



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

Committee on European Affairs and Oversight of the European Funds

**INTERIM REPORT
on
THE ABSORPTION OF EUROPEAN
FUNDS
IN THE REPUBLIC OF BULGARIA
in 2011**

SUMMARY

September 2011

List of Abbreviations

AA	<i>Audit Authority</i>
AEUF EA	<i>Executive Agency for Audit of EU Funds</i>
BDB	<i>Bulgarian Development Bank</i>
CA	<i>Certifying Authority</i>
CBC	<i>Cross-Border Cooperation</i>
CCU	<i>Central Coordinating Unit</i>
CEAOEF	<i>Committee on European Affairs and Oversight of the European Funds</i>
CEUFMC	<i>Council for EU Funds Management Coordination</i>
CF	<i>Cohesion Fund</i>
CoM	<i>Council of Ministers</i>
CoMD	<i>Council of Ministers Decision</i>
DCoM	<i>Decree of the Council of Ministers</i>
EARDF	<i>European Agricultural Fund for Rural Development</i>
EC	<i>European Commission</i>
EEA	<i>European Economic Area</i>
EFF	<i>European Fisheries Fund</i>
EIA	<i>Environmental Impact Assessment</i>
EIB	<i>European Investment Bank</i>
EIF	<i>European Investment Fund</i>
ERDF	<i>European Regional Development Fund</i>
ESF	<i>European Social Fund</i>
EU	<i>European Union</i>

FM	<i>Financial Mechanism</i>
IA	<i>Implementing Agency</i>
IAWP	<i>Indicative Annual Work Programme</i>
IB	<i>Intermediate Body</i>
IPA	<i>Instrument for Pre-Accession Assistance</i>
JMC	<i>Joint Monitoring Committee</i>
MA	<i>Managing Authority</i>
MC	<i>Monitoring Committee</i>
NA	<i>National Assembly</i>
NAC	<i>National Aid Coordinator (for EU assistance)</i>
NAO	<i>National Audit Office</i>
NAO PHARE	<i>National Authorizing Officer PHARE</i>
NGO	<i>Non-Government Organisation</i>
NSRF	<i>National Strategic Reference Framework</i>
OP	<i>Operational Programme</i>
OPAC	<i>Operational Programme “Administrative Capacity”</i>
OPDCBE	<i>Operational Programme “Development of the Competitiveness of the Bulgarian Economy”</i>
OPE	<i>Operational Programme “Environment”</i>
OPFSD	<i>Operational Programme “Fisheries Sector Development”</i>
OPHRD	<i>Operational Programme “Human Resources Development”</i>
OPRD	<i>Operational Programme “Regional Development”</i>
OPT	<i>Operational Programme “Transport”</i>
OPTA	<i>Operational Programme “Technical Assistance”</i>
PA	<i>Priority Axis</i>

PP	<i>Political Party</i>
RDP	<i>Rural Development Programme</i>
RSCoMA	<i>Rules governing the Structure of the Council of Ministers and its Administration</i>
SCF	<i>Structural and Cohesion Funds</i>
SME	<i>Small and Medium-sized Enterprises</i>
SR	<i>Structural Rules</i>
UMIS	<i>Unified Management Information System for management and monitoring of the EU structural instruments in Bulgaria</i>
UWTP	<i>Urban Wastewater Treatment Plant</i>

This Interim Report on the Absorption of EU Funds in the Republic of Bulgaria in 2011 was prepared in accordance with Article 3 (1), item 3 of the Rules Governing the Organization and Activity of the Parliamentary Committee on European Affairs and Oversight of EU Funds (CEAOEF) of the 41st National Assembly of Bulgaria. The paper is based on input on the implementation of the various EU-funded Programmes and instruments as provided by the relevant public administration entities responsible for their management or coordination. The report presents the current status as of 30 June 2011.

CEAOEF wishes to thank the executive government entities for their cooperation in providing the relevant information in the course of preparing this report, and expects that the current useful cooperation in the area of European Funds will continue as a good practice in the future.

It should be noted that for the purposes of data comparability in this report, 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 EUR 1 = BGN 1.95583. Currency conversion and rounding off may have led to minor adjustments in the source data used in the analysis.

*The **financial progress** presented in the tables below with a **breakdown by Operational Programme** shows:*

Cumulative financial progress:

- *Amount allocated to contracts signed (amount contracted), according to data provided by UMIS;*
- *Grant disbursements (amount paid out), according to data provided by the Certifying Authority (the National Fund Directorate of the Ministry of Finance);*
- *Each of these two amounts shown as a percentage of the total budget of the Programme.*

Progress made in the first six months of 2011 (1 January 2011 – 30 June 2011):

- *Amount allocated to contracts signed (amount contracted), according to data provided by the respective MA of the OP;*
- *Grant disbursements (amount paid out), according to data provided by the respective MA of each OP.*

I. PROGRESS MADE IN THE MANAGEMENT OF EUROPEAN FUNDS IN THE REPUBLIC OF BULGARIA BETWEEN 1 JANUARY AND 30 JUNE 2011: RECOMMENDATIONS / CHALLENGES

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 monitor corrective action undertaken by the government** to overcome any bottlenecks in the system of managing European funds found by CEAOEF.

In view of the **horizontal recommendations** made in the 2010 CEAOEF Annual Report concerning **the public procurement process** for the implementation of approved projects, and concerning **the administrative capacity of units managing European funds**, CEAOEF has found that as of 30 June 2011 the following developments have taken place:

Positive Effects of the Amendments to the Public Procurement Act:

Over the first half of 2011, **considerable progress was made in terms of the planned amendments to the Public Procurement Act** pending for approval by the National Assembly in September 2011. Their implementation should eliminate any excessive administrative burden and streamline the public procurement process, thus speeding up the implementation of EU-funded projects. The ex-ante control performed by the Public Procurement Agency is a factor ensuring **legal compliance of public procurement procedures** and **reducing the risk of any subsequent financial corrections** that might be applied to projects already approved. CEAOEF points to the need to strengthen the administrative capacity of the Public Procurement Agency to ensure efficient exercise of the Agency's extended powers. In response to the recommendation made by CEAOEF in its 2010 Annual Report to introduce standard document formats, arrangements have been made to design **standard tender documentation** to be used in the procedures regulated in the Public Procurement Act, which will further assist the candidates. Also, the amendments to the Public Procurement Act were viewed positively by the EC in its 2011 Report on the progress made by the Republic of Bulgaria under the Cooperation and Verification Mechanism.

To ensure an objective assessment of the effect of legislative changes in the public procurement area on projects implemented with EU funding, CEAOEF will monitor and review the implementation of the adopted measures, as part of the regular hearings on Operational Programmes.

Administrative Capacity of Units Responsible for the Management of European Funds:

During the period under review, efforts to build up and strengthen the capacity of administrative structures continued. Using the technical assistance component of the respective OPs, new regulations now make it possible to **hire additional experts under Labour Code employment arrangements** to support the core administration staff of MAs and IBs.

To ensure a more efficient absorption of funds from the EU SCFs, the current programming period envisages the sourcing of **technical assistance for the Bulgarian public administration from international financial institutions**, and in particular from the World Bank, the European Bank for Reconstruction and Development, and the European Investment Bank. Such assistance will be provided in the form of consulting services to MAs of OPs and will be funded as part of the technical assistance within the respective OP. In this respect, **CEAOEF calls for rapid action to design the mechanism for the provision of such technical assistance.**

Preparations continue for the so-called **Bulgarian JASPERS Initiative**: mobile groups of experts which will provide support to municipalities across the country in preparing procedures under the Public Procurement Act, and with project implementation. For this purpose, a project was developed within OPTA for "*Setting up a mobile extension service unit to provide support to local and regional administrations in the implementation and management of SCF-funded projects*". The project will provide professional expertise to beneficiaries in solving specific issues in the implementation and management of infrastructural projects. The actual project implementation activities are expected to commence in the second half of the year. CEAOEF believes that the expected practical launch of this initiative will contribute for enhancing the administrative capacity of municipalities in the preparation and implementation on infrastructural projects.

Management and Control Systems

During the period under review, the management and control systems of the various Operational Programmes were found to function in a satisfactory way. The Audit Authority reported that in order to improve their operation the MAs undertake timely and adequate corrective action, and their control activities are focused on potential risks.

Progress Made in the Management of European Funds over the First Half of 2011:

In reviewing the first half of 2011, CEAOEF finds that the following main results achieved under the various Programmes and financial instruments indicate a **positive progress** in the management of European funds in the Republic of Bulgaria:

- **Amounts paid out.** According to data provided by the **Certifying Authority**, under the 7 Operational Programmes under Objective 1: “Cohesion”, **another EUR 249.1 million were paid out** in the first half of 2011, bringing the total amount of payments made as of **30 June 2011** under these Programmes to approximately **EUR 1,1 billion (13.2 % of the total budget)**;
- **Contracted amount.** According to data provided by the CoM **Central Coordinating Unit**, under the 7 Operational Programmes under Objective 1: “Cohesion”, another **EUR 884.2 million** were contracted in the first half of 2011, bringing the total amount contracted as of **30 June 2011** to more than **EUR 3,8 billion (47.8 % of the total budget)**;
- **Execution of LOTHAR forecasts.** The reporting period shows a relatively good level of execution of forecasts made under the LOTHAR Instrument (ranging between 69-75 % under the various indicators: contracted amount, verified and certified expenditure). CEAOEF welcomes the improved use of this financial planning instrument by MAs;
- In line with one of the recommendations which CEAOEF has often made to the executive government entities, namely, to provide electronic services for beneficiaries (for project applications and reporting), **the Electronic Services Module of UMIS** was launched on **15 June 2011**. As a positive development, CEAOEF notes the system interface between **UMIS and CBCMIS** (for CBC Programmes along EU external borders), which improves the quality of control and prevents any duplication in funding;
- As follow-up on another CEAOEF recommendation, namely, streamline the project application and management process and introduce standard document formats, the appropriate regulative changes were adopted during the period under review. The requirement to develop **standard templates for the application form** was introduced (DCoM No. 121/2007); **the standard document template** required under DCoM No. 55/2007 was revised. CEAOEF also welcomes the plans to simplify the public procurement process, making it easier for beneficiaries, by adopting amendments to the Public Procurement Act, including the idea to develop **standard tender documentation sets** for the purposes of public procurement procedures;
- As another positive aspect in the developments during the period under review, CEAOEF notes **the dramatic upturn in the preparation and approvals of application forms in the transport area**, both in the road and the railway sectors (rehabilitation works along the Plovdiv – Bourgas railway line, modernization of the Sofia – Plovdiv railway, the Strouma Motorway, the Maritsa Motorway). 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 during the period under review;

- CEAOEF welcomes the excellent communication arrangements between the Ministry of Interior and MoF concerning the Schengen Facility, and the timely submission to the EC, within this reporting period, of the **Final Report** on the 100% implementation under the Schengen Facility. In support of the intense efforts of the Government aimed at the accession of the Republic of Bulgaria to the Schengen Area, CEAOEF expresses its satisfaction with the fact that our country has fully met all the technical criteria for full membership of the Schengen Area;
- As of **30 June 2011**, the **Memoranda of Understanding concerning all CBC Programmes** have been successfully finalised, and the process is expected to be finalised in the nearest future for the Bulgaria – Serbia CBC Programme as well. CEAOEF has provided, and will continue to provide, its support for the timely completion of the ratification process in the National Assembly;
- CEAOEF welcomes the action undertaken by the Government in relation to the preparations of the Republic of Bulgaria to participate in the future EU Cohesion Policy. An analysis of its social and economic development was prepared, and a draft vision for “**Bulgaria 2020**” was developed in the **National Development Programme**.

Recommendations / Challenges:

Following a thorough analysis of the information submitted by OP Managing Authorities on the results achieved in the first half of 2011, CEAOEF has identified the following key challenges in view of improving the European funds management system in the Republic of Bulgaria:

1. Interim Assessments

According to **Regulation (EC) 1083/2006**, Article 47, the aim of evaluation is to improve the quality, effectiveness and consistency of the assistance provided from the Fund. Recognizing that evaluation is a key component of the management of funds from the SCFs, CEAOEF recommends a more timely conduct and finalisation of the **interim assessment** process to evaluate the implementation of OPs (other than OPRD, where the process has already been completed). Results from these assessments will provide information needed to improve Programme implementation and will provide support for their overall management. They will **help identify any need to re-focus financial resources**, and highlight practices which work well vs. those which are less effective.

