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PUBLIC SECTOR

EU Funds in Central and Eastern Europe

Progress Report 2007-2014

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KPMG in Central and Eastern Europe



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Photo: Construction of the S5 expressway section Gniezno – Poznań (node “Kleszczewo”), Poland
<http://www.mapadotacji.gov.pl/projekt/1212070>

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Photo: Revitalisation of the degraded territory in the block of Maskavas, Krasta un Turgeneva streets, Latvia, 2013, Ministry of Finance in Latvia

Foreword

We are pleased to present the 7th edition of our regional annual report on EU funds in Central and Eastern Europe (CEE). The programming period 2007-2013 was the first full funding interval for the member states included in this survey (with the exception of Croatia, which joined on 1 July 2013).

These funds have contributed to the overall development of each economy in many aspects – most visible in tangible transport infrastructure and environmental protection, both of which had been neglected for the most part during the communist era. EU funding has also been applied to the renovation of historical heritage, the re-development of cities, and extended urbanisation (in terms of clean and sewerage water systems, waste management, etc.). A large proportion of funds has been applied to human development, increased citizen engagement and development of NGOs. Many governments as well as local and city authorities have used funds for development of their IT systems, for data analysis, e-government and providing the public broader access to modern communication technologies.

It should be also noted that the availability of EU funds has run in parallel with the world economic crisis. Politicians and citizenry in Central and Eastern Europe have come to the realisation that effective use of the funds may be very useful for supporting their economies during slow economic growth periods.

However, R&D in the region has not received much attention, exhibiting the smallest numbers in all countries, both according to the number of projects and their value. The majority of projects financed aimed at improving living standards and their equalisation among European Member States. However, not all of these projects contributed to the building of long-term strategic advantages for national economies.

Now, with CEE member states standing figuratively at the entrance to the new programming period, we offer the results of this report – including lessons learned in the last 7 years – for consideration. Analysis of the results for each individual country, and comparisons of the numbers between them – especially data on contracted, paid and EC certified amounts – offers valuable insight and may be helpful towards policy formulation for the subsequent programming period. The rate of contracted versus paid funds, for example, runs at 11% for Estonia, 12% for Lithuania, and 19% for Latvia, to as high as 47% for Slovakia and 54% for Romania. Over the last 7 years, the Baltic States have remained at the top of most statistics, while Romania and Bulgaria sit at the bottom.

With such numbers in mind, we encourage you to delve into the full report and contact our local experts for further insights and consultation.



Mirosław Proppé

Partner, Head of Government, Infrastructure and Healthcare Sector in Poland and in Central and Eastern Europe

Introduction

Since the Central and Eastern European (CEE) countries became EU Member States, EU co-financing has been an essential factor for their development. EU Structural and Cohesion Funds (SCF), accounting for 11% to 24% of their annual GDP, have significantly fostered regional cohesion. With this in mind, there is a need for both an overview and comparison of the implementation status of programmes co-financed from SCF among the countries in CEE.

Purpose of the document

- To give an overall picture of EU SCF available during the 2007-2014 period in the CEE countries;
- To provide the implementation progress of EU SCF structured by types of intervention at December 2014.

Structure of the document

- Introduction, CEE overview on EU co-financed interventions and their progress by the end of 2014;
- Country overviews.

Sources of the document

- The data on EU Funds contained in the report come from domestic sources within the CEE countries, i.e. from public institutions, which are responsible for collecting and processing European funds data (from relevant ministries);
- GDP figures contained in the report come from Eurostat 2014;
- General information contained in the report comes from the European Commission web page: http://ec.europa.eu/index_en.htm;
- Definitions contained in the report are defined by the report's authors.

Definitions

Available budget 2007-2013

The Available budget 2007-2013 is the EU contribution without national public contribution or private contribution. This budget is set in each country's National Strategic Reference Framework (NSRF) and is approved by the European Commission. Available budget includes European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF).

Contracted grants

Contracted grants are the amounts for which the contract has been signed by the Managing Authority (MA) or Intermediary/Implementing Body and the beneficiary by 31 December 2014. Contracted grants include European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF).

Paid grants

Paid grants are the amount of the grants (including advance payments) which have been disbursed to the beneficiaries by 31 December 2014. Paid grants include European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF).

Contracting ratio

The contracting ratio is the amount of actual contracted grants signed by the end of 2014 divided by the budget available for 2007-2013 programming period. Contracting ratio includes European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF).

Payment ratio

Payment ratio is the amount of actual paid grants by the end of 2014 divided by the budget available for 2007-2013 programming period. Payment ratio includes European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF).

EC certification

EC certification is the amount of actual certified ratio by the European Commission in 2014 period. EC certification includes European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF).

EU Structural and Cohesion Funds

The report introduces community co-funded programmes covered by each Member State's National Strategic Reference Framework aggregated into intervention types.



European Regional Development Fund (ERDF)

The ERDF aims to promote economic and social cohesion by addressing main regional imbalances and participating in the development and conversion of regions, while ensuring synergy with assistance from other Structural Funds.

