensure an adequate level of verification. The Directorate-General for Regional Policy closed the Action Plan in March 2009.

In its letter dated 16 July 2009, the Audit Authority confirmed that the winding-up exercise for Cohesion Fund projects will include checking for the findings identified by the audit of 2008 of the Directorate-General for Regional Policy and that the winding-up documents will contain clear conclusions in that regard. Given that the Audit Authority is identifying the main risks and the fact that the Commission services are in a position to correct any ineligible expenditure resulting from these deficiencies by assessing individual winding-up declarations, a qualified opinion with moderate impact was issued for Cohesion Fund Poland in the Annual Activity Report 2009 of the Directorate-General for Regional Policy.

The Directorate-General for Regional Policy on Cohesion Fund Poland carried out no new audit missions in 2009. The Polish version of the Final Position Letter in respect of two audits where systemic deficiencies and findings with a financial impact in the area of public procurement were detected (discriminatory selection criteria, direct awarding of additional works/services, and modification of terms of contract after the contract award) was sent to the Polish authorities in December 2009. A financial correction of EUR 22 million was proposed. As the Polish Authorities are contesting some of the findings, it is likely that the follow-up of the abovementioned audits will lead to a financial correction decision by the Commission in 2010. All other previous systems and project audits have been closed.

In 2009, the Directorate-General for Regional Policy examined ten winding-up declarations and/or additional information requested in connection with them. An annual bilateral meeting with Polish audit bodies was held in Warsaw in June 2009. The next annual bilateral meeting was due to be held in Warsaw in April 2010.

In September 2009, the Directorate-General for Regional Policy organised a hearing for one Polish Cohesion Fund project for which a financial correction of EUR 812,562 had been proposed at the closure of the project. As the Polish Authorities are contesting the proposed correction, it is likely that a Commission decision on financial correction will be necessary.

4.2.12 Slovakia

No audit missions were carried out by the Directorate-General for Regional Policy in Slovakia in relation to the Cohesion Fund in 2009.

In 2009, financial corrections were proposed for four Cohesion Fund projects in connection with public procurement issues for a total amount of EUR 12 million. The contentious procedure is on-going. Ten winding-up declarations and the Article 12 control report were received and examined in 2009. An annual bilateral audit coordination meeting between the Commission and the Slovak audit bodies took place in April 2009 in Brussels. The following annual coordination meeting was held in May 2010.

A qualified opinion with moderate impact was expressed in respect of Cohesion Fund Slovakia in the Annual Activity Report 2009 of the Directorate-General for Regional Policy. Shortcomings detected in the verifications by management with regard to public procurement procedures were the main reason for the qualified opinion. Mitigating measures taken to reduce the financial risk for the Cohesion Fund included:

- A retrospective verification carried out by the Slovak Authorities to identify the extent of deficiencies and to make the necessary corrections for each project separately at closure; and

- A thorough review by the Commission services of the closure documents for each Cohesion Fund project to be closed (the final expenditure statement, the winding up declaration and the final report).

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 2009.

The audit work included the examination of the annual control report under Article 12 of Regulation (EC) No 1386/2002 and of the annual summary for 2009. Moreover, three winding up declarations submitted for the closure of three 2000-2006 Cohesion Fund projects were examined in 2009; these gave rise to no major remarks.

No financial correction procedures are ongoing or envisaged for Cohesion Fund Slovenia.

Accordingly, the Annual Activity Report of the Directorate-General for Regional Policy for 2009 presented an unqualified opinion with no reservations for Cohesion Fund expenditure in Slovenia.

4.2.14. Bulgaria

Following the suspension of Cohesion Fund payments to the National Road Infrastructure Agency (NRIA) in July 2008, the Directorate-General for Regional Policy carried out a verification mission in January 2009 to examine the follow-up actions taken by the national authorities which had been outlined in the Commission Decision. On the basis of the verification mission of the Directorate-General for Regional Policy and the latter's subsequent examination of additional information provided by the Bulgarian authorities, the Commission concluded that the required actions had been carried out satisfactorily and the suspension was lifted in May 2009.

