



**FORTY-FIRST NATIONAL ASSEMBLY
OF THE REPUBLIC OF BULGARIA**

**Committee on European Affairs and
Oversight of the European Funds**

**ANNUAL REPORT
ON THE ABSORPTION
OF EUROPEAN FUNDS
IN THE REPUBLIC OF BULGARIA**

**2011
SUMMARY**

January | 2012

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LIST OF USED ABBREVIATIONS

BDB	<i>Bulgarian Development Bank</i>
SFA-PA	<i>State Fund "Agriculture" - Paying Agency</i>
EIB	<i>European Investment Bank</i>
EEA	<i>European Economic Area</i>
EARDF	<i>European Agricultural Fund for Rural Development</i>
EC	<i>European Commission</i>
EU	<i>European Union</i>
ESF	<i>European Social Fund</i>
EFF	<i>European Fisheries Fund</i>
ERDF	<i>European Regional Development Fund</i>
EA	<i>Executive Agency</i>
IAWP	<i>Indicative Annual Work Programme</i>
IFI	<i>International Financial Institutions</i>
IPA	<i>Instrument for Pre-Accession Assistance</i>
UMIS	<i>Unified Management Information System for management and monitoring of the EU structural instruments in Bulgaria</i>
CAP	<i>Common Agricultural Policy</i>
CEAOEF	<i>Committee on European Affairs and Oversight of the European Funds</i>
CF	<i>Cohesion Fund</i>
MC	<i>Monitoring Committee</i>
IB	<i>Intermediate Body</i>
MYS	<i>Ministry of Education, Youth and Science</i>
MTITC	<i>Ministry of Transport, Information Technology and Communications</i>
CoM	<i>Council of Ministers</i>
SME	<i>Small and Medium-sized Enterprises</i>
NIP	<i>National Indicative Programme</i>
NPA	<i>National Partner Authority</i>
NCP	<i>Norwegian Cooperation Programme</i>
NA	<i>National Assembly</i>
NAMRB	<i>National Association of Municipalities in the Republic of Bulgaria</i>

NSRF	<i>National Strategic Reference Framework</i>
NF	<i>"National Fund" Directorate within the Ministry of Finance</i>
OP	<i>Operational Programme</i>
OPAC	<i>Operational Programme "Administrative Capacity"</i>
OPE	<i>Operational Programme "Environment"</i>
OPDCBE	<i>Operational Programme "Development of the Competitiveness of the Bulgarian Economy"</i>
OPRD	<i>Operational Programme "Regional Development"</i>
OPFSD	<i>Operational Programme "Fisheries Sector Development"</i>
OPHRD	<i>Operational Programme "Human Resources Development"</i>
OPT	<i>Operational Programme "Transport"</i>
OPTA	<i>Operational Programme "Technical Assistance"</i>
CAP	<i>Common Agricultural Policy</i>
DCoM	<i>Decree of the Council of Ministers</i>
PA	<i>Priority Axis</i>
RDP	<i>Rural Development Programme</i>
CoMD	<i>Council of Ministers Decision</i>
SCF	<i>Structural and Cohesion Funds</i>
CA	<i>Certifying Authority</i>
CBC	<i>Cross-Border Cooperation</i>
MA	<i>Managing Authority</i>
FM	<i>Financial Mechanism</i>
CCU	<i>Central Coordinating Unit</i>

This Annual Report on the Absorption of EU Funds in the Republic of Bulgaria in 2011 has been prepared in accordance with Article 3, paragraph 1, item 3 of the Rules governing the Organization and Activity of the Committee on European Affairs and Oversight of the European Funds (CEAOEF) in the 41st National Assembly of the Republic of Bulgaria. The document draws on the input in regard to the implementation of the individual EU-funded programmes and instruments, as received from the respective state administration structures responsible for their management and coordination.

The report reflects the status of EU funds management at 31 December 2011 and makes a comprehensive overview of a total of 21 EU-funded programmes and instruments, including:

- 7 Operational Programmes under Objective 1 “Cohesion”
- 5 Operational Programmes for Cross-Border Cooperation under Objective 3 “European Territorial Cooperation”
- 2 Programmes funded from the European Agricultural Fund for Rural Development and the European Fisheries Fund
- The Schengen Facility, the Financial Mechanism of the European Economic Area, the Norwegian Cooperation Programme and the Transition Facility
- 3 Pre-accession Programmes (PHARE, ISPA and SAPARD)

The first part of the report provides a summary of the measures taken in 2011 to improve the coordination and implementation of EU-funded programmes, including institutional and regulatory changes, measures to optimize procedures, assessment of the effectiveness of programmes’ management and control systems by the Audit Authorities (AEUF EA and the National Audit Office), etc.

The overall financial progress of the seven Operational Programmes, the Rural Development Programme and OP Fisheries Sector Development as of 31.12.2011 is presented in tables.

The report also includes information provided by the Central Coordination Unit to the Council of Ministers regarding the execution of the forecasts made by Operational Programmes’ Managing Authorities via the instrument for financial planning and forecasting – LOTHAR.

For the purpose of data comparability in this report, the financial data provided by the executive government entities in the national currency of the Republic of Bulgaria have been converted to euro at an exchange rate of 1 € = 1,95583 BGN. The currency conversion and the rounding off may have led to minor variations in the source data used in the analysis.

The report also presents a summary of the overall progress in the management of EU funds in 2011. Based on the weaknesses in the system, CEAOEF identifies some challenges and makes recommendations to the executive government to improve the management of EU funds by the end of the current programming period. At the same time, CEAOEF notes that the responsible authorities may perceive the recommendations as a useful experience as well as a starting point for the preparation of Bulgaria for the period 2014-2020.

In this part of the report CEAOEF analyzes each of the monitored programmes and instruments in terms of their progress and identified problem areas, and makes recommendations to overcome them. CEAOEF recognizes the positive effect of the exercise of parliamentary oversight and control

over the management of EU funds in Bulgaria by means of a follow-up of many of the recommendations made by CEAOEF in its Interim Report for 2011.

CEAOEF closely monitors the activity of the executive government and contributes to the preparation of Bulgaria for the next programming period of the Cohesion Policy 2014-2020, through the powers of national parliaments envisaged in the Treaty of Lisbon and the informal political dialogue with European institutions. CEAOEF's contribution is expressed in the wide debate it has provoked on the subject with the participation of all stakeholders - Parliament, executive government, civil society, business and academic circles.

In the second part of the Report has been presented CEAOEF's overall contribution to the debate on the future of the Cohesion Policy, the Common Agricultural Policy and the Common Fisheries Policy, considered as part of the broader context of discussions on the new EU Multiannual Financial Framework. On the basis of the expressed positions it summarizes CEAOEF's vision on the approach to be followed in the process of Cohesion Policy programming after 2013. In this connection, CEAOEF expresses its commitment to continue monitoring and analyzing the process of programming in the forthcoming reports on the absorption of EU funds in the country as well as to give its recommendations on the subject in order to avoid repeating errors of the current programming period.

CEAOEF wishes to thank the executive government entities for their cooperation in providing the relevant information in the course of preparing this report, as well as for their active participation in the regular meetings of the Committee on this topic. CEAOEF expresses its confidence that the current useful cooperation will successfully continue and deepen, especially in the context of Bulgaria's preparation for the new programming period.

PART I. CEAOEF'S ANALYSIS OF EU FUNDS' MANAGEMENT IN THE REPUBLIC OF BULGARIA IN 2011

Measures taken in 2011 to improve coordination and implementation of EU-funded programmes

In the period 1 January – 31 December 2011 some of the bodies involved in the system of coordination of EU funds in the Republic of Bulgaria have undergone institutional changes aimed at the improved functioning of the system. The most significant changes include:

- **Establishment of a National Company for Strategic Infrastructure Projects** – a National Company for Strategic Infrastructure Projects, having a status of a state-owned company according to Article 62, paragraph 3 of the Commercial Act, has been set up with the amendments to the Roads Act (prom. SG No. 55 of 19 July 2011). The main object of activity of the future company is the designing, construction, maintenance and repair of the Strouma, Hemus and Chernomorec motorways. In this connection, the rights and obligations of the Road Infrastructure Agency relating to the preparation and construction of the above motorways are to be transferred to the National Company with the aim to speed up the implementation of the strategic infrastructure projects. The establishment of the state-owned company is a pilot project for an effective and efficient preparation for the implementation of road projects over the new programming period 2014-2020. The state-owned company is to be included as a beneficiary under Operational Programme “Transport”. In addition, during the first half of 2012 a project is to be implemented under the Programme’s priority axis “Technical Assistance” in view to providing for the expenses related to the institutionalization, structuring and initiation of the operation of the National Company for Strategic Infrastructure Projects.

The adopted amendments are aimed to lead to effective and efficient absorption of the resources from the EU Cohesion Fund and European Regional Development Fund intended to finance, through Operational Programme “Transport”, road projects from the trans-European transport networks passing through Bulgaria as well as priority road projects of national importance.

- **Establishment of a Housing Policy Directorate** at the Ministry of Regional Development and Public Works - a Housing Policy Directorate is set up with amendments to the Structural Regulations of the Ministry of Regional Development and Public Works (prom. SG No. 52 of 8 July 2011) with the purpose to assist the Minister of Regional Development and Public Works in the development and implementation of the state housing policy. The Directorate has been designated as a concrete beneficiary under OPRD for the implementation of a grant scheme for support for energy efficiency in multifamily residential buildings. The implementation of the scheme is part of the application of a comprehensive energy efficiency policy in the country.

In addition to the establishment of new structures for performance of strategic activities with the help of European funds, the regulatory changes adopted in 2011 create conditions for the implementation of country important reforms in the sectors of water (by means of transferring functions from MEW to MRDPW), healthcare and deinstitutionalization of childcare (through an integrated approach among involved agencies), etc.

The following more important regulatory changes have been adopted with the purpose to streamline the systems for management and coordination of EU funds in the Republic of Bulgaria:

- **Act Amending the Public Procurement Act** (prom. SG No. 93 of 25.11.2011; to enter into force on 26 February 2012) - the beneficiaries that are organizations governed by public law spend an essential part of the grants from the EU Funds through public procurement procedures according to the Public Procurement Act (PPA) and the bylaws related to it. This fact makes the implementation of EU-funded projects directly dependent on the successful and timely conducting of public procurement procedures. In terms of project implementation and reduction of the risk of financial corrections it is crucial that public procurement be awarded in a manner that is most effective and free from unnecessary administrative burden.

The recommendations¹ relating to public procurement procedures in Bulgaria, made in EC's July 2010 Report on the Progress made by the Republic of Bulgaria under the Cooperation and Verification Mechanism, have led the Council of Ministers to adopt, in January 2011, a Concept Paper for amendments to the Public Procurement Act in 2011. The key purpose of the Concept Paper is to identify measures to improve the public procurement process and to create preconditions for raising the effectiveness of EU funds absorption.

At the beginning of June 2011, in execution of the Concept Paper, the Council of Ministers approved a draft Act Amending the Public Procurement Act. The main objectives of the proposed amendments are to simplify the legislation in this area, to alleviate the process of public procurement in the country and to improve ex-ante control on EU-funded public procurement procedures. The Act envisages the Public Procurement Agency to have strengthened ex-ante control functions in connection to public procurement, with a view to implementing a unified approach, relieving beneficiaries and significantly reducing the administrative burden on MAs.

The bill has been discussed in the relevant parliamentary committees, incl. by CEAOEF. In its report² CEAOEF has made specific recommendations related to ensuring the quality of the ex-ante control exercised by the Public Procurement Agency by means of strengthening its capacity.

The European Commission's Report of 20 July 2011 on the Progress made by the Republic of Bulgaria under the Cooperation and Verification Mechanism recognizes the progress made in combating corruption through the amendments to the PPA which are aimed, *inter alia*, to simplify and speed up public procurement procedures. The European Commission has also welcomed the planned amendments to the Public Financial Inspection Agency Act, which are intended to allow for the conducting of ex-officio inspections of public tenders as well as for the development of inspections on the basis of risk assessment. The recommendation of the European Commission in the area of public procurement is the same as CEAOEF's vision for improvement of the administrative capacity and the quality of administrative actions.

CEAOEF also welcomes the proposal of the Minister for EU Funds Management, which is in favour of beneficiaries, for the establishment of a standard tender documentation for the procedures under the PPA. This proposal coincides with the recommendations made by CEAOEF for documents' unification of as well as for creation of standard document templates in connection with the need to streamline the processes of management and monitoring of EU funds.

¹ The main recommendations of the European Commission are related to: the quality of control (both ex-ante and ex-post) in public procurement; the need to constantly assess risks; the improvement of the capacity of the competent administrative bodies in implementing the control functions as well as for identification and prevention of conflicts of interest; systematic cooperation between the competent administrative bodies and the judiciary.

² You can find CEAOEF's report on the website of the Committee:

<http://parliament.bg/bg/parliamentarycommittees/members/240/reports/ID/2848>

CEAOEF expects that the adopted amendments to the PPA will raise the quality of control over public procurement and as a result will reduce the number of violations by contracting authorities as well as the number and amount of financial corrections imposed under the Operational Programmes.

- **Amendments to Council of Ministers’ Decree No. 70 of 14.04.2010** on coordination of EU funds management, aimed at:
 - streamlining the mechanism for coordination of EU-funded programmes and improving the effectiveness in their management and monitoring;
 - stating in detail the functions and powers of the Minister for EU Funds Management;
 - determining a mechanism for coordination of the technical assistance provided by international financial institutions;
 - making changes in the composition and functions of the Council for EU Funds Management Coordination.
- **Amendments to Council of Ministers’ Decree No. 121 of 31 May 2007** laying down the provisions for awarding of grants under the operational programmes co-financed by the Structural Funds and the Cohesion Fund of the European Union (prom. SG No. 34 of 29.04.2011 and SG No. 54 of 15.07.2011). The amendments envisage:
 - introduction of a unified procedure for dealing with appeals,
 - creation of an opportunity to increase the amount of assistance provided through direct award procedures,
 - introduction of rules for conducting a project selection procedure with shorter time periods,
 - development of unified templates of the application form.
- **Updating the standard document templates** – the standard document templates have been updated in connection with the changes to the procedures for contractor selection made in 2010 in line with Council of Ministers’ Decree No. 55 of 12 March 2007³.
- **Adoption of changes to the national and detailed rules on the eligibility of expenses under the Operational Programmes**

A number of other measures, related to improving the coordination and implementation of EU-funded programmes, have also been taken:

- **Conducted audit assignments to assess the effectiveness of the functioning systems for management and control of EU funds in the Republic of Bulgaria in 2011** - based on the hearings at CEOEF of the President of the Bulgarian National Audit Office Mr. Valeriy Dimitrov and the Executive Director of the Audit of EU Funds Executive Agency Mrs. Dobrinka Mihailova on the assessment of the audit authorities as to the functioning of the systems for management and control of EU funds in Bulgaria CEOEF has found the following:

³ Council of Ministers’ Decree No. 55 of 12 March 2007 on the terms and procedure for contractor selection by beneficiaries of agreed grants from the Structural Funds and the Cohesion Fund of the European Union, the Joint Operational Programme for Cross-Border Cooperation “Black Sea Basin 2007 – 2013” and the Financial Mechanism of the European Economic Area (the title being amended SG No. 68 of 2009, in force from 25.08.2009, amended SG No. 93 of 2010).

