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ANNUAL REPORT ON THE COHESION FUND (2009)

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

Therefore this report is presented in conformity with Article 14(1) of Regulation (EC) No 1164/1994 and thus covers the implementation during 2009 of Cohesion Fund projects adopted under the 2000-2006 period as well as ex-ISPA projects in the Member States concerned, including Bulgaria and Romania.

As a consequence, this report covers Cohesion Fund operations in the thirteen beneficiary Member States as of end-2006, i.e. Greece, Spain, Portugal, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia, as well as ex-ISPA projects adopted in the 2000-2006 period in Bulgaria and Romania. It must be recalled that, as a result of economic growth, Ireland has not been eligible since 1 January 2004, nevertheless, on-going Cohesion Fund projects are still to be closed.

Details on the implementation in 2009 of projects adopted under the 2000-2006 period for each Member State are presented in the Annex to this report.

1. FINANCIAL EXECUTION OF THE 2000-2006 PERIOD IN 2009 AND CLOSURE OF PROJECTS

Payments made in 2009 for projects adopted under the 2000-2006 period

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

The 2009 initial budget for the 2000-2006 Cohesion Fund projects amounted to EUR 3,892 million. However, the final budget was reduced to EUR 2,777 million. The cut is justified by significantly better execution in 2008, where payments exceeded the voted budget by nearly 30 %. In order to cover the gap between the available resources and the demand for payments in 2008, transfers have been made from the budget line related to the 2007-2013 Cohesion Fund programmes. This was caused by a lower start-up of the 2007-2013 period and thus in 2008 the Member States opted to balance the delay by focusing on the implementation of the 2000-2006 projects.

In 2009 the trend was reversed and the outstanding 2000-2006 payment appropriations have been transferred to the 2007-2013 Cohesion Fund and ERDF programmes, which allowed for 100 % execution of payments credits for the Cohesion Fund programmes and projects financed under both programming periods. The available appropriations of EUR 2,777 million have been fully executed by the end of 2009, resulting in nearly EUR 300 million more payments made in 2009 when compared with the 2008 execution (EUR 2,489 million).

As far as the ex-ISPA budget lines are concerned, the available appropriations have been executed at 100 %.

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

Table 1: Implementation of the Cohesion Fund and ex-ISPA payments in 2009 (Euro)

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

Table 2 shows the level of 2009 payments for each Member State. The payments done in the framework of the ex-ISPA contribution are included, as they have all been turned into Cohesion Fund projects at the date of the accession. Main beneficiary countries are Spain in the EU-4 group, Poland in the EU-10 group and Romania in the EU-2 group.

Table 2: Payments made in 2009 to Cohesion Fund and ex-ISPA projects per Member State (including technical assistance)

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	% (as compared to the CF 2009 outturn by MS)	Amount	% (as compared to the CF 2009 outturn by MS)	Amount	Amount	% (as compared to the global CF amount)
Greece	87.787.992	32,8%	179.354.927	67,0%	483.890	267.626.809	8,1%
Portugal	217.958.948	69,4%	95.310.572	30,4%	662.867	313.932.387	9,5%
Ireland	10.700.000	46,7%	12.231.279	53,3%	-	22.931.279	0,7%
Spain	438.942.360	61,6%	273.080.132	38,4%	-	712.022.492	21,5%
EU 4	755.389.300	57,4%	559.976.910	42,5%	1.146.757	1.316.512.967	39,8%
Cyprus	8.236.548	100,0%	-	-	-	8.236.548	0,2%
Czech Republic	110.536.127	61,8%	68.256.254	38,2%	-	178.792.381	5,4%
Estonia	26.598.027	63,9%	11.887.556	28,6%	3.131.117	41.616.700	1,3%
Hungary	101.174.649	40,8%	145.002.371	58,5%	1.843.895	248.020.915	7,5%
Latvia	23.221.184	55,6%	18.360.386	43,9%	205.401	41.786.971	1,3%

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

Outstanding commitments from the 2000-2006 period

At the end of 2009, the outstanding commitments ("*reste à liquider*", RAL) corresponding to the 2000-2006 period amounted to EUR 8.4 billion.