- Investment which contributes to creating sustainable jobs
- Investment in infrastructure
- Support for local and regional investments (SMEs, R&D, information society, etc.)
- Financial instruments, i.e. JEREMIE
- Investment in education and health



Cohesion Fund (CF)

The purpose of the CF is to co-fund actions in the fields of environment and transport infrastructure of common interest with a view to promote economic and social cohesion and solidarity among Member States.

- Investment in major infrastructure projects (i.e. TEN-T)
- Investment in major environmental projects
- Support for renewable energy
- Investment in sustainable transport



European Social Fund (ESF)

The ESF was set up to reduce differences in prosperity and living standards across EU Member States and regions. In order to promote employment conditions, ESF supports companies to be better equipped to face new challenges.

- Improving human resources
- Increasing the adaptability of workers and firms, enterprises and entrepreneurs
- Improving access to employment and sustainability
- Improving social inclusion
- Strengthening institutional capacity at national, regional and local levels
- Mobilisation for reforms in the fields of employment and inclusion

Photo: NMR Centre of excellence for research in biotechnology, pharmacy and the physics of matter, Slovenia,
<http://www.eu-skladi.si/funds/best-practices/op-r/nmr-centre-of-excellence-for-research-in-biotechnology-pharmacy-and-the-physics-of-matter>



CEE Overview

Photo: Arch of Triumph: Regional Operational Program 2007-2013
Priority Axis 5, Romania, 2014,
<http://www.thinkstockphotos.com/>

CEE countries covered by this report:

Bulgaria	Hungary	Romania
Croatia	Latvia	Slovakia
Czech Republic	Lithuania	Slovenia
Estonia	Poland	

For the purposes of this document, Central and Eastern Europe refers only to some European countries, not necessarily historically considered as a part of the CEE region. We consider countries which are both in KPMG's CEE region and EU Member States as CEE.

Objectives

- Providing an overview of basic CEE country information;
- Aggregating data for EU funds and available budget in CEE countries for the period 2007-2013;
- Presenting contracted and paid grants, contracting and payment ratios achieved in implementation of EU funds during 2007-2014 period.

General approach

All data included in this section are based on individual, publicly available country-level information derived from CEE countries:

- Country figures (incl. GDP and population data) were collected by local KPMG practices;
- Amounts of financial resources originate from the financial table of the related EU Structural and Cohesion Funds of 2007-2013;
- Variation of exchange rates can impact the actual values of contracted and paid grants regarding those Member States which are not part of the eurozone;
- Exchange rates applied in calculations are the average European Central Bank exchange rates for the respective years;
- All the averages calculated in the report are the arithmetical averages;
- Due to accession to the EU in July 2013, and participating in the 2007-2013 perspective for a year and a half, Croatia was included in comparisons of allocated budgets only, while the data presenting contracted and paid grants, as well as contracting and payment ratios, are not comparable to other countries and this is why they are not covered by this report.

Photo: Hagymatikum Thermal Bath of Makó, Complex medical and health tourism development of the Thermal Bath of Makó, Hungary, 2009-2011



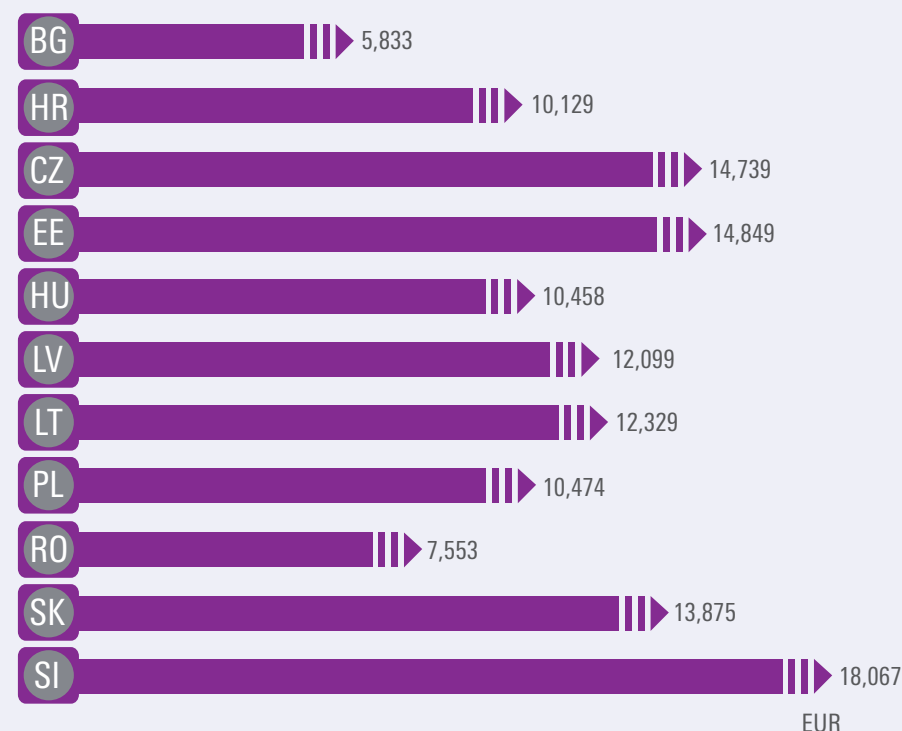
Basic CEE information on EU SCF in 2007-2013

The 11 CEE countries joined the EU in three stages:

- On 1 May 2004: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia;
- On 1 January 2007: Bulgaria, Romania;
- On 1 July 2013: Croatia.