In order to facilitate future planning for the next programming period 2014-2020 and minimize potential threats of funding becoming unavailable, the efficiency and effectiveness of the utilization of Structural Funds need to be analysed. For efficiency, a methodology needs to be developed, so that if results indicate that a certain Operational Programme underperforms, the necessary changes could be made to the system of allocating financing from the Structural Funds.

2. Targeting Resources at Measures and Activities Which Contribute for the Implementation of the Necessary Sectoral Policies and Reforms

By way of preparation for the next programming period, in which EU funding is expected to be strongly linked to performance (“*cash for reforms*”, or the so-called **conditionalities** in the appropriation of Structural Funds), CEAOEF recommends that MAs focus their efforts on strengthening that link in OP implementation. OPRD and OPHRD can serve as good examples in this regard: they Programme their grant schemes so as to contribute to the implementation of significant social and economic reforms (in the area of employment, social inclusion, childcare, healthcare etc.), including by shifting funds between the various priority axes.

This recommendation is not limited solely to Programmes under Objective 1: “Cohesion”, it applies also to RDP, where there is an imbalance in the interest shown by potential beneficiaries in the various measures available.

3. Speeding Up Contracting

CEAOEF calls upon the executive government entities to focus their **efforts on intensive contracting of funds available for OPs under Objective 1: “Cohesion” until mid-2012 by way of priority**, in order to minimize the probability of having to return funding under these Programmes back to the Community budget. Next, the main thrust should be on high quality and timely performance under the contracted projects. This recommendation is particularly relevant in the case of larger infrastructural projects as they are more complex in nature and have highly technical features and a higher risk accumulating implementation delays due to a late start in the beginning of the programming period, lack of administrative capacity, and unforeseen circumstances.

4. Planning for the Next Programming Period

CEAOEF welcomes the steps undertaken by **OPRD** and **OPE** to develop a vision for the future of sectoral interventions in the context of the post-2013 Cohesion Policy. **CEAOEF recommends that a similar process be launched as soon as possible for the rest of the OPs, with the CCU taking up a strong coordination role. The three key issues in the context of the next programming period should be: strategic programming, targeting of resources, and a results-oriented approach (conditionality/reforms).**

5. Maximum expansion of the applicant base, expansion of the range of electronic services available to beneficiaries, including electronic filing of project applications and electronic project reporting, and outsourcing of highly technical activities in project management.

CEAOEF once again points to the **need to standardize financial execution data from the various sources** (CA, CCU and MAs).

II. REVIEW, BY EU-FUNDED PROGRAMME, INSTRUMENT AND FACILITY AS OF 30 JUNE 2011

1. OPERATIONAL PROGRAMME “TRANSPORT”, 2007-2013

Total budget (EU and national co-financing)	Financial progress for the period 01.01.2011 – 30.06.2011		Cumulative financial progress (01.01.2007 – 30.06.2011)	
	<i>Contracted amount</i>	<i>Amounts paid out</i>	<i>Contracted amount (% of total budget)</i>	<i>Amounts paid out (% of total budget)</i>
EUR 2,003,481,166	EUR 474,844,066	EUR 119,174,358	EUR 1,074,182,524 (53.62 %)	EUR 231,677,967 (11.56 %)

Progress Made

According to data provided by CCU, in the first half of 2011 the Programme exhibited an **81 % growth in contracting** (based on comparing the values for this indicator as of 30 June for 2010 and 2011, respectively). In the past **6 months**, over **EUR 478.4 million** has been contracted, and the total contracted amount as of the end of June 2011 from the beginning of the programming period rose to over **EUR 1,074 million**.

According to data provided by the Certifying Authority, as of **30 June 2011** a total of **EUR 231.7 million** has been paid out under OPT, representing about **11.6%** of the resources available under the Programme. For comparison, payments as of **30 June 2010** amounted to **EUR 77.5 million**. Practically, almost **EUR 119.2 million** in fresh funding reached the Programme beneficiaries during the period under review.

Currently, **5 infrastructural projects** are being implemented under OPT:

- “*Electrification and rehabilitation of the Svilengrad – Turkish Border railway line*”;
- “*Rehabilitation of railway infrastructure in certain sections of the Plovdiv – Bourgas railway line*”;
- “*Completion of the Trakia Motorway, lots 2, 3 and 4*”;
- “*Extension of the Sofia Metropolitan – Stage I, Nadezhda Road junction – Cherni Vruh Blvd.*”;
- “*Extension of the Sofia Metropolitan – Stage II, Lot 1, Obelya – Nadezhda, and Lot 2, Mladost – Tsarigradsko Chaussee.*”

The largest share of **funds contracted** is that under **PA 1** of OPT, due to the notable progress made in the first half of 2011 in the preparation of project application forms and the award of contracts for key projects in the railway sector. Provided all initiated procedures are successful, the OPT MA expects that both the grant awards under the Programme and the contract awards with contractors for the projects will be signed by the end of this year. The beneficiary, the National Railway Infrastructure Company, applied for OPT funding for projects the total budget for which exceeds the resources budgeted under PA 1 by about **EUR 310 million**.

Physical implementation of the project for “*Extension of the Sofia Metropolitan, Stage II*” was completed at **70%**. A procurement procedure is also under way, for the supply of rolling stock worth about **EUR 100 million**.

The highest share of **payments** is that under **PA 3**, due to the smooth and well-paced implementation of the **Metropolitan Extension (Stage I) Project**.

According to data provided by the Road Infrastructure Agency, approximately **one-quarter of construction works**¹ for each of the lots under the **Trakia Motorway** Project has already been completed. During the period under review, considerable progress was made in preparing the application forms for the **Strouma Motorway** projects (for Lots 1, 2 and 4, it is expected that the form will be submitted for consideration and approval by the MA by the end of July 2011, and by the end of 2011 for Lot 3) and for the **Maritsa Motorway** (the form was submitted by **the Road Infrastructure Agency** for approval by the MA on **29 June 2011**).

With an implementation rate of **47%** of the projection for European funds to be contracted by the end of June 2011 according to the **LOTHAR Instrument**, OPT ranks last among the 7 Operational Programmes according to this indicator. The average implementation rate of the forecasts for all Operational Programmes was **74.65%**.

Problem Areas:

The main problem in the Programme implementation still has to do with **the low funds absorption rate**, considering the current stage in the financial perspective (**11.6%** of payments made as of **30 June 2011**). This is due primarily to the slow process of preparing the application forms. Despite the highly technical nature of OPT, it should be noted that the Programme remains in the fifth position in terms of total payments made, out of the seven OPs under Objective 1: “Cohesion”. However, the growing number of projects at the stage of actual implementation will considerably improve Programme performance according to the financial indicators. As regards contracting, the only Programme with a good performance record as of 30 June 2011 is OPRD, and the rate of contracting under OPT is better than the average for the seven OPs under Objective 1: “Cohesion”.

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 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 (there is a real danger of foregoing funds at the end of 2012 – 2013, and the highest risk in that respect remains with the implementation of projects in the road sector and the project to improve navigation along the Danube River);

¹ The level of completion has been reported on the basis of payments made against the certificates approved and verified.

- 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;
- 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 expected avalanche of growing workload on the projects.

No contracts have been signed yet for grant awards under **PA 4: “Improving navigation along marine and inland waterways”**, which is a cause of concern. There is still a high risk of non-performance for the main project under this PA, **“Improving navigation in the Bulgarian-Romanian section of the Danube River near the islands of Batin and Belene”**. Its implementation strongly depends on the outcome of surveys carried out by entities in the Republic of Romania under the ISPA Pre-Accession Programme.

To sum up, without underestimating the tangible progress under OPT achieved during the first 6 months of the current year, CEAOEF believes that **additional efforts are necessary to further speed up the Programme implementation processes in Bulgaria.**

Recommendations:

CEAOEF welcomes the serious commitment and the efforts of the political leadership of the Ministry of Transport, Information Technology and Communications, and the series of initiatives launched by Mr Tomislav Donchev, the Minister for EU Funds Management, to step up improvements in the current situation and successfully implement the interventions planned in the transport sector.

CEAOEF recommends that the MA should consider a range of options for financing projects which are well advanced in the pipeline and address real public needs, at the expense of projects which have accumulated serious delays in preparation. One such example is the inclusion of Stage II of the Extension of the Sofia Metropolitan in the scope of PA 1.

At its regular meeting on **1 June 2011**, CEAOEF discussed the draft proposal for an Act Amending the Roads Act² submitted by the Council of Ministers on 27 May 2011 which contained a proposal to set up a state-owned company, the **National Company for Strategic Infrastructural Projects**, with the aim of stepping up the implementation of strategic infrastructural projects (such as the Strouma, Hemus and Chernomore motorways). CEAOEF welcomes this as an effort to build additional capacity to absorb EU funds, speed up project preparation, and also to overcome the shortage of highly specialized expertise in the implementation of major infrastructural projects of national and European importance.

At the same time, CEAOEF urges for the application of a working mechanism to ensure effective communication, coordination and complementarity in the operations of the company in question with the Road Infrastructure Agency, and for provisions to be made for the post-project activities of the Project Company, borrowing from the example of many of the EU Member States.

² The Act was adopted by the 41st National Assembly of the Republic of Bulgaria on **7 July 2011**.

Overall, CEAOEF reiterates its general recommendation made in previous reports on this topic as to **the need to undertake swift and adequate action to further streamline the process of OPT management and significantly step up actual construction works under the Programme.**

2. OPERATIONAL PROGRAMME “ENVIRONMENT” 2007-2013 (OPE)

Total budget (EU and national co- financing)	Financial progress for the period 01.01.2011 – 30.06.2011		Cumulative financial progress (01.01.2007 – 30.06.2011)	
	<i>Contracted amount</i>	<i>Amounts paid out</i>	<i>Contracted amount (% of total budget)</i>	<i>Amounts paid out (% of total budget)</i>
EUR 1,800,748,085	EUR 173,756,421	EUR 31,851,524	EUR 656,675,375 (36.47 %)	EUR 157,346,136 (8.74 %)

Progress Made:

According to data provided by MA, **EUR 656.7 million** was **contracted** in grant awards under this Operational Programme as of 30 June 2011, or almost **36.5 %** 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 as of 30 June 2011 under existing contracts stood at **EUR 157.3 million**, or **8.74 %** of the total Programme budget. This marks an increase of about EUR 32 million in payments under the Programme when compared to the total amount paid out as of 31 December 2010 (EUR 125,4 million, or 7 % of the Programme budget).

CEAOEF welcomes **the measures undertaken by the MA to ensure better financial performance under the Programme and facilitate the beneficiaries’ reporting process**, namely:

- By preparing a **quarterly action plan for verifications and payments under OPE**, which makes it possible to monitor the achievement of short-term and more concrete targets, with the possibility to undertake the relevant corrective measures in case of delays;
- **Quarterly reporting** of progress made under the projects (starting from 1 July 2011), which removes the requirement for beneficiaries to submit monthly summary reports. For the purposes of quarterly reporting, the MA developed **new guidelines for filling out and filing reports on the implementation of projects** funded under OPE.
- Active dialogue and consultations with municipalities on project development and implementation continues, along with continuous **beneficiary training**, most often on frequent mistakes in project preparation.

Water Sector

As of 30 June 2011, **11 water sector investment projects were commissioned into operation**, at a total value exceeding EUR 83 million. Twenty-six contracts for the provision of technical assistance in the preparation of investment projects worth about EUR 17.8 million were successfully implemented.

MA reported a high interest among municipalities in the current grant schemes for upgrading and developing of potable and waste water infrastructure in agglomerations of over 10,000 PE.

CEAOEF recognises the actions undertaken by the MA as follow-up on its recommendation made in the 2010 CEOEF Annual Report, to enable OPE support for the so-called „small agglomerations” (less than 10 000 population equivalents). The MA is developing requirements for design, approval and construction procedures for waste water networks and urban wastewater treatment plants (UWTP), adapting technical solutions to the specifics of small agglomerations. In parallel, the availability of financial resources under the Programme is being analysed in order to explore possibilities to provide support for some **agglomerations of less than 10,000 PE**.

In order to **support reforms in the water and sewerage sector**, the delay of which was identified by the EC as a major factor behind the delay in the OPE implementation in the water sector, the MA undertook concrete actions, including:

- an amendment to OPE to include the Ministry of Regional Development and Public Works as a designated beneficiary of the Programme;
- funding was provided for activities aimed at setting up a special unit in the Ministry of Regional Development and Public Works, capacity building for water and sewerage associations and operators, and the development of strategic documents on the development of the water and sewerage sector.

