COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.11.2008
SEC(2008) 2816

COMMISSION STAFF WORKING DOCUMENT

Annex to the:

ANNUAL REPORT ON THE COHESION FUND (2007)

{COM(2008)752 final}

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1. GENERAL CONTEXT

1.1. Convergence and economic development in the beneficiary Member States

1.1.1 Greece

In 2006 Greece's real GDP grew by 4.2% and GDP per capita[1] in PPS reached 98% of the EU-27 average. In 2007, real GDP growth decelerated marginally to 4%, reflecting the slowdown of private consumption and the fading of the previous year's extraordinary dynamism in residential investment activity. The current external deficit appears to have widened further in 2007, exceeding 16% of GDP, compared with 14¼% in 2006 and 13¼% in 2005. The general government deficit outcome for 2007 was 2.8% of GDP, including a net one-off deficit-increasing impact of around a quarter of a percentage points of GDP, which compares with the official budgetary target of 2¼%. This deviation of about half a percentage point of GDP reflects an expenditure overrun of almost ¼% of GDP and a net one-off deficit increase of the same amount. The debt-to-GDP ratio declined one percentage point from 95.2% of GDP in 2006 to 94.2%.

Greece submitted the most recent update of its stability programme for the period 2008-2010 on 27 December 2007. According to the programme, real GDP growth should remain at 4% over the programme period on the back of buoyant domestic demand. The update targets a reduction of government deficit to 1.6% of GDP in 2008, 0.8% in 2009 and, eventually, a balanced budget in nominal terms by 2010, mainly through higher tax revenues. The budgetary strategy outlined in the programme is aimed at speeding up fiscal consolidation towards the medium-term objective (MTO) of a balanced budget in structural terms (i.e. in cyclically-adjusted terms net of one-off and other temporary measures), by reducing the structural deficit by more than half a percentage point per year. The programme does not specify the target year for attaining the MTO.

In its Opinion of 4 March on the update, the Council noted that the fiscal consolidation strategy is subject to risks as the underlying macroeconomic scenario is favourable and the revenue-enhancing measures after 2008 are not fully spelled out. Ensuring a strong fiscal consolidation path would help address the imbalances of the Greek economy, notably persistent inflation, competitiveness losses and a large external deficit. The level of debt which remains is among the highest in the euro area and, coupled with the projected increase in age-related spending, will affect negatively the long-term sustainability of public finances, which remains at high risk. The Council invited Greece to carry out the envisaged adjustment towards the MTO and use any budgetary over-performance to speed up the consolidation process in order to reach the MTO within the programme period. The Council also called for pursuing the ongoing tax administration reforms and, in view of the level of debt and the projected increase in age-related expenditure, improvement in the long-term sustainability of public finances through reforms of the pension system.

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1 According to Eurostat press release as of 29 October 2007, in 2006-2007 the National Statistical Service of Greece (NSSG) has carried out an in-depth revision of the Greek national accounts, leading to a rise of 9.6% in GDP for the base year 2000. This increase affects the whole period 1995-2006.

1.1.2. Spain

In 2006, Spain's GDP per capita in PPS reached 105% of the EU-27 average while real GDP in 2007 grew by 3.8%. Consumer price inflation has risen by 2.8% on average (3.6% in 2006), although inflationary pressures increased to 4% in the last quarter of 2007. According to the April 2008 EDP notification, the general government balance has reached a surplus of 2.2% of GDP, well above the initial targets. This better result stems from higher-than-expected revenues, whereas expenditures would have been implemented broadly as planned. Additionally, the debt-to-GDP ratio declined to 36.2% in 2006 compared to 39.7% in 2006.

Spain submitted its ninth update of its stability programme, covering the period 2007-2010, on 21 December 2007. The macro-economic scenario underlying the programme projects real GDP growth of 3.1% in 2008, 3% in 2009 and 3.2% in 2010. Growth should be exclusively underpinned by domestic demand, implying that the contribution of net exports would still be negative. The update aims at maintaining macroeconomic and budgetary stability, fostering productivity and contributing to market efficiency through transparent and efficient regulation. The general government surplus is envisaged to decline from 2.2% of GDP in 2007 to about 1.2% in 2008 and remain stable for the subsequent duration of the programme.

In its Opinion of 4 March 2008 on the update, the Council considered the medium-term budgetary position to be sound with high general government surpluses and a relatively low debt ratio. However, the economic growth assumptions were assessed as favourable and, as a result, the projected government revenue might turn out to be on the high side. The Council pointed out that fostering productivity-enhancing expenditure items, such as R&D, infrastructure and education is needed to underpin a smooth adjustment of the economy in the light of large external imbalances, the contraction of the housing sector and the existing inflation differential with the euro area. Additionally, while maintaining a strong budgetary position, the Council invited Spain to further improve the long-term sustainability of public finances with additional measures to contain the future impact of ageing on spending programmes.

1.1.3. Portugal

Portugal’s GDP per capita in PPS attained 75% of the EU-25 average in 2006. In 2007, GDP grew by 1.9% in real terms driven by greater dynamism of domestic demand, especially investment, and a robust export performance. The unemployment rate reached 8% in 2007, thus continuing the upward trend observed in recent years. According to the March 2008 EDP notification, the general government deficit represented 2.6% of GDP in 2007, which compares with an outturn of 3.9% of GDP in 2006. This deficit reduction stems both from the revenue and the expenditure side. The overachievement of the initial budgetary target for 2007 benefited from the benign base effect created by the 2006 budgetary execution, which itself turned out to be some ¾% of GDP better-than-expected. It was further helped by additional revenue buoyancy. The debt-to-GDP ratio fell to 63.6% in 2007, after the upward trend observed in recent years.

The most recent update of the stability programme of Portugal, covering the period 2007-2011, was submitted on 14 December 2007. The macroeconomic outlook underlying the programme projects real GDP growth at 2.2% in 2008, 2.8% in 2009 and 3% in both 2010 and 2011. Growth is expected to be increasingly driven by domestic demand, particularly investment. The update targets a reduction of government deficit to 2.4% of GDP in 2008, 1.5% in 2009, and eventually 0.2% in 2011. Last March, the deficit target for 2008 was revised to 2.2% of GDP, following the publication of the 2007 better-than-estimated budgetary outcome. The stability programme plans fiscal consolidation to be achieved mainly via moderation of primary expenditure, with some further support from an increasing revenue ratio.

In its Opinion of 4 March 2008 on the update, the Council considered that the programme is consistent with a correction of the excessive deficit no later than 2008, stressing that it might be achieved in 2007 if the better-than-expected budgetary execution were to be confirmed. At the same time, the Council considered that the programme aims at further fiscal consolidation over the medium term, although it pointed out that achieving the objectives is subject to an effective implementation of the measures announced in the programme and may require additional efforts, notably in the light of lower-than-projected economic growth. The Council invited Portugal to implement with determination the fiscal consolidation envisaged in the programme so as to secure the correction of the excessive deficit, carrying out the planned adjustment towards the MTO and ensuring a rapid reduction of the debt-to-GDP ratio. Additionally, the Council called on Portugal to maintain expenditure moderation in a permanent way, enhancing the quality of public expenditure, and further improving the budgetary framework.

1.1.4. Cyprus

In 2006, Cyprus' GDP per capita in PPS attained about 92% of the EU-27 average. In 2007, while real GDP grew by 4½%, inflation remained at the 2006 levels of 2.2%, under conditions of almost full employment. In 2007, the general government balance recorded a surplus of about 3¼% of GDP, compared with a deficit of 1¼% of GDP in 2006. This would imply that the medium-term objective for a balanced budget in structural terms (i.e. cyclically-adjusted net of one-off and other temporary measures) has been already comfortably overachieved. The marked turnaround in 2007 is attributed to an unexpected rise in total revenues, due to especially high tax receipts brought by the strong profitability of the financial sector and the booming investment in real estate. The risk related to this outlook is that part of the increase in tax bases and in the associated revenues would not be permanent and would fade over time on the back of decelerating growth of revenues to more normal trends. In 2007, the debt-to-GDP ratio decreased to about 60% from almost 65% of the previous year.

Cyprus submitted its first stability programme, covering the period 2007-2011, on 7 December 2007. The update envisages GDP growth of around 4% over the programme period. After achieving a budgetary surplus in 2007, the programme aims at consolidating the budgetary outcome. The general government balance is expected to maintain a surplus until 2011.

In its Opinion of 4 March 2008 on the stability programme, the Council noted that based on the estimated outturn for 2007 and taking account of the balance of risks to the budgetary targets, the programme puts forward a more ambitious medium-term objective of a balanced position in structural terms (compared to a deficit of 0.5% of GDP previously), which has already been over-achieved in 2007. The budgetary targets, which are significantly better than in the previous programme, could be overachieved in 2008 and 2009 given the better 2007 outcomes. The Council invited Cyprus to avoid pro-cyclical fiscal policies by further improving the control of current expenditures, while using revenue windfalls to further reduce debt. Moreover, the Council invited Cyprus to contain public expenditure, notably by reforming the pension system and with timely implementation of the adopted reforms in health care in order to improve the long-term sustainability of the public finances.

1.1.5. Czech Republic

The Czech economy grew by 6.5% in real terms in 2007. GDP per capita in PPS reached 81% of the EU-27 average. While inflation remained relatively low in 2006 (2.1%), it accelerated in the last quarter of 2007 mainly as a result of rises in commodity prices and climbed to 7.5% (year-on-year basis) in the first quarter of 2008 as a consequence of increases in administrative prices. The general government deficit in 2007 was 1.6% of GDP compared to an estimated deficit of 3.4% in the November 2007 convergence programme. The better outturn was due to expenditure restraint and higher revenues from stronger-than-anticipated growth including the public sector wage bill. Strong employment growth provided a boost in terms of higher social contributions and a lower-than-expected increase in social expenditure.