In the 2007-2013 period the 11 CEE countries had access to EUR 175.99 billion of EU funds, i.e. from ERDF, CF and ESF, excluding a national public and private contribution, which constitutes 15.5% of the annual GDP of the region. The following table and graphs show the population, GDP and breakdown of EU funds by country.

GDP per capita



Based on EUROSTAT data, 2014, in EUR.

Basic CEE information on national accounts and EU funds 2007-2014

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE total	CEE average
Population (million)	7.2	4.24	10.51	1.32	9.88	1.99	2.94	38.48	19.95	5.42	2.06	103.99	9.45
Annual GDP (EUR billion)	42.00	42.96	154.94	19.53	103.30	24.06	36.29	403.08	150.66	75.21	37.25	1,089.27	99.02
GDP per capita (EUR)	5,833	10,129	14,700	14,849	10,458	12,099	12,329	10,474	7,553	13,875	18,067		11,855
EU funds 2007-2013 (EUR billion)	6.67	1.27	26.30	3.40	24.92	4.53	6.78	67.19	19.18	11.65	4.10	175.99	
EU funds per capita (EUR)	927	299	2,502	2,588	2,523	2,278	2,302	1,746	961	2,149	1,989		1,842
EU funds per GDP (%)	15.9%	3.0%	17.0%	17.4%	24.1%	18.8%	18.7%	16.7%	12.7%	15.5%	11.0%		15.5%

The amount of allocated EU funds differs among countries – the highest budget is allocated for Poland, which is the most populous CEE country. However, EU funds per capita ratio is highest in Estonia, Hungary and Czech Republic.

Poland and the Czech Republic account for more than 50% of the allocated EU funds. Together with Hungary and Romania, their total amount represents over three-fourths of the total EU funds allocated for the CEE region.

Breakdown of EU funds 2007-2013 by country

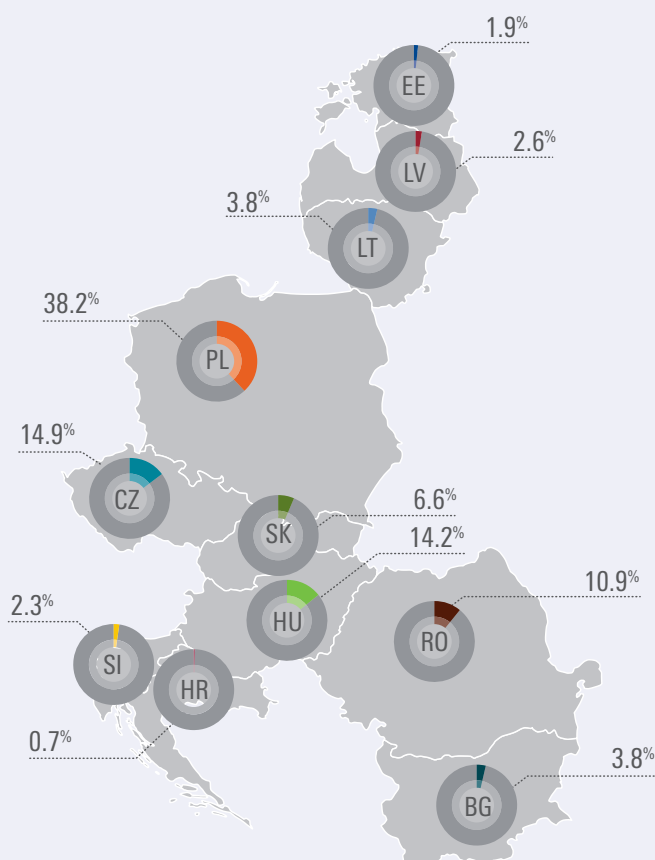


Photo: Construction of Modular Production Facilities within Business Incubator BIOS Osijek, Croatia, 2007-2013, Pixabay_Public domain

Progress achieved during the implementation of EU funds in 2007-2014

General information on progress for 2007-2014

Budgets were set according to different considerations among the Member States through their National Strategic Reference Framework Programmes.

During the 8 years of implementation of EU co-funded programmes beneficiaries signed contracts totalling EUR 181.53 billion, which exceeded the budget available for the programming period by 5 percentage points.

By the end of 2014 over 72% of the contracted grants (i.e. EUR 131.20 billion) had been disbursed to the beneficiaries.

Accordingly, the following table shows all related data by country regarding the 2007-2014 period.