Problem Areas:

As of 30 June 2011, the problems established by CEOEF in its 2010 Annual Report are yet to be removed; these have to do with cases of **irregularity in public procurement** and the subsequent **financial corrections which threaten the financial stability of municipalities**. The chronic **shortage of funds for municipalities to cover their own contribution** in the implementation of large-scale infrastructural projects persisted. To this set of problem areas, one should also add **the risk of delays in the preparation and implementation of municipal projects in view of the upcoming local elections** in Bulgaria (particularly in the municipal waste sector, where there is an open call for project proposals for the development of regional waste management systems).

Taking account of the efforts made by the OPE MA over the past year and a half to streamline the management of the Programme, which caused a considerable delay in the rate of contracting and, consequently, payment, CEOEF finds that **improvement according to these indicators remains unsatisfactory**.

Recommendations:

In view of the **delay in the Interim Assessment of OPE**, CEOEF recommends to step up the public procurement procedure for the selection of a contractor to perform the assessment. CEOEF stresses that results from the Interim Assessment serve as a valuable source of information and recommendations to streamline the Programme before the end of programming period.

To avoid the risk of automatic de-commitment of funds (the so-called n+3/n+2 rule) at the end of 2011, CEOEF will keep a close eye on MA's implementation of the payments planned under the Programme for the period until the end of year, including implementation

of the quarterly action plan for verifications and payments under OPE, and the LOTHAR forecasts for the period until the end of 2011.

In regard to contracting, CEAOEF finds that a considerable portion of contract awards fall under the so-called “technical assistance” for the preparation of investment projects. In this connection, CEAOEF considers it necessary **to speed up the process of collection and assessment of project proposals** by the designated beneficiary municipalities for the implementation of the developed investment project proposals. In order to speed up the contracting process, CEAOEF recommends that **the MA make provisions to award contracts in additional amounts** to be financed in case of savings resulting from successful tender procedures or from financial corrections.

In order to improve the level of maturity of project proposals for small agglomerations (between 2,000 and 10,000 population equivalents) for the upgrading and development of potable and waste water infrastructure, CEAOEF considers it necessary for the MA to step up its efforts to develop **the methodology and criteria for evaluating project proposals**.

3. OPERATIONAL PROGRAMME “REGIONAL DEVELOPMENT” 2007-2013 (OPRD)

Total budget (EU and national co-financing)	Financial progress for the period 01.01.2011 - 30.06.2011		Cumulative financial progress (01.01.2007 - 30.06.2011)	
	<i>Contracted amount</i>	<i>Amounts paid out</i>	<i>Contracted amount (% of total budget)</i>	<i>Amounts paid out (% of total budget)</i>
EUR 1,601,274,759	EUR 130,443,602	EUR 44,105,754	EUR 946,358,417 (59.10 %)	EUR 229,821,500 (14.35 %)

Progress Made:

According to data provided by the OPRD MA, as of 30 June 2011, **612 contracts were awarded** for a total grant amount of **EUR 946 million**, representing **59%** of the Programme budget. According to data provided by the Certifying Authority, **payments made** as of 30 June 2011 amounted to **EUR 229.8 million**, which is **14.35 %** of the Programme budget.

As of 30 June 2011, **38 calls for grants totalling EUR 1.4 billion were published**, which is about **87 %** of the OPRD budget (EUR 1,6 billion). Another **6 new calls** are to be published by the end of 2011, making available another **EUR 174 million**, which will bring the total of OPRD operations to **98%** of its budget.

Following-up on the CEAOEF recommendation for synergy and complementarity between the activities of OPRD and OPHRD in implementing **reforms in childcare and family care support systems**, the Committee welcomes the efforts of the OPRD MA to ensure the successful implementation of the *Vision to de-institutionalize childcare in the Republic of Bulgaria*.

Following a decision of the OPRD MC, **funding for the development of appropriate infrastructure for the provision of community-based social services was increased** from EUR 20 million to **EUR 54.7 million**. In January 2011, there was a call for the grant scheme for *“Support for de-institutionalization of social institutions offering services for children at risk”*, and 26 project proposals have been submitted to date, with assessment to be launched in July 2011. Concerning the **de-institutionalization of homes for medical and social care**, the budget provides for **EUR 5.1 million** under the grant scheme for *“Support for rehabilitation, renovation and refurbishment of state-owned medical and health establishments in urban agglomerations”*, with the Ministry of Healthcare as the designated beneficiary. The assessment of the project fiche has already been completed, and a decision of the authorizing officer of the OPRD MA on the grant award is to be published in July.

CEAOEF expresses its satisfaction with the speeding up of implementation of **measures to de-institutionalize children with disabilities and the de-institutionalization of children placed in homes for medical and social childcare planned by the OPRD MA**.

CEAOEF approves of **the consistent efforts of the OPRD MA to achieve synergies through measures under OPHRD**, both at the level of planned activities, and between the different funding sources of the two Operational Programmes, ERDF and ESF. Building upon the successful practice of support for the process of de-institutionalization of children in Bulgaria, CEAOEF welcomes the grant scheme for the provision of **modern social housing accommodation for vulnerable groups**, which is to be announced at the end of August 2011. A major requirement in interventions aimed at social housing development will be to demonstrate an **integrated approach** vis-à-vis other types of interventions under OPHRD, such as **training and job Programmes, improving the quality of children’s education, etc.** For the current programming period, and in light of the limited resources available for this scheme (EUR 8 million), the OPRD MA set itself the objective to establish **a pilot model** for the provision of modern social housing in one or two municipalities within the urban agglomeration areas. This approach will offer the possibility for tangible results from the activities undertaken.

In regard to the **housing policy**, CEAOEF welcomes the approach adopted by the OPRD MA to **combine grants and financial engineering tools** (by setting up a special financial engineering instrument, the **Fund Manager for Housing Policy**) in the implementation of the future grant scheme for **energy efficiency in multi-family residential buildings**. CEAOEF believes that such initiatives are necessary in order to prepare the beneficiaries for funding models under the Cohesion Policy in the next programming period (primarily through financial engineering instruments).

Concerning the grant scheme for **Integrated Urban Transport** in the 7 larger cities in Bulgaria, progress was reported on the project for the development of integrated urban transport in the **Sofia City Municipality**. The application form was presented for assessment by the MA at the end of May 2011. CEAOEF welcomes the approach of seeking **synergy with OP “Transport”**, since the main focus of the project is on **technical connectivity with the Sofia Metropolitan project**. Thus the measures funded under OPRD (construction of new routes for tram services to connect with metro stations, setting up an intelligent traffic management system by means of the so-called “green wave”, fast lanes for urban transport, etc.) complement the idea of integrated urban transport in Sofia.

All grant schemes planned till the end of 2011 demonstrate a **strategic focus in planning**

Programme interventions aimed at implementing key national policies in the social area relating to the process of de-institutionalization, health reform, housing policy, etc.

During the period under review, progress was also made in regard to the announced grant scheme for the **reconstruction, rehabilitation, and refurbishment of state-owned health infrastructure**, with the Ministry of Healthcare as the designated beneficiary, which includes funding for 13 public hospitals. The grant funding is intended for works on **wards focused primarily on oncology, diagnostics and treatment of oncology diseases, construction of radiation therapy and radiation treatment bunkers and the acquisition of specialized oncology equipment**. Contracts were signed with all eligible state-owned hospitals, and the next step is for the Ministry of Healthcare to initiate public procurement procedures for the implementation of projects for each hospital. The purpose of centralizing the public procurement process is to save time and money and obtain competitive price offers for project activities.

CEAOEF welcomes the progress made on the grant scheme, in light of the fact that **funds invested in high-tech medical equipment and appliances for early diagnostics and treatment of oncology diseases provide support instrumental for the comprehensive health reform in Bulgaria**. In view of the high levels of incidence and mortality caused by oncology diseases, **improvements in early diagnostics, quality and access to oncology treatment** are seen as a **leading priority in health reform** in the *Hospital Restructuring Concept Paper*.

On the **JESSICA Initiative**, progress was made in the selection of Urban Development Funds: the selection criteria for UDF were approved, and the selection procedure is now in its final stage (the next steps are to hold negotiations with shortlisted UDFs and sign Operational agreements with them). In February, a consultant was selected to conduct a feasibility study for potential JESSICA-type projects in Bulgaria's 7 larger cities, with the goal to provide support to potential candidates in the selection of mature projects aimed at urban development and public awareness campaigns.

CEAOEF supports the plans to provide funding under OPRD (EUR 20.5 million) for the development of **infrastructure for broadband access in settlements in rural municipalities**, which shows the determination of the MA to mitigate regional disparities under this indicator. From the Estonian example, where the efficiency of such support can be seen in very practical terms, CEAOEF believes that the presence of this type of infrastructure has an immediate positive impact on the economy. Also, it helps retain young people in the respective settlements, and promotes the overall development of the country in a wider context.

In order to improve the quality of project proposals and the overall implementation process of approved projects, **measures were undertaken to strengthen the capacity of municipalities as the main beneficiaries under the Programme**. CEAOEF welcomes the approach adopted by the MA in setting up a mechanism for on-going training (offered throughout the programming period) for Programme beneficiaries in how to prepare and implement projects, and considers it a good practice. In this connection, under the Technical Assistance Priority Axis, a contract was awarded to **“Develop customized training for beneficiaries by operation, and provide consultations on the OPRD project development and implementation”** and it is currently being implemented.

It is worth mentioning the progress made in following up on CEAOEF's recommendation from its 2010 Annual Report to **strengthen the capacity of individual state institutions as beneficiaries** under the Programme in OPRD project development and implementation. The OPRD MA provided an opportunity for the designated OPRD beneficiaries to apply under Priority Axis 5: "Technical assistance", whereby a budget line of EUR 200 000 is set up for each of them, for **projects in support of setting up an expert team to manage the Mid-term Framework Investment Programmes, and the relevant specialized training**.

OPRD is the first Programme to have successfully completed an Interim Assessment and the results of that serve as a valuable resource both for improving the management and implementation of the Programme in the current programming period, and as a point of reference for the programming process for the next programming period 2014 – 2020.

CEAOEF welcomes the active endeavours of the MA in **preparation for the next programming period, 2014-2020**, and its initiative to **conduct a social and economic needs-analysis in view of OPRD in the new period**, as part of the project for "Regional development programming for the 2014-2020 period". The results of this analysis will be used to prepare documents dealing with Bulgaria's regional development: the National Regional Development Strategy and Regional Development Plans. In this connection, under a public procurement procedure, a contractor was selected at the end of June 2011 to prepare the analysis, and the contract is soon to be signed.

Problem areas:

The OPRD MA undertook the appropriate measures to overcome the difficulties identified in the following areas: the exercise of ex-ante and ex-post control of public procurement procedures, including in case of irregularities and financial corrections; improvement of the quality of works on infrastructural projects; the application of a standard approach in spot checks; strengthening the capacity of regional desks of the OPRD MA, and the capacity of Programme beneficiaries.

Recommendations:

CEAOEF congratulates the OPRD MA for the very steady rate of contracting and absorption of Programme funds, and for the tangible effect which the implemented projects have on the community. CEAOEF takes note of the **strategic focus** in planning the Programme measures – **in support of implementing key policies and reforms** in the social and health areas and in infrastructure. Another key aspect which CEAOEF stresses as a positive example in the Programme is the **planned channelling of funds towards competitive factors for the future – sustainable development, and more specifically, energy efficiency**. In this connection, CEAOEF welcomes the initiative to provide OPRD support for broadband access in small towns and villages.

Based on the conclusions from the Interim Assessment of OPRD which noted **an insufficient degree of integration among interventions** which consist of quite separate projects and are not part of an integrated urban development and reconstruction plan, CEAOEF recommends that **in the preparation of the next programming period, the MA should focus their efforts on the so-called "pillars of growth" by funding projects which are part of an integrated urban development plan with a broader action horizon**.

The OPRD MA has addressed a large part of the recommendations made in the CEAOEF 2010 Annual Report. In light of the high interest in the Programme and the large number of project applications, CEAOEF points to the necessity to strike a **balance between speed and quality of the evaluation process**. The accumulation of a large number of project proposals to be assessed simultaneously is explained by the advanced stage of Programme implementation (financial resources need to be contracted in a relatively short time). At the same time, at this point it is also necessary to take into account the challenge of the subsequent concurrent implementation of a considerable number of projects. That will require a **strengthened capacity both to carry out MA control activities, including spot checks, and to step up verification of expenses**.

CEAOEF points to the need to **pay special attention to some of the planned grant schemes which might hold higher risk**, namely: the housing policy scheme, broadband access in small settlements, and the integrated urban transport in the 5 larger cities.