The Czech Republic submitted its latest convergence programme, covering the period 2007-2010 on 30 November 2007. The macro-economic scenario underlying the programme estimated real GDP growth at 5.9% in 2007 and about 5% of GDP for the rest of the period. Growth is likely to be mainly driven by domestic demand while the contribution of net exports is expected to remain positive. The main aim of the budgetary strategy is to correct the excessive deficit by the EDP (excessive deficit procedure) deadline of 2008. The programme targeted a deficit of 2.9% of GDP in 2008 declining to 2.3% of GDP in 2010. However, given the better-than-expected budgetary outcome in 2007, the government’s most recent target is to contain the deficit in 2008 at the same level as 2007, namely 1.6% of GDP.

The Council delivered its opinion on the convergence programme on 4 March 2008. The overall conclusion was that the programme is consistent with correction of the excessive deficit in 2008 based on continuing expenditure restraint. In addition, due to the anticipated better budgetary outturn in 2007, the Council considered that there was ample opportunity to achieve stronger-than-targeted fiscal consolidation after correction of the excessive deficit. The Council also invited the Czech Republic to exploit the high rate of growth in the economy by further strengthening the pace of adjustment so as to build a safety margin against breaching the reference value as soon as possible, and speed up the achievement of the mid-term objective. Finally, it was noted that the Czech Republic remains at high risk with respect to the sustainability of public finances, while the first steps have been taken on health care reform.

1.1.6. Estonia

In 2006, GDP per capita in PPS reached 69% of the EU-27 average, while real GDP growth in 2007 slowed to 7.1% from 11.2% in 2006. Inflation in 2007 rose sharply to 6.7% (4.4% in 2006), coming close to 10% in the last quarter of the year. According to the April 2008 EDP notification, in 2007 Estonia posted a general government surplus of 2.8% of GDP, a stronger result than the target surplus of 1.2% set in the December 2006 convergence programme. The result reflected carryover from a better outcome for 2006 than expected in that convergence programme, together with revenue growth during 2007 exceeding the targeted figure by a higher margin than that of expenditure. The general government debt-to-GDP ratio declined further to 3.4% at end-2007 from 4.2% at end-2006.

Estonia submitted the fourth update of its convergence programme, covering the period 2007-2011, on 29 November 2007. The programme projects real GDP growth rising from 5.2% in 2008 to 7.0% in 2011, averaging 6.2% over the programme period. A moderation in domestic demand growth in 2008 and 2009, with positive contributions from net exports, will give way thereafter to more vigorous domestic demand and resumption of a negative growth contribution from net exports. The programme aims at maintaining the conditions for rapid real convergence through macroeconomic stability as well as internal and external balance. The general government surplus was projected to decline from 2.6% of GDP in 2007, as then foreseen in the programme, to 0.8% in 2011.

In its Opinion of 4 March 2008, the Council concluded that the programme is aimed at maintaining a sound budgetary position throughout the period with continued, albeit somewhat declining, surpluses above Estonia's medium-term objective (MTO) of structural balance. The Council considered that macroeconomic imbalances accumulated during the years of high growth, notably wage growth exceeding that of productivity, price pressures and high net borrowing vis-à-vis the rest of the world, were expected to moderate only gradually and the deceleration path of the economy was surrounded by downward risks. Setting budgetary strategy with a view to over-achieving the MTO was therefore a step forward in addressing the macroeconomic challenges. The Council invited Estonia to contribute to reducing risks to macroeconomic stability by aiming for a broadly neutral fiscal stance in 2008 and beyond so as to contribute to an orderly adjustment towards a balanced convergence path, and complementing the recommended fiscal stance with appropriate public wage policy and further labour market reforms so as to contain inflationary pressures and sustain rapid productivity growth.

1.1.7. Hungary

In 2007, GDP growth slowed down considerably to 1.3% annually, while inflation doubled to an annual average of 8%. GDP per capita in PPS reached 65% of the EU-27 average. Due to the consolidation measures (including expenditure freezes and subsidy reductions as well as revenue-increasing measures) the general government balance was 5.5% in 2007, substantially lower than both the target (6.2%) and in 2006 (9.2%). Nevertheless, the debt-to-GDP ratio increased to 66% in 2007.

Hungary submitted the most recent update of its convergence programme on 30 November 2007, covering the period 2007-2011. The baseline macroeconomic scenario is for real GDP growth to decelerate to below its long-term average in 2008 and to return to 4% or above from 2009 onwards. The anticipated recovery is based on an increasing contribution from domestic demand components in parallel with a sustained growth in net exports. The main goal of the programme is to correct the excessive deficit by 2009 (reducing it from 6.2% of GDP in 2007 to 3.2% of GDP in 2009) and to further reduce it to 2.2% of GDP in 2011. The update confirms the medium-term objective (MTO) for the budgetary position of a 0.5% of GDP deficit in structural terms, which is not expected to be achieved within the programme period.

In its Opinion of 12 February 2008 on the update, the Council concluded that the programme is designed to continue the correction of past years' high deficits through a necessary frontloaded adjustment effort and envisages modest progress towards the MTO after the planned correction of the excessive deficit in 2009. From 2009, achievement of the budgetary targets is subject to greater risks, linked mainly to possible expenditure overruns and reliance on better-than-expected revenues, which cannot be counted on after 2008. Thus, the durability of the planned adjustment hinges on the reinforcement of fiscal governance as well as on completing the structural reforms. Finally, Hungary was invited to rigorously implement the 2008 budget and to take adequate action to ensure correction of the excessive deficit by 2009; given the insufficient margin in 2009, there is a need to allocate the better-than-expected revenues to further deficit reduction and to continue to enhance fiscal rules and institutions as well as to improve the long-term sustainability of public finances by making rapid progress towards the MTO and continuing to reform the pension system.

1.1.8. Latvia

In 2006, Latvia's GDP per capita in PPS reached 54% of the EU-27 average while real GDP in 2007 grew by 10.3%. Consumer price inflation in 2007 rose to 10.1% on average (6.6% in 2006) and inflationary pressures increased to above 15% in the first quarter of 2008. The April 2008 excessive deficit procedure (EDP) notification indicates a balanced budget position for 2007 (0.0% of GDP). The outturn was clearly better compared with the December 2006 convergence programme target, reflecting higher-than-expected revenues, only partly offset by higher-than-budgeted expenditure growth. The debt-to-GDP ratio declined to 9.7% in 2007 compared to 10.7% in 2006.

The 2007 update of Latvia’s convergence programme covering the period 2007-2010 was submitted on 29 November 2007. The budgetary strategy of the programme aims to foster macroeconomic stability by achieving the medium-term objective (MTO) of a structural deficit of 1% of GDP over the programme period. The general government balance is planned to improve to a surplus of 0.7% of GDP in 2008 and to 1.0% and 1.2% of GDP respectively in 2009-2010, while the macroeconomic scenario underlying the programme envisages a soft landing with real GDP growth decreasing from 10.5% in 2007 to 7.5% in 2008, 7.0% in 2009 and 6.8% in 2010. However, growth remains driven by domestic demand with a continuing strongly negative contribution from net exports.

In its opinion of 4 March 2008 on the convergence programme, the Council concluded that the programme seeks to reduce economic imbalances and excessive demand pressure by setting slightly increasing but overall modest surplus target for 2008-2010, in excess of Latvia's medium-term objective. However, the risks to the achievement of the budgetary targets were considered high, primarily due to large macroeconomic uncertainty and a track record of slippages from expenditure plans. Moreover, a considerably tighter fiscal policy stance was deemed to be urgently needed to meet the programme's aims in the context of an economy vulnerable to instability, stemming from inflationary pressures, deteriorating cost competitiveness and sharply increasing net foreign liabilities. The Council invited Latvia to contribute to reducing overheating pressures and potential macroeconomic instability by aiming for significantly more ambitious budgetary targets; carefully prioritising public expenditure and re-examining taxation instruments to avoid demand stimulus in sectors which do not significantly strengthen the economy's medium- and long-term supply potential; and adopting further policies to contain inflationary pressures.

1.1.9. Lithuania

In 2006 Lithuania's GDP per capita in PPS reached 56.1% of the EU-27 average while real GDP in 2007 grew by 8.8%. Consumer price inflation in 2007 rose to 5.7% on average (3.7% in 2006). The April 2008 excessive deficit procedure (EDP) notification indicates a budget deficit of 1.2% of GDP for 2007, a weaker outturn than the target deficit of 0.9% of GDP, as higher-than-budgeted revenues were more than offset by higher-than-planned expenditures, including unscheduled compensation of 0.6% of GDP for pensions underpaid in previous years. The debt-to-GDP ratio declined to 17.3% in 2007, compared to 18.2% in 2006.

The 2007 update of Lithuania’s convergence programme was submitted on 28 December 2007 and covers the period 2007-2010. The budgetary strategy of the programme aims to foster macroeconomic stability by achieving the medium-term objective (MTO) of a structural deficit of 1% of GDP or below by 2009 and to reach a balanced or surplus budget in later years. From a planned deficit of 0.5% of GDP in 2008, the general government balance is projected to improve to a surplus of 0.2% in 2009 and 0.8% in 2010, while the macroeconomic scenario underlying the programme envisages real GDP growth slowing rather sharply from 9.8% in 2007 to 5.3% in 2008, 4.5% in 2009 and 5.2% in 2010. However, growth remains driven by domestic demand with a continuing strongly negative contribution from net exports.