The Directorate-General for Regional Policy also raised concerns around the issue of the direct award of contracts in the environment sector in possible breach of national and EU public procurement rules in Bulgaria. In 2009, it requested the Executive Agency for the Audit of EU Funds (EAAEUF) to examine this issue in respect of a number of contracts in the environment sector. The results of this audit were received in February 2010. The findings related to the illegal use of the negotiated procedure without prior advertising (i.e. direct award) for 16 contracts in the environment sector. Financial corrections of approximately EUR 4.5 million have been proposed by the EAAEUF.

Furthermore, weaknesses noted during an audit mission carried out by the Directorate-General for Regional Policy in November 2008 led to a road project being re-audited by the winding-up body (EAAEUF) in 2009. Financial corrections amounting to approximately EUR 2.4 million were proposed due to a possible conflict of interest in the public procurement area.

As for other audit work during 2009, the Commission received and examined the Article 12 report for the year ending 31 December 2008, but no winding-up declarations were submitted for Bulgarian CF projects. The annual bilateral meeting between the Commission and the Bulgarian audit body took place in April 2009.

In the Annual Activity Report of the Directorate-General for 2009, a qualified opinion with moderate impact was given for the Cohesion Fund transport sector in Bulgaria due to weaknesses in public procurement, the absence of effective management verifications and continuing weaknesses in the EAAEUF.

For the environment sector, a qualified opinion with significant impact and a reservation were noted in the Directorate-General's Annual Activity Report for 2009 due to significant weaknesses in public procurement, the absence of effective management checks and continuing weaknesses in the EAAEUF.

4.2.15. Romania

One closure audit mission was carried out by the Directorate-General for Regional Policy in Romania as regards the Cohesion Fund project, Piatra Neamț Solid Waste, in 2009. Financial corrections made by the national authorities amounted to EUR 2,614,915. The adversary procedure with Romanian authorities is on-going in 2010. A second audit mission by the Directorate-General for Regional Policy in May 2009 dealt with the decentralisation of functions to final beneficiaries.

A hearing with the Romanian authorities was held on 5 March 2009 concerning six audit missions carried out between 2006 and 2008. Financial corrections for a total amount of EUR 8,064,402 proposed by the Commission were accepted by the Member State in 2009.

A second hearing with the Romanian authorities was held on 29 April 2010 concerning a public procurement audit mission in 2009. The Romanian authorities accepted financial corrections in respect of the irregular use of the experience criterion in the award phase of an evaluation procedure. The Romanian authorities disagreed with the financial corrections in respect of the shortening of the deadline for the submission of bids. A Commission (correction) decision is to be adopted for the latter.

The Article 12 report was submitted and examined by the Commission in 2009. Certain aspects of the report were followed up with the national authorities. A satisfactory reply has been received from the Romanian authorities.

Three winding-up declarations, related to the closure of Cohesion Fund projects, were examined in the course of 2009. No financial corrections were proposed on top of those already carried out following the control activities of the national authorities.

The annual bilateral meeting between the Commission and the Romanian audit body was held in June 2009 and related to controls carried out by the end of 2008. The annual bilateral meeting covering 2009 audit issues was held in Brussels in April 2010.

In the Annual Activity Report of the Directorate-General for 2009, a qualified opinion with moderate impact was issued for Cohesion Fund Romania, mainly owing to weaknesses in the area of public procurement, management verifications and computerised monitoring system. In 2010, work is on-going to rectify the problems identified, in conjunction with the national authorities.

4.3. Irregularities notified by the Member States

In 2009, in accordance with Regulation (EC) No 1831/94[3], the Member States communicated to the Commission 109 notifications of irregularities involving a total amount of EUR 67,304,951 in respect of projects co-financed by the EU. An amount of EUR 56,673,503 has been recovered, and the remaining amount has yet to be recovered. The countries which reported the most cases are Portugal, Spain and Poland (27, 20, and 19 respectively). Portugal reported 39% of the amount involved. It is also worth noting that Hungary, with four notifications, is the second highest on the list in terms of the amount involved. In addition, during the same period, pursuant to Regulation (EC) No 1828/2006[4] which applies to the programming period 2007-2013, Bulgaria communicated to the Commission 17 notifications of irregularities involving a total allocated amount of around EUR 3.6 million in respect of projects co-financed by the EU.

Although the number of notifications has decreased significantly compared to the previous year[5], the amount involved remains the same. The main types of irregularities reported are ineligible expenditure and infringements of public procurement rules. These two typologies cover nearly 75% of all reported cases.