Concerning **housing policy**, it should be noted that the grant scheme is partial in nature, i.e. it is a first step from a wider Programme to promote energy efficiency in the housing sector. Also, the successful implementation of this scheme is conditioned on the adoption of the relevant legislative changes which would make it easier for home-owners to form associations. Another predictable risk is affordability for residents. In this connection, CEAOEF will monitor closely the initiative to set up a **special guarantee fund** to provide financial support to home owners.

CEAOEF notes the huge positive impact which the support for **broadband access** could have on the microclimate in small settlements and, in this connection, it expects the responsible institutions from the Bulgarian side to undertake all necessary measures to demonstrate to EC that no state aid is being used in developing such infrastructure.

CEAOEF draws attention to the upcoming local elections which should be factored in as a risk of delay in **projects for integrated urban transport in the 5 larger cities**.

In the forthcoming hearings of the MA before CEAOEF on progress in the implementation of OPRD, CEAOEF will keep track of developments under the prioritized grant schemes on the de-institutionalization of children in Bulgaria, provision of social housing for vulnerable groups, the energy efficiency initiative for multi-family residential buildings, support for improving municipal health infrastructure, integrated urban transport, etc.

4. OPERATIONAL PROGRAMME “HUMAN RESOURCES DEVELOPMENT” 2007-2013 (OPHRD)

Total budget (EU and national co-financing)	Financial progress for the period 01.01.2011 - 30.06.2011		Cumulative financial progress (01.01.2007 - 30.06.2011)	
	<i>Contracted amount</i>	<i>Amounts paid out</i>	<i>Contracted amount (% of total budget)</i>	<i>Amounts paid out (% of total budget)</i>
EUR 1,213,869,575	EUR 44,577,104	EUR 26,949,478	EUR 641,412,375 (52%)	EUR 134,349,335 (11%)

Progress made:

Practically the entire budget of the Programme has been Programmed (98.5 %), thus providing a clear timeframe for the successful implementation of OPHRD.

As of the end of the reporting period, **EUR 134.3 million, or 11%** of the OP budget, has been **disbursed**, and, according to data provided by MA, the **contracted** funds amount to **EUR 641.4 million**, which is **52%** of the budget.

The MA and Interim Bodies undertook **appropriate measures to overcome the risk of automatic decommitment of funds at the end of 2011**, and certified expenditure now considerably exceeds the de minimis threshold to launch such a procedure.

The tendency to explore **synergies and an integrated approach** in the implementation of key policies in the social area continued. Apart from the project to de-institutionalize childcare in Bulgaria, there are another two successful examples: in conjunction with OPRD, preparatory activities to implement **“Support for the provision of modern social housing accommodation for vulnerable, minority, socially disadvantaged and other underprivileged groups”** were launched. The operation envisages support for a limited number of municipal projects with a clear focus on desegregation of vulnerable groups. Projects will adopt an integrated approach combining interventions aimed at improving the housing conditions of underprivileged groups through measures in the area of employment, education and the training, social and health services supported under OPHRD.

In addition, operation **“Opportunity for All”** was launched in May. It will provide support to **specialised enterprises and cooperatives employing people with disabilities**, by enabling them to organize **vocational training or retraining for professional qualifications and creating jobs for people with disabilities**. It is important to note that the grant scheme is implemented in addition to activities under the existing grant scheme for “Support for enterprises and cooperatives employing people with disabilities” under OPDCBE.

The MA is focusing on improving OP performance through some of the following measures:

- As a result of the Action Plan developed jointly with the EC, **there has been a change in the approach in the implementation of OPHRD measures** in 2011. Priority is given to working with designated beneficiaries, and grant schemes are applied only where necessary. For the labour market, such examples can be found in the operations aimed at improving the skills and knowledge of the unemployed using the voucher system of funding their training; interventions in support of young people in finding a first job upon graduation; and interventions for increasing the territorial mobility of work force. In parallel, there will be direct negotiation procurement for measures to promote permanent integration of the most vulnerable groups in the labour market, improve social climate in enterprises, working conditions and health and safety at work will also be implemented with the active participation of business and non-government organizations. In education and training, interventions to improve professional qualifications of teachers, develop extracurricular and informal forms of training, provisions for full-day programming for pupils in host schools, group internships for secondary and tertiary school students, adult literacy and equal access to high quality education for children with special educational needs. At the same time, in the area of educational integration and reintegration of pre-school and school-age children from ethnic minorities, the experience of schools, municipalities and non-government organizations will be a major support resource;

- **Good timing of measures** is expected to step up considerably payments in the fourth quarter of 2011. Also, adequate time planning facilitates the on-going dialogue established between the MA and the business community, trade unions, the non-government sector, and local authorities;
- Access to individuals to the various services envisaged in OP measures has been considerably facilitated. To use services made available under a project, all they have to do is file an application.

Problem areas:

Currently, no major problems have been identified in the management of OPHRD which would warrant urgent corrective action. This is also evidenced by the findings of the European Commission report following the 2010 systems audit, namely that, overall, the OPHRD management and control systems are functioning efficiently and are compliant with the applicable legislation. The same conclusion was reached in the Annual Oversight Report of the Executive Agency for Audit of EU Funds.

As of 30 June 2011, the Programme exhibited a steady rate of contracting (52 % of the total budget). However, payment levels remain unsatisfactory (barely 11 % of the entire budget line available under the Programme).

Recommendations:

CEAOEF welcomes the clear efforts made by the MA to keep up the brisk contracting rate of the Programme, and the ambitious goals set for 2011 in IAWP.

Overall, the main challenge for the MA is **to achieve a steady rate of payment**. For the achievement of that objective, CEAOEF recommends a mobilization of the full MA and IBs capacity in order to **step up the verification of project expenditure** and the related spot checks.

CEAOEF supports the MA's idea to **reallocate the funds left over** from operations which have not been launched by 1 September 2011, or from operations under which no activities have been undertaken by that date, to **other operations or new grant schemes**. In addition, CEAOEF recommends **speeding up the process of the comprehensive Interim Assessment** of the Programme the results of which should be used to further streamline the implementation of OPHRD.

Although Bulgaria does not demonstrate the high unemployment levels faced by almost all other EU Member States, challenges facing the national labour market demand special attention. In this connection, considering that the revival of economic activity and sustainable economic growth are the most important prerequisites for increasing employment and reducing unemployment, **OPHRD should assist both unemployed and employed to adapt faster and more successfully to the changing conditions**. Taking into consideration the specific design of employment promoting measures (in particular, PA 1, PA 2 and PA 6) and the current level of payments under those measures, CEAOEF points to the need to focus on their implementation, in view of the impact of the financial and economic crisis on the labour market.

CEAOEF welcomes the efforts of OPHRD to improve access to education and training for children with special educational needs and for children from ethnic minorities through the measures in the area of **secondary education** planned for 2011.

In the area of **tertiary education**, OPHRD activities aimed at improving the quality of education and training in line with the requirements of the labour market play a considerable role in the implementation of the government policy of **reforming higher education**.

The European Social Fund, and OPHRD in particular, is an important tool for the implementation of Bulgaria's goals under the *Europe 2020* strategy of the EU. In this regard, CEAOEF believes that **the Operational Programme needs to increase and improve its current contribution in the implementation the goals of the National Reforms Programme (2011-2015) in the area of education and training**. Hence, it is vital **to ensure a timely launch and contracting under procedures under priority axes 3 and 4 planned in the IAWP of OPHRD for 2011**. This is urgent also in view of the current level of contracting under these two priority axes, which remains below the average for the Operational Programme.

In the context of the on-going planning of the cohesion policy post 2013 and the trend at the European level of targeting concentrated resources to achieve intelligent, sustainable and inclusive growth, CEAOEF draws attention to the objective set in the *National Development Programme: Bulgaria 2020* concerning education, namely, improvement of living standards through **competitive education and training**. To achieve that, it is necessary to engage in coordinated action to improve access and enhance the quality education and training, and focus on the development of a life-long learning system.

5. OPERATIONAL PROGRAMME “DEVELOPING THE COMPETITIVENESS OF THE BULGARIAN ECONOMY” 2007 – 2013 (OPDCBE)

Total budget (EU and national co-financing)	Financial progress for the period 01.01.2011 - 30.06.2011		Cumulative financial progress (01.01.2007 - 30.06.2011)	
	<i>Contracted amount</i>	<i>Amounts paid out</i>	<i>Contracted amount (% of total budget)</i>	<i>Amounts paid out (% of total budget)</i>
EUR 1,162,215,551	EUR 89 609,769	EUR 22,654,636	EUR 427,731,603 (36.80 %)	EUR 248,954,683 (21.42 %)

Progress made:

In the **first 6 months of 2011**, OPDCBE reported an **increase in payments of EUR 22.7 million**. The number of grants awarded under the Programme rose to **1,200**, and over **EUR 89.6 million has been contracted** in the first half of the current year.

The total amount of payments under OPDCBE from the launch of the Programme until **30 June 2011** reached approximately **EUR 249 million (21.4%** of the amount available). PA 3: “**Financial resources for developing enterprises**”, has the largest share of **EUR 199 million (17.1 %** of the total budget of the Programme, earmarked for funding under the JEREMIE Initiative), followed by PA 2: “**Increasing efficiency of enterprises and promoting supportive business environment**”, under which almost **EUR 37.3 million** has been paid out (**6.3%** of the amount available under that PA).

According to data provided by CCU, from the beginning of 2007 until 30 June **2011**, grant awards under the Programme, taking into account terminated contracts, total over **EUR 427.7 million (37%** of the amount available under OPDCBE). The largest share belongs to funds contracted under PA 2: **“Increasing efficiency of enterprises and promoting supportive business environment”**, followed by the amount under PA 3: **“Financial resources for developing enterprises”** (within the JEREMIE Initiative). Similarly, PA 2 accounts for the highest number of contracts concluded.

The total **amount contracted where the direct beneficiaries are businesses in Bulgaria** (i.e. under procedures within **PA 1 and PA 2** of OPDCBE), less the value of terminated contracts, is in the range of **EUR 172 million (20.5%** of the budget for these two Pas, or **15%** of the total OPDCBE budget). As of 30 June **2011**, the amount which ultimately reached companies in the country in the form of payments under PA 1 and PA 2 is approximately **EUR 39 million (4.6%** of the amount budgeted for PA 1 and PA 2, or **3.4%** of the total available under OPDCBE).

In the context of PA 3, during the period under review, work has been going on also to prepare the country for implementing the following financial instruments within the **JEREMIE Initiative**:

- **Venture capital fund** (expected to become operational by the end of 2011);
- **Fund for investing in developing companies** (expected to become operational at the beginning of 2012);
- **Mezzanine fund** (expected to become operational by the end of 2011);
- **Guarantee fund for covering losses on debt portfolios** (the selection of banks eligible for this guarantee fund was successfully completed and guarantee agreements are to be signed on 14 July 2011).

During the period under review, active efforts were under way on **key initiatives** within OPDCBE, including:

- Preparation of a concept paper, on the basis of available resources and EU best practices, on **developing technology parks across the country, in line with national strategic priorities**;
- Joint activity with the European Bank for Reconstruction and Development in the area of **energy efficiency**, in the context of OPDCBE, which is a kind of **pilot project for the EU** as a whole;
- The upcoming call for grant awards to **meet internationally recognised standards**. This is also the first procedure to be announced in 2011 in which **all suggestions made in the course of consultations and dialogue between the MA and the business community have been taken into account**.

The **91% implementation** rate of the contracted amount projected in the **LOTHAR Instrument** as of **30 June 2011** ranks OPDCBE among the leaders under this indicator, and in terms of implementation of forecasts for the amount of verified and certified expenditure, the Programme definitely occupies the leading position.

Problem areas:

The main problem continues to be **the declining rate of OPDCBE implementation** over the years, considering the real needs of businesses in Bulgaria and the material progress achieved under the Programme as of 30 June 2011 (apart from developments in the framework of the JEREMIE Initiative). **The European funds for supporting Bulgarian business still take a long time to reach end beneficiaries.**

The implementation rates of interventions **under PA 1: “Development of a knowledge-based economy and innovation activities”** also **fail to satisfy**. As of 30 June 2011, **only about EUR 1.7 million** of the budgeted **EUR 246.5 million has been paid out** under this PA (**0.7%** of its budget).