In its March 2008 opinion on the convergence programme, the Council concluded that the programme is aimed at tackling Lithuania's macroeconomic imbalances by tightening fiscal policy but that the budgetary targets seem modest in the light of high economic growth. Moreover, the programme envisages only a back-loaded adjustment effort. The Council considered that the achievement of the budgetary targets was insufficiently backed by announced measures while the medium-term framework had to be strengthened. The revenue projections seem optimistic given the planned direct tax cuts and a reliance on improved tax collection. The Council invited Lithuania to contribute to reducing overheating pressures by aiming for significantly more ambitious budgetary outturns; notably by restraining expenditure growth, saving windfall revenues and reinforcing the binding character of the medium-term expenditure ceilings as well as by tackling inflationary pressures, including by promoting wage moderation and removing labour market bottlenecks.

1.1.10. Malta

In 2006, Malta's GDP per capita in PPS stood at 77% of the EU-27 average. Real GDP grew by 3.8% in 2007, driven by strong domestic demand and to a lesser extent by a positive contribution of net exports. Inflation in 2007 eased to 0.7% but was very volatile, with a significant deceleration in the first part of the year followed by an acceleration in the second part. The general government deficit in 2007 amounted to 1.8% of GDP, which compares with a target of 1.6% of GDP in the 2007 stability programme. The difference is mainly due to lower deficit-reducing one-off operations. The debt-to-GDP ratio continued to decline, falling from 64.2% in 2006 to 62.6% in 2007.

On 1 January 2008, Malta joined the euro area. Malta's first stability programme covering the period 2007-2010 was submitted on 30 November 2007. The programme foresees a slow down in the pace of economic activity from 3.5% in 2007 to around 3.1% in 2008 and 2009, and acceleration by the end of the programme period. According to the programme, GDP growth is forecast to be mainly underpinned by domestic demand over the reference period. The budgetary strategy outlined in the programme aims at pursuing fiscal consolidation with the overarching objective of achieving a balanced position by 2010. According to the stability programme, the general government deficit is projected to decline further over the forecast horizon, reaching 1.2% of GDP in 2008 and a balanced budget in 2009. By 2010, the general government balance is anticipated to turn into a surplus of around 1% of GDP.

In its Opinion of 4 March 2008 on the stability programme, the Council noted that although Malta plans continued progress towards reaching its medium-term objective (MTO) through expenditure restraint and in a context of sustained economic growth, there are risks to the achievement of the budgetary targets, especially after 2008. The Council invited Malta to pursue further fiscal consolidation towards the medium-term objective as envisaged in the programme, ensure that the debt-to-GDP ratio is reduced accordingly and enhance the efficiency and flexibility of public spending, including by accelerating the design and implementation of a comprehensive healthcare reform.

1.1.11. Poland

In 2006, Poland's GDP per capita in PPS reached 52% of the EU-27 average while real GDP in 2007 grew by 6.5%. Consumer price inflation has risen by 2.6% on average (1.3% in 2006) with inflationary pressures increasing strongly in the last quarter of 2007 to 3.7%. According to the April 2008 excessive deficit procedure (EDP) notification, the general government deficit decreased to 2.0% of GDP in 2007, well below the initial targets. This better result stems from both higher-than-expected revenues and expenditures executed below the planned levels.

Poland submitted its most recent convergence programme, covering the period 2008-2010, on 26 March 2008. The macro-economic scenario underlying the programme projects real GDP growth of 5.5% in 2008 and 5% for the rest of the period. Growth is likely to be mainly underpinned by domestic demand while the contribution of net exports would be negative. The update aims at maintaining macroeconomic and budgetary stability, increasing labour force participation, especially of older groups, and fostering productivity by increasing infrastructure, human and technological capital. The general government balance is envisaged to improve by 0.5 percentage points of GDP over the period 2007-2010, to 1.5% of GDP. However, the deficit is expected to deteriorate to 2.5% of GDP in 2008 mainly as a result of a reduction in social contributions.

In its Opinion of 8 July 2008 on the update, the Council considered that the envisaged deterioration of the general government balance by 0.5 percentage point of GDP in 2008 was not in line with the Stability and Growth Pact. Progress towards the MTO (a structural deficit of 1% of GDP) in the following years was back-loaded in a context of favourable growth prospects. Given the risks to the budgetary targets from 2009, mainly due to a lack of specified measures, the MTO might not be achieved by 2011 as planned in the programme. The Council invited Poland to exploit the favourable growth conditions to strengthen the pace of structural adjustment towards the MTO, including in the light of possible inflationary pressures.

1.1.12. Slovakia

Slovakia's GDP per capita in PPS reached 64% of the EU-27 average in 2006 while economic growth accelerated to 10.4% in 2007 from 8.5% recorded in 2006. Unemployment fell significantly to roughly 11% in 2007 from 13.4% in the previous year. Inflation decreased to just below 2% in 2007 (4.3% in 2006) on the back of strong appreciation of the SKK and lower increases in energy prices. According to the April 2008 excessive deficit procedure (EDP) notification, the 2007 general government deficit was 2.2% of GDP, well below the initial target of 2.9% envisaged in the December 2006 update of the convergence programme. The over-performance was mainly induced by higher-than-expected GDP and employment growth, lower-than-budgeted co-financing for the EU funds and a larger-than-expected pre-stocking with cigarettes at the end of 2007, triggered by a hike in the excise tax on tobacco in January 2008.

Slovakia submitted the most recent update of its convergence programme on 29 November 2007, covering the period 2007-2010. According to the macro-economic scenario underlying the programme, real GDP growth will decelerate from 8.8% in 2007 to 5.0% in 2010. Growth should be mainly driven by domestic demand but external growth is also set to continue its positive contribution. The general government deficit is projected to decrease from 2.5% of GDP in 2007 to 0.8% of GDP in 2010. The main goal of the budgetary strategy is to reach the medium-term objective (MTO) for the budgetary position of a structural deficit of just below 1% of GDP by 2010.

In its opinion of 12 February 2008 on the programme update, the Council concluded that the update is consistent with correction of the excessive deficit by 2007. Thereafter, it envisages back-loaded progress towards the MTO in a context of strong growth prospects; in 2008, the envisaged structural improvement is not in line with the Pact and should be more ambitious. Given risks to the budgetary targets from 2009 onwards, the MTO may not be achieved by 2010 as planned in the programme and therefore additional efforts might be required. Moreover, should inflationary pressures emerge, a tighter fiscal stance than foreseen in the programme would be required along with further structural reforms to improve the labour market performance. With respect to medium-term challenges, the programme does not envisage any progress in reallocating expenditure towards R&D and innovation while it states that education spending should increasingly rely on European funds.

1.1.13. Slovenia

In 2006, Slovenia's GDP per capita in PPS reached 88% of the EU-27 average. In 2007, the year Slovenia joined the euro area, real GDP grew by 6.1%, mainly driven by strong investment. Due to external commodity price impulses amplified by domestic factors, such as strong demand pressures, inflation picked up markedly, reaching 3.8% for the year as a whole, the highest value in the euro area. According to the April 2008 excessive deficit procedure (EDP) notification, a general government deficit of 0.1% of GDP was recorded in 2007, against an initial target of 1.5%. This outcome mainly reflects a positive revenue growth effect only partly offset by higher-than-planned expenditure growth. Slovenia's debt-to-GDP ratio declined from 27% in 2006 to 24% in 2007.

Slovenia submitted the first update of its stability programme on 30 November 2007, which covered the period 2007-2010. The programme's macroeconomic scenario foresees real GDP growth slowing in 2008 (to 4.6%) and 2009, before picking up in 2010. While domestic demand should continue to be the main driver of growth, an increase in the contribution from net exports is expected over the programme period. The update's budgetary strategy aims at continuing to respect Slovenia's medium-term objective (MTO), a structural deficit of 1 % of GDP, by a growing margin over the programme period, despite some weakening planned for 2008. The headline deficit should widen to 0.9% of GDP in 2008 and then gradually close, due to expenditure restraint more than offsetting a gradual decline in the revenue ratio.

In its Opinion of 4 March 2008 on the update, the Council considered the budgetary stance as sufficient to maintain the MTO throughout the programme period, while indicating that a tighter fiscal stance than presently envisaged for 2008 appeared to be warranted also given the strong inflationary pressures. The Council invited Slovenia to use the better-than-expected 2007 outturn to aim for stronger budgetary positions in 2008 and beyond than planned in the programme, thereby avoiding pro-cyclical policies. Moreover, Slovenia should be prepared to adopt further measures to tame inflationary pressures. Finally, in view of the projected increase in age-related expenditure, the Council invited Slovenia to improve the long-term sustainability of public finances, in particular by further reforming the pension system.

1.2. Conditionality

The Council Regulation on the Cohesion Fund[2] attaches macro-economic conditions to the use of the Fund. It states that "no new projects or, in the event of important projects, no new project stages shall be financed by the Fund in a Member State in the event of the Council, acting by a qualified majority on a recommendation from the Commission, finding that the Member State has not implemented [its stability or convergence programme] in such a way as to avoid an excessive deficit". This reflects the role of the Cohesion Fund as an instrument of budgetary support at national level helping Member States to maintain macro-economic rigour.

In the course of 2007 three Member States eligible for support under the Cohesion Fund (the Czech Republic, Hungary and Poland) were involved in additional steps of

2 Based on Article 6 of Council Regulation (EC) No 1164/94

the excessive deficit procedure (EDP) which, according to the aforementioned Regulation, may under certain conditions be associated with the suspension of transfers from the Fund. There was, however, no need to adopt such a measure for any of these countries. In 2008 the Council decided to abrogate the EDP for Poland and the Czech Republic.