- There is an increased interaction between the Audit Authority and the audited entities to address the identified weaknesses and to improve the management and control systems. As a result it can be reported that the Managing Authorities have taken into consideration all recommendations from the audit reports. The Audit Authority has sent to the European Commission positive annual control reports for all OPs;
- The Managing Authorities, the Intermediate Bodies and the Certifying Authority have taken steps to carry out thorough checks and enhanced control of public procurement, which significantly reduces the risk of irregularities under the OPs;
- The error rate for all OPs is below the materiality threshold and is significantly below the average rate for the EU;
- Conditions have been created to improve the quality of the audit activity through the implemented audit activity management software. All system and operation audits will be managed (planned, executed, reported) using the specialized audit software. The control over the quality of working documents will also be recorded in it.
- **Technical assistance by International Financial Institutions (IFIs)** - in November 2010 the Government took the initiative to create a system for cooperation with IFIs. After several coordination meetings and the expressed at political level willingness to use the expertise of the IFIs to support SCF absorption, in 2011 there were prepared draft Memoranda of Understanding between Bulgaria and the IFIs in the person of the World Bank and the European Investment Bank⁴. Those outline the scope of strategic cooperation with Bulgarian authorities and the demarcation of the support provided by the individual IFIs:
 - World Bank – it will support the structuring and the strengthening of the administrative and political resources to ensure adequate strategic planning and effective measures’ management by the administration;
 - European Investment Bank - strongly project-oriented assistance for the preparation and implementation of major infrastructure projects in the water, road and railway sectors over the next programming period.
- **Consultative mechanism relating to the imposition of financial corrections** - a consultative mechanism was set up in October 2011 in the form of an expert working group to carry out the analysis of cases relating to the imposition of financial corrections under the seven OPs, RDP and OP Fisheries Sector Development. It includes representatives of the contracting authorities under all programmes, the Central Coordination Unit in the administration of the Council of Ministers, the Audit Authority, the Certifying Authority, the National Audit Office, the Public Financial Inspection Agency and Public Procurement Agency. The main purpose of the consultative mechanism is to unify the practices of financial corrections’ imposition by OP contracting authorities for violations relating to both the implementation of contracts/ orders for provision of grants, and the application of the methodology for determining financial corrections (adopted by Council of Ministers’ Decree No. 134/2010). There are plans the contracting authorities to be provided with methodological assistance in connection with the assessment of the weight of the individual cases of violations and the determination of the concrete amounts of financial corrections relating to them.

⁴ On 22 January 2012 the Government of the Republic of Bulgaria, the World Bank and the European Investment Bank signed the Memoranda of Understanding on Partnership and Technical Support in the Implementation of the EU Structural Instruments. The Memorandum of Understanding with the European Bank for Reconstruction and Development (EBRD) is to be finalized in March 2012.

- **Regular coordination meetings under the OPs** – the Managing Authorities, the Certifying Authority and the Audit Authority hold regular meetings, under the guidance of the Minister for EU Funds Management, to discuss cases and issues of horizontal nature for all programmes, as well as to coordinate the activities for quality implementation of old schemes and successful initiation of new ones under the Operational Programmes.

The good practice of holding monthly meetings with the National Association of Municipalities in the Republic of Bulgaria (NAMRB) continued in 2011. Meetings have also been held with sector organizations and social and economic partners. The suggestions submitted in the course of these meetings to streamline the contracting, payment and control processes have been taken into consideration in the preparation of changes or proposals for regulatory changes.

As regards the coordination of the implementation of the Communication Plans under the Operational Programmes, the standing interinstitutional working group of MAs' information and publicity officers continued its operation in 2011.

I. OVERALL PROGRESS IN EU FUNDS MANAGEMENT IN 2011. CHALLENGES AND RECOMMENDATIONS

In preparing regular reports on the absorption of EU funds in the Republic of Bulgaria, CEAOEF aims to establish democratic scrutiny and an objective mechanism at the policy level to monitor achievements under the various programmes and instruments, and to follow-up the corrective action undertaken by the Government to overcome any bottlenecks in the system of EU funds management found by CEAOEF.

Overall progress in EU funds management in 2011:

In 2011 CEAOEF conducted a series of hearings aimed at exercising parliamentary control over the activity of the state administration structures involved in EU funds management in the country. Based on the information submitted by executive government structures on the status and the progress achieved under the individual EU-funded programmes and instruments, and as a result of the discussions held during the meetings of the Committee the latter has identified the following more significant results and positive progress in 2011 in the management of EU funds in the Republic of Bulgaria:

1. In 2011 there was a significant (almost double) growth in funds' contracting and absorption under the 7 OPs funded by the EU Structural and Cohesion Funds, as compared to 2010. Another EUR 695.6 million were paid out during the period under review. Thus, according to data of the Certifying Authority, the total amount of funds paid out as of 31 December 2011 under these programmes reached EUR 1,5 billion (18.77% of the total budget). For comparison purposes, the funds paid out under the 7 OPs as of 31 December 2010 were to the amount of EUR 809.1 million (10.01% of the total budget of the programmes). According to data provided by the CoM Central Coordinating Unit another EUR 2.3 billion were contracted under the 7 OPs in the period 01.01-31.12.2011, bringing the total amount contracted as of 31 December 2011 to more than EUR 5.3 billion (65.52% of the total budget). For comparison purposes, the contracted amount as of 31 December 2010 were EUR 2.9 billion (36.74% of the total budget of the programmes). The almost double growth in funds' contracting under the Operational Programmes addresses the recommendation made by CEAOEF in the Interim Report for speeding up of contracting in view to minimizing the probability of losing any funds.
2. Good level of execution of forecasts made under the LOTHAR Instrument – the forecast on the amount of contracted EU funds under the 7 OPs in 2011, made through this instrument for financial planning, has been executed at over 75%. The execution of the forecasts on the amount of verified funds is at 66%. The best level of execution is found in forecasts on certification – at an average of 82%. For three of the Operational Programmes (OPT, OPE and OP Development of the Competitiveness of the Bulgarian Economy) the level of execution of the forecasts on payments stands at over 94%.

The forecasts under the LOTHAR Instrument for 2012 on the amount of contracted funds reach 101.26%. The forecasts on the verification and certification envisage the levels reached at end-2011 to double.

The 2012 state budget of the Republic of Bulgaria provides for total expenditures (EU and national co-financing) for the seven Operational Programmes to the amount of BGN 3.7 billion or approximately EUR 1.9 billion. The accelerated absorption rates up to now and the method of

funds' planning for 2012, namely on the basis of specific projects that are in a process of implementation, give us grounds to think that the forecasts are realistic.

3. OP Transport takes the lead in terms of contracting and payment in 2011, the growth of contracted funds being approximately 191% (EUR 1,1 billion or almost 3 times more contracted funds) and the growth of paid out funds being 304% (EUR 341.5 million or 4 times increase in payments as compared to 2010).

As a positive aspect in the developments in the transport sector during the period under review, CEAOEF notes the dramatic upturn in the overall implementation of the programme, both in the road and the railway sectors. A number of major infrastructure projects, such as the construction of Maritsa Motorway and Strouma Motorway, have been launched. The good pace of work on Trakia Motorway has been maintained and its overall completion is planned for the beginning of 2013. In addition, special mention should be made of the commissioning into operation of the Lyulin Motorway, as a particularly noteworthy success story in the sector (under ex-ISPA) during the period under review. The project for "Extension of the Sofia Metropolitan" entered its final stage in 2011, and it can also be pointed as one of the success stories of the programme.

CEAOEF highlights the role of investment in basic infrastructure as a starting point for the development of regions, tourism, innovations and economy as a whole. In support of this priority, out of the envisaged EUR 1.2 billion for procedures under the Operational Programmes in 2012 the greatest share of funds belong to OPT – EUR 0.8 billion.

4. There is no risk of loss of funds – in 2011 all Operational Programmes reached their set objectives in accordance with the rule $N+2/N+3$.
5. Extremely low error rate - based on the operation audits under the Operational Programmes the Audit Authority has found extremely low error rate in financial terms in the 7 OPs, well below the admissible 2% materiality threshold. As reasons for the low error rate the Audit Authority indicates the actions taken by the Managing Authorities and the Intermediate Bodies for implementation of the audit recommendations and, above all, the better control and the thorough checks of public procurement by the Managing Authorities, the Intermediate Bodies and the Certifying Authority. The Audit Authority defines year 2011 as a "hard" one for MAs, but also as an "year of trust" and enhanced cooperation to overcome the weaknesses identified and to improve the management and control systems. The annual control reports on all OPs, sent to the European Commission, are positive.
6. The high level of performance of the Indicative Annual Work Programmes (IAWP) under OPs for 2011 shows an increased capacity of the MA in two directions - at the level of programming and at the level of implementation. Out of the originally planned for opening procedures amounting to almost EUR 3 billion, the procedures actually opened during the year amount to EUR 2.5 billion (over 90% performance). Announced were 83 of the planned 92 procedures for provision of grants, which is over 80% performance.

According to CCU data, three of the Operational Programmes – OPRD, OPAC and OPHRD achieved over 90% performance in terms of planned and announced procedures. As regards the indicator of cost of planned/ announced procedures ratio the highest performance is achieved by OPTA (125%), followed by OPAC (99%), OPRD and OPT (over 90%).

7. Finalization of the process of carrying out interim assessments - in 2011 CEAOEF reported some progress as regards the recommendation made in the Interim Report for the timely conduct and finalization of the process of carrying out interim assessments of the implementation of the individual OPs. In this connection, it should be noted that apart from OPRD, which is the first Operational Programme having a successfully made assessment, 2011 saw the finalization of the

interim assessments of OPT, OPDCBE and OPAC. The results of the interim assessments are a valuable source of information on the effectiveness of programmes' implementation and provide guidance on the optimization of the programmes until the end of the programming period, incl. on the need for any reassignment of financial resources. And not the least, the results of these assessments can be used as a starting point in the process of programming for the next programming period (following the example of OPRD).

- 8.** In line with the recommendation made by CEAOEF in the Interim Report for a more flexible approach to the allocation of funds through a potential reallocation of financial resources among the various measures/ axes of the programmes in order to accelerate absorption and to minimize the risk of losing funds, in 2011 there was a process of reassignment of funds under the programmes (both among priority axes and within one priority axis). The reasons for the reassignment of financial resources include: higher interest of beneficiaries in some measures/ schemes (RDP, OPRD), overcoming the risk of losing funds for some projects (OPT - transfer of funds from the "Belene-Batin" project to the construction of the Sofia Metropolitan), the desire to implement important sectoral policies and reforms with the help of EU funds (OPRD, OPHRD for the deinstitutionalization of childcare), the need to respond to the emerging social and economic needs (OPHRD - measures on the labour market).
- 9.** CEAOEF recognizes, in line with its recommendation, the increasing emphasis that the Managing Authorities place on the application of an integrated approach among the various Operational Programmes and sources of funding to implement the necessary sectoral policies and reforms. There is a process where the Ministries involved in Operational Programmes' management, use with priority the EU funds to support the ongoing important social and economic reforms in the sectors of water, healthcare, labour market, social services and child care, education, housing policy through energy efficiency measures and others.
- 10.** In the pursuit of the nationwide cause relating to Bulgaria's accession to the Schengen Area, in 2011 CEAOEF continued to implement consistent monitoring and control over the spending of the Schengen Facility funds. Thanks to the active work of the executive government in the person of the Ministries of Interior and Finance, CEAOEF expresses its satisfaction with the high performance achieved and the full absorption of EU funds under the Schengen Facility. The achievements in relation to the Schengen Facility are also complemented by the recognition by our European partners that Bulgaria fully meets all technical criteria for full fledged membership in the Schengen Area.
- 11.** In line with the objectives of the "Europe 2020" strategy in the areas of climate and energy, CEAOEF welcomes the priority targeting of funds in the Indicative Annual Work Programmes of OPs in 2012 (nearly EUR 260 million) to various aspects of energy efficiency (procedures planned under OPRD and OPDCBE).
- 12.** 2011 saw the start of the actual functioning of the financial engineering instruments (the funds in support of SMEs under JEREMIE, the urban development funds under JESSICA, the National Guarantee Fund under RDP and Operational Programme "Fisheries Sector Development") providing financial services under preferential terms in support of the beneficiaries. This direction is also followed by the new initiative under OPRD for establishment of a Fund - Housing Policy Manager, as a financial engineering instrument in support of energy efficiency measures in multifamily residential buildings. CEAOEF welcomes the acquisition of experience in the application of financial engineering instruments (by both MAs and beneficiaries), given the expectations that their importance would increase significantly over the next programming period.

- 13.** CEAOEF welcomes the significant progress made in 2011 under the initiative for creation of a system of cooperation with international financial institutions (IFIs) - World Bank, European Investment Bank, European Bank for Reconstruction and Development.

The scope of strategic cooperation with Bulgarian authorities has been outlined and there is a list of projects for the next programming period (major infrastructure projects in the water, road and railway sectors) for whose preparation and subsequent implementation the expertise of the IFIs will be used. CEAOEF also welcomes the agreement reached the expert support to be funded from the EU funds, which would not create additional burden on the national budget.

CEAOEF expects that the knowledge and experience of IFIs highly qualified experts will be applied not only in the preparation of key infrastructure projects, but also in the preparation for the next programming period, focusing on the ongoing reforms important for our country. CEAOEF considers that the expertise that the Bulgarian institutions have gained is worth spreading among the other Southeast countries.

- 14.** In line with one of the recommendations which CEAOEF has often made to the executive government entities, namely to provide electronic services for beneficiaries, CEAOEF notes as a considerable progress the new functionality of UMIS which allows for electronic submission of applications and reporting of projects under all Operational Programmes.

CEAOEF considers positive the development of an interface between UMIS and other important information systems such as the Commission's information system for EU Funds management "SFC 2007" and the information system for management of territorial cooperation, which enhances the quality of control and prevents duplication in funding.

- 15.** Another CEAOEF recommendation for optimization of the process of project application and management and introduction of standardized and unified document templates has been reflected in the regulatory changes made in 2011. Those changes have led to the introduction of a requirement for preparation of unified templates for the application form (Council of Ministers' Decree No. 121 of 2007) and updating of the standard document templates under Council of Ministers' Decree No. 55 of 2007. The procedure for dealing with appeals has been improved to support beneficiaries.

- 16.** The adopted amendments to the Public Procurement Act⁵ play a key role for the effective implementation of projects funded under the OPs. The main objectives of the amendments, which the European Commission assessed positively in its July Report on the Progress made by the Republic of Bulgaria under the Cooperation and Verification Mechanism in 2011, are to simplify the legislation in the sector, to alleviate the process of public procurement in the country and to improve ex-ante control over EU-funded public procurement procedures. The Act envisages the Public Procurement Agency to have strengthened ex-ante control functions in regard to public procurement with a view to implementing a unified approach, relieving beneficiaries and significantly reducing the administrative burden on MAs. The amendments are expected to reduce the number of violations by contracting authorities as well as the number and amount of imposed financial corrections.