Basic CEE information on EU funds implementation 2007-2014												
	Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE total	CEE average
Available budget 2007-2013 (EUR billion)	6.674	26.303	3.403	24.921	4.530	6.775	67.186	19.175	11.651	4.101	174.72	-
Available budget 2007-2013 per capita (EUR)	927.0	2,502.1	2,588.2	2,523.1	2,278.4	2,301.9	1,745.8	961.3	2,149.1	1,989.3	-	1,996.01
Contracted grants 2007-2014 (EUR billion)	7.7	25.2	3.3	28.0	4.8	6.8	68.2	20.3	13.1	4.3	181.53	-
Contracting ratio (%)	115%	96%	98%	112%	105%	100%	102%	106%	112%	104%	-	105%
Paid grants 2007-2014 (EUR billion)	5.1	18.1	3.0	21.7	3.9	6.0	52.5	10.0	7.6	3.4	131.20	-
Payment ratio (%)	77%	69%	87%	87%	86%	88%	78%	52%	65%	83%	-	77%

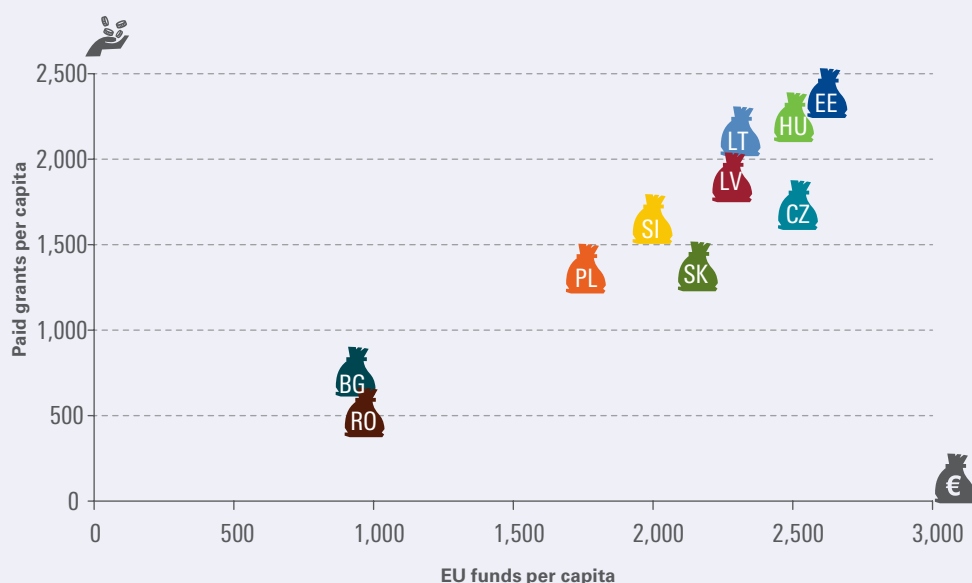
Available budget 2007-2013 per capita



Available budget 2007-2013 per capita vs. contracted grants 2007-2014 per capita



Available budget 2007-2013 per capita vs. paid grants 2007-2014 per capita



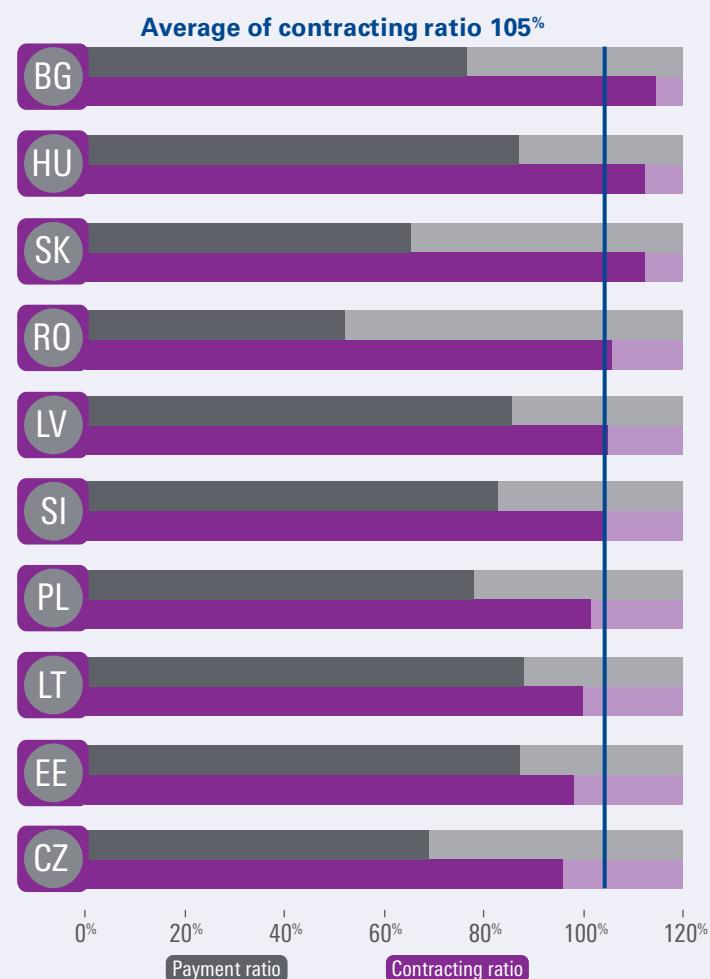
Contracting and payment ratio for 2007-2014 by country

Following 8 years of implementation the 10 CEE countries contracted altogether 105% of their budget allocated for programming period.