The Czech Republic has been subject to the EDP since the Council decision in July 2004. The deadline for the excessive deficit correction was set to 2008. In July 2007 the Council decided that the Czech Republic had not adopted adequate measures in response to its July 2004 recommendations. Since the Czech Republic is not a member of the euro area, it has a specific derogation from the application of further steps of the EDP. In effect, in October 2007 the Council issued only a new set of recommendations under Article 104(7) of the Treaty[3]. There has been no subsequent suspension of support from the Cohesion Fund. The Council delivered its opinion on the latest update of the Czech convergence programme on 4 March 2008. The overall conclusion was that the programme is consistent with a correction of the excessive deficit in 2008. In June 2008 the Council issued the decision to abrogate the EDP for the Czech Republic. The excessive deficit procedure for Hungary started in 2004. Since then, Hungary's failure to take effective action in response to Council recommendations has been noted on two occasions, in January 2005 and in November 2005. However, on neither of these occasions did the Commission recommend a suspension of Cohesion Fund commitments to the Council. The latest set of recommendations concerning the Hungarian excessive deficit was adopted by the Council on the basis of a new Article 104(7) decision in October 2006. In July 2007 the Council decided that Hungary had been complying with the recommendations.

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

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

The Regulation on the Cohesion Funds for the period 2007-2013[4] has cleared up several uncertainties that surrounded the application of Cohesion Fund conditionality in the past. It foresees that, following an Article 104(8) the Commission may propose the suspension of Cohesion Fund support. In turn, the Council may decide to suspend

[3] Treaty establishing the European Community, Article 104 on the excessive government deficits

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

all or part of commitments, with effect from 1 January of the year following the decision. If the Council later finds, in the context of the EDP that the Member State has taken the necessary corrective action, this automatically implies a decision to lift the suspension of Cohesion Fund commitments. Rules for re-budgeting the suspended commitments have been laid down.

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

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

In 2007 there were 15 Member States (12 new Member States plus Greece, Portugal and Spain) eligible to receive financial assistance from the Cohesion Fund, in which projects were co-financed by the Fund under the 2000/04-2006 period. Since 1 January 2004, as a result of economic growth, Ireland is no longer eligible. Bulgaria and Romania became eligible for the Cohesion Fund with their accession on 1 January 2007.

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

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

Towards the end of 2007, the submission pace of payment requests accelerated and finally resulted in 100 % execution rate in respect of the available appropriations. At the end of December 2007, following late adoption of 2007-2013 operational programmes with the Cohesion Fund contribution, unused payment appropriations amounting to € 167 million had been executed for reimbursement of payment requests for 2000-2006 projects.

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

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

Payment Appropriations	Initial	Movements	Final Resources	Outturn	Cancelled	Carryovers 2008
2007 Budget	3.880.000.000	- 672.195.985 +166.755.099	3.374.559.114	3.326.965.802	-	-

Payment Appropriations	Initial	Movements	Final Resources	Outturn	Cancelled	Carryovers 2008
Appropriations carried over from 2006	60.776	-	-	60.776	-	-
Appropriations made available again	-	-	-	-	-	-
Repayments	-	-	-	-	-	-
TOTAL	**3.880.060.776**	**-505.440.886**	**3.374.559.114**	**3.327.026.578**	**-**	**-**

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

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

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	%	Amount	%	Amount	Amount	% of total CF payments
Cyprus	5.744.483,00	48,7%	6.039.770,69	51,3%		**11.784.253,69**	**0,5%**
Czech Republic	50.944.092,45	47,7%	55.805.709,38	52,2%	154.834,69	**106.904.636,52**	**4,4%**
Estonia	20.588.710,28	44,5%	25.648.095,12	55,5%	9.458,15	**46.246.263,55**	**1,9%**
Greece	142.007.398,85	41,5%	200.498.998,20	58,5%		**342.506.397,05**	**14,0%**
Hungary	52.417.244,67	42,8%	70.048.195,27	57,2%		**122.465.439,94**	**5,0%**
Latvia	46.795.684,41	49,4%	44.224.991,28	46,7%	3.764.782,97	**94.785.458,66**	**3,9%**
Lithuania	43.673.969,15	49,5%	44.208.895,26	50,1%	290.280,00	**88.173.144,41**	**3,6%**
Malta	4.166.034,67	43,0%	4.946.842,98	51,0%	582.856,73	**9.695.734,38**	**0,4%**
Poland	200.750.047,49	52,1%	184.249.405,16	47,8%	512.396,12	**385.511.848,77**	**15,7%**
Portugal	205.426.616,57	47,8%	223.909.764,01	52,2%		**429.336.380,58**	**17,5%**
Slovakia	24.185.556,67	48,7%	25.445.895,17	51,3%		**49.631.451,84**	**2,0%**
Slovenia	14.064.896,65	59,9%	9.408.923,42	40,1%		**23.473.820,07**	**1,0%**
Spain	535.761.824,69	72,1%	206.543.470,15	27,8%	339.638,00	**742.644.932,84**	**30,3%**
TOTAL	**1.346.526.559,55**	**54,9%**	**1.100.978.956,09**	**44,9%**	**5.654.246,66**	**2.453.159.762,30**	**100,0%**

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

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

2.2. Outstanding commitments from the 2000-2006 period

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

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

Member State	Net Committed (until 12/2007)	Paid (until 12/2007)	RAL
Greece	3.623.591.038,72	2.255.055.185,63	1.368.535.853,09
Spain	12.935.250.808,79	9.198.976.311,34	3.736.274.497,45

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

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

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

Member State	Net Committed (until 12/2007)	Paid (until 12/2007)	RAL
Slovenia	81.543.400,50	50.216.548,44	31.326.852,06
TOTAL	**7.424.792.659,01**	**3.883.732.364,13**	**3.541.060.294,88**

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2.3. Closure of projects from the 2000-2006 period

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

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

Member State	Total number of 2000-2006 CF projects	Projects closed in 2007		Projects closed in 2002-2006		Number of open projects as of end 2007
		Number of Projects	Total Paid in Euro	Number of Projects	Total Paid in Euro	
Czech Republic	31					31
Estonia	12					12
Greece	124	7	279.014.171,23	17	305.593.888,69	100
Spain	407	26	370.739.722,09	46	1.717.885.020,70	335
Ireland	10			3	250.368.797,00	7
Cyprus	2					2
Latvia	22					22
Lithuania	22					22
Hungary	10					10
Malta	3					3
Poland	65					65
Portugal	109	7	261.667.677,57	11	272.118.226,90	91
Slovenia	11					11
Slovakia	10					10
	838	**40**	**911.421.570,89**	**77**	**2.545.965.933,29**	**721**

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

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

Member State	Total number of 2000-2006 Ex-ISPA projects	Projects closed in 2007		Projects closed in 2002-2006		Number of open projects as of end 2007
		Number of Projects	Total Paid in Euro	Number of Projects	Total Paid in Euro	
Bulgaria	38					38
Czech Republic	27	2	36.838.453,19	7	124.496.115,65	18
Estonia	25	2	3.487.155,90	8	45.070.156,40	15
Latvia	24	2	17.530.155,17	2	18.416.589,32	20
Lithuania	29	1	19.816.800,00	5	66.724.564,61	23
Hungary	37			7	2.526.165,16	30
Poland	65	3	4.673.775,30	1	5.377.712,03	61
Romania	63	2	1.794.821,78	0	1.794.821,78	61
Slovenia	17			4	11.159.700,50	13
Slovakia	29	2	4.726.875,55	2	6.880.841,36	25
	354	**14**	**88.868.036,89**	**36**	**282.446.666,81**	**304**

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

3.1. Greece

3.1.1. Environment

The solid waste management interventions are based on the 2003 National Solid Waste Management Plan which in turn is linked to Regional Management Schemes. The strategic objective is the appropriate integrated management of urban solid waste and, where necessary, the rehabilitation of polluted or degraded areas. A similar plan has been drawn up for the treatment of urban waste water, in accordance with the requirements of Directive 91/172/EEC.

Modification decisions were adopted for nine environment projects. These modification decisions concern mainly the extension of the final date of eligibility, the adaptation of the physical object and the financing plan.

The rate of performance of the environment projects differs per sector. The waste water treatment projects are relatively well advanced, while solid waste, drinking water and nature protection projects, and in particular major projects such as the construction of dams, are seriously delayed.

Close monitoring and accelerated efforts are required in order to ensure that they are completed and put into operation within the time frames set.

3.1.1. *Transport*

The strategy for transport projects seeks to develop the following corridors and projects:

– the priority trans-European (TEN) road axes in Greece, i.e. the PATHE, EGNATIA and IONIAN axes, as well as the Korinthos – Tripoli – Kalamata / Sparti motorway;

– the modernisation of the PATHE railway axis, also part of the TEN, including its electrification and signalling systems, and construction of a freight railway line from the Ikonio port to the railway freight centre of Thriassio;

– the infrastructure facilities of Igoumenitsa and Iraklion ports including the construction of new port infrastructure at Lavrio;

– the airports of Thessaloniki and Iraklion and the air traffic control system in Greece; and

– public transport infrastructures in Attica and Thessaloniki, such as metro, tramway, and bus transport.

In 2007, modification decisions for two transport projects were adopted. These modification decisions mainly concern the extension of the final date of eligibility, the adaptation of the physical object and the financing plan.

It is clear that the transport projects are progressing better than the environment projects with motorway projects being particularly well advanced.

Closure

During 2007 the substantial efforts concerning the closure of Cohesion Fund projects adopted during the 1993-1999 period continued with the closure of five projects. Additionally, four bridge projects (financed in part bothunder the 1993-1999 period and under the 2000-2006 period) were also closed during 2007[5].

The closure process revealed certain aspects that require further attention, such as whether projects are operational upon completion. In the course of closures carried out so far, this has proved to be a persistent problem, in particular as regards environment projects.

[5] Some projects are partially closed or closed with suspensive clauses.

Specific clauses

Since 2002, Cohesion Fund decisions include certain specific clauses whose fulfilment, 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 solid waste management body or of an agency to manage the operation of a dam), and those of a legal or technical character (e.g. the completion of the legal framework relating to the solid waste management or certain actions considered necessary for the integrated management of solid waste).