For the period **30 June 2010 – 30 June 2011**, OPDCBE achieved an **increase in contracting of only 14%**, which **places the Programme at the bottom of the ranking under this indicator among the seven OPs** under Objective 1: „Cohesion”. OPDCBE holds the penultimate position also in terms of the percentage of contracted funds as a whole since the beginning of the programming period, with merely **37%**, against an average of **48%** for the seven Programmes under this indicator. In terms of amounts paid out from the available budget, OPDCBE ranks second, with **21.4%** (against an average of more than 13% for the indicator), yet this is due to the financial flows under the **JEREMIE Initiative (EUR 199 million, or 17,1%** of the total OPDCBE budget) **where real implementation is yet to begin.**

A persistent challenge in the implementation of OPDCBE is to ensure **adequate administrative capacity of the respective public administration staff** so that they can cope with the expected fast increase in their workload for the efficient implementation of the Programme.

Recommendations:

The MA plans to improve the management structure of OPDCBE in order to shorten the time lag for contracting, monitoring and payment. Preliminary discussions were held with the relevant stakeholders (EC, the Minister for EU Funds Management, the Certifying Authority and the Audit Authority). With regard to implementing the envisaged change in the management structure of OPDCBE (merging the MA and IB), **CEAOEF points to the potential for an additional delay in implementation rates of the Programme**. In this connection, appropriate measures should be taken also **to avoid any freeze of procedures** which, in view of the present stage in the financial perspective, could seriously jeopardize the achievement of the original OPDCBE targets.

CEAOEF commends the **approach of seeking and maintaining constant dialogue** and consultations with the representatives of the business community in Bulgaria to ensure better targeting of grant schemes under the Programme. This approach should be maintained and followed in the future as well.

In view of the above, CEAOEF reiterates its recommendation made in its earlier reports concerning the need to undertake measures for a **faster further simplification and stepping up procedures** for awarding grants under the Programme.

6. OPERATIONAL PROGRAMME “ADMINISTRATIVE CAPACITY” 2007 – 2013 (OPAC)

Total budget (EU and national co-financing)	Financial progress for the period 01.01.2011 – 30.06.2011		Cumulative financial progress (01.01.2007 – 30.06.2011)	
	Contracted amount	Amounts paid out	Contracted amount (% of total budget)	Amounts paid out (% of total budget)
EUR 180 789 087	EUR 7,963,838.12	EUR 1,616,779.83	EUR 90,578,677.25 (50 %)	EUR 46,563,731.73 (25,76 %)

Progress made:

The amount contracted under OPAC as of 30.06.2011 is **EUR 90.6 million**, or half (50.10%) of the Programme budget. According to data provided by the LOTHAR Instrument, OPAC ranks among the Programmes performing excellently vis-à-vis the forecasts for the amount of funds contracted over the first half of 2011, with a 92 % implementation of projections.

The total amount of payments made is **EUR 46.6 million**, or 25,76 % of the total budget of the Programme.

During the period under review, a range of **measures were undertaken, with the aim of improving the management and implementation of OPAC**, including: updating the internal documents for the Programme, changes to the rules on eligibility of expenditure, instructions for project assessors, etc.

The implementation the 2011 IAWP proceeded at a faster pace and by the end of June 2011, 8 of the planned 13 grant schemes were announced. It is worth mentioning the focus of 2011 IAWP on measures to strengthen the capacity of the judiciary, for which a total of 5 procedures were planned.

Within OPAC action was undertaken to **intensify work on electronic government**, in the framework of the on-going administrative reform. Since March 2011, the body responsible for e-government has been **the Administrative Reform Council** chaired by Mr Simeon Djankov, the Deputy Prime Minister and Minister of Finance. This change and the approval of the project for “*Improving administrative customer service by upgrading central systems of electronic government*” funded under OPAC mark the beginning of intensified efforts supported by a clear political will. The goal of the project is to develop a “national platform” for a centralized adoption and coordinated implementation of the general and sectoral strategies in the area of e-government.

The insufficiency in the **publicity of results of the implemented OPAC projects** which was mentioned in the findings of the 2010 Annual Report of CEAOEF has been overcome. In this connection, the MA carried out a significant number of training sessions for current and future beneficiaries, ensured timely updating and redesign of OPAC’s website to provide flexibility of searches and increase the volume of available information about OPAC activities. The MA

is in daily communication and provides consultation to beneficiaries and potential stakeholders interested in the Programme.

In terms of **good practices**, one could mention the following projects which have been successfully completed within the reporting period: “**Strengthening the capacity of the Prosecution Office of the Republic of Bulgaria in interacting with control authorities to counteract legal offences and crime in protection of the public interest and the rights of citizens**”, and the project which relates directly to the work of **the National Assembly**, “**Modern parliamentary administration at the service of the public**”. CEAOEF encourages the **implementation of such projects which add value not only for the administration but for the citizens as well**.

Problem areas:

The MA reported that audits performed at OPAC identified as problem areas certain weaknesses in respect of the **capacity of beneficiaries** to manage projects, and problems relating to the procedures for selecting contractors under the Public Procurement Act, the Regulation concerning Small Public Procurement Awards, and DCoM No. 55/2007.

The MA undertook action to resolve the identified problems, notably: **training for approved beneficiaries** in project management; **regular meetings with beneficiaries** to assist the successful implementation of their projects; publication of **current information** on the Programme on MA’s website; strengthening **ex-ante control** for legal compliance with award procedures, etc.

Considering the measures undertaken to improve the Programme management, CEAOEF deems it necessary for the MA to place the thrust of its efforts in the second half of 2011 on **overcoming the delay in payments** (particularly for projects under PA 1 and PA 2).

Recommendations:

OPAC has made an exceptional contribution to enhancing the competence of public administration. In 2011, special attention is paid to measures aimed at streamlining **the administrative capacity of the judiciary system**. CEAOEF welcomes the measures planned under the 2011 IAWP which focuses on the efficient management of Human Resources in the judiciary system and expresses an expectation for their successful implementation within the projected timeline. CEAOEF believes that OPAC support for building a **transparent and effective judiciary system is a key factor in overcoming the problem areas in the judiciary identified in the EC regular reports on Bulgaria’s progress under Mechanism for Cooperation and Verification**.

In the context of the existing budget restrictions, CEAOEF considers OPAC to be a **key tool for implementing administrative reform**. In this connection, CEAOEF recommends that **full synchronisation and complementarity should be achieved between measures** planned under OPAC and those adopted by the Administrative Reform Council in CoM, including in regard to the development of electronic government. CEAOEF points out that furthering efforts for the development and deployment of **e-government** is vital for generating considerable savings of public funds and equipping citizens with user-friendly tools to interact with public institutions, and also for reducing risks of potential corruption opportunities. In addition, OPAC can be seen as a financial instrument for the implementation of electronic government and the building a modern and accessible administration at the service of citizens.

In view of the current discussions, both at the national and the European levels, of the new challenges facing the cohesion policy post-2013 and its linkage with the goals set in the *Europe 2020 Strategy*, CEAOEF recommends **stepping up the Interim Assessment of the Programme**. Results of the Interim Assessment will serve both for streamlining the implementation of OPAC in the current programming period, and for drawing up recommendations in programming the next programming period.

7. OPERATIONAL PROGRAMME “TECHNICAL ASSISTANCE” 2007-2013 (OPTA)

Total budget (EU and national co-financing)	Financial progress for the period 01.01.2011 - 30.06.2011		Cumulative financial progress (01.01.2007 - 30.06.2011)	
	<i>Contracted amount</i>	<i>Amounts paid out</i>	<i>Contracted amount (% of total budget)</i>	<i>Amounts paid out (% of total budget)</i>
EUR 56,819,427	EUR 10,205,440.64	EUR 1,294,506.17	EUR 23,839,282.55 (41 %)	EUR 7,573,487 (13 %)

Progress made:

According to data provided by MA, during the reporting period, **15 contracts amounting to a total of EUR 10,205,440.64** were awarded under OPTA, and actual **disbursements** over the six-month period reached **EUR 1,294,506.17**. From the launch of the Programme until the end of the reporting period, according to data provided by CCU, the total **amount contracted was EUR 23,839,282.55, or 41 %**. According to data provided by the Certifying Authority, **payments made** as of 30 June 2011 amount to **EUR 7,573,487, or 13 %** of the OP budget.

A particularly noteworthy event during the reporting period was the commissioning into operation of **the UMIS Electronic Services Module**. It enables **electronic filing of project documentation by OPTA beneficiaries**. That was precisely the recommendation addressed by CEAOEF to the OPTA MA in its 2010 Annual Report. This is a considerable step forward in providing services to beneficiaries which will be supported by electronic filing of project applications under OPHRD and OPDCBE as well, which have the highest number of beneficiaries.

Also during the reporting period, the **establishment of the 27 regional information centres** was launched by signing grant award contracts with municipalities on the territories of which the centres will be located. CEAOEF welcomes the event because it has been following the processes of setting up these centres from the very start.

Problem areas:

Regarding problem areas, the OPTA MA identified certain omissions by the beneficiaries in preparing or compiling the required sets of supporting documents relating to expenses.

A more serious problem, however, is the increase in payments under the Programme because the disbursement rates are still not high enough. Although payments have doubled in comparison with the figure for June 2010, a higher level of activity is necessary, similar to what has been observed for contracting.

Recommendations:

CEAOEF congratulates the OPTA MA for the decisive step enabling beneficiaries to submit project proposals electronically.

CEAOEF recommends that this innovation be adopted as soon as possible for the remaining OPs as well, since its effect on beneficiaries will be quite positive and will encourage their active participation.

CEAOEF expresses its satisfaction with the excellent contracting rates, and calls upon the MA to maintain them.

8. PROGRAMMES FOR CROSS-BORDER COOPERATION

Bulgaria takes part in **five bilateral CBC Programmes** in the period 2007 – 2013: two along the internal EU borders and 3 – along the external borders.

CBC Programmes along **the internal EU borders** are funded from ERDF and include: **CBC Programme Greece - Bulgaria** (total budget of EUR 130,277,598) and **CBC Programme Romania – Bulgaria** (total budget of EUR 262 003,541).

CBC Programmes **along external EU borders** are funded both from ERDF, and from the EU Instrument for Pre-Accession Assistance (IPA). These Programmes include: **Bulgaria – Turkey** (total budget of EUR 21,748,998), **Bulgaria - Republic of Macedonia** (total budget of EUR 14,277,857), **Bulgaria – Serbia** (total budget of EUR 25,016,946).

Progress made:

CEAOEF welcomes the serious efforts which the General Directorate on Management of Territorial Cooperation in the Ministry of Regional Development and Public Works (performing the functions of a Managing Authority for CBC Programmes along external borders and the functions of a National Partner Authority for CBC Programmes along the internal EU borders) makes towards achieving progress in their implementation. As a result, we can report the following progress under these Programmes as of 30 June 2011:

- **Positive assessments were received from the EC concerning the compliance of the management and control systems** of CBC Programmes;
- **The Memoranda of Understanding** under the various Programmes were **ratified** (only for the CBC Programme Bulgaria-Serbia the process of ratification of the Memorandum of Understanding is yet to be finalised);
- **Projects under the first call** for project proposals were **approved**;
- Under the CBC Programme **with the Republic of Macedonia, the second call for project proposals has been announced. In September, the second calls** under the Programmes with the Republic of Turkey and the Republic of Serbia will be placed;
- Under the CBC Programmes along the internal EU borders (Romania, Greece), **the second call for project proposals has also been announced**, which is expected to result in contracting a considerable part of the financial resources available under the two Programmes;

- Progress has been observed in regard to **contracts with beneficiaries under CBC Programmes funded from the Instrument for Pre-Accession Assistance, and under the CBC Programme Greece - Bulgaria**. CEAOEF takes note of this progress, in view of the fact that as of December 2010 no contracts had been awarded under the CBC Programmes, with the exception of CBC Romania-Bulgaria and the Technical Assistance projects for the various Programmes;
- In the CBC Programmes along the external borders (Bulgaria-Turkey, Bulgaria - Serbia and Bulgaria-Macedonia) **additional funding was reallocated** under the first call for project proposals in order to fund high quality project applications which exceeded the originally approved budget for the call;
- Under the CBC Programme Romania – Bulgaria funded from ERDF, the Ministry of Regional Development and Public Works signed contracts with the beneficiaries from the Bulgarian side for the approved projects for **the provision of national co-funding** for the projects;
- Under the CBC Programme Greece – Bulgaria, steps were undertaken to reallocate funds from the national co-funding to the Certifying Authority of the Programme in Greece;
- The **Interim Assessment** of the CBC Programme Romania-Bulgaria was successfully completed and at the end of June 2011 it was approved by the Joint Monitoring Committee of the Programme as well;
- An **interface** was developed **between UMIS and the CBCMIS system of CBC Programmes along the external EU borders, co-funded under the Instrument for Pre-Accession Assistance (IPA)**. The module complements the information about candidates and the projects/contracts funded under Operational Programmes, which is provided to the respective experts, with information about candidates and projects/contracts under Programmes for cross-border cooperation, which **can be used for audit purposes, as well as for control and prevention of duplication in funding** from UMIS.