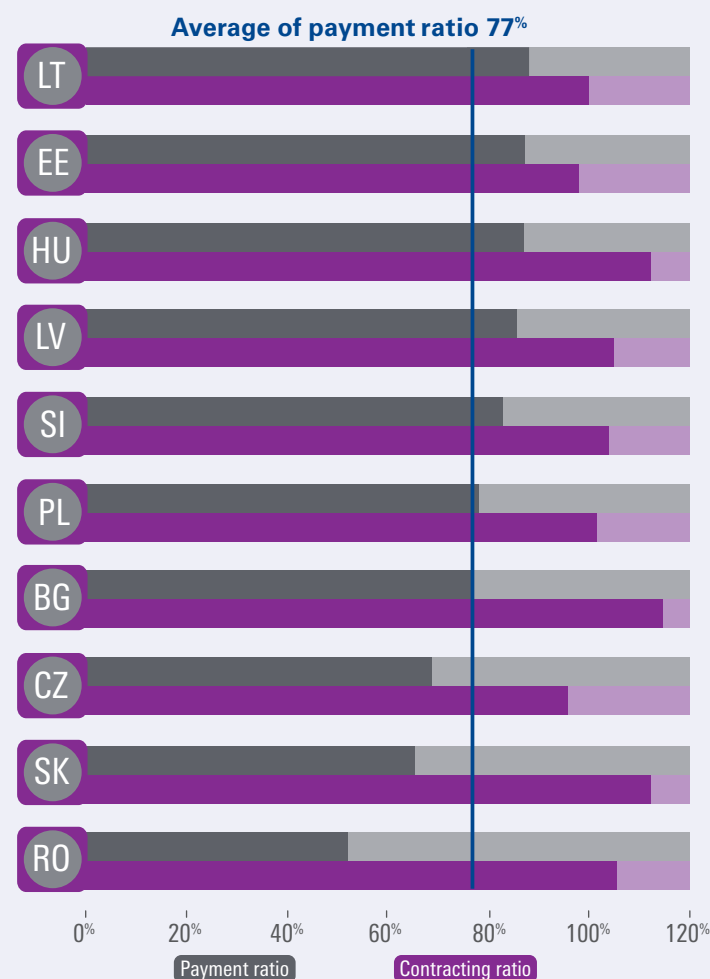
As of the end of 2014 Bulgaria's, Hungary's and Slovakia's National Strategic Reference Framework programmes showed the highest contracting ratios, ranging from 112 to 115%, which is also outstanding on a time-proportional basis. The greatest progress was observed in Slovakia (112% in 2014 vs. 98% in 2013). At the end of 2014 the countries with the lowest contracting ratios were Czech Republic and Estonia, both below the average values.

The payment ratio showed a slightly different pattern, the best performing countries being Lithuania, Estonia and Hungary.

Contracting ratio and payment ratio 2007-2014 according to contracting result (%)



Contracting ratio and payment ratio 2007-2014 according to payment result (%)



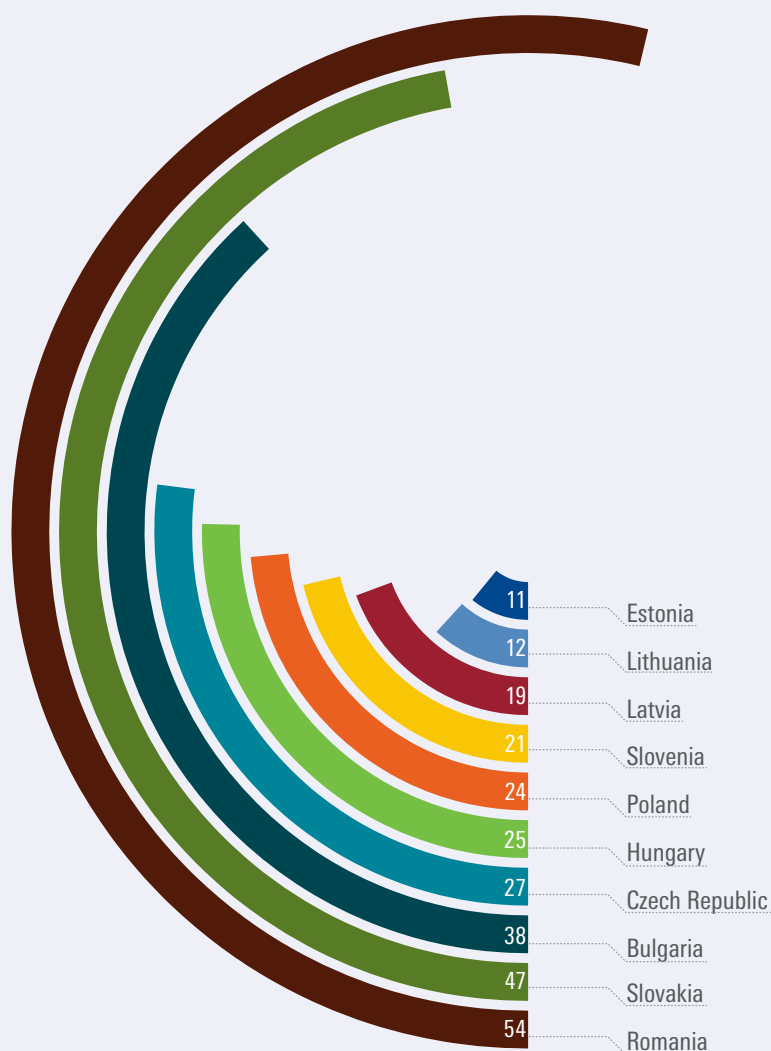
Differences between contracting and payment ratio by countries