As regards the former, their implementation is directly related to the progress of the projects. Accelerated efforts for the implementation / fulfilment of these specific clauses are needed as they contribute to the operability of the projects.

Concerning specific clauses of a legal character, the Greek administration has completed and put in place the bulk of the legal requirements relating to solid waste.

3.2. Spain

3.2.1 Environment and transport

Some 65 modifying decisions were adopted in 2007 - 49 for environment projects and 16 for transport projects. In general, modifications concern an extension of the final date of eligibility and modifications of the physical object (generally minor changes).

The transposition into Spanish law of the European Directives on public procurement, in particular concerning amendments to contracts carried out through negotiated procedure, raised specific difficulties in the management of the projects, in particular at the time of closure.

In order to cope with these difficulties, two meetings were held in Madrid in January and September. The first meeting ended with a commitment on the part of the Spanish authorities to include in the closure documentation all necessary information for checking the eligibility of expenditure relating to the additional contracts. The second meeting contributed to solving formal problems raised in audit statements, in particular concerning projects managed by municipalities.

During these meetings, information and publicity measures were also carefully assessed. In particular, the national authorities emphasised the prominent role of Community financing concerning high-speed rail projects.

In this context, three weeks before the inauguration of the Madrid-Valladolid and Cordoba-Malaga railway lines, a meeting with the press took place in Madrid in December. During this meeting, the level of the Community financing in favour of Spanish high-speed railway lines was stressed (representing some € 7,300 million, of which € 5,575 million came from the Cohesion Fund).

Closure

The process of closure of projects is slow and complex, due partly to the deadlines necessary for the Member State to submit the audit reports which must accompany the final payment claims and the final reports, and also because of specific problems concerning the transposition into Spanish law of the European Directives on public procurement.

Some 35 projects were closed in 2007, of which 10 were adopted under the 1993-1999 period. Almost all of the projects closed (34) concerned projects in the environment sector. At the end of 2007, a total of 340 projects remained open, including 8 projects from the 1993-1999 period. The outstanding commitments (RAL) amounted to € 3.749 million, of which € 70.8 million corresponds to the 1993-1999 period.

3.3. Portugal

3.3.1. Environment and transport

At the end of 2007, total payments for the 104 Cohesion Fund projects adopted under the 2000-2006 period amounted to € 2.384 million. In total, 14 projects were already closed (8 transport projects and 6 environment projects), while 15 other projects were in the process of closure. As a result, a total of 75 projects were still being implemented at the end of 2007.

As regards the 15 projects in the process of closure, additional information was requested from the Portuguese authorities concerning public procurement procedures, the results achieved, physical indicators, and information and publicity measures. In some cases, the audit report was not yet complete, reservations having been made by the IGF (Portuguese independent audit authority), or additional information was requested by the Commission.

Some 25 projects were modified during the year or are in the process of being modified:

- in the transport sector, the six modifying decisions concern an extension of the final date of eligibility until 31 December 2010. Delays with these projects were due to the minimisation of the environmental impact (railway line between Lisbon and Porto; metro in Lisbon and Porto; speed road in the Lisbon region).

- in the environment sector, the 19 modifying decisions concern implementation delays, mainly due to environmental problems or to the additional works necessary for completion of the projects. Projects in the waste treatment sector are particularly affected, following recent changes in the national strategy in this sector.

Implementation of the remaining 50 projects has not caused any specific problems. The main transport projects (apart from the modified projects cited above) are the metro link of Baixa – Chiado / Santa Apolónia and modernisation of the railway line between Vilafranca de Xira and Santarem in the Centro region, and Ermidas and Faro in the Algarve region. These projects are now physically finalised and are in the process of closure. The most expensive environmental projects that are being implemented concern water supply and water treatment systems in Minho Lima and Vale do Ave, and waste treatment systems in Madeira.

Apart from these projects adopted under the programming period 2000-2006, three projects from the 1994-1999 period are still open: the waste water network in Vila Real and the water treatment projects in Greater Porto – Gai and in Caldas de Rainha – Obidos.

3.4. Cyprus

The budget available for Cyprus within the programming period after accession is € 54 million. In this framework, two projects were adopted, one in the environment sector (New landfill site for Larnaka and Ammochostos regions adopted in 2005), and the other in the transport sector (Upgrading of the Limassol bypass adopted in 2004) which allowed Cyprus to take up all available funds.

The transport project is advancing well, with the payments made from 2005 up to the end of 2007 reaching approximately 67.6% of the total Cohesion Fund amount allocated. As for the environment project, despite some initial delays, the project seems to be advancing well.

3.5. Czech Republic

3.5.1. Environment

Implementation of the Cohesion Fund projects in the environment sector is progressing well. Out of 38 projects approved in the 2000-2006 programming period, two projects were closed (one of them in 2007 - Ostrava) and most of the 2000-2002 projects are in the final stage of implementation. The closure procedure for three projects (Olomouc sewerage system I, Podkrušnohoří water supply/sewerage system/water treatment, clean river Bečva) was launched in 2007.

In 2007, the Commission adopted four amending decisions granting assistance from the Cohesion Fund (Czech Hydro-Meteorological Institute, South Bohemia water supply, Příbram waste water treatment plant upgrading, quality improvement of the Upper Moravia river basin); the modifications concerned change of the physical scope and/or the extension of the end date of the project.

For several waste water projects the relevant CF decisions include a special clause stating that operational contracts with private operators related to the co-financed infrastructures should be amended to comply with the best international practice. This condition had not been fulfilled by the end of 2007, but the Czech authorities are working towards submission of amendments to these operational contracts in the near future.

3.5.2. Transport

In the transport sector, very good progress is being made with most of the projects. In 2007, one project was closed (Frýdek-Místek – Dobrá), which makes it 3 out of 12 approved projects closed in total. No modification request was received in 2007.

3.6. Estonia

3.6.1. Environment

By the end of 2007, five projects were closed and three were in the process of being closed. Thirteen projects were being implemented with a total allocation of 238 957 745 EUR including one technical assistance project.

Due to the overheating of the construction market, there have been cost increases in the environmental sector (on average 217% since 2006). However, by the end of 2007, the construction market had cooled down and prices were stabilised. Estonia planned an extra EEK 720 million to be financed out of the State budget for the years 2007 and 2008 in order to cover these cost overruns.

The Commission approved two modification decisions. For the project "Technical assistance for environment sector: project preparation and management of the Cohesion Fund", it was decided to extend the eligibility end date and modify the list of sub-projects and their cost without changing the total cost of the project. For the project "Narva Water and Wastewater network", the total eligible cost was increased without increasing the Community participation.

The main problems hindering project implementation stem from delays in the design and/or construction process, and/or are due to cost overruns.

Preparation of financial analyses, according to the Commission's cost-benefit analysis (CBA) guidelines, has been the most difficult part for Estonia to comply with at project closure. Estonia has analysed the situation and concluded that the quality of the final documents is not sufficient. To resolve this issue, action will be taken in order to improve quality. As a consequence, it has taken on average between six months and one year to close environment projects.

3.6.2. Transport

By the end of 2007, four projects (including two technical assistance projects) had been closed and two projects were under the process of being closed.

Regarding ongoing projects, the financial and physical progress is satisfactory in relation to six projects where the majority of the works have been physically completed. However, for two projects, works had not started on the ground by the end of 2007 and no payments were made. One of the projects faces the risk of cancellation due to the "M+24" rule[6]. In this case, the delay was due to the rapidly changing environment in which the project has to be implemented. The circumstances were not under the control of the project promoters.

No modification proposals were submitted in 2007 in the transport sector.

Due to the overheating of the construction market, transport projects have suffered from cost increases concerning the tenders launched from 2006 onwards. However, the increase has been lower than in the environmental sector – amounting to 36% on

[6] Article C(5), Annex II to Regulation (EC) No 1164/94

average. Cost increases have mainly been covered by additional allocations from the national budget.

Technical assistance has helped to prepare transport infrastructure projects for implementation in the new programming period.

3.7. Hungary

3.7.1. Environment

In 2007, further progress towards the completion of ongoing projects was observed and the first projects adopted in 2000 and 2001 are in their final stage of implementation. In spite of the initially slow development, projects adopted in the last years of the 2000-2006 programming period show in general an improved performance and in the case of two waste water projects adopted in 2004 all contracts have been signed and the works are well under way.

A number of projects in the solid waste sector show significant cost overruns due to underestimation of the initial budget concerning the closure and rehabilitation of old landfills and concerning compliance of these landfills with European and national legislation. Some of these projects were modified and their scope reduced. The rehabilitation works, taken out of these projects, will be carried out in the 2007-2013 period.

In the case of two solid waste projects (North-East Pest and North Balaton), the contracting rate is only 3%. These projects show a very slow progress and are at risk of non-completion by the end of 2010.

Waste water projects are mostly subject to cost savings, which will be used within the projects for financing additional elements in line with the initial project objectives by the end of 2010. The savings within the biggest ongoing environmental project – the Budapest Central Municipal Wastewater Treatment Works and Collector Systems – amount to € 47.7 million.

The closure procedure for two projects (Waste water project in Györ and Technical Assistance for the elaboration of the Zagyva-Tarna river basin management plan) was started in the second half of 2007. The procedure under Article H of Annex II to Regulation (EC) No 1164/1994 (as amended) was initiated for the Technical assistance for the preparation of ISPA projects in the second half of 2007.

3.7.2. Transport

During 2007, project progress continued at a slightly reduced level, due to the effects of internal re-organisation and changes made to certain intermediate bodies and final beneficiaries. These processes were complete by the second half of 2007, and contracting and payment performance improved.

Cost overruns have been encountered in a number of railways projects, but the necessary funds to cover such overruns were made available from national resources at the end of 2007.

In several projects public procurement problems have led to the re-launch and review of a number of contracts. This causes serious delays and puts certain projects at risk of not completing all elements by the currently foreseen eligibility end date. In certain projects important works contracts have still not been contracted.