- 17.** In most cases financial corrections are imposed for violations in the conducting of public procurement procedures by beneficiaries. In October 2011, in order to adequately address this problem, the amendments to the PPA were accompanied by the establishment of a consultative mechanism in the form of an expert working group to carry out the analysis of cases relating to

⁵ The Act Amending the Public Procurement Act was adopted by the National Assembly on 10 November 2011. It was published in SG No. 93 of 25.11.2011 and enters into force as from 26 February 2012.

the imposition of financial corrections under the seven OPs, the Rural Development Programme and OP Fisheries Sector Development. The main purpose of the consultative mechanism is to unify the practices of financial corrections' imposition.

18. CEAOEF welcomes the actions taken by the executive government entities in connection with Republic of Bulgaria's preparations to participate in the EU Cohesion Policy for the period 2014 - 2020:

- Approval was granted of the national framework positions on the six legislative proposals for the Cohesion Policy in the period 2014-2020 in connection with the proposal for the Connecting Europe Facility as well as for the project bonds initiative;
- The Minister for EU Funds Management Mr. Tomislav Donchev took part in the working formats to the European Council and on the level of EU Member States' Ministers responsible for the Cohesion Policy. The negotiations among the Member States are targeted mainly to: shifting the focus from the financial performance to the achievement of concrete results; linking the Cohesion Policy with the so-called macroeconomic conditionalities and maintaining strict financial discipline; introducing some preliminary conditions; providing for a reserve to the amount of 5% of the resources under the common Strategic Framework, which is to be eligible after making review of the performance in the middle of the period depending on the results achieved;
- Preparation of the National Development Programme – Bulgaria 2020, which will be used as a basis in the preparation of the Partnership Treaty (the strategic paper for the implementation of the Cohesion Policy in the country over the next programming period). Sectoral working groups have been formed under the approved eight priorities:
 - Improvement of access to and quality of education and training, as well as of the quality characteristics of the work force;
 - Reduction of poverty and encouragement of social inclusion;
 - Achievement of sustainably integrated regional development and utilization of the local potential;
 - Development of agriculture to ensure food security and to produce products with high added value accompanied by sustainable management of natural resources;
 - Support to the development of highly productive industrial base and modern innovative infrastructure, promotion of innovation and research activity;
 - Strengthening the institutional environment in order to achieve higher effectiveness of public services for citizens and businesses;
 - Development of an adequate energy infrastructure, provision of support to increase resource efficiency and to reduce energy dependence;
 - Improvement of transport connectivity and access to markets;

The working groups are to set in detail the strategy for NDP – Bulgaria 2020, outlining the necessary measures, activities and indicative financial resources from all sources of funding. The process of programming is expected to enter its key phase in 2012. In view to ensuring better coordination of the programming process there is a Council of Ministers' Decree⁶ on the development of Republic of Bulgaria's strategic and programme documents for management of the resources from the Funds under the EU common Strategic Framework for the programming period 2014-2020.

⁶ CMD No. 5 of 18.01.2012

Considering the stage of the current programming period as well as the greater role of the National Parliaments after Lisbon, CEAOEF actively participates in the shaping of the key EU policies – cohesion policy, CAP and the Common Fisheries Policy after 2013. The National Parliament’s positions on the different aspects of these policies, expressed via CEAOEF and the Agriculture and Forest Committee, are presented in details in the second part of the current report. CEAOEF expresses its confidence that the National Parliament’s views on the programming period 2014-2020 will be taken under consideration by the relevant administrative authorities involved in the programming process.

Challenges and CEAOEF recommendations

CEAOEF welcomes the measures taken in 2011 by executive government entities to improve the systems for management and control of EU funds in the country.

As evident from the progress in the overall management of Operational Programmes in 2011, CEAOEF reports that most of the recommendations made in its Interim Report have been implemented, which additionally shows the positive effect of the exercise of parliamentary monitoring and control over EU funds management in Bulgaria.

Together with the “vision forward” CEAOEF is an active observer of programmes’ implementation in the current programming period and seeks to identify those challenges faced by Managing Authority, the meeting whereof would lead to better results. In this connection, CEAOEF has identified the following challenges until the end of the current financial perspective, which are also the starting point for the preparation of Bulgaria for the period 2014-2020:

- 1. Examination of the effect of the application of the Cohesion Policy in Bulgaria** - on the basis of the experience gained in the implementation of the programmes and the significant financial progress CEAOEF encourages MAs, in coordination with the CCU and the Minister for EU Funds Management, to prepare an overall assessment of the effect of the implementation of the programmes and the achievement of the predefined objectives and indicators. In making such an analysis they should take into account the results of the interim assessments of the Operational Programmes. In this regard, CEAOEF once again draws attention to the need to speed up the performance of interim assessments of those Operational Programmes where this process has been delayed (OPE, OPHRD, OPTA).
- 2. 2012 to be the “Year of implementation”** - thanks to the efforts of all MAs, contracting under the seven OPs has been significantly accelerated, reaching 65.5% of the total budget as of 31 December. CEAOEF expects that in 2012 all available resources under OPs will be contracted and the efforts of MAs will focus entirely on the quality and timely implementation of contracted projects. The recommendation is especially valid for larger infrastructure projects, given their specificities and more complex nature, as well as the greater probability of delays in their implementation due to their late start at the beginning of the programming period, the lack of administrative capacity and project preparedness and other unforeseen circumstances.
- 3. Speeding up of the process of verification by MAs of the costs incurred by Operational Programmes’ beneficiaries** - based on the analysis of the execution of forecasts under the LOTRAR Instrument in 2011 and in connection with the general findings of the Audit Authority, CEAOEF recommends that MAs focus their efforts on improving the processes of verification of funds and speeding up the payments to beneficiaries.

CEAOEF believes that the possible reasons for the lower levels of verification in 2011 also include the accumulated delays as a result of the rechecks of public procurement procedures. In this connection, CEOEF expects that the actions taken to improve the process of public procurement will have a positive effect on the speeding up of the verification processes and payments under the programmes, respectively.

- 4. Execution of the forecasts on the absorption of funds under the Operational Programmes in 2012** – CEOEF recognizes the disciplining effect of advance planning by MAs via both the Indicative Work Programmes and the instrument for financial forecasting LOTHAR. According to the LOTHAR forecast, in 2012 verified funds are expected to double as compared to the cumulative amount of verified expenditure as of 21.12.2011⁷. As regards the recommendation for speeding up of the verification process and considering the actual execution in 2010 and 2011 compared to the planned one, CEOEF draws attention to the need to mobilize all resources for the successful achievement of the high targets set for 2012. The recommendation is also valid for the execution of the forecasts on the absorption of the OP funds (the absorption is planned at a level of approximately EUR 2 billion under OP) envisaged in the 2012 state budget of the Republic of Bulgaria. The trend that Bulgaria is a net beneficiary of the

CEOEF expects that the absorption of funds under the programmes will be accelerated to the maximum in 2012 given the fact that a lot of the projects are already in a process of implementation (incl. major infrastructure projects) and payments under them are expected to intensify in 2012.

- 5. Further optimization of procedures and extension of electronic services to beneficiaries** – CEOEF recognizes the positive effect of the regulatory changes for the overall optimization of the structures and procedures of EU funds management. CEOEF recommends that MAs take additional measures to alleviate the administrative and financial burden on beneficiaries in project implementation and reporting – optimization of the conditions for receipt of advance payments, introduction of greater flexibility in case contract terms need to change, shortening of the time periods for assessment and reduction of the volume of required documents upon project reporting.

CEOEF recommends the communication campaigns under the Operational Programmes to have more practical direction so as to effectively fulfil their function by ensuring a sufficiently high level of information among beneficiaries about the possibilities and conditions for applying with project proposals.

CEOEF believes that the introduction in 2011 of the electronic application and reporting of projects through UMIS is a significant progress and expects that in 2012 the range of electronic services will be further extended in support of beneficiaries. Their application by all Operational Programmes is a step both towards reducing the administrative burden, and in the broader context of e-government introduction in Bulgaria. CEOEF draws attention to the need for development of electronic services under the Operational Programmes, as their importance is expected to grow many times over the next programming period.

- 6. Effective enforcement of the Public Procurement Act and strengthening of the capacity of the Public Procurement Agency to implement the adopted amendments** – the amendments to the PPA are entering into force at the end of February 2012. A substantial part of them concern the system of ex-ante control by the Public Procurement Agency. CEOEF closely monitors the

⁷ For a complete list of the LOTHAR forecasts for 2012, please refer to table 5 of the Report.

measures taken under OPTA for strengthening the capacity of the Agency in view of the assumption of these additional functions.

In 2011 the main finding of the Audit Authority in terms of irregularities under the Operational Programmes concerns precisely the public procurement procedures. The measures taken by the MA to strengthen control over procedures are welcomed.

CEAOEF expects that the ex-ante control of high quality over tender documents by the Public Procurement Agency on the one hand will significantly reduce the administrative burden on the MAs (which will accelerate the processes of project implementation), and on the other hand will create the necessary preconditions for reducing the risk of irregularities and imposition of financial corrections.

7. Coordinated actions to strengthen beneficiaries' capacity to carry out public procurement procedures in connection with the implementation of EU-funded projects - one of the horizontal CEOEF recommendations, made also in previous reports, is related to the need of sustained and coordinated actions by the MAs for building capacity in beneficiaries, with an emphasis on municipalities, for preparation and implementation of procedures under PPA.

The preparation of public procurement documentation relating to the implementation of major projects in the transport and water sectors is a complex process that requires comprehensive knowledge and expertise from both the beneficiaries and the MAs. In this connection, CEOEF welcomes the envisaged expert assistance from the IFIs and the initiative for creation of a mobile expert unit which is to provide support to local authorities – the so-called “Bulgarian JASPERS”. At the same time, CEOEF expects that in 2012 the results of this initiative will become tangible for local authorities and the best practices will be identified.

As regards the expert assistance by IFIs, CEOEF encourages the Bulgarian authorities to approach strategically, focusing the interaction with IFIs on the preparation of a list of mature infrastructure projects (the so-called project pipeline) which are to be ready for financing in the new programming period.

8. Extension of the scope and application of financial engineering instruments in support of SMEs and municipalities - one of the chronic problems in project implementation is the shortage of beneficiaries' funds (municipalities and companies) to ensure own project financing. In the framework of its hearings CEOEF has repeatedly raised this issue before the MAs and has called for a quicker start of the financial engineering instruments, especially the JEREMIE Initiative. CEOEF notes with satisfaction that 2011 saw the successful start of the initiative and the first loans to SMEs have already been extended. In 2011 there was also a substantial progress under the financial engineering instrument in support of urban development projects (JESSICA), and the National Guarantee Fund under the RDP and OP Fisheries Sector Development.

CEOEF welcomes the combination of support under the traditional grants and revolving instruments. The strengthening of the role of financial engineering instruments and the accumulation of expertise at MAs for their implementation is particularly important given their growing significance in the new programming period. In addition, the flowing of fresh financial resources to the real sector in the form of financial instruments under preferential terms (low interest loans, guarantees) is a kind of an anti-crisis measure in support of the business.

However, CEOEF draws attention to the fact that the implementation of financial engineering instruments should take into account the sustainability of projects in the long run. CEOEF recommends the logic of funding to be connected with existing needs, and not only with available resources.

9. Strengthening of the link between funding and performance (“cash for reforms”) - CEAOEF welcomes the implementation of reforms important for the country with the support of funds under the Operational Programmes. The application of an integrated approach among the various programmes and sources of funding, and the seeking of a synergy effect are key factors for the successful implementation of reforms in the country with the help of EU funds. A good example of such synergy among the different Operational Programmes are the undertaken and important for the country social and economic reforms in the areas of deinstitutionalization, social inclusion, employment, healthcare, education, energy efficiency, water infrastructure, etc. By way of preparation for the next programming period, in which EU funding is expected to be strongly linked to performance, CEAOEF recommends that MAs focus their efforts on strengthening and deepening that link in OP implementation.

10. Greater “flexibility” in funding Operational Programmes’ interventions - in 2011 there was a process of reassignment of free resources among priority axes / measures under a number of Operational Programmes (OPRD, OPT, RDP). The purpose of the reallocation of funds is to maximize the absorption of funds under the programmes, applying a different approach – funds are provided to project proposals that have successfully passed the assessment but for which there was shortage of financial resources; funds are provided to activities related to the implementation of important policies and reforms; resources are reassigned from unattractive measures to ones in which there is increased interest and accordingly - a shortage of resources.

Based on the experience from the current programming period, CEAOEF points out that the MA of OPRD most adheres to this approach, which yields its positive results and can be used as good practice by other Operational Programmes.

11. Taking measures for increasing of the EU co-financing on the projects. In the context of the ongoing crisis, following a strict fiscal discipline, Bulgaria is among the best performing countries on financial stability. In the meantime, the implementation of the projects with the highest priority for Bulgaria puts additional stress on the national budget (by provision of national co-financing). In this regard, to increase absorption and the inflow of additional funds in the economy, CEAOEF finds it relevant that actions are taken for the augmentation of the EU cofinancing of key infrastructural projects, while the total budget of EU financing of those programmes remains the same.