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

Member State	Committed (until 12/2009)	Paid (until 12/2009)	% Paid	RAL as at 31/12/2009	% RAL
Greece	3.565.195.978	2.715.334.857	76,2%	849.861.122	23,8%
Spain	12.915.179.288	10.519.496.170	81,5%	2.395.683.119	18,5%
Ireland	625.755.407	580.710.223	92,8%	45.045.184	7,2%
Portugal	3.497.201.489	2.741.059.557	78,4%	756.141.931	21,6%
TOTAL EU-4	20.603.332.162	16.556.600.807	80,4%	4.046.731.356	19,6%
Cyprus	54.014.695	40.029.810	74,1%	13.984.885	25,9%
Czech	1.226.581.086	975.579.344	79,5%	251.001.742	20,5%

Member State	Committed (until 12/2009)	Paid (until 12/2009)	% Paid	RAL as at 31/12/2009	% RAL
Republic					
Estonia	425.431.731	330.768.303	77,7%	94.663.429	22,3%
Hungary	1.481.998.333	1.028.122.934	69,4%	453.875.399	30,6%
Latvia	713.987.456	541.309.058	75,8%	172.553.278	24,2%
Lithuania	825.354.775	661.411.795	80,1%	163.942.980	19,9%
Malta	21.966.289	17.532.611	79,8%	4.433.678	20,2%
Poland	5.634.539.614	3.708.555.930	65,8%	1.925.983.684	34,2%
Slovakia	766.117.246	586.031.109	76,5%	180.086.137	23,5%
Slovenia	254.197.825	202.417.662	79,6%	51.780.164	20,4%
TOTAL EU-10	11.404.063.930	8.091.758.556	71,0%	3.312.305.376	29,0%
Bulgaria	876.947.183	495.486.300	56,5%	381.460.884	43,5%
Romania	2.037.250.711	1.340.892.809	65,8%	696.357.902	34,2%
TOTAL EU 2	2.914.197.894	1.836.379.109	63,0%	1.077.818.786	37,0%
TOTAL	34.921.593.986	26.484.738.472	75,8%	8.436.855.518	24,2%

Closure of projects from the 2000-2006 period

At the end of 2009, the total number of closed Cohesion Fund projects for the 2000-2006 period (including ex-ISPA projects) reached 299. The number of projects remaining for closure decreased from 976 at the end of 2008 to 893 at end of 2009. Table 4 provides information on the projects closed until the end of 2009 (per Member State).

Table 4: Number of CF projects closed until the end of 2009 (including ex-ISPA)

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

2. ECONOMIC ENVIRONMENT AND CONDITIONALITY

Article 6 of the Council Regulation (EC) No 1164/94 which governs the Cohesion Fund for projects approved prior to the end of 2006 attaches budgetary policy conditions to the disbursements by the Fund. It provides that "no new projects or, in the event of important projects, no new project stages shall be financed by the Fund in a Member State in the event of the Council, acting by a qualified majority on a recommendation from the Commission, finding that the Member State [...] has not

implemented [its stability or convergence programme] in such a way as to avoid an excessive deficit".

At the end of 2009 eleven Member States eligible for support under the Cohesion Fund (Greece, Spain, Portugal, Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) were in the excessive deficit procedure (EDP), which, according to the aforementioned Regulation, may under certain conditions be associated with the suspension of transfers from the Fund. In 2009 there were three cases (Greece, Spain and Hungary) where effective action taken in compliance with the Council recommendations under Article 104(7) TEC was assessed. The Council decided that Spain and Hungary took effective action and issued new recommendations under Article 126(7) TFEU. Only in the case of Greece the Council decided under Article 126(8) TFEU that the authorities had not taken effective action in response to the Council recommendations to end the excessive deficit, but suspension of payments from the Cohesion Fund was not recommended at the time.

3. AUDITS AND FINANCIAL CORRECTIONS

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

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

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 breaches of public procurement rules. The follow-up and financial correction procedures resulting from the closure enquiry were all concluded by the end of 2009, apart for one remaining case (in Spain) which is to be finalised in spring 2010.

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

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

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

Other audit work undertaken for the Cohesion Fund included the examination of the national annual control reports under Article 12 of Regulation No. 1386/2002 and the review of national system audit reports submitted to the Commission. By the end of

2009, the majority of reports had been analysed, and replies sent to the Member States with observations and, where necessary, requesting additional information.

Bilateral coordination meetings are held annually between the Commission and national audit authorities to exchange information on the implementation of audit work and to discuss progress on sample checks and follow-up of audit findings. The meetings covering audit work carried out in the year 2008 were held during the spring and summer of 2009. The annual bilateral coordination meetings covering audit work carried out in 2009 were held in spring and summer 2010.