Problems related to land acquisition are present in a number of projects. While in some cases the outstanding issues are purely procedural, there are instances where work is being delayed because of this.

No transport projects have been closed, or are in the process of being closed. One modification request (railways project) was received in the course of 2007. This modification is still ongoing.

3.8. Latvia

3.8.1. Environment

By the end of 2007, five projects had been completed and their closure documents have been submitted to the Commission (for three projects closure documents were submitted in 2007).

In 2007, Latvia submitted one request for modification which concerned a technical assistance project in the environment sector. The request for modification included the following adjustments:

– Inclusion of additional components to allow the project to absorb the full grant and corresponding adjustment of the physical indicators. For instance, the proposed new components would give an opportunity for more efficient planning of network maintenance and repair works; prepare a digital model of the wastewater network that would simulate the operation of the existing wastewater network.

– Extension of the final date of eligibility until 31 December 2009.

3.8.2. Transport

By the end of 2007, two projects were closed and three projects were in the process of closure.

In 2007, Latvia submitted three modification requests for transport sector projects - two of which were technical assistance projects and one was a railway project. Commission decisions were adopted in 2008. The modifications concerned the following projects:

– Modernisation of the signalling system in Latvia: extension of the final date of eligibility until 31 December 2010; adjustments of certain physical indicators (adjustments due to improvement works that have been implemented);

– Technical Assistance for the transport sector: extension of the final date of eligibility until 31 December 2009; inclusion of a new component – feasibility study of the railway routes to the port and to Riga international airport;

– Technical Assistance to Ministry of Transport: adjustment of the project indicators by including Daugavpils regional airport to absorb cost savings; inclusion of a new component (gathering information and identifying territories for the long-term development of the national transport infrastructure).

3.9. Lithuania

3.9.1. Environment

In the course of the 2000-2006 programming period the Commission adopted 27 decisions for reinforcement of environmental infrastructure in Lithuania. Furthermore, two technical assistance projects have been devoted to preparation of technical documentation of Cohesion Fund projects and the capacity-building of the Ministry of Environment and project implementing agency (EPMA).

In the course of implementation of the environmental projects the following common problems were identified by the Managing Authority: complicated public procurement procedures; low interest in tenders; interinstitutional disagreements; inaccuracies revealed in technical designs and cost overruns. Nevertheless, despite these problems, an improvement in the implementation of projects on the ground was observed.

Three waste water projects were amended in 2007 to extend eligibility deadlines and adapt monitoring indicators.

The closure procedures have been initiated for two environment projects. For one project in the waste water sector the construction works were completed during the year and the closure documents are expected to be presented to the Commission in 2008.

3.9.2. Transport

In total the Commission adopted decisions for 21 Cohesion Fund transport projects (two of them are technical assistance projects). Out of those, three projects were closed before 2007, and one more project was closed in 2007.

In 2007, Lithuania submitted eight modification requests for transport sector projects - two of which were technical assistance projects and six were infrastructure projects. The modifications included extension of eligibility deadlines, adjustments of the physical monitoring indicators and the allocation of savings to additional components.

3.10. Malta

3.10.1 Environment

The aim of the environment project is to implement an advanced mechanical thermal and biological treatment plant at St. Antnin, by upgrading an existing one. This will result mainly in reduction of the environmental impact of the waste cycle, and notably the reduction of the waste land filled. This is of uttermost importance for Malta main island and its very high population density (1 500 inhabitants / km²).

Delays in implementation occurred during the procurement process and the substitution of a component was needed – total expenditure certified is still low (16%).

Consequently, a modification of the project was submitted on 29 January 2008.

3.10.2. Transport

The project consists in an upgrade of three lots of the TEN-T road and is progressing satisfactorily; payment on account is being recovered on interim payments. Financial execution exceeds 75% and physical execution is above 90%.

Technical assistance

The technical assistance project aims at preparing the environmental projects pipeline for 2007-2013 Cohesion Fund projects (Storm Water masterplan; advanced waste treatment plants).

Delays have been experienced due to a lengthy procurement process and to difficulties in identifying the site for the waste treatment plant. Physical and financial executions are around 50%.

Consequently a modification of the project was submitted on 21 January 2008.

3.11. Poland

In 2007, the Commission adopted 18 amending decisions granting assistance from the Cohesion Fund – 13 in the environment sector and 5 in transport. In addition the Commission adopted two corrigenda. The modifications mostly concerned the physical scope and/or the extension of the end date of the project. As a result, 84 projects out of the 130 projects are planned to be completed in 2010.

The implementation of most projects was strongly affected by cost overruns which amount to € 2.2 billion in both sectors. This amount is not final as the contracting in many projects was still ongoing. Though the national authorities initiated measures to give beneficiaries easier access to additional funding in order to cover the cost overruns in the course of 2007, it has not yet been possible to solve the problem for all the projects concerned.

During 2007, the Commission authorised payments amounting to € 737.9 million. The payment rate at the end of 2007 reached 38% of committed funds. The remaining funds to be disbursed (including final payments) amounted to € 3.5 billion at the end of 2007.

3.11.1. Environment

No environment projects were closed during the year. In total some 88 projects are still ongoing. The total eligible cost of these projects is € 4.28 billion and the Cohesion Fund contribution amounts to € 2.85 billion.

Despite the progress in the contracting registered for all projects implementation is often delayed. The completion of works for the majority of projects is being rescheduled for 2010. The main problems encountered during implementation relate to delays in tendering that result in delays in the execution of the works and to cost overruns.

There were 19 projects for which the environmental conditions blocking the payments were lifted in 2007. For five of the total of 35 projects affected by this conditionality, fulfilment of the conditions was still pending at the end of 2007.

Technical assistance

The Commission finalised closure of one technical assistance project. One technical assistance project is still ongoing.

3.11.2. Transport

The total eligible costs of the 38 transport projects amounts to € 3.57 billion, with the Cohesion Fund contribution reaching € 2.78 billion.

In the course of 2007 the level of 80% spending was achieved for three railway projects and for twelve road projects.

In 2007 cost overruns continued to hamper a number of rail and road projects. However, in all cases the problem has been addressed either by way of an EIB loan to the beneficiary (some railway projects) or by the budgetary reserve. The only proposal of project phasing between the programming periods 2004-2006 and 2007-2013 (Modernisation of E-65 railway line) was abandoned.

There are three road projects where the environmental conditions have not been fully fulfilled: projects "National road 2", "Expressway S-8" (partly blocked) and "Motorway A4".

One transport project was closed in 2007.

Technical assistance

Closure was initiated for one technical assistance project for transport.

3.12. Slovakia

3.12.1. Environment

Physical realisation of ISPA / Cohesion Fund took an important step forward during 2007, especially in the case of some projects approved in 2004 which had significant delays because of a long tendering process: Bratislava Flood prevention; water supply and sewerage systems of Orava; Preseov; Vranov and Horné Kysuce. Four projects, however, did not get off the ground: Velky Krtis and Žilina heating plant; Samorin and Galanta water supply and waste water. An action plan is being established by the Slovak authorities in order to address these problems.

In 2007 three project modifications were adopted: for water projects in Šaľa and South Eastern Zemplín and for the air pollution project Žilina heating plant, all of which concerned extension of the final date of eligibility and two of them concerned a modification of the physical indicators. Two closures of projects were carried out - one for a waste water treatment plant project in Trenčín and one for a technical assistance project aimed at preparation of flood protection measures.

3.12.2. Transport

All contracting within the projects was completed in 2007 (with some minor exceptions) and physical implementation advanced satisfactorily during the year, especially in the case of railway modernisation projects.

In 2007 one modifying decision was adopted in order to extend the final date of eligibility due to unsuccessful public procurement at the beginning of the project implementation. The first transport project "Modernisation of rail track Bratislava Raca-Tmava (section Bratislava- Rača-Šenkvice)" was submitted for closure.

3.13. Slovenia

3.13.1. Environment

The main aim of assistance from the Cohesion Fund and former ISPA during the period 2000-2006 was to assist municipalities and regions in improving drinking water supplies, sewerage networks and wastewater treatment (12 projects) and waste management (4 projects).

Before 2007, public procurement was one of the main reasons for delays in implementation of projects. A substantial increase in the number of successfully concluded public procurement procedures helped to raise considerably the level of contracting and eliminated the decommitment risk linked to the "M+24" rule[7] in all but one project. It is expected that the improved contracting figures will lead to an accelerated financial execution in 2008.

Construction and/or trial operation was completed in four projects in the water sector. In compliance with the relevant procedures, closure of these projects and processing of final payments is expected in 2008.

One modifying decision was approved in 2007 concerning the "waste water treatment in the Mislinja river basin" project.

3.13.2. Transport

The national authorities defined in 2003 a National Cohesion Strategy for the Transport sector which identifies 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, entailing completion of the motorway network, upgrading, modernisation and completion of the railway network and an increase in the range of logistical services.

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7 Article C(5), Annex II to Regulation (EC) No 1164/94.

The Cohesion Fund co-finances 6 railway and 2 motorway projects in the transport sector. The progress of implementation is in general considered as similar to the environmental sector. With the exception of one project, all are fully contracted, which should improve the financial execution in 2008.

In 2007 construction was completed in two projects, one in the railway and one in the motorway sector. In compliance with the relevant procedures, closure of these projects and processing of final payments is expected in 2008.

Three modifying decisions were approved concerning the following projects: modernisation of railway line Divaca-Koper; upgrading of signalling of railway line Pragesrko-Ormoz (two modifying decisions for this project).

4. MONITORING, CONTROLS AND IRREGULARITIES

4.1. Monitoring: committees and missions

4.1.1. Greece

The progress made with the Cohesion Fund projects for the 2000-2006 period was discussed during the monitoring committee meeting held in Athens. Among other things, the financial situation and progress achieved was discussed, as well as the 2005 action plan which was put in place by the Greek authorities to accelerate project implementation. Individual projects requiring particular attention were examined in more detail.