FINANCIAL PROGRESS OF THE OPERATIONAL PROGRAMMES AS OF 31.12.2011

TABLE 1

(amounts are in EUR)

OPERATIONAL PROGRAMME		OPT	OPE	OPRD	OPC	OPTA	OPHRD	OPAC	TOTAL
EU Financing		1 624 479 623	1 466 425 481	1 361 083 545	987 883 219	48 296 513	1 031 789 139	153 670 724	6 673 628 244
National Financing		379 001 543	334 322 604	240 191 214	174 332 332	8 522 914	182 080 436	27 118 363	1 345 569 406
Total Budget (EU + National)		2 003 481 166	1 800 748 085	1 601 274 759	1 162 215 551	56 819 427	1 213 869 575	180 789 087	8 019 197 650
Contracted Amounts*	Total as of 31.12.2010	599 297 500	490 556 840	843 419 528	365 446 715	14 292 980	574 861 338	82 600 862	2 970 475 763
	Progress in %	29,91%	27,24%	52,67%	31,44%	25,16%	47,36%	45,69%	37,04%
	Total as of 31.12.2011	1 742 258 803	958 605 794	1 137 055 592	489 361 959	28 654 490	790 768 007	107 102 184	5 253 806 829
	Progress in %	86,96%	53,23%	71,01%	42,11%	50,43%	65,14%	59,24%	65,52%
Amounts paid out**	Total as of 31.12.2010	112 503 609	125 357 474	185 430 539	225 968 378	6 250 139	108 121 506	45 433 077	809 064 722
	Progress in %	5,62%	6,96%	11,58%	19,44%	11,00%	8,91%	25,13%	10,09%
	Total as of 31.12.2011	454 040 032	198 062 104	323 247 647	270 767 769	12 156 310	196 819 226	50 534 635	1 505 627 723
	Progress in %	22,66%	11,00%	20,19%	23,30%	21,39%	16,21%	27,95%	18,78%

* Information provided by the Unified Management Information System;

** Information provided by the Certifying Authority – “National Fund” Directorate, Ministry of Finance;

FIANCIAL PROGRESS OF THE RURAL DEVELOPMENT PROGRAMME AS OF 31.12.2011*

TABLE 2

(amounts are in EUR)

PRIORITY AXIS (PA)		PA 1	PA 2	PA 3	PA 4	Technical Assistance	Complements to dir. payments	TOTAL
EU Financing		972 231 513	637 463 170	727 039 751	61 590 645	98 545 031	145 472 817	2 642 342 927
National Financing		241 843 803	139 930 940	178 251 933	15 397 661	24 636 258	36 368 204	636 428 799
Total Budget (EU + Natational)		1 214 075 316	777 394 110	905 291 684	76 988 306	123 181 289	181 841 021	3 278 771 726
Contracted Amounts	Total as of 31.12.2010	455 335 337	62 675 441	384 239 546	7 584 195	9 906 834	155 038 922	1 074 780 275
	<i>Progress in %</i>	<i>37,50%</i>	<i>8,06%</i>	<i>42,44%</i>	<i>9,85%</i>	<i>8,04%</i>	<i>85,26%</i>	<i>32,78%</i>
	Total as of 31.12.2011	572 770 976	125 204 456	623 087 049	39 037 231	16 411 363	155 038 922	1 531 549 997
	<i>Progress in %</i>	<i>47,18%</i>	<i>16,11%</i>	<i>68,83%</i>	<i>50,71%</i>	<i>13,32%</i>	<i>85,26%</i>	<i>46,71%</i>
Amounts paid out**	Total as of 31.12.2010	192 387 793	46 005 417	126 353 171	559 088	3 083 691	123 497 578	491 886 738
	<i>Progress in %</i>	<i>19,79%</i>	<i>7,22%</i>	<i>17,38%</i>	<i>0,91%</i>	<i>3,13%</i>	<i>84,89%</i>	<i>18,62%</i>
	Total as of 31.12.2011	397 033 208	93 546 435	211 879 677	4 252 229	7 268 186	123 192 294	837 172 029
	<i>Progress in %</i>	<i>40,84%</i>	<i>14,67%</i>	<i>29,14%</i>	<i>6,90%</i>	<i>7,38%</i>	<i>84,68%</i>	<i>31,68%</i>

* Information provided by the Ministry of Agriculture and Food

** Amounts EU financing paid out, progress in % as of the total amount of EU financing (funds provided by the EARDF).

**FINANCIAL PROGRESS OF OPERATIONAL PROGRAMME
FISHERIES SECTOR DEVELOPMENT AS OF 31.12.2011***

TABLE 3

(amounts are in EUR)

PRIORITY AXIS (PA)		PA 1	PA 2	PA 3	PA 4	PA 5	TOTAL
EU Financing		8 000 971	36 004 369	20 002 427	12 001 456	4 000 485	80 009 708
National Financing		2 666 990	12 001 456	6 667 476	4 000 485	1 333 495	26 669 903
Total Budget (EU + National)		10 667 961	48 005 825	26 669 903	16 001 942	5 333 981	106 679 611
Contracted amounts	Total as of 31.12.2010	30 309	12 243 623	0	0	406 002	12 679 934
	<i>Progress in %</i>	0,28%	25,50%	0,00%	0,00%	7,61%	11,89%
	Total as of 31.12.2011	1 045 951	18 555 091	0	10 795 369	657 145	31 053 556
	<i>Progress in %</i>	9,80%	38,65%	0,00%	67,46%	12,32%	29,11%
Amounts paid out	Total as of 31.12.2010	4 907	4 887 557	0	0	187 755	5 080 219
	<i>Progress in %</i>	0,05%	10,18%	0,00%	0,00%	3,52%	4,76%
	Total as of 31.12.2011	816 140	10 327 839	0	1 079 200	456 455	12 679 634
	<i>Progress in %</i>	7,65%	21,51%	0,00%	45645500,00%	8,56%	11,89%

* Information provided by the Ministry of Agriculture and Food

**EXECUTION OF THE LOTHAR FORECASTS
OF THE OPERATIONAL PROGRAMMES AS OF 31.12.2011***

TABLE 4 *(amounts are in EUR)*

OPERATIONAL PROGRAMME		OPT**	OPE**	OPRD	OPC	OPTA	OPHRD	OPAC	TOTAL
EU Financing		1 624 479 623	1 466 425 481	1 361 083 545	987 883 219	48 296 513	1 031 789 139	153 670 724	6 673 628 244
Contracted amounts – EU funds	Total as of 31.12.2011	955 640 825	590 123 996	966 497 253	415 957 665	24 356 313	672 152 806	91 037 577	3 715 766 435
	<i>% of the total budget</i>	59%	40%	71%	42%	50%	65%	59%	56%
	Forecasted: as of 31.12.2011	1 612 396 950	693 276 120	1 158 916 027	455 732 069	36 201 829	888 309 147	106 065 078	4 950 897 220
	<i>% execution of the forecast</i>	59%	85%	83%	91%	67%	76%	86%	75,05%
Verified expenditures – EU funds	Total as of 31.12.2011	410 236 759	96 534 692	192 841 266	218 013 898	7 155 890	109 197 751	33 149 198	1 067 129 453
	<i>% of the total budget</i>	25,25%	6,58%	14,17%	22,07%	14,82%	10,58%	21,57%	16,00%
	Forecasted: as of 31.12.2011	594 501 328	143 885 873	396 196 793	206 757 452	14 629 534	184 774 587	78 564 055	1 619 309 622
	<i>% execution of the forecast</i>	69%	67%	49%	105%	49%	59%	42%	66%
Certified expenditures – EU funds	Total as of 31.12.2011	374 639 097	69 131 824	151 960 849	204 893 250	5 589 261	98 922 112	31 319 397	936 455 790
	<i>% of the total budget</i>	23%	5%	11%	21%	12%	10%	20%	14,03%
	Forecasted: as of 31.12.2011	400 146 941	71 121 807	287 061 081	186 389 790	9 077 535	127 666 622	59 070 901	1 140 534 677
	<i>% execution of the forecast</i>	94%	97%	53%	110%	62%	77%	53%	82%

* Information provided by the Central Coordinating Unit within the Council of Ministers;

** For contracted amounts of large projects, the amounts contracted with end-beneficiaries, not contracting authorities are reported.

LOTHAR FORECASTS OF THE OPERATIONAL PROGRAMMES UNTIL 31.12.2012*

TABLE 5

(amounts are in EUR)

OPERATIONAL PROGRAMME		OPT**	OPE**	OPRD	OPC	OPTA	OPHRD	OPAC	TOTAL
EU Financing		1 624 479 623	1 466 425 481	1 361 083 545	987 883 219	48 296 513	1 031 789 139	153 670 724	6 673 628 244
Contracted amounts – EU funds	Total as of 31.12.2011	955 640 825	590 123 996	966 497 253	415 957 665	24 356 313	672 152 806	91 037 577	3 715 766 435
	% of the total budget	59,00%	40,00%	71,00%	42,00%	50,00%	65,00%	59,00%	56,00%
	Forecasted: as of 31.12.2012	1 848 285 005	1 680 274 024	1 320 033 168	790 448 990	42 464 196	942 241 068	134 268 327	6 758 014 779
	% of the total budget	114,00%	115,00%	97,00%	80,00%	88,00%	91,00%	87,00%	101,26%
Verified expenditures – EU funds	Total as of 31.12.2011	410 236 759	96 534 692	192 841 266	218 013 898	7 155 890	109 197 751	33 149 198	1 067 129 453
	% of the total budget	25,00%	7,00%	14,00%	22,00%	15,00%	11,00%	22,00%	16,00%
	Forecasted: as of 31.12.2012	823 480 986	199 632 513	439 586 933	423 417 056	13 545 236	262 910 464	69 795 603	2 232 368 792
	% of the total budget	51,00%	14,00%	32,00%	43,00%	28,00%	25,00%	45,00%	33,00%
Certified expenditures – EU funds	Total as of 31.12.2011	374 639 097	69 131 824	151 960 849	204 893 250	5 589 261	98 922 112	31 319 397	936 455 790
	% of the total budget	23,00%	5,00%	11,00%	21,00%	12,00%	10,00%	20,00%	14,00%
	Forecasted: as of 31.12.2012	569 744 615	163 104 204	299 699 342	399 870 547	10 902 988	229 083 453	54 079 397	1 726 484 545
	% of the total budget	35,00%	11,00%	22,00%	40,00%	23,00%	22,00%	35,00%	26,00%

* Information provided by the Central Coordinating Unit within the Council of Ministers;

** For contracted amounts of large projects, the amounts contracted with end-beneficiaries, not contracting authorities are reported.

II. PROGRESS MADE UNDER THE INDIVIDUAL PROGRAMMES AND INSTRUMENTS. PROBLEMS AND RECOMMENDATIONS

Operational Programme “TRANSPORT”

Progress made

In 2011 the Programme registered growth in contracting at 191% (based on comparing the values for this indicator as of 31 December for 2010 and 2011, respectively). According to MA's data, approximately EUR 1,144.5 million were contracted in the period 1 January – 31 December 2011 and the amount of contracted funds from the beginning of the programming period till the end of 2011 totals approximately EUR 1,744.2 million, or 87% of the total budget of the programme. According to Certifying Authority's data, as of 31.12.2011 payments under OPT totalled over EUR 454 million, making up about 22.66% of Programme's available resources. Only for 2011, payments reached more than EUR 341.5 million, which is almost 304% growth. A summarized information about the levels of the Programmes' financial implementation and execution of the forecasts under LOTHAR Instrument as of 31.12.2011 is presented in Table 1 and Table 4, respectively.

Problem areas

The key problems related to the absorption of OPT funds are as follows:

- shortage of financial resources at beneficiaries for co-financing and VAT;
- lack of sufficient experience and capacity for infrastructure projects' management;
- problems of institutional and organizational nature;
- problems related to the application of the Spatial Planning Act, the obtainment of building permits, the expropriation procedures, the environmental impact assessments and the archaeological surveys.

The following implementation risks remain for OPT:

- there is a timing mismatch between the beginning of implementation of large-scale projects and the approval of the respective application forms by the European Commission (EC). In case no EC approval is granted for a certain project, activities relating to such project will have to be implemented using national funds;
- the forecasts for the completion dates of the projects have been repeatedly rescheduled, which poses a threat to the financial implementation of the Programme;
- a considerable number of projects are expected to be completed in 2014 – 2015, so that in case of a delay in implementation, it is quite possible for them to exceed the time frames of the current programming period;
- low quality of the submitted project proposals;
- the administrative capacity of the two largest beneficiaries - the Road Infrastructure Agency and the National Railway Infrastructure Company, and their ability to deal successfully with the growing workload on the projects.

Recommendations

Given the uneven implementation of OPT's individual priorities, CEOEF recommends that new projects are to be developed under PA3 and PA4 in view to achieving the expected social and economic effect of the Programme.

CEAOEF calls for continuation of the efforts to improve the administrative capacity of the Road Infrastructure Agency and the National Railway Infrastructure Company, incl. via trainings and courses for employees' qualification improvement as well as using external expertise where needed.

CEAOEF congratulates the MA of OPT on the significant progress of the Programme made in 2011 in terms of both contracting and payments. In order to minimize the risk of losing funds under OPT, in 2012 this positive trend should be preserved as regards the streamlining of the individual elements of the management process and the timely execution of construction works.

CEAOEF calls for a beginning of the preparation of key projects that would be financed under the next programming period.

Operational Programme “ENVIRONMENT”

Progress made

According to data provided by the MA of OPE, EUR 958.6 million was contracted in grant awards under this Operational Programme as of 31 December 2011, or almost 53.3% of the total amount of funding available under the Programme. According to data provided by the Certifying Authority - the National Fund Directorate of the Ministry of Finance, payments made under existing contracts stood at EUR 198.1 million, or 11% of the total Programme resources. This marks a growth of about EUR 72.7 million (or 58%) in payments under the Programme as compared to the total amount paid out as of 31 December 2010 (EUR 125.4 million). A comprehensive information about the levels of the Programmes' financial implementation and execution of the forecasts under LOTHAR Instrument as of 31.12.2011 is presented in Table 1 and Table 4, respectively.

CEAOEF recognizes the progress made by the MA as regards the recommendation in the Interim Report to speed up the process of collection and assessment of project proposals. The MA has taken a series of actions to address the identified weaknesses, including: 1) measures to improve the quality of submitted project proposals by means of holding regular meetings and consultations with the Programme beneficiaries, 2) speeding up the assessment process by means of introducing minimum requirements to be met by project proposals before proceeding to their actual assessment, 3) measures to minimize the risk of violations in the conduct of public procurement, which include a series of trainings for beneficiaries, simplification of the rules on ex-ante and ex-post control, regular publication of information on the website of the MA, etc.

In its Interim Report CAOEF recommended that MA should make provisions to award contracts in additional amounts to be financed in case of savings resulting from conducted tender procedures or from imposed financial corrections. In this regard, CAOEF recognizes the measures taken by the MA to ensure maximum absorption by means of applying an approach of over-booking.

In order to improve the project preparedness of small agglomerations (between 2,000 and 10,000 population equivalents) for the upgrading and development of potable and waste water infrastructure, in its Interim Report the CAOEF recommended the MA to develop, in shorter terms, the methodology and criteria for project proposals' assessment; in this connection a call for proposals was published at the beginning of November 2011 for the construction of water and sewerage networks and waste water treatment plants for agglomerations of between 2,000 and 10,000 population equivalents.

CEAOEF recognizes the measures undertaken by the MA to ensure better financial performance under the Programme (including optimization of the verification process) and to facilitate the process of reporting by beneficiaries. The concrete actions taken by the MA in this regard include:

The Audit Authority has found that as a result of the corrective actions taken by the MA the management and control systems of OPE function effectively and the error rate under the Programme is 0.11%, which is below the materiality threshold.

CEAOEF welcomes MA's approach of holding active dialogue and consultations with municipalities on project development and implementation, along with beneficiaries' training on the most frequent mistakes in project proposals' preparation. In this connection, CEOEF supports the MA's initiative for carrying out trainings of the new municipal administrations and mayors, respectively, in the framework of the series of trainings by regions organized by NAMRB.

Progress of the reform in the water sector - CEOEF has found that the progress of the reform in the water and sewerage sector in 2011 has been significant: 1) the Ministry of Regional Development and Public Works, as the institution responsible for implementation of the reform, has been included as a new beneficiary under priority axis 1 of OPE; 2) in early 2012, a call for proposals was published (the procedure was launched on 18 January 2012) for "Strategic planning and strengthening of the capacity of the structures involved in the process of reforming the water and sewerage sector to ensure sustainable management of the water and sewerage infrastructure" to the total amount of EUR 6.1 million (BGN 12 million). The aim of the procedure is to support the successful reforming of the water and sewerage sector as well as the sustainable management of the water and sewerage infrastructure in the country by means of financing activities related to: strategic planning in the water and sewerage sector - development of bylaws and a sectoral strategy for the water and sewerage sector; creation of a unified information system for water and sewerage services; strengthening the capacity of the structures within the Ministry of Regional Development and Public Works involved in the coordination and control over the reform in the water and sewerage sector, water and sewerage operators and water and sewerage associations for management and planning of the water and sewerage systems envisaged in the Water Act.