An important factor in indicating the real level of the effectiveness and efficiency of EU funds management is the gap between contracted and paid grants. The smaller difference between these two factors, the more efficient EU funds management is in terms of real distribution.

Estonia remains the leader in this field with as little as 11 percentage points (pp) difference between contracted grants and paid grants. Lithuania (12 pp) also achieved good results. The biggest differences between contracted grants and paid grants are observed in Romania (54 pp) and Slovakia (47 pp).

Country	2007-2014 sum		
	Contracting ratio (%)	Payment ratio (%)	Difference between contracting and payment ratios (in pp)
Bulgaria	115%	77%	38
Hungary	112%	87%	25
Slovakia	112%	65%	47
Romania	106%	52%	54
Latvia	105%	86%	19
Slovenia	104%	83%	21
Poland	102%	78%	24
Lithuania	100%	88%	12
Estonia	98%	87%	11
Czech Republic	96%	69%	27

Difference between contracting and payment ratios (in percentage points)



Implementation of EU funds for 2007-2014 by EU Structural and Cohesion Funds

The amounts of available budget from EU Structural and Cohesion Funds are presented in the following table.

Available budget 2007-2014 (EUR billion)											
	Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE sum
European Regional Development Fund (ERDF)	3.15	13.71	1.86	12.65	2.41	3.44	34.79	8.97	6.19	1.93	89.11
Cohesion Fund (CF)	2.28	8.82	1.15	8.64	1.54	2.31	22.39	6.52	3.90	1.41	58.96
European Social Fund (ESF)	1.18	3.77	0.39	3.63	0.58	1.03	10.01	3.68	1.56	0.76	26.59

Contracted and paid grants 2007-2014 broken down according to EU Structural and Cohesion Funds

So far, after 8 years of co-funded programme implementation, around 53% of grants supported operations related to European Regional Development Funds. Meanwhile, the Cohesion Fund (CF) accounted for almost 34% and European Social Funds (ESF) accounted for 16% of the total available budget.

Contracting ratio by EU Structural and Cohesion Funds											
	Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE average
European Regional Development Fund	107%	100%	97%	112%	107%	100%	101%	109%	113%	103%	105%
Cohesion Fund (CF)	132%	86%	100%	117%	99%	99%	101%	93%	107%	109%	103%
European Social Fund (ESF)	106%	104%	98%	103%	111%	101%	105%	121%	122%	98%	107%

The share of paid grants is similar: 39% of grants supported operations related to European Regional Development Funds. The Cohesion Fund (CF) accounted for 24% and European Social Funds (ESF) accounted for 12% of the total paid grants.

Payment ratio by EU Structural and Cohesion Funds											
	Bulgaria	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE average
European Regional Development Fund	76%	71%	85%	88%	86%	86%	78%	51%	68%	91%	78%
Cohesion Fund (CF)	75%	66%	90%	86%	79%	88%	74%	49%	60%	68%	74%
European Social Fund (ESF)	84%	69%	90%	84%	103%	93%	88%	59%	67%	89%	83%

Summary of Findings

Implementation progress 2007-2014 by country

After 8 years of the implementation of the 2007-2013 programming period, almost EUR 181.53 billion in grants has been contracted by the 10 CEE countries. This amount represents 105% of the total available budget for the 2007-2013 period.

By the end of 2014 EUR 131.2 billion – i.e. 77% of the available budget and 72% of the contracted grants – had been paid to beneficiaries.

High contracting ratios do not always lead to high payment ratios.

In the 2007-2013 programming period, contracting started only in 2008 and reached a reasonable level in 2009, while payments tended to lag by a further year. Having this experience these countries should be able to better prepare implementation rules and procedures, as well as the pipeline for the next 7 years. This would result in starting contracting just after finalising negotiations and signing an agreement with EC, which would lead to more even distribution of EU funds within the 2014-2020 period.