A technical meeting was organised in November in Athens to review progress achieved during the year and examine issues related to the Cohesion Fund with emphasis placed on the waste sector. The 2005 action plan was assessed; individual projects were discussed in more detail, while the specific clauses included in funding decisions were also discussed in order to demonstrate their progress. During the meeting the Greek authorities presented three examples of best practices at regional level relating to solid waste.

Various other meetings took place during the year, either in Greece or in Brussels, in order to monitor progress achieved and to accelerate implementation.

4.1.2. Spain

A monitoring committee meeting was held in Madrid on 25 and 26 April. The managing authority, in partnership with the Commission, selected some 145 projects which were the subject of specific follow-up.

In addition, pursuant to Article 10 of Commission Regulation (EC) No 621/2004 concerning publicity measures, the state of play in respect of publicity measures was presented.

Three other main topics were raised during the meeting:

– The problems linked to incorrect transposition of the European directives concerning public procurement in national law. The consequence is that there is a high risk of expenditure being considered irregular. Therefore, the Commission insisted that the expenditure at risk must not be certified in the statements sent to the Commission.

– VAT: following the judgment of the Court of Justice of 6 October 2005, certain VAT should be regarded as irregular expenditure as from 1 January 1999 (date of enforcement of the national legislation linked to the judgment). In order to recover the irregular amounts concerned in projects already closed, the Member State was requested to quantify these amounts.

– Lastly, in view of the large number of requests for payments of the balances expected during 2007, the Spanish authorities were asked to ensure timely presentation of all closure documents as well as the submission of final reports of high quality in order to allow for a swift closure process.

A monitoring mission was carried out in December, in order to test the Madrid-Valladolid high-speed railway line, one week before its inauguration. Co-financing from the Cohesion Fund amounted to almost € 1,600 million, enabling a connection between the two cities in 55 minutes, against 2h 24mn previously. The mission provided an opportunity to check the correct operation of the line, the nature of the technical works completed, including a tunnel of more than 28 km, and the placement of commemorative plaques in the stations.

In addition, a mission was carried out to inspect the project "Tramos I, II, IV: Segundo anillo de distribución de agua in Madrid" (water distribution in Madrid). The visit was justified by the fact that the project was delayed at its start, and made it possible to clarify the difficulties encountered in the course of implementation.

4.1.3. Portugal

Two monitoring committee meetings took place in 2007.

The April monitoring committee reviewed all the ongoing projects and those approaching closure. This meeting was preceded by technical discussions between the national authorities and the Commission, in order to look at the main issues outstanding, such as closure or projects subject to modifications. The results of the action plan concerning a proper application of public procurement rules were also discussed: the Portuguese authorities have adopted new procedures, notably new check-lists, in order to address infringements of public procurement procedures. Financial corrections were made by the national authority and will be taken into account in future payment claims. The Portuguese authorities also presented the latest results of the communication campaign. Finally, a study concerning indicators in order to harmonise information for the 2007-2013 period was also presented.

The October monitoring committee meeting focused mainly on projects with particular problems or outstanding issues, as identified by the Commission and/or the Member State. General questions were also discussed, such as the evaluation exercise, the action plan on public procurement and the level of budgetary execution. This meeting was also preceded by technical discussions between the national authorities and the Commission, in order to deal with specific issues, such as difficulties in implementing the national strategy for the recovery of biodegradable organic waste, and the closure of projects.

4.1.4. Cyprus

A monitoring committee meeting was held in December. Progress in the implementation of the two Cypriot projects was presented, while other technical issues related to monitoring and reporting were also addressed.

4.1.5. Czech Republic

In 2007, one monitoring committee meeting took place on 11-12 June. A second meeting, originally scheduled for December was postponed to the beginning of 2008 due to excessive workload. Discussions in the monitoring committees are organised on a project-by-project basis, giving sufficient time to national authorities, beneficiaries and the Commission to clarify any outstanding issues.

In the course of 2007, the Czech Cohesion Fund monitoring system was further improved, allowing the managing authority to have a better overview of the progress on the ground.

4.1.6. Estonia

Two monitoring committee meetings were held in 2007 covering implementation, quality of spending, financial progress and publicity actions.

The problem of cost overruns received great attention during the meetings. The Estonian authorities provided explanations and proposals for improving the situation. Discussion in the monitoring committees revealed the need to possibly lower the level of the outcome indicators for some environment projects, as certain parts of the works are not feasible due to cost increases.

The situation regarding delays in implementation was followed up. In this framework, the Commission highlighted the need to learn from the past and try to improve and build on existing experience for the 2007-2013 programming period.

4.1.7. Hungary

Four Cohesion Fund monitoring committee meetings (two for each sector – environment and transport) were held in Budapest in the course of 2007: on 22 March 2007 and 15 October 2007 for the transport sector and on 14-15 May 2007 and 16-17 October 2007 for the environment sector. All the projects receiving assistance from the Cohesion Fund were reviewed and overall presentations were provided for each sector. The monitoring committee meetings were conducted in the form of technical discussions on a project-by-project basis, giving the final beneficiaries sufficient time to present the state of play for each project.

4.1.8. Latvia

Two Cohesion Fund monitoring committee meetings for Latvia took place: on 25 April and on 5 November.

The meetings dealt with horizontal issues like financial execution of on-going projects; technical assistance for the managing authority in Latvia; problems with project execution and other issues. At the meeting of 25 April 2007 the Minister for Special Assignments for Administration of European Union Funds was present and the preparation for the implementation of the 2007-2013 period was discussed. The impact of cost increases on Cohesion Fund projects was discussed in both meetings and the Latvian authorities reported on the steps taken by the Government to combat inflation.

During the April meeting, the Commission also performed a site visit to the project “Jūrmala water services development” and participated in the special meeting on the implementation problems for the project “Modernisation of the signalling system (East-West rail corridor)”. The meeting took place with the managing authority, the Ministry of Transport, the Latvian Railway Company and the contractor for Stage 1. This meeting provided an opportunity to clarify the difficulties encountered and to urge all parties concerned to take the necessary measures to get the project moving.

On 1 February in Jelgava the managing authority organised a conference "Best experience in implementation of Cohesion Fund projects (2000-2006)". The Conference concluded with a presentation by the managing authority on the preparation for the 2007-2013 programming period.

4.1.9. Lithuania

Two monitoring committee meetings took place in Lithuania, on 24-25 April and 16-17 October 2007, including site visits and meetings with final beneficiaries. The committee examined the progress reports submitted by the national authorities and discussed the implementation of all ex-ISPA and Cohesion Fund projects and how to accelerate the rate of implementation.

Two technical meetings with the Ministry of Environment took place in Brussels, focussing on the substantial cost increases of Cohesion Fund projects, the underlying causes, the problems encountered, and relevant corrective actions.

Three Cohesion Fund monitoring missions took place in February, June and October to visit projects, meet final beneficiaries, discuss the implementation and closure of projects, the support from JASPERS and information and publicity measures.

4.1.10. Malta

Two monitoring committee meetings took place, on 25 May and 3 October. In addition, a meeting for information purposes was held in February.

The main differences between the management and implementation methods of the Cohesion Fund and the Structural Fund were discussed.

During the monitoring committee meeting held in October the modification of environment projects and of technical assistance projects was discussed.

4.1.11. Poland

Two Cohesion Fund monitoring committee meetings were held in 2007: on 21 June and on 14 December. The meetings were preceded by working groups for the environment sector (on 4-5 June and 8-9 November) and the transport sector (on 30-31 May and 6-7 November). The meetings were attended by representatives of the managing authority, the paying authority, the intermediate bodies, the implementing agencies, social and economic partners and the final beneficiaries responsible for all projects adopted since 2000.

The main purpose of the meetings was to review progress made with the projects. In addition, several horizontal issues were discussed, namely: payment rate and financial forecasts, modifications of projects, unblocking of projects through the completion of the Environment Impact Assessment (EIA) requirements, delays in implementation, cost overruns and compliance with the "M+24"[8] and "M+12"[9] rules.

All of the projects are progressing on the ground; however, the national authorities were urged to intensify the works on the ground in order to complete the projects before the final date for completion of the works. Many projects registered substantial cost overruns; however, for all of them the financing resources to cover the gap was secured, with the exception of a limited number of projects for which the national authorities were still identifying appropriate solutions. Cost overruns averaged approximately 25% of the originally estimated total eligible cost. The monitoring committee of December recorded significant progress in the fulfilment of the EIA specifications. Only a limited number of projects still suffered from a complete blockage of payments at the end of 2007. No projects breached the M+24 and M+12 rules.

4.1.12. Slovakia

Two monitoring committee meetings were held in Bratislava, one in March and the other in October. The monitoring committees reviewed the state of play in respect of the ex-ISPA and Cohesion Fund on-going projects. In addition, the key horizontal issues discussed were: privatisation and fragmentation of water companies, cost overruns, closure of projects, and the use of generated interests.

The Commission also participated in July in the completion ceremony of the environment project in Liptov, while staff of the European Commission representation in Slovakia participated in the closure ceremonies of other environment projects in Nitra, Považská Bystrica and Martin, as well as in the opening ceremony for the Bratislava flood protection project. The Commission also undertook a site visit in November for the environment projects in Piešťany and Trnava, where proposals for modification were discussed and progress in regard to implementation was monitored on site.