Problem areas

CEAOEF points out that the shortage of funds for municipalities to cover their own contribution in the implementation of EU-funded projects has persisted. As reasons for this it notes the shortage of enough own revenues to finance their own participation in infrastructure projects and the fact that for revenue-generating projects the municipality does not collect the revenues from the investment (in the form of price of the service) and the latter remain for the operator.

CEAOEF welcomes the efforts of the MA to have constant coordination, both within MEW and with other administration when resolving the traditional sectoral problems related to: lengthy procedures for change of the designation of the land (in most cases agricultural one), expropriation procedures for estates/ terrains which are privately owned, procedures related to the issuance of permits according to the environmental law and others. CEOEF recognizes that addressing these problem areas is a major challenge in the implementation of investment projects under OPE.

Recommendations

Given the advanced stage of the current financial perspective, CEOEF draws attention to the need to accelerate the process of implementation of investment contracts under priority axes 1 and 2 of the

Operational Programme. In this connection, CEAOEF calls for creating the necessary prerequisites for conducting quality auctions by municipalities, given the large value of the projects, including through enhanced interaction with the MA.

In view of the key importance of the reform in the water sector for the successful implementation of projects under priority axis 1 of OPE, CEAOEF calls for its speeding up while keeping interaction between the responsible Ministries - MEW and MRDPW. In 2012 CEAOEF will continue to monitor and report the actions taken in this direction.

CEAOEF welcomes the opportunities that the “Bulgarian JASPERS” and the expert assistance by the IFIs create for the improved preparation and implementation of projects and recommends their effective application in OPE.

CEAOEF recognizes the measures taken by the MA to conduct an internal assessment of the Operational Programme given the delays in the assignment of an external interim assessment. Nevertheless, the Committee reiterates its recommendation from the Interim Report for speeding up of the interim assessment of OPE. In this connection, CEAOEF expresses its expectations for timely completion of the public procurement procedure for the selection of a contractor to perform the assessment as well as for advancement to actual actions. CEAOEF stresses that the results from the interim assessment serve as a valuable source of information and recommendations to streamline the Programme before the end of programming period.

The degree of implementation of the Indicative Annual Work Programme under OPE for 2011 is not quite satisfactory. According to the indicator for the ratio between the number of planned and announced procedures for grant provision the performance is nearly 60% of the one planned, but according to the indicator of the ratio between the cost of the planned and actually announced procedures the performance reaches 78%. In this connection, CEAOEF expects the MA of OPE to mobilize its efforts to achieve the set targets in 2012, namely to contract all available resources under the Programme by the end of 2012.

Given the expected higher interest by small municipalities in applying for the scheme for support of agglomerations of under 10,000 population equivalents for the upgrading and development of potable and waste water infrastructure, the relatively short periods for preparation (until mid-August 2012) and the MA’s requirement for submission of projects with a high degree of preparedness, CEAOEF draws attention to the need the MA to provide stronger support and consultations to beneficiaries at each stage of their preparation.

CEAOEF recognizes that the resources needed to fully implement the commitments taken in connection with the EU legislation to build the necessary infrastructure in the environment sector greatly exceed the resources allocated to OPE for the period 2007-2013. In this connection, CEAOEF calls for maximum mobilization of the efforts for successful implementation of the ongoing reforms in the sectors of water and waste. Their implementation is a necessary prerequisite for the formulation of clear priorities and vision for the development of the environmental policy in the next programming period as well as for the determination of the so-called *project pipeline* - a list of projects with high degree of preparedness, whose implementation is to start immediately at the beginning of the new programming period. The new aspects of the Cohesion Policy and the main directions for development of the European environmental legislation on climate change determine to a large extent the direction in which the MA will develop its priorities, namely improvement of air quality and reduction of greenhouse gas emissions, higher energy efficiency, effective management of water resources and better waste management. Along with those priorities CEAOEF takes into account the need for horizontal mainstreaming of the environmental policy in all sectors/ policies at national level.

Operational Programme “REGIONAL DEVELOPMENT” (OPRD)

Based on the data submitted by the OPRD Managing Authority, grant contracts to the amount of EUR 1.137 billion (71% of the Programme budget) had been signed under this Programme as of 31 December 2011. Based on the data of the Certifying Authority, the National Fund Directorate of the Ministry of Finance, payments of the already signed contracts amount to EUR 323.2 million or 20.19% of the overall Programme fund. The data submitted by the Central Coordination Unit of the Council of Ministers show that there was a growth of EUR 137.8 million (a 74% implementation growth) in the payments under the Programme in 2011 compared to the size of total amount of funds paid as of 31 December 2010 (EUR 185.4 million). The detailed information about the level of financial implementation of the Programme and the performance of the projections in the LOTHAR Instrument as of 31 December 2011 are presented in Tables 1 and 4 respectively.

There is a high level of implementation of the OPRD Indicative Annual Work Programme for 2011. OPRD registers 100% implementation with regard to planned and announced procedures. Implementation as per the ratio between planned and announced procedures reaches 92%. CEAOEF considers that the entire OPRD resources (98% of the funds, with the remaining 2% being under Priority Axis “Technical Assistance” and being implemented) had been open to application as of 31 December 2011. OPRD is among the few operational programmes (along with OPHRD) achieving almost 100% of programming and implementation of the objectives set in the middle of the programming period.

In connection to the overall CEAOEF recommendation made to all OPs in the Interim Report for allocation of resources to measures and activities contributing to the implementation of the required sectoral policies and reforms, CEAOEF notes that OPRD MA sticks to this approach to the largest extent, bringing a positive outcome. In 2011, the OPRD MC approved the reallocation of significant resources among the various priority axes and within the priority axes themselves (among the relevant operations). The purpose is to ensure the successful implementation of the Programme (financing of project proposals that have been evaluated successfully but for which there are no sufficient resources), including the important policies and reforms conducted thereunder (deinstitutionalization of children in Bulgaria). This reallocation takes place after a preliminary assessment of the implementation of priority axes and the availability of free financial resources. Part of those resources supports the establishment of green and accessible urban environment through the new scheme for improving the urban environment. CEAOEF considers that the approach applied by OPRD MA for a more flexible financing of interventions may be used as a good practice by the other OPs as well.

CEAOEF welcomes the implementation of reforms of national importance supported by OPRD in the health (early diagnosis and treatment of cancer) and social area (deinstitutionalization of children in Bulgaria, provision of social housing for marginal groups). The implementation of an integrated approach among the various programmes and sources of financing and the search for synergy are key factors for the successful implementation of EU-funded reforms in the country. Based on the experience gained from this programming period, CEAOEF is of the opinion that this model has proven its efficiency and should be further developed and largely implemented after 2013.

In the field of integrated urban transport CEAOEF takes account of the progress achieved with the approval of the European Commission of the first large project for integrated urban transport in Bourgas and expects a positive assessment from the Commission of the second large project for integrated urban transport in the municipality of Sofia. As to the integrated urban transport of the 5 large cities, CEAOEF welcomes the MA approach to announcing the grant scheme in November

2011, in parallel with the preparatory activities taking place in 2011 under the Technical Assistance part of the Programme (including prefeasibility studies, examining the rolling stock of public transport and of the infrastructure) aiming to increase the preparedness of project proposals.

CEAOEF welcomes the gaining of experience in the implementation of financial engineering instruments (by both MA and beneficiaries) given their future significance in the next programming period. In this regard should be noted the experience gained by OPRD MA through the JESSICA initiative by utilizing the urban development funds and energy efficiency measures in multi-family residential buildings by establishing a housing manager fund.

CEAOEF welcomes the extreme MA focus on the preparation for the next programming period. CEAOEF reports that the conclusions made and the outcome of the successful mid-term Programme evaluation have been put to practice by the MA in the advanced preparation for the next programming period. In particular, in unison with the recommendation made by CEAOEF in the Interim Report, MA has focused on a programming based on integrated urban development plans through the isolation of the so-called “growth poles”. This approach will help to determine the priority investment with greater emphasis on large projects and investment projects of strategic importance. CEAOEF reports that the urban development focus will contribute to the better delineation of programme interventions (especially with the Rural Development Programme).

Problem Areas

OPRD MA has taken a number of measures to overcome the difficulties related to: exercising ex-ante and ex-post control of public procurement procedures; improving the quality of the physical implementation of infrastructure projects; applying a uniform approach to on-the-spot checks; strengthening the capacity of Programme beneficiaries.

In reply to the inconsistencies detected by the Audit Authority in the oversight of public procurement in the verification procedures, MA has made an ex-post check of the tendering procedures carried out by the beneficiaries. As a result of the measures taken, the Audit Authority has found that the management and control systems of MA function effectively and the level of errors is below the materiality criteria.

Recommendations

Given the high contracting of Programme funds, MA should focus its efforts to the exercise of effective control for quality and timely project implementation. In this connection, consistent actions are needed to strengthen the capacity of beneficiaries for project implementation and reporting.

In view of the early finding of any deviations in project implementation by beneficiaries, CEAOEF recommends a periodic assessment of the risky areas in project implementation and introduction of complementary risk management procedures. The introduction of a procedure and a system for detection, reporting and subsequent solving of all registered cases of irregularities under EU-funded projects should be considered.

The difficulties of the key Programme beneficiary, the municipalities, to ensure resources for project financing before interim and final payments require adequate measures on a national level so as to procure provisional funds to cover this shortage. A possible reaction to this challenge is an amendment to the Ordinances on the Terms and Conditions and the Procedure for Drafting, Implementation and Accounting of Local Government Budgets adopted on the grounds of Article 9a of the Law on Local Government Budgets regulating the possibility for granting funds in the form of temporary non-interest loans from the municipal budget to the extra-budgetary account for EU-funded projects in order to make payments before the interim and final payments under the project.

Given the expected wide implementation of financial engineering instruments in the next programming period of the cohesion policy, CEAOEF encourages the strengthening of the capacity of MA and Programme beneficiaries in this connection and the implementation of the so-called leverage effect.

Taking account of the limited OPRD resources for the development of infrastructure for broadband access to small settlements (EUR 20 million) and the commitments taken by the Republic of Bulgaria with regard to EU legislation for the establishment of such infrastructure to all settlements, CEAOEF points the need for the beneficiary, Executive Agency “Electronic Communication Networks and Information Systems” to the Ministry of Transport, Information Technology and Communications, to make an in-depth analysis of the situation in order to determine the top priority settlements for the establishment of such infrastructure with OPRD funds. Meanwhile, the European Commission should be duly informed by a state aid notification, and the Guidelines for Applicants should possibly be reviewed.

In the context of the cohesion policy programming in the period 2014-2020, CEAOEF believes that OPRD will be playing an important role in the next programming period of a driver of the development of urban agglomerations and a balancing factor given the negative influence of the crisis on local governments and the limited investment budgets.

CEAOEF anticipates that the setting of priority agglomerations (on the basis of the outcome of the social and economic analysis for the purposes of programming of regional development in the period 2014-2020) to be funded by the future OPRD will outline the regions that will be the drivers of country development in the next period, the so-called “growth poles”, and thereon to envisage various intervention measures in the individual areas.

CEAOEF welcomes the greater emphasis on the future competitive factors – sustainable development and energy efficiency in particular. In this regard, CEAOEF encourages the possible broadening of the scope of OPRD in the next programming period by the inclusion of environmental and water infrastructure. The integrated approach to regional development requires the implementation of combined projects such as, for instance, measures for establishment/improvement of the water and sewerage system as part of a project for improvement of urban environment, measures for the protection of cultural and historical heritage as part of a project for sustainable development of tourism, measures for improvement of health infrastructure and provision of up-to-date health equipment as part of a project for improving the quality of life, etc.

In connection with the future role of the Ministry of Regional Development and Public Works in the water sector reform, CEAOEF will continue monitoring in any future hearings the topic of the development of strategic planning activities in the water and sewerage sector in order to implement the Waters Law effectively and in line with the requirements of EU legislation.

Operational Programme “HUMAN RESOURCES DEVELOPMENT” (OPHRD)

Progress Made

There is tangible improvement in the processes of planning and absorption of Programme funds.

OPHRD MA reports a substantial financial progress in the reported period as follows: paid funds amount to EUR 196,586,525⁸, or 16% of the Programme budget, with EUR 86,707,874 being paid in

⁸ NF gives a higher figure – EUR 196,819,226

2011 only, according to the data submitted by MA. Payments to beneficiaries have doubled within just one year.

Contracting also reports a significant growth based on the MA data. A total of 5,497 project proposals have been submitted; 1,754 contracts to the amount of EUR 790,768,007, or 65% of the OPHRD budget, have been signed. Just for comparison, this percentage was just 47 at the start of 2011.

The highest growth, more than 6 times, has been achieved with regard to certified expenditure. NF has certified expenditure of around 10% of the Programme budget, while in January 2011 the certified expenditure reached just 1.6% of the Programme budget. The detailed information about the level of financial implementation of the Programme and the performance of the projections in the LOTHAR Instrument as of 31 December 2011 are presented in Tables 1 and 4 respectively.

One of the major MA achievements is that the available financial resources under OPHRD are planned in line with the intervention selection criteria approved at the Ninth Monitoring Committee held on 15 November 2011.

MA estimates exclude the risk of automatic reimbursement (in view of the N+3/N+2 rule) in 2011 and 2012.

On the grounds of an in-depth analysis, funds to the amount of EUR 56 million have been reallocated so as to meet some of the specific needs for beneficiary financing.

The mid-term Programme evaluation is being made due to the recommended acceleration in the Interim Report of the Committee of European Affairs and Oversight of the European Funds on the Absorption of EU Funds in 2011 (the contract for making the evaluation was signed on 29 August 2011), with its deadline being 30 June 2012.

OPHRD is one of the first programmes giving the opportunity for e-application to its beneficiaries, while the MA insists upon the introduction of such an option for electronic accounting of schemes as soon as possible and where appropriate.

In the last year OPHRD MA paid enormous attention to the feedback from its beneficiaries which is not only preventive in terms of any potential gaps in applying, planning and accounting but assesses the real effect of the Programme.

The deinstitutionalization of childcare should be marked as a significant progress. This is the area where highest degree of synergy has been achieved due to the good coordination among the various EU financial instruments, including the European Rural Development Fund (Operational Programme “Regional Development” (OPRD)), the European Social Fund (Operational Programme “Human Resources Development” (OPHRD)) and the European Agricultural Fund for Rural Development (EAFRD)).

Problem Areas

On the basis of the information submitted by MA and the data received during the hearings in CEAOEF, it may be concluded that no serious difficulties in Programme management are monitored in the period under consideration.