Problem areas:

CEAOEF continues to point at some major problem areas in CBC Programmes:

- **Provision of own contribution or own co-funding by the beneficiaries**, particularly where such beneficiaries are Regional Governments, in view of budgeting restrictions;
- **Delays in refunding project expenditure** incurred by Bulgarian beneficiaries, due to a **lack of bridge financing**;
- A need to **streamline the decentralized system at the first level of control**.

Added to these key problem areas, account should be taken of some **external factors** which could cause additional delay in the implementation of CBC Programmes:

- The continuing complexities in the economic situation in Greece;
- The upcoming local elections in Bulgaria in October.

Recommendations:

CEAOEF takes account of the specific nature of implementation of CBC Programmes: the presence of entities and project partners in two countries, and the need to achieve a cross-border impact of financed activities. In this connection, CEAOEF welcomes the efforts of the Ministry of Regional Development and Public Works to step up Programme implementation within its competence, and the progress made in the period January-June 2011.

CEAOEF notes as a success the practice employed in CBC Programmes with Turkey, Macedonia and Serbia of relocating funding from future years in order to fund a larger number of high quality projects under the current call. This will help step up the process of contracting funds under these Programmes which is necessary in order to catch up on the schedule. At the same time, CEAOEF calls for maximum efforts under CBC Programmes along the external borders for which the Ministry of Regional Development and Public Works is the Managing Authority, in order to launch actual implementation of the approved projects.

CEAOEF expects the problems related to a lack of bridge financial resources for refunding eligible expenditure incurred by beneficiaries to be resolved, in light of the pending access to Programme funds, now that positive compliance assessments have been received.

The challenge for by the Ministry of Regional Development and Public Works at this stage is to focus its efforts on stepping up the implementation of approved projects, by means of:

- Providing training to beneficiaries on issues relating to project implementation;
- Providing training to controllers on how to exercise first-level control;
- Ensuring timely payment to the beneficiaries from the Bulgarian side from the Bulgarian national co-funding for the approved projects.

CEAOEF draws attention to that fact that unless implementation of CBC Programmes is stepped up, there is a **clear risk of foregoing funds from the European Regional Development Fund** due to the expiration of deadlines under the n+3 rule.

In order to improve the absorption rate under the CBC Programme with Romania, CEAOEF recommends analysing the possibilities to fund projects under the Programme for implementing the so-called **Danube Strategy**. Thus the activities financed will have both a cross-border and a trans-regional effect, which will help improve the competitiveness of regions along the Danube.

One of the priorities of the Polish Presidency of the EU relates to **the development of a coherent and integrated European transport system. The development of TEN-T networks** will facilitate the overcoming of disparities among European regions, further good neighbourly relations of the EU through increasing cohesion with the Union's immediate neighbours, and encourage social mobility and development of the Single Internal Market. **In view of these trends, CEAOEF believes that the CBC Programmes along the external EU borders have the potential to further the development of these processes.**

The National Assembly has been cooperating in efforts to achieve a timely ratification of the Memoranda of Understanding concerning the various CBC Programmes, so that they can be implemented in time and there would be no delays on the Bulgarian side. In line with these efforts, CEAOEF declares its readiness to **cooperate for the speedier finalization of the ratification of the Memorandum of Understanding concerning the CBC Programme with Serbia.**

9. RURAL DEVELOPMENT PROGRAMME 2007-2013

Total budget (EU and national co- financing)	Financial progress for the period 01.01.2011 - 30.06.2011		Cumulative financial progress (01.01.2007 - 30.06.2011)	
	<i>Contracted amount</i>	<i>Amounts paid out</i>	<i>Contracted amount (% of total budget)</i>	<i>Amounts paid out (% of total budget)</i>
EUR 3,241,938,392	EUR 34,670,635	EUR 86,021,083	EUR*1,128,112,842 (39 %)	EUR 704,103,986 (21 %)

* Including amounts authorized under measures for which there is no contracting under way.

Progress made:

According to data provided by the RDP MA, **39 %** of the RDP budget was **contracted** as of 30.06.2011, and payments made **represent 21 %** of the total RDP budget available for absorption.

Both contracting and payments for the period 1 January - 30 June 2011 show an increase of 2 percentage points each against the respective values as of 31 December 2010.

Problem areas:

In the first half of 2011, a major problem in the implementation of RDP was once again **the speed of processing applications**. A number of initiatives were undertaken, and we expect them very soon to contribute to overcoming the delays and provide the technical capacity enabling the MA to process a higher number of applications simultaneously.

RDP was launched in Bulgaria with a **delay of two years**. The Payment Agency was accredited at the end of 2007; applications under the two measures which were opened in the beginning started coming in in April 2008, and under the next two – as late as in the autumn of 2008. As a result, **over the first two years of Programme operations, the absorption rate of European funds was practically zero**. In this connection, an examination of the resources budgeted until 2009, which, under the N+2 rule, should be absorbed by 31.12.2011, reveals that **there is a considerable probability that some RDP funds will not be absorbed** at the end of programming period. However, **the consistent efforts undertaken by the MA** to overcome this problem give us a reason to believe that **ultimately no serious slippage will be allowed under the Programme**.

Since the beginning of 2011, a range of discussions have been held with all stakeholders as part of the resolve to improve **administrative capacity** under RDP. Despite the considerable efforts in that regard, **the administration still faces the serious challenge to speed up, simplify procedures to the maximum and facilitate the achievement of considerably**

higher rates of contracting and payment of funds under RDP 2007 – 2013 in the remaining time until its closure.

Recommendations:

CEAOEF calls upon the MA to conduct an information campaign aimed at reaching out to the widest audience, with the aim of promoting the Programme and encouraging economic activity among the rural population. A large part of rural areas rank well below the national averages in terms of economic performance. In this connection, RDP grants can generate employment and added value and have the so-called „multiplier effect”, thus supporting a higher economic growth. To ensure the achievement of the goals of such information campaign and maximise its usefulness, CEOEF encourages all RDP beneficiaries to put in the effort necessary to further their knowledge of the technical specifics of the Programme.

CEAOEF calls for **better transparency in the requirements, the application procedures, and the current status of projects already approved under the various measures.**

CEAOEF welcomes initiative of the Ministry of Agriculture and Food for the adoption of DCoM No. 59 of 11 March 2011 on the conditions and procedure for extending interest-free loans to municipalities from the central budget for financing expenditure for final payments under approved projects under the Rural Development Programme and finds this to be an extremely important step which will enable municipalities to implement their projects smoothly.

CEAOEF recommends that a better and more effective questions-and-answers system be developed for the various measures, based on the examples of OPRD and OPE.

CEAOEF believes that to improve public awareness and motivation among potential beneficiaries of the Programme, there should be **more clarity concerning the allocation of funds budgeted for each of the open measures.** This can be done by publishing weekly and/or monthly analyses of the absorption of budgets and the implementation of RDP goals, and analyses of the absorption rates of budgets for the respective periods for accepting project proposals by providing information on the budget available for each application window and the amount absorbed for a given measure.

In view of the trend in the Common Agricultural Policy (CAP) for the next Programming Period, 2014-2020, namely, a focus on investments in environmentally sustainable agriculture (40 % of the expenditure in the proposed general EU budget for 2014-2020 is designed for funding agricultural activities), **CEAOEF recommends adequate actions to be undertaken to promote and implement the measures under Priority Axis 2 aimed at developing environmentally sustainable agriculture.**

CEAOEF finds this to urgently necessary since currently there is **insufficient demand for funding under these measures among potential beneficiaries.** This is an alarming signal since if the situation persists the risk of foregoing funds would be increasing with the approach of the end of the current programming period.

CEAOEF welcomes the initiative to reallocate funds from some measures to others in order to respond more fully and adequately to the actual needs of beneficiaries in Bulgaria.

The committee will monitor closely the process, and we expect it to contribute for a higher absorption rate for RDP 2007 – 2013 as a whole.

10. OPERATIONAL PROGRAMME FOR FISHERIES SECTOR DEVELOPMENT 2007-2013

Total budget (EU and national co-financing)	Financial progress for the period 01.01.2011 - 30.06.2011		Cumulative financial progress (01.01.2007 - 30.06.2011)	
	<i>Contracted amount</i>	<i>Amounts paid out</i>	<i>Contracted amount (% of total budget)</i>	<i>Amounts paid out (% of total budget)</i>
EUR 106,679,611	EUR 14,914,894.06	EUR 1,781,135.90	EUR 23,203,772.84 (21.75 %)	EUR 5,640,167.05 (5.29 %)

Progress made:

In the first half of 2011, 26 project proposals were submitted, which indicates that the rates from previous years remain unchanged. In this connection it should be noted that, in 2010 alone, 56 project proposals were received, which equals the total number of projects registered from the approval of OPFSD to the end of 2009. For the period 1 January – 30 June 2011, 18 contracts were awarded. The increase in projects with final payments made is almost six-fold: as of 30.06.2011, 23 projects were fully paid out, against 4 in 2009.

Funds contracted under the Programme as of 30.06.2011 rose to 21.75 %, against 3.34 % in 2009. **Payments** as of June 2011 amounted to 5.29 % of the budget for the Programme, compared to 0.19 % in 2009. Forecasts indicate that this trend will continue, in view of the considerable increase in the number approved projects for which grant payments will be made mostly during the next calendar year.

The final report on the interim assessment of OPFSD was sent to the EC via the SFC 2007 Information System on 30.06.2011.

Problem areas:

Difficulties experienced by beneficiaries in **securing private co-funding** for projects have not been resolved yet, and this problem often makes it impossible for some of them to proceed with the implementation of their projects. The establishment of a guarantee scheme in the framework of the Bulgarian Development Bank which would facilitate access to financing for Small and Medium-sized Enterprises from the Fisheries sector is a step forward to solving that problem.

Despite the higher absorption rate of funds under the Operational Programme, the number of registered projects and the amount of funds contracted remain low, and projects are found to lack in quality.

Recommendations:

CEAOEF is confident that the measures adopted with the aim to improve MA's performance and those for improving the quality of project applications will step up contracting and payments under the Programme. CEOEF believes that the dialogue with MA experts and the provision of direct advice to beneficiaries by setting up **Help-Desk Units** is an appropriate measure which will lead to the achievement of the objectives.

CEAOEF welcomes the efforts of OPFSD MA to facilitate access to financing for SMEs applying under OPFSD through the **National Guarantee Fund of BDB**. This will increase investor interest in the Programme, and SMEs will be able to borrow at lower rates without any threat to the stability of commercial banks providing credit to Programme beneficiaries.

CEAOEF maintains its recommendation made in the 2010 Annual Report, for **better utilization of funding under the technical assistance component of the Programme** so that external expertise can be drawn on in support of the Programme's MA, particularly in the area of assessing the economic viability of investment project proposals.

OTHER PROGRAMMES AND INSTRUMENTS PROVIDING FINANCIAL SUPPORT TO THE REPUBLIC OF BULGARIA

11. SCHENGEN FACILITY

Budget for preparations to apply the Schengen Acquis – <u>Schengen section</u>	<i>Financial progress as of 30 June 2011</i>	
	<i>Contracted amount (% implemented)</i>	<i>Amounts paid out (% implemented)</i>
EUR 128.96 million	EUR 128.96 million (100 %)	EUR 128.96 million (100 %)

Progress made:

According to data provided by MoF, as of the deadline for contracting funds under the Schengen Facility (31.03.2010), contracts for a total of **EUR 133.296 million net of VAT** were successfully signed, bringing the **contracting rate to 100%**.

The Central Unit for Funding and Contracting Directorate made payments covering **the full amount funded by the EC in the framework of the Schengen Facility, i.e. the funds have been successfully implemented and paid also 100%, or EUR 132.8 million net of VAT (EUR 148.13 million including VAT).**

In addition to funding provided by the EU in the Schengen section in the amount of EUR 128.96 million, the Government of Bulgaria adopted DCoM No. 17 of 15.02.2010, thus securing additional funding in the amount of EUR 28,632,345. Of that, EUR 14,809,603 net of VAT was allocated for the implementation of 21 projects under the 2007-2009 National Indicative Programme which include commitments made by the Republic of Bulgaria in respect to acceding to the Schengen Area. Thus the Government kept its commitment made to the European Commission to achieve all the objectives and implement all the measures provided for in NIP 2007-2009.