[8] Article C(5), Annex II to Regulation (EC) No 1164/94

[9] Article D(2)(a), Annex II to Regulation (EC) No 1164/94

4.1.13. Slovenia

One monitoring committee meeting was held on 6 June. It focused on the ongoing implementation of projects and possible delays, questions on the automatic cancellation of assistance ("M+24" rule)[10] and issues related to the programming period 2007-2013. The meeting included a detailed review of all ongoing environment and transport projects, discussion on financial data including payments and payment forecasts and possible de-commitments. The Commission in particular highlighted the necessity to further accelerate the implementation of projects, where substantial delays occur especially with regard to public procurement.

4.2. Inspections

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

As regards the period 2000-2006, the audit work carried out in 2007 focused on follow-up audits to verify the effective implementation of recommendations made on the systems in 2005 and further compliance testing of projects expenditure. Special emphasis was also given to reviewing the work of the national audit bodies including checking the quality of system audits, sample checks and other issues in relation to the work of preparing the winding-up declaration. Some 20 audit missions were carried out: 7 missions under the EU-14 Cohesion Fund enquiry; 2 missions under the public procurement enquiry; 3 missions under the winding-up body enquiry and 8 missions concerning Romania and Bulgaria.

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

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

[10] Article C(5), Annex II to Regulation (EC) No 1164/94

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

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

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

4.2.1. Greece

In 2007, three audits took place for the Cohesion Fund: one closure audit in September, during which four closed projects were audited and two system and project audits in October and November.

The closure audit mission that took place in 2006 and the system audit missions that took place in April and October 2005 were followed up and closed in 2007. There is a horizontal issue that arose from the system audit mission in May 2005 regarding the use of a "mathematical formula" for the award of public contract that is not in compliance with the European directives.

4.2.2. Spain

One closure audit was carried out in September 2007 where the audit work performed by the most important winding-up body in Spain, IGAE, was reviewed.

Several irregularities concerning public procurement contracts have been identified during the audits carried out in Spain. The main risk is that the expenditure declarations sent to the Commission contain irregular expenditure, mainly additional works (modification of contracts and complementary contracts) which were not awarded in conformity with the Community directives on public procurement.

The risk is mitigated by the fact that DG Regional Policy assesses the winding-up declarations before the closure of the projects on an individual basis. DG Regional Policy will be able to identify and deduct the irregular expenditure at closure of each project.

4.2.3. Portugal

At the request of DG Regional Policy, the winding-up body carried out a specific enquiry in 2007 on the implementation of control procedures for the period from 1 January 2005 onwards. The conclusions of that enquiry revealed that the risk of non-compliance in respect of public procurement rules was mitigated. On the basis of that enquiry, together with the conclusions drawn from DG Regional Policy's audits and the analysis of national audit strategy, the DG signed a contract of confidence with "Inspecção-Geral de Finanças" (winding-up body and audit authority) covering the Cohesion Fund (and 20 programmes funded by the ERDF).

4.2.4. Cyprus

A systems audit was carried out in April 2005. In the field of ex-ante checks, the systems audit revealed deficiencies which do not affect key elements of the management and control systems. In 2006 and 2007 DG Regional Policy followed up this audit and all findings were closed.

4.2.5. Czech Republic

A follow-up audit combined with an audit of Cohesion Fund projects was carried out in 2007. The follow-up audit concluded that, despite clear improvements, the performance of the checks by the managing authority on the work done by the intermediate bodies, as well as the checks carried out by the paying authority to satisfy itself of the quality of the work done by the managing authority and the intermediate bodies should be further enhanced. Specific actions will have to be taken by the Czech authorities during 2008 to remedy these weaknesses.

4.2.6. Estonia

On the basis of audit work carried out in 2006 and 2007, the DG signed a contract of confidence with Estonia covering the Cohesion Fund and ERDF.

4.2.7. Hungary

The systems audit of June 2006 was followed up with two project audit missions in 2007. It was concluded that the main systemic deficiency relating to the lack of central guidance on Article 4 checks by the managing authority had been remedied.

The audit of one major project revealed serious irregularities in the tendering procedure for the main works contract as well as significant weaknesses in the management verifications of public procurement. Further audit work will be carried out in 2008 to obtain assurance that other contracts have not been affected by similar irregularities in the environment sector.

4.2.8. Latvia

Two audit missions were carried out in 2007, concerning follow-up of previous missions and review of the winding-up body and national authorities. Except for the information system, the measures taken by the Latvian authorities were considered satisfactory.

4.2.9. Lithuania

Two audits were performed in 2007. A follow-up of the system audits was carried out in February 2007. It was found again that the managing authority did not issue sufficient guidelines on management verifications and that the computerised monitoring system was not yet fully operational for the Cohesion Fund. In addition, a review of the winding-up body and national audit bodies was carried out in June

2007. This revealed that there was insufficient quality review of the audit work performed by the internal audit units in charge of the Article 9 checks.

4.2.10. Malta

An audit mission carried out in Malta in November 2007 gave rise to no significant findings.

4.2.11. Poland

In 2007 the Polish authorities undertook to implement a remedial action plan to: (i) ensure that all bodies in charge of carrying out public procurement checks apply financial corrections when irregularities are detected, and (ii) revise their methodology for public procurement checks in order to ensure an adequate level of checking.

4.2.12 Slovakia

A mission was carried out in 2007 to verify the work of the winding-up body and other audit bodies covering both the Cohesion Fund and ERDF. The conclusion was that there are some doubts about the overall reliability of their work which need to be addressed.

Following the Commission's findings in the public procurement procedures, the Member State was requested to carry out a retrospective review (on a sample basis) of all public procurement procedures in the Cohesion Fund and ERDF projects. The Slovak authorities have agreed to carry out this exercise in 2008.

4.2.13 Slovenia

There was one mission in September for the purpose of reviewing the winding-up body. The review revealed that the work carried out by the Budget Supervision Office is sufficient and reliable. The DG signed a contract of confidence with Slovenia in February 2008.

4.3. Irregularities

In 2007, OLAF undertook two missions to conduct controls on the spot under Regulation (EC) No 2185/96[11] in connection with four external investigation cases open in relation to Cohesion Fund matters. As these cases are ongoing, it is not possible to comment further upon them for operational and possible judicial reasons.

In 2007, the Member States communicated to the Commission, in accordance with Regulation (EC) No 1831/94[12], 92 notifications of irregularities affecting co-financed projects and involving a sum of € 110.222.823. Out of this amount, € 63.686.298 has been recovered, and the remainder is to be recovered. The Member States reporting the majority of cases are

[11] O.J. L 292, 15.10.1996, p. 2

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

Greece and Spain (26 and 34 respectively, more than 50% of the total). The cases reported by Greece involved an amount of € 67.259.450 out of which € 57.788.966 has been recovered. Ireland communicated to the Commission only one case but its financial impact, amounting to € 6.638.190, is significant in relation to the average amount of the notifications. The number of notifications showed a decrease compared to the previous year[13]. The figures demonstrate better reporting in conformity with the legal obligations by "old beneficiaries Member States". However, taking into account the Community contribution involved in the projects co-financed by the Cohesion Fund, the reporting discipline of the Member States has to be improved.

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

5. EVALUATION

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

Each request for assistance is accompanied by a cost-benefit analysis (CBA) of the project. The CBA has to demonstrate that the socio-economic benefits in the medium term are proportionate to the financial resources mobilised. The Commission examines this CBA on the basis of the principles set out in the guide to cost-benefit analysis. The guide, first published in 2003, was recently updated to incorporate the development of Community policies, financial instruments and the new regulatory framework under which major projects will be financed during the 2007-2013 programming period.

During 2007, the Commission assisted Member States through capacity-building measures aiming to improve the consistency of the ex-ante financial and economic analysis of the projects. To this end, dedicated software is fully operational, and a guidance document, adopted in 2006, sets out the methodology to be used in carrying out CBA. The document presents some general principles of CBA along with a set of working rules and encourages the Member States to develop their own CBA guidelines.

In addition, the Commission carries out ex-post evaluation on samples of projects co-financed by the Cohesion Fund. The last evaluation was published in 2005 and looked at a sample of 200 projects implemented over the 1993-2002 period. The next ex-post evaluation is scheduled to be launched for 2009 and will look at projects implemented during the 2000-2006 period.

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13 2006: Number of communicated cases 228; overall amount related to the communications € 186.604.797

6. INFORMATION AND PUBLICITY

6.1. Information to/from the Member States

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

Apart from issues of common interest for the ERDF and Cohesion Fund, some issues of specific interest for the Cohesion Fund were presented or discussed during the following meetings of the Coordination Committee of the Funds:

January: Treatment of cohesion projects in the 2007-2013 period - implementation of transitional provisions (Article 5 (2) of Council Regulation (EC) No 1084/2006).

February: Complementarities between funding for actions under Structural and Cohesion Funds and other Community instruments.

May: Submission for opinion of the updating at midyear of the various types of measures of technical assistance to be financed by the ERDF and the Cohesion Fund under Article 45 of Regulation (EC) No 1083/ 2006.

July: (1) Guidelines for the determination of financial corrections applicable to expenditure co-financed by the Structural Funds and Cohesion Fund in relation to infringements of rules concerning public procurement. (2) Study on Regional expenditure of ERDF and Cohesion Fund.

6.2. Commission measures on publicity and information

While the publications of the European Commission regularly cover general and project-specific information on the Cohesion Fund, the focus in 2007 was the on implementation of the new publicity requirements for the 2007-2013 period. The latter are laid down in the Commission Regulation (EC) No 1828/2006 and replace Commission Regulation (EC) No 621/2004 for all projects selected in the new programming period.

In addition to assessment of the communication plans, which started at the end of 2007, the Commission organised a major conference in Brussels on 25 and 26 November on: "Telling the Story. Communicating Cohesion Policy Together". Over 500 communication officers from all over Europe participated (proceedings of that event are available on DG REGIO website[14]). For the new programmes, enhanced networking between the Commission and the Member States and regions will be based on a network ("INFORM") which will permit the exchange of best practice in communicating the Structural and Cohesion Funds.

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