Even though MA reports significant progress, it is in this indicator that some challenges are to be met with adequate OPHRD measures so as to increase the government policy effect in the relevant areas.

For instance, based on the data from the National Statistical Institute about the labour force in 2010, it is particularly worrying that another 17,000 young people were left outside the labour market. The

unemployment rate increased by around 7 percentage points, from 19.5 to 26.5. As an extremely mobile but threatened group, young people turn into a risk factor especially in the labour market.

A material problem identified in OPHRD is the incompliance of the education which Bulgarian students get with the requirements of the businesses, which caused the development of an intervention named “Update of Higher Education Curricula in Line with the Labour Market Requirements” to the amount of BGN 6 million.

Recommendations

CEAOEF is extremely satisfied with the flexible approach of OPHRD MA to the identification of the Programme schemes while taking advantage of the possibilities for preliminary discussion of the Guidelines to Applicants.

In addition, CEAOEF takes account of the benefit and of the added value of the synergy and the integrated approach to the financing of the process of deinstitutionalization. In this regard, CEAOEF recommends seeking to intertwine some of the Programme measures to support the objectives of the National Strategy of the Republic of Bulgaria for Roma Integration. CEAOEF calls in particular for regular accounting of the funds absorbed and of the real effect of financing in order to ensure maximum transparency of the processes related to the integration of marginal communities (horizontal OPHRD priority), since currently there is no accounting of this issue.

CEAOEF takes account of the excellent rates of contracting of the OPHRD budget by noting that all the available Programme resources are planned for 2012. CEAOEF recommends, however, to accelerate the rates of payment so as to allow the available resources to reach beneficiaries as quickly as possible and to alleviate some of the negative effects of the economic crisis that have enormously affected the labour market.

CEAOEF welcomes the introduction of e-services benefiting OPHRD beneficiaries by encouraging their further development and expanding their range. In this regard, CEAOEF recommends that MA continues seeking even more intensive direct contacts with beneficiaries. In this regard, the National Employment Agency, acting as an intermediate body also has the opportunity to contribute for the provision of information to those seeking jobs and their perspectives on the labour market by transforming itself into a one stop shop for obtaining information. Therefore measures have to be taken for the strengthening of the capacity of the local employment offices, so that they can provide full range of informative services (incl. opportunities under HRDP).

КЕВКЕФ счита, че е необходима по-голяма гъвкавост, за своевременното реагиране на възникващите потребности на пазара на труда, включително за справяне с младежката безработица и осигуряване заетост на безработните лица над 50-годишна възраст.

CEAOEF calls for an urgent analysis of the results of the finalized mid-term evaluation, since the discussions for the new programming period are already under way and the conclusions of the evaluation will be material for outlining the OPHRD priorities for the period 2014-2020.

Operational Programme “COMPETITIVENESS”

Progress made

More than EUR 161 million were contracted in 2011 (almost 14% of the entire budget of OPDCBE), while, according to the data from CCU, contracting has totalled around EUR 487.5 million, or

almost 42% of the budget of OPDCBE (without taking account of terminated contracts) since the launch of the Programme. According to the Certifying Authority, almost EUR 45 million were paid in 2011 (almost 4% of the entire budget of OPDCBE). The growth in Programme payment for 2011 thus reached 19.8%. Since the launch of the Programme a total of EUR 271 million has been paid, thus making financial Programme implementation reach 23.3%. Implementing 91% of the forecasted EU funds contracted under the LOTHAR Instrument as of 31 December 2011 ranks OPDCBE first among the 7 OPs as per this indicator. The detailed information about the level of financial implementation of the Programme and the performance of the projections in the LOTHAR Instrument as of 31 December 2011 are presented in Tables 1 and 4 respectively.

Some progress is registered in the cooperation between the Ministry of Economy, Energy and Tourism and the European Reconstruction and Development Bank in the energy efficiency.

The latest announced procedures show a significant improvement in the methodological quality in terms of clarification of the applicable methods of evaluation.

The results meet the current beneficiary needs (as of the moment of application and closure of projects). This is a good indicator of the overall purpose of the areas covered in the programming of procedures.

Problem Areas

Among the major difficulties of Programme implementation, the following may be highlighted:

- There is still lagging behind in the core of OPDCBE – procedures under PA 1 “Development of a knowledge-based economy and innovation activities” and PA 2 “Increasing efficiency of enterprises and promoting supportive business environment”. In general, Bulgaria continues lagging behind innovation in accordance with the newly introduced methodology of the Commission for evaluation of the innovation potential of the member states.
- There is a large timeframe between the time of approval of the intervention selection criteria and the time of announcing the Guidelines to Applicants under the individual procedures.
- The length of the process of evaluation of project proposals varies from 4 months to more than a year.
- Not all of the procedures are focused on specific sectors from the National Classification of Economic Activities.
- The high degree of complexity of laying down the requirements to applicants makes the process of application under OPDCBE more difficult.
- A key problem for beneficiaries is to ensure the co-financing.

Recommendations

CEAOEF recommends focus on resources in areas with high potential and support of the science-business interaction. In this regard, of importance is the implementation of the tasks set in the Communication Plan for 2012 envisaging holding of events such as 3 workshops “Business Counsel” and 6 workshops “Business Meets Science”. In those cases representatives of businesses and science need to participate directly in preparation, presentations and discussions. Partner tasks need to be defined and vested to some of them so as to make progress in the priority axes that lag behind.

As to the progress under PA 1 and 2, CEAOEF calls for a detailed analysis by the MA together with the Intermediate Body at the Executive Agency for Promotion of Small and Medium-sized Enterprises of the real values of the set indicators.

CEAOEF considers that programming of the future procedures under PA 1 and 2 of OPDCBE should be made on the basis of a careful judgment of candidates of which sectors of the National Classification of Economic Activities will be supported by the relevant procedure.

CEAOEF recommends that the process of approval of the intervention selection criteria and the announcement of documentation for application under the approved intervention be speeded up to the utmost degree.

In order to accelerate the implementation of OPDCBE, CEAOEF calls for taking effective measures to optimize the process of evaluation, including shortening the process of approval of evaluation reports and verification of documents at the stage of contract signing, while shortening the timeframe of the procedure for reimbursement of costs to beneficiaries.

Operational Programme “ADMINISTRATIVE CAPACITY” (OPAC)

Progress Made

From the point of view financial implementation, OPAC has the best performance indicators in percentage terms compared to the other 6 OPs. Based on MA data, as of 31 December 2011 the contracted funds amount to EUR 107,102,184, or more than half (59.24%) of the Programme support, while EUR 50,535,366 (27.95%) had been paid to beneficiaries. Based on the data from the LOTHAR Instrument, OPAC is one of the programmes with highest degree of performance of the estimates. The detailed information about the level of financial implementation of the Programme and the performance of the projections in the LOTHAR Instrument as of 31 December 2011 are presented in Tables 1 and 4 respectively.

As one of the ESF-funded programmes, OPAC plans to announce a great number of procedures in 2012, i.e. 9, following OPHRD where open procedures are expected to be twelve. In parallel to that, MA plans to open most of the procedures prior to March 2012 and after that the Indicative Annual Work Programme for 2012 is to be updated in order to have full contracting of the available Programme budget.

The annual oversight report for OPAC, as drafted by Audit of EU Funds Implementing Agency, has found that financial implication of the errors found in projects is just 0.22% with a materiality criterion of 2%. The conclusions of the Audit Authority are submitted to the European Commission and are based on a sample of 35 requests for payment under 32 projects totalling almost EUR 3.75 million, or 47% of the expenditure certified in 2010. According to the report, the management and control systems of OPAC are compliant with the requirements of EU regulations and “operate effectively so as to give reasonable assurance of the precision of the statements of expenditure submitted to the Commission, hence the lawfulness and regularity of the concomitant transactions”.

A material advantage in OPAC operation is the drafting of the mid-term evaluation, for it reveals a great degree of progress made, goes through the problem areas which MA faces, makes some significant recommendations and at the same time turns to the next programming period. A positive conclusion of the mid-term evaluation is that Programme results are good and there is no need to amend the strategy and objectives of OPAC. OPAC priorities are up-to-date, fall within the scope of the strategic documents mentioned and meet the objectives of the administrative and judicial reform.

The Managing Authority has established a procedure for drafting an Indicative Annual Work Programme enabling compliance with the up-to-date needs of target groups.

Problem Areas

According to the findings of the mid-term evaluation, OPAC indicators are not laid down well. Modification/broader definitions and/or an update of reference values are recommended for most of them.

On the level of projects, the mid-term evaluation finds a delay in the clarification of the status of the so-called “problem projects”. Based on information from MA, the total number of these “problem projects” as of 31 August 2011 is 76, amounting to EUR 18.5 million. It should be noted that 50 out of 72 “problem projects” were finalized in 2009, 20 in 2010 and just 2 in 2011, which means that for 69% of the problem projects the process of clarification of the problems found continues for a second year.

Among the most frequent problems of beneficiaries are: lack of capacity in project management, problems with planning of time and expenses, difficulties in the interaction with partners, lack of knowledge of the general terms and conditions of contracts, infringements in the conduct of procedures for selection of contractors under PPA, OASPPA and Council of Ministers’ Decree No. 55/2010 as well as difficulties in laying down project indicators.

Recommendations

CEAOEF welcomes the widening of publicity measures and the implementation of a number of communication and information events by MA in 2011, considering them useful for beneficiaries.

As to “problem projects” under OPAC, CEAOEF sticks to the recommendation made in the mid-term evaluation, i.e. that the process of clarifying the status of those projects will be accelerated in view of the fact that the funds which, if any irregularities are found or in the event of failure to perform these projects or taking a decision for financial corrections (refunding of the total project cost), may be reallocated to the subsequent procedures by abiding by the N+3/N+2 rule. CEAOEF maintains its stand in the Interim Report that OPAC is a key instrument for conducting the administrative reform and plays an important role in the implementation of the e-government. In this connection, CEAOEF considers that coordinated efforts among the institutions are needed (including the Council of Administrative Reform and the Ministry of Transport, Information Technology and Communications) and enhancing the Programme focus on the implementation of these reforms of importance to the country.

In general, CEAOEF recommends that MA focus on its vision for the following programming period 2014-2020 in the context of national priorities by taking maximum advantage of the conclusions and recommendations in the mid-term evaluation but must concentrate on its financial progress in the current period so as to close it with good indicators.

Operational Programme “TECHNICAL ASSISTANCE” (OPTA)

Progress Made

Based on information from MA, the contracts signed under OPTA as of 31 December 2011 are 84 and amount to EUR 28,654,489, or over 50% of the OP budget. The contracts signed in 2011

amount to EUR 14,344,018. The funds paid under OPTA since it has been launched amount to EUR 12,156,310, or 21% of the Programme budget, while they amount to EUR 6,256,591 in the period under consideration only. Based on the data submitted to the OPTA MC it becomes clear that the rates of contracting and payment in the period under consideration have intensified and there is double growth as of the end of 2011 compared to the start of the same year. The detailed information about the level of financial implementation of the Programme and the performance of the projections in the LOTHAR Instrument as of 31 December 2011 are presented in Tables 1 and 4 respectively.

MA does not envisage any loss of funds in 2011 and 2012 in the context of the n+2/n+3 rule, but it considers that 2013 has some challenges in store in this context.

OPTA MA has made steps to overcome to some extent the most frequent problem, i.e. incorrect implementation of provisions and frequently made mistakes in relation to public procurement award. In this regard, the latest MC meeting adopted the inclusion of a new beneficiary, the Public Procurement Agency, in order to strengthen the capacity of the institution and to develop a more effective system for ex-ante control of public procurement procedures.

A significant progress has been made with the expanded MIS configuration including two functionalities "to the benefit of beneficiaries" - for e-application and accounting of projects under all OPs. In this regard, the first electronically submitted call for proposal is under OPTA. Currently, there are procedures under OPTA, OPHRD and OPRD whereunder it is possible to submit calls for proposals electronically. Operational Programme "Development of the Competitiveness of the Bulgarian Economy" also prepares such procedures to be announced in 2012. The Specialised Instruments module has been created to include: generator of unregulated statements, form designer, database designer. An interface has been established for connection with the information system for management of EU funds, SFC 2007. An interface has been established for connection with external information systems. A useful innovation is the module for OP management for cross-border cooperation. Thus, MIS will be receiving visual information about cross-border cooperation programmes.

It should be noted that Bulgaria is among the first EU member states that have developed a functionality of their information systems. E-service development is an extremely important moment in MIS development for its importance will increase by many times in the new programming period 2014-2020.

An order of the head of OPTA MA of 11 August 2011 extends a grant under the project "Establishment of a mobile team for support of local and regional administrations in the implementation and management of SCF-funded projects" (an initiative known as the "Bulgarian JASPERS"). It is envisaged that the project will deliver specific expertise to beneficiaries to address specific needs in the implementation and management of infrastructure projects.

OPTA is the programme whose funds are used to prepare the next programming period, namely the forthcoming implementation of the project "Supporting the entire process of drafting the Partnership Treaty of the Republic of Bulgaria in the Period 2014 – 2020". The key objective of the project is to support the Central Coordination Unit in the preparation of the Bulgarian Partnership Treaty with the Commission in the next programming period.

Problem Areas

The checks of the Audit Authority and the National Fund show that the financial adjustments to OPTA are of the lowest value, i.e. EUR 70,000, but reveal some gaps in the accounting of expenditure as well as some infringements of the conduct of public procurement procedures.

The major challenge for MA remains the launch of the 27 regional information centres which did not manage to start parallel operation in 2011 but are expected to do this in the first half of 2012.

Recommendations

CEAOEF repeatedly welcomes the efforts made by MA to expand the functionalities of MIS which, as already mentioned above, will raise the significance of e-services by many times in the new programming period 2014-2020. CEOEF congratulates MA on what has been achieved in this field because it ranks Bulgaria high in terms of number of functionalities available to this type of information systems.

CEAOEF recommends that, after becoming operational and given the little time left, the 27 regional information centres concentrate all their efforts on the preparation for the next period 2014-2020.

CROSS-BORDER COOPERATION PROGRAMMES

Progress Made

136 contracts totalling EUR 27.2 within the first calls for proposals had been implemented under the **programmes for cross-border cooperation at external borders of the EU** as of the end of 2011. This includes: 36 contracts totalling EUR 7 million under the CBC Programme Bulgaria – Macedonia; 47 contracts totalling EUR 9.1 million under the CBC Programme Bulgaria – Turkey and 53 contracts totalling EUR 11.1 million under the CBC Programme Bulgaria – Greece;

134 projects totalling EUR 228 million have been approved under **the programmes for cross-border cooperation at internal borders of the EU**, Romania - Bulgaria. 26 projects have been approved under the second call under the Greece—Bulgaria Programme, with the signing of contracts with Greek partners pending.