According to data provided by MoF, as of 30 June 2011, the total amount of all contracts awarded in implementation of the **2007-2009 National Indicative Programme is EUR 161.124 million including VAT (EUR 143.675 million net of VAT).**

Problem areas:

During the period 1 January – 30 June 2011, **three contracts were terminated under DCoM 17, for a total of EUR 1,1 million net of VAT, due to non-performance by contractors.**

Implementation is under way for 7 contracts for a total of EUR 12 million net of VAT, funded under DCoM No. 17 of 15.02.2010. As of 30.06.2011, a certain delay in the implementation of contracted construction and repair works has been established under 5 of these contracts, with failures to meet the agreed time schedule. The reason for the accumulation of delay is a breach of contractual commitments by the contractors. The respective contract for supervision of the works under 4 of the above works contracts has not yet been brought to completion.

The contract for setting up the integrated system for control and monitoring of the Bulgarian-Turkish border is scheduled for completion in December 2011, and CEAOEF will continue to monitor its timely completion.

Recommendations:

CEAOEF welcomes the efforts of the MA and all institutions involved with the Schengen Facility which lead to significant and tangible results. On 29 June 2011, the Republic of Bulgaria sent its Final Report on the Implementation of NIP 2007-2009 to the European Commission. It provides information about the overall implementation of NIP 2007-2009 under the Schengen Facility and proves that Bulgaria meets all technical requirements for full membership of the Schengen Area.

The final amount of eligible expenditure declared to the European Commission is **EUR 128,194,211.77**, which is **99.4 %** of the total amount allocated to the Republic of Bulgaria for funding activities under the Schengen Facility.

On the basis of an in-depth analysis of the facts, CEAOEF considers that **the authorities included in the Schengen Facility Management and Control System operate efficiently in contracting, implementation, monitoring and reporting the funding.**

CEAOEF recommends **a streamlining of the process of contract performance**, for contracts implemented with national funding under DCoM 17, by the end of 2011, and so ensure that **construction works will be completed within the pre-agreed deadlines. The Committee believes this to be a realistic and achievable objective.**

12. FINANCIAL MECHANISM OF THE EUROPEAN ECONOMIC AREA (EEAFM) AND NORWEGIAN COOPERATION PROGRAMME (NCP)

Total budget (European funding and national co-financing)	Cumulative financial progress	
	<i>Contracted amount (% implemented)</i>	<i>Amounts paid out (% implemented)</i>

EEA FINANCIAL MECHANISM		
EUR 23,210,094 (of which EUR 20,023,800 in European funding)	EUR 19,809,058.04 (98 % of European funding)	EUR 10,322,176 (51.5 % of European funding)
NORWEGIAN COOPERATION PROGRAMME		
EUR 19,766,545 (of which EUR 18,274,878 in European funding)	EUR 17,794,878 (90%)	EUR 12,553,505 (63 %)

Progress made:

EEAFM contracted funds amount to 98 % of the FM budget, and payments amount to 51.5 %. Under all of the projects approved to receive EEAFM funding, contracts were signed, and the deadline for completing activities was 30 April 2011. Within that deadline, **30 projects were successfully completed.**

Under the Norwegian Cooperation Programme, a total of **19 projects were successfully implemented** within the deadline for eligibility of expenditure, 30.04.2011. As of 30.06.2011, **payments made** totalled **EUR 12.6 million**, which is 63% of the budget for the Programme. **During the reporting period, payments totalling EUR 2.4 million were disbursed. The deadline** for eligibility of expenditure was extended for three projects and is now 30.04.2012. **Two projects** will be completed using funds from the project reserve.

During the new programming period 2009-2014, the funding made available to Bulgaria under EEAFM and NCP is **three times higher**, according to the Memorandum of Understanding on the implementation of Programmes funded by Norway, Iceland and Liechtenstein which was signed on 17 June 2011. This increase in funding is the result of good performance in the current programming period, with the first Modern Art Museum in Bulgaria, the Digital Centre of the St. Cyril and St. Methodius National Library, the archaeological digs at the Monastery of St. John the Precursor on the Sveti Ivan island near Sozopol, a 1 MW solar energy park, the Sunny Garden educational bio farm for children, tourist and information centres, energy efficiency projects in over 25 communities, etc.

Problem areas:

Under EEAFM, activities under two projects were not implemented. After a detailed analysis, meetings with the beneficiaries and field inspections, it was decided to **discontinue the following projects:** “Modernisation and rehabilitation of the Childcare Centre in the Municipality of Berkovitsa as a place for creative skills formation and development” and “Magoura Historical Complex – Antiquity for Generations”. A **delay was registered also in one of the extended projects**, “Revival and preservation of traditional building techniques and skills used in Bulgaria”, where the beneficiary is the Directorate for the Vitosha Nature Park of the Forestry Executive Agency.

Recommendations:

CEAOEF believes that, concerning EEAFM, the NCU ought to focus fully on the projects which were granted an extension in 2010 in order to avoid the risk of project termination due to a failure to implement the planned activities or to observe the time schedule.

CEAOEF will continue to monitor the NCP implementation since it provides funding for projects of particularly high cultural and historical value for Bulgaria. In this connection, CEAOEF expects the beneficiaries to demonstrate more commitment to the implementation of their projects. To this end, it is necessary to focus on the problems and difficulties encountered by beneficiaries which lie outside public institutions.

13. TRANSITION FACILITY (TF)

Total budget	Cumulative financial progress	
	Contracted amount (% implemented)	Amount paid out (% implemented)
EUR 33.294 million	EUR 23.417 million (70.3 % of the total budget)	EUR 19.794 million (59.5% of the total budget)

Progress made:

As of the contracting deadline (15 December 2009) **73 contracts were signed**, totalling **EUR 23.417 million (70.3%** of the funding allocated under TF).

The **completion** deadline for **contracts** was **15 December 2010**. According to data provided by the Ministry of Finance, **73 contracts were successfully implemented** and all deliverables were accepted. No major problems were reported in performance.

The payment deadline is **15 December 2011**. As of 30 June **2011**, a total of **EUR 19.794 million was paid out**, which is **84.5%** of the amount contracted, and **59.5%** of the amount budgeted for TF. For comparison, as of **31 December 2010**, the amount paid out was **EUR 18.049 million**, which is **54.2%** of the original TF budget, or **77.1%** of the contracted amount. Practically, another **EUR 1.745 million was disbursed** in the first half of **2011**.

On **24 February 2011**, the Joint Monitoring Committee for projects under the PHARE Programme and the TF met for its 17th session, and the current status of TF was also discussed, and the results achieved under the Facility were presented.

By **15 December 2011**, **payments under TF** are expected to reach **93%** of the contracted amount, and **65%** of the original Facility budget, respectively.

THE EU PRE-ACCESSION PROGRAMMES AS A SOURCE OF FINANCIAL SUPPORT FOR THE REPUBLIC OF BULGARIA

14. PHARE

Total budget	Contracted amount (% implemented)	Payments
EUR 1.756 billion	1.348 billion EUR (77 %)	EUR 1.166 billion (66 %)

Progress made:

The implementation of projects under the PHARE Programme ended on 30 April 2010, and **the deadline for making payments under project extensions was 30 April 2011. The contracting rate for this funding source was 77%. As of 30 June 2011, 87% of the contracted funds were paid out, or 66% of the Programme budget.**

Before the closure of the PHARE Programme, spot checks will be performed by the European Commission to verify the degree of achievement of the goals set in the Financial Memoranda/Financing Agreements, and ensure sustainability of results.

Recommendations:

CEAOEF recommends **a comprehensive and detailed review of achievements over the 10 years of PHARE implementation** which should identify clearly any omissions or weaknesses in the Programme. In this connection, CEAOEF calls upon all entities involved in the management and implementation of the Programme to present **an aggregated analysis of its implementation over the years, listing all problems found and the remedial measures undertaken.**

CEAOEF believes that the valuable experience gained and the administrative capacity built are an important resource for **the process of formulating future priority areas for which EU funding will be sought**, and calls for **the preservation and adequate use of that resource even after the final closure of the PHARE Programme.**

15. SAPARD

Total budget	Contracted amount (% implemented)	Payments
EUR 593 million	EUR 465 million (78 %)	EUR 451 million (76 %)

The SAPARD Programme was implemented during the period 2000-2006. Based on the overall analysis and assessment of the SAPARD Programme, including the control procedures which were additionally introduced under the action plan for the SAPARD Programme, the monitoring system which was developed, the database and monitoring indicators, the term of validity of the payment commitment undertaken by the European Union under the 2006 Annual Financing Agreement was extended until the end of 2009.

Progress made:

For the entire period of implementation of the SAPARD Programme, a total of 3,509 projects were contracted, with a total amount of the subsidy of EUR 724 million. The number of cancelled contracts under the Programme was 894, with a total subsidy amount of EUR 192 million. The funding absorbed from the SAPARD budget amounts to EUR 450.7 million in subsidies.

Problem areas:

From the 28 projects under investigation, 17 projects were still not fully disbursed as of June 2011, due to on-going inspections by external institutions. The total subsidy under these

investments amounts to EUR 6.8 million. For seven of the projects not fully paid out, information has already been received that the cases have been closed by the investigating authorities. Hence the SAPARD Agency renewed the processing of payment applications. These will be finalised in accordance with the accredited rules and procedures of the SAPARD Agency.

As of July 2011, the Commission is yet to take a decision on the imposed financial correction of EUR 6,451,292.03 deemed ineligible for refund by the Community under the Programme, on the basis of a failure by the Agency to provide the grants in a timely fashion to the end beneficiaries, in a European Commission letter, DG AGRI J. 5 No. 628 374 dated 24.09.2010, concerning the clearance of accounts of the SAPARD Agency for 2007.

Recommendations:

CEAOEF recommends to SF Agriculture to undertake measures to pay out the subsidy payable to projects as soon as the competent authorities have completed their investigation procedures and ruled in favour of the beneficiaries.

16. ISPA

Total budget	Contracted amount (% implemented)	Amount paid out (% implemented)
EUR 1.692 billion	EUR 1.519 billion (90%)	EUR 1.135 billion (67.10 %)

Progress made:

The total amount paid out as of 30.06.2011 under Financial Memoranda concerning the ISPA Programme is **EUR 1.14 billion**. Payments made under the Programme during the period 01.01-30.06.2011 total **EUR 62.82 million**.

The total payments made under the Programme amount to **78.67 %** of the contracted funds, and **67.10%** of the total budget.

As of 30.06.2011, **6 projects have been officially closed**.

At the end of June 2011, at a session of the Committee for Monitoring and Control of projects implemented under the CF (Regulation 1164/94), the EC granted its approval to **extend the eligibility of expenditure under 9 projects in the Environment sector, and under the project for “Development of a cross-border combined (road and railway) bridge across the Danube River at Vidin – Calafat” in the Transport Sector. For projects in the Environment Sector, the extension is for 1 year, and for the Danube Bridge project, for 2 years.**

Under Decree No. 160 of 10.06.2011, **provisions were made for the necessary financial resources to make all payments under projects co-funded from the CF (Regulation 1164/94) and managed by the Ministry of Environment and Water for which the Managing Authority identified a risk in 2011.**

Projects in the Environment Sector managed by the Ministry of Environment and Water:

CEAOEF recognizes the **physical progress made under ISPA projects managed by the Ministry of Environment and Water**. In the Water Sector, 12 WWTPs and water and sewerage networks in three settlements were commissioned into operation by the end of June 2011. The rest of the projects are in advanced stages of implementation and are expected to be completed by the end of 2011. In the Waste Sector, regional landfills for solid residential waste and 1 waste reloading station were commissioned into operation by 30 June 2011, and another 7 reloading stations are to be built and 8 old landfills are to be closed. Also worth noting is the approval of an extension to the FM for the successful completion of the project for the development of the Regional Waste Management Centre in Kardjali, which was achieved through the MA's efforts.

Projects in the Environment Sector managed by the Ministry of Regional Development and Public Works:

CEAOEF welcomes the **progress made during the period under review in the implementation of ISPA projects managed by the Ministry of Regional Development and Public Works**. Funds paid out under the ISPA projects managed by the Ministry amount to EUR 126.2 million, which is **90.37 %** of the contracted amount. **The Waste Water Treatment Plants in the city of Bourgas, the Maritsa river basin – Stara Zagora, Dimitrovgrad and Haskovo are fully operational**. The delay accumulated in earlier implementation periods under the **Integrated water project in Rousse** has been overcome and the last two project components are expected to be **completed** by the end of 2011. The European Commission gave its approval in principle to the request for extension of the FM validity until the end of 2011.