Impact of controls

Cohesion Fund suspension decisions and financial corrections in 2009

In the exercise of its supervisory role, the Directorate-General for Regional Policy established a policy in 2008 to ensure more rapid adoption of decisions for suspensions of payment and financial corrections when serious systems weaknesses are detected. The more rigorous approach continued in 2009.

The overall figure of financial corrections for Cohesion Fund in 2009 was approximately EUR 86 million, compared to approximately EUR 92.7 million in 2008 (concerning both 1994-1999 and 2000-2006 periods). This raises the total cumulative financial corrections for Cohesion Fund in the period 2000-2009 to EUR 233 million for the 2000-2006 period and to EUR 273 million for the 1994-1999 period. No suspension decisions were adopted for Cohesion Fund projects in 2009.

At the end of 2009, suspension and correction procedures were in progress for a total number of approximately 99 Cohesion Fund projects (2000-2006) covering about EUR 149 million.

Table 5: Cohesion Fund financial corrections in 2009 by period and country (in EUR)¹

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

Management and Control systems

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

¹ Includes corrections made by Member States, following agreement under the relevant procedure or as a result of implementation of action plans and formal Commission decisions. Includes corrections implemented as a result of Commission audit work but also corrections carried out in the course of implementation or closure of projects.

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

Only one CF sector in one Member state (Bulgaria - environmental sector) was put under a reservation in the Directorate-General's Annual Activity report for 2009 primarily due to breaches of public procurement rules. In 2010 work is on-going to rectify the identified problems together with the national authorities.

4. IRREGULARITIES NOTIFIED BY THE MEMBER STATES

In 2009, the Member States communicated to the Commission, in accordance with Regulation (EC) No 1831/94, altogether 109 notifications of irregularities involving a total affected amount of EUR 67,304,951 in respect of projects co-financed by the EU. From this amount, EUR 56,673,503 has been recovered, and the remaining amount still has to be recovered. The countries reporting the majority of cases are Portugal, Spain and Poland (27, 20, and 19 respectively). Portugal reported 39% of the involved amount. It is also worthwhile to note that Hungary with four notifications, is second in terms of amount involved. In addition, during the same period Bulgaria communicated to the Commission, in accordance with Regulation (EC) No 1828/2006² applicable for the programming period 2007-2013, 17 notifications of irregularities involving a total affected amount of around EUR 3.6 million in respect of projects co-financed by the EU.

The number of notifications shows a significant decrease, compared to the previous year, however, the involved amount remains at the same level. The main types of irregularities reported are ineligible expenditure, and infringements of public procurement rules. These two typologies cover almost 75% of all cases reported.

² OJ L 371, 27.12.2006, p.1, as amended by Regulation (EC) No 846/2009, OJ L 250, 23.09.2009

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

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

5. EVALUATION

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

The Commission carries out the ex-post evaluation of the Cohesion Fund. The previous evaluation was published in 2005 and looked at a sample of 200 projects implemented over the 1993-2002 period. A new ex-post evaluation was launched in 2009 looking at all Cohesion Fund and former ISPA projects implemented during the 2000-2006 period. In the framework of a set of 3 interlinked "work packages", the evaluation will assess the contribution of the Cohesion Fund and ISPA to the development of the EU transport system, to achieving the EU *acquis* in the field of environment and the effect of ISPA as a preparation for the Structural and Cohesion

Funds programmes. In addition, ex post cost-benefit analyses will be carried out for a sample of transport and environment projects, identifying lessons for future programming periods.

6. INFORMATION AND PUBLICITY

As indicated in the annual report for 2007, 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).

Several issues of common interest for ERDF and Cohesion Fund were presented or discussed during the meetings of the COCOF in 2009, for example:

- Commission Regulation amending Regulation (EC) No 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund;
- Commission decision amending the Decision concerning the financing of the programme for the use of operational and non-operational technical assistance at the initiative of or on behalf of the European Commission under the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) for 2009;
- Commission decision concerning the financing of the programme for the use of operational and administrative technical assistance at the initiative or on behalf of the European Commission under the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) for 2010;

As regards the Commission measures on information and publicity, the focus in 2009 was two-fold. First, to ensure the publication of the list of beneficiaries of EU Funds managed by the Commission in partnership with Member States in line with Article 7.2 of Commission Regulation (EC) No 1828/2006. Second, the Directorate-General for Regional Policy published details of major projects, including those financed by the Cohesion Fund, both for the 2000-2006 and 2007-2013 period. The details of many of these projects are available in a searchable database on the INFOREGIO website. To date, there are over 300 projects listed in the database (which include major projects and other projects financed through the 2007-2013 programmes).