CEAOEF has identified the following key points in the management of CBC programmes for 2011:

- National co-financing for the implementation of the contracts signed by Bulgarian beneficiaries has been secured;
- The Commission has evaluated positively the compliance of the management and control systems of CBC programmes;
- The Memoranda of Understanding of the individual programmes have been ratified (the CBC programme Bulgaria – Serbia is the only one pending ratification of the memorandum of understanding by the Serbian state);
- The projects of the first calls for proposals are being implemented, with the second calls for proposals announced in the second half of 2011;
- There is some progress regarding the contracts signed with beneficiaries under the CBC programmes funded by the Pre-Accession Instrument, as well as under the CBC Programme Greece – Bulgaria. CEOEF takes account of this progress given the circumstance that since December 2010 there have been no contracts signed under CBC programmes except for CBC Romania-Bulgaria and the projects under the Technical Assistance Priority Axis of each programme;
- A uniform set of documents applicable to CBC programmes at external borders of the EU has been drafted.

- An interface has been developed between MIS and ITCMS of CBC programmes at external borders of the EU. The module complements the information submitted to experts about applicants and the OP-financed projects/contracts with information about applicants and projects/contracts under CBC programmes to be used in checks, control and avoidance of double financing via MIS.
- The contract for support and development of the IT systems of programmes is an example of a positive progress;

Problem Areas

The delay in implementation of CBC programmes at external borders (the first contracts were signed in 2011) caused by the late compliance assessment, problems with the co-financing and external factors related to the economic crisis and political changes continue to have influence from the point of view of overall programme implementation.

We should also add here the delay in reimbursement of funds to beneficiaries under the projects of some of the MAs (for instance, under CBC Bulgaria-Romania, Bulgaria-Macedonia), as well as a delay in the approval of contractual changes during project implementation.

The major challenge to the implementation of CBC programmes continues to be the provision of project co-financing by the partner states, as well as external factors related to the economic crisis and political changes.

Recommendations

CEAOEF maintains its recommendations in the Interim Report. In this regard CEAOEF expects that the Ministry of Labour and Social Policy will take the relevant actions to address them;

CEAOEF welcomes the growing importance of territorial cooperation in the next programming period through a separate regulation under European Territorial Cooperation. In this connection, CEAOEF encourages the active participation of the Republic of Bulgaria in the process of preparation of territorial cooperation programmes in the period 2014-2020.

Judging from the experience gained in the current programming period, CEAOEF considers that CBC programmes should have a more clear focus on surmounting the problems identified in relation to the improvement of road infrastructure (TEN-T network development), healthcare, energy efficiency, cultural and historical heritage, etc. Therefore, it is necessary to think towards the financing of large-scale projects having direct effect on interregional objectives, including the implementation of the Danube Strategy, while emphasizing the priorities that are not covered by OPs and differentiating the effects of the various instruments of intervention.

Taking account of the administrative burden caused by the different rules related to the implementation of CBC programmes at internal and external borders of the EU, CEAOEF considers it appropriate when contracting the framework of the next programming period to seek maximum unification of the rules under the two categories of programmes regardless of the sources of financing.

In unison with the recommendation made by CEAOEF for maximum optimization of the process of management of EU-funded programmes, CEAOEF believes it is necessary to further analyse the idea for the establishment in the next programming period of an autonomous agency for management of CBC programmes with the requisite provision of equipment, premises, technical and financial resources.

RURAL DEVELOPMENT PROGRAMME

Progress Made

The funds paid under the Rural Development Programme as from the start of the programming period until 31 December 2011 account for 32% of the overall budget for absorption, while the funds contracted with beneficiaries amount to 46.71% of the budget.

In 2011 the State Agriculture Fund - Paying Authority set up a very good arrangement for processing of project proposals which led to shortening the delay in the evaluation of projects from previous years.

CEAOEF takes account of the fact that the Ministry of Agriculture and Food and the State Agriculture Fund have complied with the recommendations of the Commission and welcomes the rate of operation. As positive trends we should outline the efforts to provide information and publicity and simplify the procedures and requirements for application, the transfer of funds among the priority axes and measures, the establishment of a guarantee fund and reduction of the time for processing and approval of project proposals. Summarized information of the financial progress of the Programme has been presented in table 2 of the current report.

Problem Areas

The year 2011 is the first one for the Rural Development Programme at the end of which there was a real risk for loss of unabsorbed funds. A step to overcome this problem is taken with the eighth amendment to the Programme envisaging to set up a Guarantee Fund for complementing loan collaterals and guarantees for advance payment of SMEs with projects approved by the Rural Development Programme. Another important step for fuller absorption of funds under the Rural Development Programme is the proposal in the seventh amendment to the Programme for transferring funds to the amount of EUR 304 million from measures with low interest to such with high interest and the budget is almost completely contracted.

CEAOEF sees as a major problem the delay in publication of the Indicative Annual Programme and its implementation, which prevents beneficiaries from planning effectively their activities and hence has a negative influence on the progress of the Rural Development Programme. Another factor is the failure to adhere to the announced frames for approval, while very often the approval of certain measures does not take place at all or the dates of approval are modified in the last moment.

Recommendations

CEAOEF recommends that MA continue pursuing the policy of openness and information of potential beneficiaries. At the same time, CEAOEF underlines again the need for advance notification and sticking to the Indicative Annual Programme for approval of the individual measures and meeting the timeframes for approval. It would be good to make the allocation of the budget under each measure more clear. In this regard, CEAOEF recommends the application of the affirmed practice with operational programmes for on-going publication (by the Certifying Authority, i.e. the National Fund Directorate of the Ministry of Finance) of up-to-date financial reference for the implementation of the individual programmes. Within the Rural Development Programme this may be done by the publication of reference information about the absorption of the budgets under the individual measures and disclosure of information about the contracted budget of each frame.

As already mentioned in previous reports, in order to improve the quality of submitted project proposals (respectively, the time for their approval) on the grounds of the experience gained and the problem areas identified in the process of submitting and implementing of projects, CEAOEF

recommends to update and maintain “Questions and Answers” sections under individual measures (similarly to OPRD and OPE).

CEAOEF calls MA to lay down an overall draft frame by the end of 2013 so as to fully absorb the remaining Programme budget.

Operational Programme “FISHERIES SECTOR DEVELOPMENT” (OPFSD)

Progress Made

There is an improved rate of absorption of funds under OPFSD in 2011. The percentage of contracted funds reach 29.11% by 31 December 2011 against 8.91% for 2010, while paid funds are 11.89% for 2011 compared to 3.61% for 2010. Summarized information of the financial progress of the Programme has been presented in table 3 of the current report.

Problem Areas

The major difficulties and specific problems related to Programme implementation are: lack of enough applicants; unsatisfactory quality of projects; difficulties in finding sources of financing, which delays project implementation or leads to suspension; difficulties in the process of implementation of approved projects.

Recommendations

CEAOEF recommends alleviating the process of application under OPFSD in the process of MA’s reviewing the ordinances under the measures so as to stir business interest. Dialogue with MA experts and direct advice to beneficiaries through the setting up of an information unit is an adequate measure that will lead to attaining the objectives set.

CEAOEF welcomes the efforts of OPFSD MA to facilitate the access to financing of SMEs that apply under OPFSD through the National Guarantee Fund to the Bulgarian Development Bank. Thus, the investors’ interest in the Programme will be increased for they will be able to use collateral for the loans extended for project financing.

CEAOEF maintains its recommendation from last year’s report for fuller utilization of the OPFSD funds for technical assistance to attract outside expertise supporting the Programme MA, especially as regards the evaluation of the economic viability of investment project proposals.

SCHENGEN Facility

Progress Made

The deadline for implementation of and payment under the Schengen Facility expired on 31 December 2010 with 100% of contracting and payment of funds. The Secretariat of the Committee for Management, Monitoring and Control, the International Projects Directorate of the Ministry of Interior, and the Intermediate Body, the Central Financing and Contracting Unit of the Ministry of Finance, verified expenditure totalling EUR 128.42 million. The Certifying Authority, the National Fund Directorate of the Ministry of Finance, certified expenditures amounting EUR 128.33 million, which accounts for 99.50% of the total amount disbursed to the Republic of Bulgaria for the financing of activities under the Schengen Facility. The Audit Authority, the Audit of EU Funds

Implementing Agency to the Minister of Finance, gave an opinion that a financial adjustment amounting to EUR 132,182.56 should be applied to the expenditure certified under four contracts. Implementing Decision C(2007)1417, the Republic of Bulgaria sent the final report on the implementation of the Schengen Facility to the European Commission on 29 June 2011 declaring the amount of EUR 128,194,211.77.

An audit mission of the European Commission was conducted in the period 29 August - 16 September 2011 regarding the overall implementation of the Schengen Facility. The draft audit report was dated 23 November 2011. The European Commission has not found any irregularities in the public procurement procedures conducted by the Central Financing and Contracting Unit of the Ministry of Finance, as well as in the payments made. The European Commission has accepted as eligible EUR 125.49 million, or 98% of the total declared expenditure to the amount of EUR 128.19 million.

EEA Financial Mechanism and Norwegian FM

Progress Made

The results attained under the EEA Financial Mechanism in financial terms are as follows: payments totalling EUR 14,415,582 (74%) had been made as of 31 December 2011, of which EUR 12,140,237 under the individual projects, EUR 1,990,574 within the NGO Support Fund, EUR 160,796 under the Scholarships Fund and EUR 123,975 under the Technical Assistance Project. The payments made in 2011 amount to EUR 10,382,265. The total number of the implemented projects is 30, the deadline for eligibility of expenditure under 7 projects has been extended to 30 April 2012, 2 projects were suspended due to incapacity for performance of activities while 5 projects will be completed with funds from the contingency fund.

The data about the Norwegian FM looks as follows: payments totalling EUR 15,626,742 (85% of Programme funds) had been made as of the end of 2011, of which payments under individual projects amounting to EUR 14,996,419 and payments under specific forms (projects for project preparation and projects for travel support) to the amount of EUR 630,323. The payments made in 2011 amount to EUR 5,262,402. A total of 19 projects were implemented successfully within the eligibility deadline of 30 April 2011. The eligibility deadline for 3 projects has been extended to 30 April 2012. Two projects will be finalized with funds from the contingency fund under the Norwegian FM 2009-2014.

Problem Areas

The major challenge to the management of funds under both mechanisms is to finalize the projects with extended eligibility deadline for April 2012.

Recommendations

CEAOEF expresses its positive attitude to the double increase of funds under both mechanisms and believes that it is due to good management and successful absorption of funds from the previous programming period, which is evident from the projects finalized successfully. In addition, CEAOEF will continue monitoring the implementation of both mechanisms, for it takes account of their added value in areas of great importance for Bulgarian society such as judiciary, youth policies and environmental protection.

Transition Facility

Progress Made

The total amount of the contracts paid under the Transition Facility as of 30 November 2011 is EUR 19.95 million. Funds totalling EUR 1.95 million were paid in the period 1 January – 30 November 2011. The sum total includes the payment made under a contract financed nationally under Council of Ministers' Decree 243/2008 and Council of Ministers' Decree 76/2009.

As of 30 November 2011, all contracts had been finalized and totally paid. To sum up, it should be noted that 73 contracts are implemented successfully while getting the mandatory results and attaining the objectives set in the projects.

The final statements for implementation of the Facility are to be sent to the European Commission by the end of March.

PHARE Programme

Progress made

The contracted funds under Financing Agreements under the PHARE Programme in the period 1998-2006 totals EUR 1,348 million, or 77% of Programme budget. As of 31 December 2011, a total of EUR 1.166 million had been paid, which is 86% of the cost of the contracts signed under the Programme and 66% of the budget allocated in accordance with the Financing Memoranda/Agreements.

The NAO services have prepared and forwarded to the European Commission the latest statements of the financial status of the PHARE Financing Memoranda/Agreements after the expiry of the payment period.

The following may be reported as positive outcome of the Programme:

- Financial support to all sectors and structures of both public administration and other institutions and organizations;
- Retaining the administrative capacity in the structures of the National Aid Coordinator, the National Authorising Officer and the PHARE Implementing Agencies, three of which functioning as Managing Authorities.

Taking account of the fact that CEAOEF considers the PHARE Programme for the final time, CEAOEF is of the opinion that the valuable experience gained and the administrative capacity are of great importance for the process of laying down the future priority areas for EU financing, and calls for their adequate use after the closure of the PHARE Programme.

ISPA Programme

Progress Made

From the start of the ISPA Programme to 31 December 2011 the funds paid (under Financing Memoranda, including Commission funds, national co-financing, borrowings from IFIs and other

sources of financing) and currently implemented in accordance with the Cohesion Fund requirements (Regulation 1164/94) total EUR 1.262 billion. The amount of paid funds is almost 90% of the contracted funds and 76% of the total Programme budget. The payments made in the period 01.01-31.12.2011 amount to almost EUR 193 million. As to contracted funds, the sum total is EUR 1.424 billion, or 85% of the Programme budget. The total number of the CF/ISPA Financing Memoranda signed and implemented according to the Cohesion Fund requirements (Regulation 1164/94) is 40, of which 11 for the Transport sector, 25 for the Environment sector and 4 horizontal projects. Out of the 40 projects, 7 are officially closed.

Of the 17 requests sent for modification of the Financing Memoranda in 2010, the European Commission approved 10 requests in 2011. 15 final reports were sent to Commission in 2011 under CF (Regulation 1164/94)/ISPA projects, of which 10 in the environment sector and 5 in the transport sector. The final payment under the project “Reconstruction, Development and Expansion of Sofia Airport: Lot B1 – New Terminal and Supporting Infrastructure” was received in July 2011. The final payment from the Commission is expected for the project “Technical Assistance for Preparation of an Investment Project – Water Sector, Sofia”. The Paying Authority prepared in 2011 interim certificates of 9 out of 32 effective projects including any non-certified eligible expenditure made prior to 31 December 2011.

The progress made with Programme funds in the last 11 years was presented to the tenth meeting of the Monitoring and Control Committee for CF (Regulation 1164/94)/ISPA projects (25 January 2011):

Achievements in the transport sector:

- New passenger terminal at Sofia Airport,
- 47 km of a single railway, 20 km of a double railway, 10 railway stations, 85 km of catenary network, 2 locomotive substations, 13 railway subways and 13 railway overhead crossings.
- 20 km of highways, including 18 bridges, 3 tunnels, 3 road nodes, 5 subways, 11 support walls, 15 fortification walls и 32 culverts, as well as 205 km of rehabilitated category I roads and 39 km of highways.

Achievements in the environment sector:

- 20 WWTP launched in operation in the towns of Smolyan, Lovech, Montana, Sevlievo, Popovo, Balchik, Bourgas, Meden Rudnik-Bourgas, Stara Zagora, Dimitrovgrad, Haskovo, Gorna Oryahovitsa, Pazardzhik, Blagoevgrad, Sofia, Russe, Varna, Sliven, Kyustendil and Targovishte;
- 252 km of sewerage network and 366 km of water supply network;
- 5 regional waste disposal sites in Montana, Russe, Sevlievo, Silistra and Sozopol servicing 29 municipalities;
- Water sector projects have been prepared for the towns of Plovdiv, Dobrich, Assenovgrad, Gotse Delchev, Bansko, Kardzhali, Yambol, Veliko Tarnovo, Pernik and Vidin, and the waste projects for Veliko Tarnovo, Levski, Borovo, Varna, Stara Zagora, Lukovit and Kostenets.