Implementation progress 2007-2014 by EU Structural and Cohesion Funds

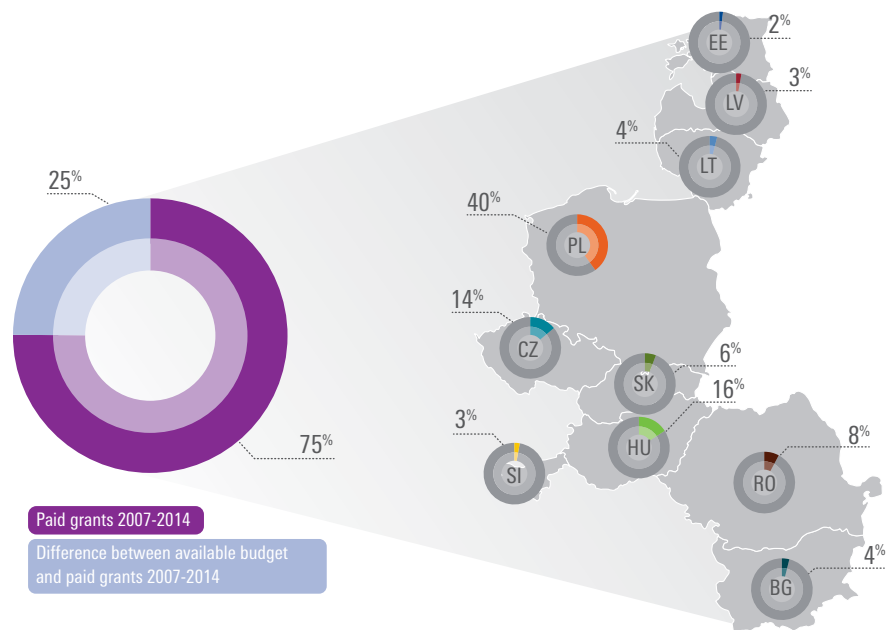
By the end of 2014 most EU Structural and Cohesion Funds performed around the average contracting ratio of between 96% and 115%. Payment ratios of all EU Structural and Cohesion Funds ranged between 52% and 88%.



Total budget of 10 CEE countries:
174.7bn

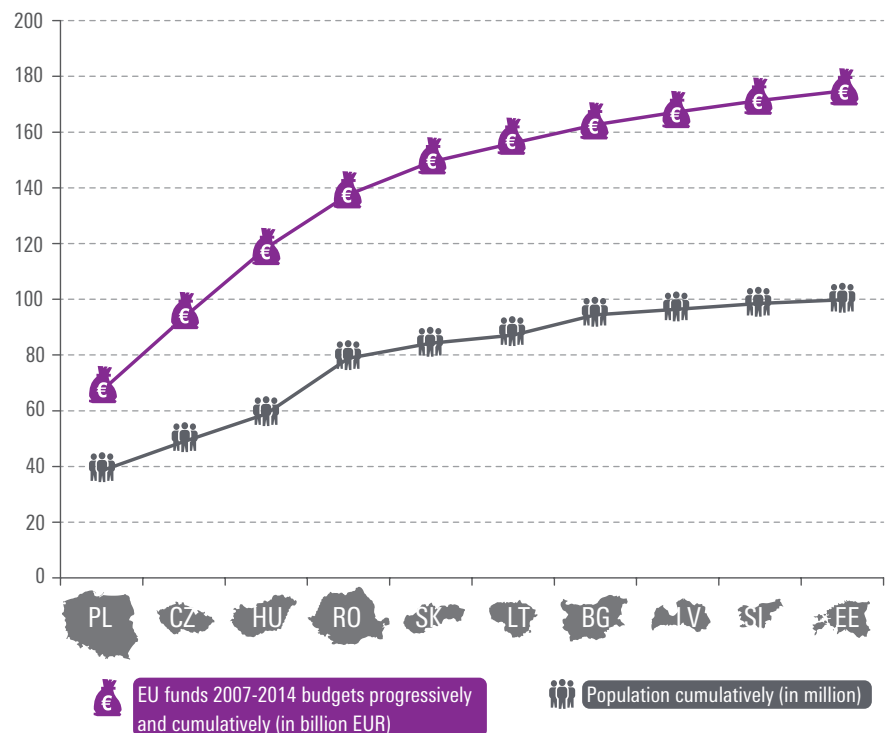
Paid grants by country, 2007-2014

The graph below shows how much of the paid funds (77%) go to each of the CEE countries.



Budget allocations by countries' populations, 2007-2014

The chart below is a progressive summary of the EU funds 2007-2014 budget allocations and CEE countries' populations.



New Perspective 2014-2020 – New Budget, New Challenge

Breakdown of EU funds 2014-2020

The amount of EU funds allocated for the 2014-2020 period varies by country – the highest budget is allocated for Poland, which bears the biggest population among the CEE countries. However, the EU funds per capita ratio is the highest in Slovenia.

Poland and Hungary account for almost 50% of the allocated EU funds. Together with the Czech Republic and Romania, their total amount constitutes almost 70% of the total EU funds allocated for the CEE region.