[3] OJ L 191, 27.07.1994, p.9, as amended by Regulation (EC) No 2168/2005, OJ L 345, 28.12.2005

[4] OJ L 371, 27.12.2006, p.1, as amended by Regulation (EC) No 846/2009, OJ L 250,23.09.2009

[5] 2008: number of communicated cases 140; overall amount related to the communications EUR 56,328,911.

Table 6: Irregularities communicated by Member States in 2009 (in EUR)

Member State	Number of irregularities	Financial amounts	Amounts awaiting recovery
Bulgaria	17	3.578.740	3.578.740
Cyprus	0	0	0
Czech Republic	3	1.924.920	0
Estonia	0	0	0
Greece	14	4.780.520	1.684.211
Spain	20	4.351.765	3.622.443
Hungary	4	18.449.851	40.387
Ireland	0	0	0
Latvia	0	0	0
Lithuania	2	4.491.703	0
Malta	1	39.133	39.133
Poland	19	2.275.178	49.542
Portugal	27	24.575.760	1.332.009
Romania	0	0	0
Slovenia	1	2.552.398	0
Slovakia	1	284.983	284.983
TOTAL	109	67.304.951	**10.631.448**

5. EVALUATION

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

The Commission carries out the ex-post evaluation of the Cohesion Fund. The previous evaluation was published in 2005 and looked at a sample of 200 projects implemented during the period 1993-2002. A new ex-post evaluation was launched in 2009 examining all Cohesion Fund and former ISPA projects implemented during the years 2000-2006. As part of a set of three interlinked "work packages", the evaluation will assess 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. In addition, ex post cost-benefit analyses will be conducted for a sample of transport and environment projects, to identify lessons for future programming periods.

6. INFORMATION AND PUBLICITY

6.1. Information to/from the Member States

As indicated in the annual report for 2007, as from 1 January 2007 all issues concerning the Cohesion Fund have been dealt with in the Coordination Committee of the Funds (COCOF, according to Regulation (EC) No 1083/2006).

Several issues of common interest for ERDF and the Cohesion Fund were presented or discussed during the meetings of the COCOF. These include:

- Commission Regulation amending Regulation (EC) No 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund;

- Commission Decision amending the Decision concerning the financing of the programme for the use of operational and non-operational technical assistance at the initiative of or on behalf of the European Commission under the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) for 2009;

- Commission Decision concerning the financing of the programme for the use of operational and administrative technical assistance at the initiative or on behalf of the European Commission under the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) for 2010;

- Fraud indicators for ERDF, European Social Fund (ESF) and CF;

- Evaluation Methods: Reporting on Core Indicators for the European Regional Development Fund and the Cohesion Fund (2007-2013).

6.2. Commission measures on publicity and information

As regards the Commission measures on information and publicity, the focus in 2009 was two-fold. First, to ensure the publication of the list of beneficiaries of EU Funds managed by the Commission in partnership with Member States in line with Article 7.2 of Commission Regulation (EC) No 1828/2006. Second, publication by the Directorate-General for Regional Policy of the 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. To date, there are over 300 projects listed in the database (which include major projects and other projects financed through the 2007-2013 programmes).

ANNEX: IRREGULARITIES AND FINANCIAL CORRECTIONS

During 2009, one decision on a financial correction was adopted for the 2000-2006 Cohesion Fund projects for an amount of EUR 1.8 million. In addition, at the request of the Commission, the Member States agreed to exclude a further EUR 72 million from their statements of expenditure.

As a result, for the 2000-2006 programming period, the financial corrections adopted/agreed (on an accrual basis) resulting from the audit work of the Directorate-General for Regional Policy, amounted to EUR 76 million.

The table illustrates the amount of financial corrections per Member State.

Table: Financial corrections in 2009 for the Cohesion Fund, period 2000-2006

Member State	Accepted by MS	EC Decision
Bulgaria	2.413.615	-
Cyprus	-	-
Czech Republic	113.008	-
Estonia	-	-
Greece	313.503	2.138.786
Spain	19.802.272	1.790.466
Hungary	40.497.367	-
Ireland	-	-
Latvia	-	-
Lithuania	649.156	-
Malta	-	-
Poland	-	-
Portugal	205.714	-
Romania	8.067.402	-
Slovenia	-	-
Slovakia	-	-
TOTAL	**72.062.037**	**3.929.252**

TOTAL **75.991.289**

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