Projects in the “Transport” Sector managed by the Ministry of Transport and ITC:

For the first half of 2011, it should be reported that Project **2001/BG/16/P/PT/004.01 “Construction of the Lyulin Motorway: Sofia ring road – Daskalovo road junction** made up the considerable delay accumulated in previous years and was successfully completed. A number of measures were undertaken to step up construction works and the project was commissioned into operation on **15 May 2011**.

To date, there is a **73%** financial implementation of contracts awarded under Project **2004/BG/16/P/PT/005 “Construction of a second bridge across the Danube River at Vidin – Calafat”**. The deadline for eligibility of expenditure requested in the proposal submitted to the EC to amend the Financial Memorandum is **31 December 2012**. The procedure of signing the decision to amend the Financial Memorandum was launched in the EC, and its approval is expected in **July 2011**. A request for extension was drawn up also for the two financing agreements under the project with the European Investment Bank. Following consultations with the Ministry of Finance, the request was sent to the European Investment Bank. The Bank's letters of amendment to the financing agreements are expected, before the procedure of granting a mandate to sign the agreements which is required under Bulgarian law can be launched.

The deadline for eligibility of expenditure under Project **2001/BG/16/P/PT/003 “Rehabilitation and electrification of the Plovdiv – Svilengrad railway line”** was **31.12.2010** and it will not be extended by the EC. The financial implementation of contracts awarded is

77.9%. The final report will be prepared and submitted to the EC by June 2012. The strategy concerning project completion is based on a transfer of activities from the scope of the former ISPA Programme to OPT, with the aim of completing the project and achieving its goals using OPT funding. The application form for the new project was submitted to the EC on **1 December 2010**. The beneficiary, the National Railway Infrastructure Company, responded in a timely fashion to the questions and request for clarification received in an EC letter dated 18 February 2011. After the projects under the Cohesion Fund/Regulation 1164/94 were discussed at the most recent session of the CoM on **28 June 2011**, it became clear that another EC letter was expected with additional questions and requests for clarification, and the Bulgarian side will respond as soon as possible. The EC approval of amendments to the Financial Memorandum and the application form is expected in **the last quarter of the current year**.

Problem areas:

As of the date of this report, no official EC approval has been received for the request for extension of the validity of FM provisions in respect of some of the ISPA measures, which continues to pose a risk for their successful implementation.

The EC declined to grant extensions under the FM for 3 of the projects in the Water Sector: the integrated water cycles of Sliven and Balchik, and the construction of desulphurisation installations for Units 5 and 6 of TPP Maritsa East 2; which is putting a strain on the spending part of the national budget.

CEAOEF notes the insufficient progress made in the development of projects seeking funding under the OPE in the Water and Waste Sectors, where the project applications are still not finalised.

Recommendations:

Despite the EC rejection of the extension requests concerning the Memoranda for some of the projects in the Environment Sector and in view of their importance, CEAOEF expects the MA of the former ISPA Programme to undertake the necessary steps to secure the successful completion of projects through national financing or credit.

CEAOEF recommends stepping up dialogue with the beneficiary municipalities to ensure they have projects ready to apply under PA 1 and PA 2 of OPE.

CEAOEF will continue to monitor the process of completion of all ISPA projects until the final closure of the Programme.

III. CEAOEF VISION FOR UPCOMING ACTIVITIES IN 2011 IN REGARD WITH OVERSIGHT OF EUROPEAN FUNDS AND THE FUTURE COHESION POLICY DEBATE

The Committee will sustain its practice of holding regular hearings with representatives of the executive government engaged in the management, control and coordination of European funds in the Republic of Bulgaria, and in the second half of 2011 **CEAOEF will monitor developments on a regular basis and make specific recommendations in case it establishes any difficulties or weaknesses in the EU funds management system.**

The next CEAOEF **Annual Report** on the absorption of EU Funds in the Republic of Bulgaria will be drawn up in **January 2012** and it will cover the period **1 January 2011 – 31 December 2011.**

CEAOEF deems it appropriate to note one of its own initiatives held just after the reporting period for this report. In view of the importance and specific nature of issues related to programming for the future EU Cohesion Policy, CEAOEF held a wide discussion in the framework of the **Public Consultations Council** of CEAOEF on **12 July 2011**, with the participation of representatives of the business community, non-government sector and academia, under the title *“The Future of the Cohesion Policy: Are we ready for the Challenges of 2014 – 2020”*. As a result of the discussion between representative of the Government (**Mr Tomislav Donchev**, Minister for EU Funds Management, **Mr Rossen Plevneliev**, Minister of Regional Development and Public Works, and **Mr Evgeni Angelov**, Deputy Minister of Economy, Energy and Tourism), Parliament and PCC members. On the basis of a broad consensus, the following **key conclusions and challenges for the participation of the Republic of Bulgaria in the programming process** were formulated:

- **Identify a small number of priorities, while retaining the balance between the basic priorities reflecting the reality in the national situation and those focused on achieving the goals of *Europe 2020*;**
- **Make differentiated and prioritized allocations of funds among the Operational Programmes.** In setting the national priorities for the next programming period, it is most important to **identify the needs** to be addressed using European funds, **rather than focus on the type and specific number of Operational Programmes;**
- Strengthen the Cohesion Policy political visibility and significance. It should follow the logic **vision-strategy-plans-programmes**. Unlike the case with the current Programming Period, in the next one, firstly: National Strategic Reference Frame (or an analogical document) and National Development Plan should be elaborated and after that - the Operative Programmes;
- **Apply the principle of proportionality** in the next programming period, so as, without any prejudice to the rules, **to reduce the administrative burden** and facilitate the rationalization of procedures;
- **Apply an integrated approach** in planning future measures under the Programmes and explore synergies;
- It is necessary to consider the rationale of documents such as the European Spatial Development Perspective, namely, **development along the regional – urban – rural**

axis. In this connection, in the regional and road sectors, it might be appropriate to consider **investing in fewer but significant and large-scale projects**, with a focus on basic infrastructure, which are a matter of priority for the economy and the national regions. The basic infrastructure for the next Multiannual Financial Framework should be kept as a priority and co-related to Europe 2020. In this regard, concrete indicators for its added-value should be elaborated. Example: potential for decreasing the injurious emissions of carbon dioxide by rehabilitation of railway infrastructure; potential for reducing the poverty rate in Northern Bulgarian through the Hemus highway construction, etc;

- Overcome **the shortcomings of the current programming period** in respect of cumbersome procedures requiring a large volume of documentation associated with project application and reporting; delays in project payments; lack of own resources which beneficiaries need to invest in the project; unclear guidelines provided by the administration on activities which need to be conducted in project implementation and reporting; vague texts allowing for multiple interpretations;
- Define the need for **“a regional level of thinking and planning”** in the next programming period: on the one hand, centralize the system, and on the other – decentralize at the level of planning regions;
- Careful consideration should be given to changes in the institutional system and the competences of the respective authorities responsible for the management, control, payments and certification of expenditure.

With view to research the idea of reforming the EU funds management system in the next Programming Period (2014-2020) by creating a single centralized Authority for EU funds management (Agency), CEAOEF has elaborated an Analysis of the strengths, weaknesses, opportunities, and threats (SWOT analysis). Through this analysis, CEAOEF strives to examine proposal from all possible perspectives by giving a fair assessment, for the Executive Power to take notice to in the future development on the issue:

SWOT ANALYSES ON THE CREATION OF A CENTRALIZED COORDINATION AND MANAGING AUTHORITY OF THE EU FUNDS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Centralization of the process of strategic planning and EU funds management, on one hand; and, on the other hand, decentralization of the operational process on regional level (planning regions); • Moving the focus from the application phase to the programming phase with view to realization of strategic projects of national and EU importance, respectively; • Better co-ordination and interventions complimentarity of the support under the Structural and Cohesion Funds, as 	<ul style="list-style-type: none"> • Breaking the connection between the Ministries, responsible for the sectoral policies (The State policy in the respective field) and the Structural Funds management; • Taking away part of the Ministries’ resources and powers on EU Funds utilization in the sectoral policies implementation and planning; • Risk of not achieving efficient decentralization of the Programmes’ implementation process at regional level, without an overall vision for the

<p>well as double funding avoidance;</p> <ul style="list-style-type: none"> • Better synchronization of data from the various financial sources- Unified Management Information System, National Fund, Territorial Co-operation Management Information System, Axter Popeye Information System. 	<p>administrative-territorial reform (incl. the planning regions’ functions regarding their efficient participation in the Programmes’ implementation) and its carrying out;</p> <ul style="list-style-type: none"> • Pressure on the expenditure side of the State Budget.
<p>OPPORTUNITIES</p>	<p>THREATS / CHALLENGES</p>
<ul style="list-style-type: none"> • Potential for better co-ordination of the EU Funds management and oversight process; • Potential for a more efficient implementation of the national programming documents; • Potential for transition from secondary to primary legislation in the field of EU Funds management (via the Law on EU Funds management); • Opportunity for administrative capacity optimization and increase in field of EU funds management and synchronization with the conducted administrative reform; • Opportunity for unification and standartization of the documents and procedures in the field of Operational Programmes’ management and implementation; and, respectively, potential for elaboration of standardized tender documentation with regard to the Public Procurement procedures, as early as the stage of grant schemes’ publication: standardized contracts, technical specifications, etc. 	<ul style="list-style-type: none"> • The capacity at regional and local level and the ability to adapt to the new structure for centralized management and decentralized implementation of the sectoral policies; • Lack of Cost-Benefit analysis of the administrative re-organization of the process, incl. the change in the Ministries’ Statutes, internal rules and management procedures of the Programmes; the future creation of EU Funds Management Agency as an Executive Power Authority; the re-appointment of personnel from the respective Ministries to the new centralized structure; and eventually, the creation of regional structures, responsible for the regional planning and goals implementation, etc.; • Necessity of a smooth transition between the current and future management system and administrative capacity building; • Assessment of impact on the Managing Authorities, which have already built capacity and experience in the field of Operational Programmes management; • Determination of the Agency’s scope of activities in regard to: <ul style="list-style-type: none"> -Programmes under Objective 1 ‘Convergence’ and Objective 3 ‘European Territorial Co-operation’ of the EU regional Policy; -The rural development and fisheries Programmes in line with the Common Agricultural Policy and the Fisheries Development Policy; - The Programmes, financed by donor-countries: the EEA financial instrument, the Norwegian Co-operation Programme; the Bulgarian-Swiss Co-operation Programme.

Based on the above-mentioned challenges for Bulgaria's participation in the Programming, CEAOEF contributes to the future Cohesion Policy debate, which should be **result-oriented** in order to achieve greater efficiency- it will require reforms, for achieving concrete and visible results. CEAOEF considers that the list of **Cohesion Policy priorities should be more specific, target-oriented and shorter** than the current Programming Period one, to be adapted to activities, ensuring development and improvement of the Bulgarian economic growth potential.

In preparing the concept of Cohesion Policy and Structural Funds for the Republic of Bulgaria during the 2014-2020 period, **the logic of planning could be based on three main hierarchical objectives: general (main) objective-** stimulating the development of the country and increasing its competitiveness; **strategic objectives, based on Europe 2020** and **operational objectives** (some of them already enshrined in the **National Reform Programme**, such as improving the business climate, basic infrastructure, education and competitiveness on the labor market, administrative capacity, etc.)

The CEAOEF activity during the second half of 2011 will be in line with the **Polish EU Presidency priorities**. One of the Polish Presidency topical issues is the **debate on the new Multiannual Financial Framework (MFF)** of the EU, with the following highlights:

- the new EU budget as **an instrument for investments, supporting the implementation of the strategy Europe 2020;**
- **Cohesion Policy** –to remain a key EU policy;
- **Implementation of the Common Agricultural Policy reform.**

CEAOEF **will actively participate** in this debate, via the new powers given by the Lisbon Treaty (subsidiarity check) and the political dialogue with European Institutions. In particular, CEAOEF **will adopt a position on the European Commission draft Acts, related to MFF and the System of EU Own Resources**, included in Section “Modern EU budget- proposals, regarding the Multiannual Financial Framework (**Articles 41-43**) of the Annual Work Program of the National Assembly on EU Affairs (2011).

The future architecture of the Cohesion Policy and the MFF will be subject to discussions at the **October COSAC meeting** (Conference of European Affairs Committees of national parliaments of the Member States of EU) in Warsaw (Poland).CEAOEF will use the opportunity **to defend the Bulgarian position on the topic** within the framework of this important inter-parliamentary forum.

CEAOEF will continue to hold regular hearings with the Managing Authorities to stay informed about developments in follow-up to the recommendations made in this Report.