Decree No. 160 of 10.06.2011 ensures the resources needed for all payments under CF projects (Regulation 1164/94) managed by the Ministry of Environment and Water where the Managing Authority identified risks in 2011.

CEAOEF takes account of the progress made under ISPA projects managed by the Ministry of Environment and Water, the Ministry of Regional Development and Public Works and the Ministry of Transport, Information Technology and Communications. The effects expected from the projects already implemented as well as from those in implementation may be summarized as follows:

Environment sector:

- Improved quality of drinking water and waste water treatment which results in: improved environmental protection of the river basins; reduced risk of soil and underground water contamination; better protection of coastal flora and fauna; reduced risk for the health of people living near new waste water treatment plants; reduced contamination of border areas;
- Constructed facilities for disposal and use of solid waste;
- Constructed air cleaner facilities in industrial areas through desulphurization which improve the environmental situation in the relevant settlements.

Transport sector:

- Construction and linkage of large infrastructure sites of the national transport network (railways and highways) with the trans-European transport network (TEN-T),
- Construction and renewal of Sofia Airport.

CEAOEF welcomes the successful closure at the end of 2011 of the overall implementation of ISPA projects managed by the Ministry of Regional Development and Public Works, thus achieving 91% absorption of fund, which is the highest rate of implementation under this Programme compared to the other MAs. In view of the closing activities under the ISPA Programme, CEAOEF welcomes the readiness of the Ministry of Regional Development and Public Works to use the already set-up administrative capacity by forming a new unit within the ministry to perform the functions of an Intermediate Body for the management of water infrastructure.

Along with the progress made under the projects in the environment sector, managed by the Ministry of Environment and Water, CEAOEF welcomes the actions taken to finalize with national funds the projects whose deadline for eligibility of expenditure under the Financing Memoranda was not extended by the European Commission. Such is the case with the project for desulphurization of units 5 and 6 of TPP Maritsa Iztok 2 EAD.

CEAOEF also welcomes the progress made under technical assistance projects for preparation of infrastructure projects in the water and waste sectors subject to OPE financing.

As to the key ISPA projects in the transport sector, CEAOEF welcomes the successful closure of the project 2001/BG/16/P/PT/004.01 “Construction of Lyulin Highway”: Ring Road of Sofia – Daskalovo”, with Lyulin highway being operational as from 15 May 2011.

A number of measures were taken in 2011 to speed up the implementation of ISPA projects in the transport sector – construction of a bridge over the Danube River at Vidin-Kalafat and reconstruction of the Plovdiv-Svilengrad railway where more than 80% financial performance has been reached. CEAOEF welcomes the amendment to the Financing Memorandum for implementation of the Danube Bridge 2 project approved by the Commission which extends the deadline for eligibility of expenditure by 31.12.2012. CEAOEF considers that the actions taken to establish a joint company for management, operation and maintenance of the new bridge will contribute to the sustainable outcome of this key project. As to the project “Reconstruction and Electrification of the Plovdiv-Svilengrad Railway” and the refusal of the Commission to extend the Financing Memorandum, CEAOEF welcomes the strategy of the Ministry of Transport, Information Technology and Communications to finalize the project through the transfer of activities from ISPA to OP Transport. In this connection, the Commission approval received at the end of December 2011 of the proposal for project financing by OP Transport is a precondition for its successful implementation.

Based on the measures taken by the MA of the former ISPA Programme, CEAOEF notes that the problems identified in the Interim Report in relation to FM extension and technical assistance for the

preparation of infrastructure projects in the water and waste sectors subject to OPE funding have been mostly overcome.

SAPARD Programme

Progress Made

During the entire period of implementation of the SAPARD Programme in the Republic of Bulgaria financing contracts for 3,509 projects have been signed with total amount of the subsidy of EUR 724 million. Out of the contracted funds, EUR 451 million were practically absorbed by the end date for Programme payments (31.12.2009) for a total of 2,602 projects.

Problem Areas

With regard to the procedure for clearance of accounts under the SAPARD Programme for 2008, the European Commission proposed a financial adjustment of EUR 5.79 million. The Bulgarian side requested the launch of a conciliation procedure in order to reduce the financial adjustment down to EUR 4.96 million. The report of the Conciliation Body is expected in the middle of February 2012.

Recommendations

CEAOEF recommends to the State Agriculture Fund to take immediate actions to pay the subsidy under unpaid projects immediately after the closure of the proceedings by the competent authorities and their decision in favour of beneficiaries.

Special attention should continue to be paid to the developments in relation to the refunding of amounts such as payables written-off and refunded debts in 2010 to the Commission.

PART II: VISION AND CONTRIBUTION OF CEAOEF TO THE PREPARATION OF BULGARIA FOR PARTICIPATION IN THE PROGRAMMING PERIOD 2014-2020

CEAOEF activities in the second half of 2011 were performed entirely in the context of the priorities of the Polish Presidency of the EU. One of the key topics of the Polish Presidency was the holding of deliberations of the new Multiannual Financial Framework (MFF) of the EU in the period 2014-2020 and a discussion of reforms in key EU policies such as the Cohesion Policy, the Common Agricultural Policy and the Common Fisheries Policy.

CEAOEF took active part in the deliberations through the powers enshrined in the Lisbon Treaty (subsidiary control), as well as through the political dialogue with EU institutions. Specifically, CEAOEF gave its opinion on the Commission's draft legislation related with:

- MFF 2014-2020 and the system of EU own resources⁹;
- The package of legislative proposals of the European Commission on EU cohesion policy in the period 2014 – 2020¹⁰;
- The package of legislative proposals of the European Commission on the Common Agricultural Policy of the EU in the period 2014-2020¹¹;
- The reform in the EU Common Fisheries Policy.

In the positions voiced by the Bulgarian Parliament CEAOEF undertakes to closely monitor and participate in the process of Bulgaria's preparation for the next programming period. CEAOEF opinions, on the one hand, express the overall vision of the Bulgarian Parliament as to the forthcoming reforms in the above mentioned policies of the EU, and on the other hand, they are aimed to support and to be a starting point of the participation of the line ministries in the negotiations in the various formats of the EU Council.

CEAOEF is of the opinion that the evaluation of Cohesion Policy and Common Agricultural Policy reforms, as well as their impact on a national level, should be made in the context of debates of the new MFF for the period 2014-2020. CEAOEF finds the proposed MFF as a proper instrument for investment that serves the implementation of the Europe 2020 Strategy. The new multiannual framework envisages that spending of EU budget funds be result-oriented and linked to the achievement of European value added. In addition, CEAOEF has voiced its opinion that the EU budget needs to be cautious, taking account of the level of economic development of each member state. The Cohesion Policy should help to bridge the gap between the developed and developing economies and to implement the so-called process of catching-up.

EU Cohesion Policy for the period 2014-2020

The future of the EU Cohesion Policy was one of the main topics on the agenda of CEAOEF in 2011 and will remain topical in 2012 as well, given the will of the line ministries to go into the material part of the process of programming in 2012. CEAOEF expresses its readiness to support this process

⁹ [http://parliament.bg/pub/cW/20110928044942Statement_MFF_EN%20\(2\).pdf](http://parliament.bg/pub/cW/20110928044942Statement_MFF_EN%20(2).pdf)

¹⁰ http://parliament.bg/pub/cW/20111207044955Statement_Bulgarian%20Parliament_Cohesion%20Policy%20legislative%20package_en.pdf

¹¹ http://parliament.bg/pub/cW/20111216054352Statement_Bulgarian%20Parliament_CAP%20legislative%20package_en.pdf

and will continue monitoring the preparation of the sector strategies and of the National Development Programme: Bulgaria 2020.

In unison with the principle of double democratic oversight of its activities, CEAOEF organized in 2011 a series of hearings of representatives of the executive and triggered a broad discussion in Parliament with the participation of all stakeholders even before the publication of the Commission's legislative proposals in October 2011.

In this regard, upon initiative of CEAOEF, the Public Consultations Council held a meeting on 12 July 2011 on "The future of the Cohesion Policy: are we ready for the challenges of 2014-2020"¹² which was attended by Ms Tsetska Tsatcheva, President of the National Assembly, the ambassadors of the Troika Presidency, representatives of the executive, businesses, NGOs and academics. The discussion of the future of Cohesion Policy within the Public Consultations Council gave the starting point for planning the priorities for the next programming period which united the administration and the civil sector.

The debate launched helps to better understand the major aspects of this policy and to formulate a clear position supported by all parliamentary represented parties, the executive and the civil society. Among the CEAOEF events of greater importance devoted to the debate on the future of the EU Cohesion Policy are:

As a continuation of the discussions held within the Public consultations Council on the future of the Cohesion Policy, on 14 September CEAOEF voiced an opinion on the future of Cohesion Policy in the period 2014-2020 before the submission the legislative proposals of the European Commission¹³. Therein, CEAOEF makes some main conclusions from the current programming period and the challenges to the participation of the Republic of Bulgaria in the process of programming 2014 - 2020, laying down a balanced position of the vision of the National Assembly for participation in the debates on the future of the Cohesion Policy.

Vision of CEAOEF for participation of the Republic of Bulgaria in the process of Cohesion Policy programming in the period 2014-2020

Based on the positions voiced thus far on the programming process and the recommendations for an improved management of EU funds in the country, CEAOEF draws the following key guidelines the adherence to which would lead to better results for Bulgaria right from the start of the programming period 2014-2020:

- 1. A short and clear list of priorities** – based on the experience gained from the current programming period, CEAOEF is of the opinion that the list of Cohesion Policy priorities needs to be defined more precisely, to be targeted and shortened so as to be tailored to activities securing development and improvement of the potential for economic growth of the Republic of Bulgaria.

In this regard, CEAOEF pays attention that when drafting the future Partnership Agreement between the Republic of Bulgaria and the European Commission, the thematic objectives of the Common Strategic Framework as laid down in the proposal for a common regulation for the five Funds, COM (2011) 615, should be further specified and adapted to the needs of our country. Such an approach is needed so as to implement the so-called process of catching-up between the developed and developing economies. Taking account of the infrastructure deficit in CEE

¹² <http://parliament.bg/en/parliamentarycommittees/members/240/news/ID/348>

¹³ http://parliament.bg/pub/cW/20110926100001Statement_Bulgarian%20Parliament_Future%20Cohesion%20Policy_en.pdf

countries, CEAOEF considers that basic infrastructure remains among the key priorities for Bulgaria in the new programming period as well, for it is of paramount importance for the economic and social cohesion of the regions in the cohesion process.

In the context of the Europe 2020 Strategy, CEAOEF calls for laying emphasis on areas of high potential such as education/science and innovation and their connection with the business, development of green economy, energy and resource efficiency, etc.

2. Reaching wide consensus of key financing priorities in the next programming period and shaping a vision on the large infrastructural projects with impact on social, economic and regional cohesion – CEAOEF shares the view expressed by the new President's institution¹⁴ that only the unification of all institutions and the civil society around common national priorities, policies, projects included in the National Development Programme Bulgaria 2020 will bring sustainable results in the long run and will mobilize the nation's intellectual, spiritual and physical potential. In this regard, CEAOEF calls for including in the process of elaboration of strategic and programming documents of the Republic of Bulgaria for management of the funds of the Overall EU Strategic Framework 2014-2020 the largest possible range of participants from institutions, NGOs, business and academics. CEAOEF will continue contributing to the topic at national and EU level.

3. Building on the existing institutional framework – in the Interim Report on the Absorption of EU Funds CEAOEF makes a SWOT analysis of the idea for reforming the system for management of EU funds in the next programming period (2014-2020) through the establishment of a single centralized body for the management of EU funds in the form of an agency. The purpose of this analysis is CEAOEF to consider the idea of setting up a centralized body from all possible perspectives to support the executive with the further consideration of the topic.

The launched process of preparation of NDP Bulgaria 2020 is based on a new institutional framework for programming of the development of the Republic of Bulgaria¹⁵ including political (Development Council to the Council of Ministers) and operational level (work groups with the participation of representatives of the executive). The established institutional framework envisages that the line ministries be responsible for drafting the sectoral strategies outlining the policies for development of a given sector of state governance.

The process of preparation of strategic programming documents for Bulgaria's participation in the Cohesion Policy 2014-2020 also requires a certain coordination mechanism¹⁶ and a clear division of responsibilities among the key participants – the Coordination Council for EU Funds Management (established by Council of Ministers' Decree No. 70 of 14.04.2010), the Central Coordination Unit and the MAs. The setting up of a work group including a wide range of stakeholders is envisaged to prepare a draft Partnership Agreement. In accordance with the approved list of thematic objectives, thematic work groups will be set up to prepare the programmes to be financed by the Common Strategic Framework funds.

¹⁴ On 19 January 2012 the President-elect of the Republic of Bulgaria Rossen Plevneliev swore before the National Assembly and delivered his first speech as the new President: <http://parliament.bg/en/news/ID/2353>

¹⁵ Council of Ministers' Decree No. 110 of 03.06.2010 on the setting up of a Development Council to the Council of Ministers.

¹⁶ Council of Ministers' Decree No. 5 of 18.01.2012 on the elaboration of the strategic and programming documents of the Republic of Bulgaria for the management of EU funds under the Common Strategic Framework of the EU for the programming period 2014-2020.

Given the established strategic planning framework, CEAOEF takes account of the implementation of its recommendation made in the Interim Report for application of an integrated approach to planning based on vision – strategy – plans – programmes. All this has put in place the prerequisites for building up the existing system for coordination and management of EU funds in the country without necessarily seeking its transformation into a single centralized body. Adhering to this logic of planning will outline the framework for setting up a uniform legal basis for the following programming period in the form of an EU Funds Management Law.

4. **Project preparedness** – referring to the lessons learnt from the current programming period, CEAOEF calls for mobilization of the efforts to prepare a list of mature projects in line with the defined national priorities to be set in the future OPs and ready for financing right from the start of the programming period. Taking account of the specific needs of further construction of basic infrastructure (road and environmental), CEAOEF recommends that the focus of project preparation in the following programming period be towards more significant and large-scale investment of trans-national importance for the economic and social development of regions.
5. **Focus on results – “money for reforms”** – the new conceptual framework of the Cohesion Policy envisages a greater focus on attainment of the goals of the Europe 2020 Strategy through achievement of specific results and maximizing of the effects of EU financing.

In this context, CEAOEF draws the attention of the Managing Authorities when preparing for the new programming period to strengthen the link between EU funds and the implementation of country-important policies and reforms. CEAOEF welcomes the integrated approach among several OPs to carrying out the policy of deinstitutionalization of child care in Bulgaria. Institutions should continue making efforts to the successful implementation of other major reforms supported by EU funds, i.e. healthcare reform, education reform water sector reform, enhanced energy efficiency. At the same time, CEAOEF encourages the implementation of integrated projects where measures for improving the environmental infrastructure are linked to the overall concept of improving the urban environment and establishing the so-called growth centres.

The report has been prepared by:

**COMMITTEE ON EUROPEAN AFFAIRS
AND OVERSIGHT OF THE EU FUNDS**

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January, 2012