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia	CEE sum	CEE average
Total Budget (in billion EUR)	7.37	10.68	21.60	5.90	25.03	4.39	6.71	82.50	22.99	13.77	18.18	219.12	19.92

The latest implementation status of EU Funds

The new financial perspective covers the years 2014-2020. The implementation process contains four basic steps: planning, negotiations with the European Commission, agreement with the European Commission, implementation.

Currently, most of the countries have finalised the negotiations stage with the European Commission and signed the agreements. The exceptions are Estonia and Croatia which are at the implementation stage. Three countries are still negotiating with the EC: Hungary, Romania and Slovenia.

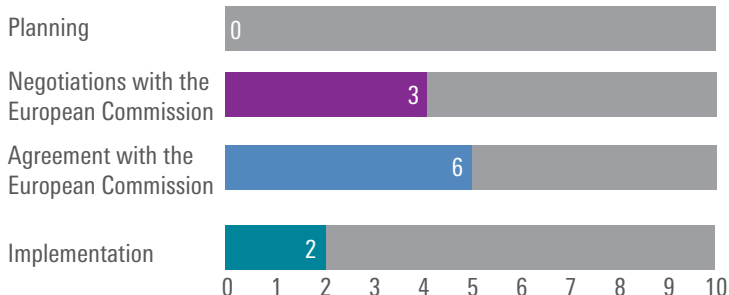


Photo: North Estonia Medical Centre Foundation's extension and reconstruction, Estonia, 2015, Ministry of Finance of the Republic of Estonia



Country Overviews

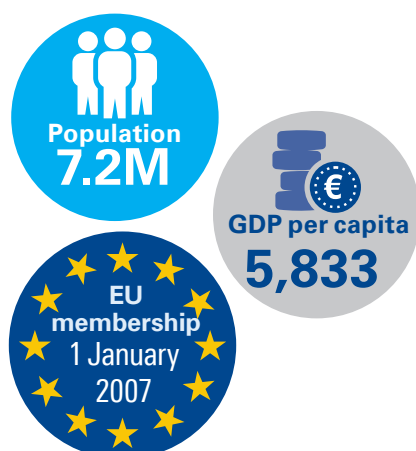


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Photo: Medininkai castle adaptation for tourism, Lithuania, 2009-2012,
Ministry of Finance of the Republic of Lithuania

01 Bulgaria

EU programme information



Sources: EUROSTAT data
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 6.7 billion
Contracted grants	EUR 7.7 billion
Contracting ratio	115%
Paid grants	EUR 5.1 billion
Payment ratio	77%
EC certification	EUR 4.3 billion
EC certification ratio*	64%

*EC certification ratio = EC certification / Total budget *100%

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at end of 2014)
ERDF	107%
CF	132%
ESF	106%

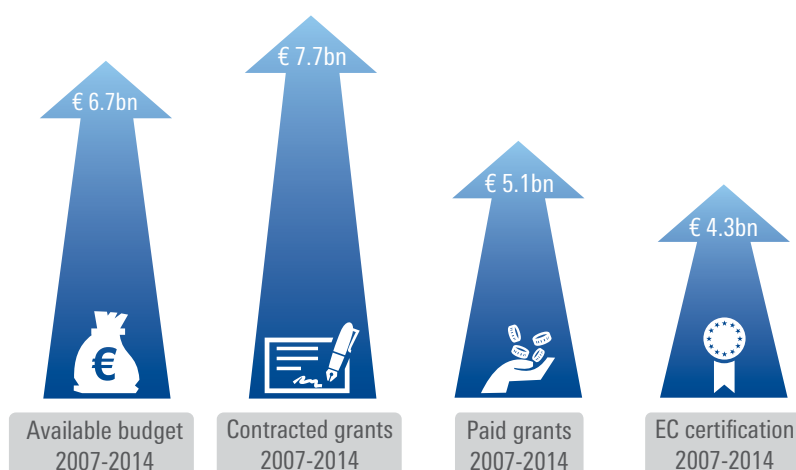
General observations

In the 2007-2013 period, Bulgaria's main programming document, the National Strategic Reference Framework (NSRF), included seven OPs with a EUR 6.67 billion contribution from the EU Structural and Cohesion Funds (SCF). The seven programmes addressed the country's priorities and the socio-economic development challenges, aiming to reduce the differences with other EU countries and overcome the negative effects of the global financial and economic crisis.

In addition to the NSRF, there were programmes under the European Agricultural Fund for Rural Development (implemented within the Rural Development Programme), the European Agricultural Guarantee Fund and the European Fisheries Fund (implemented within OP Fisheries).

During the reference period, a number of evaluations established the positive impact of the EU Cohesion Policy on the overall economic development of Bulgaria. Significant progress was also achieved with regard to the implementation of the NSRF indicators as compared to their base values, resulting directly from SCF support.

EU Funds implementation in Bulgaria as at December 2014



EU funds implementation progress in Bulgaria in 2007-2014 (%)



Trends

SCF contributions address mainly public and private physical and human capital. By the end of 2014, Bulgaria had contracted 115% and disbursed 77% of the total budget allocated for the 2007-2013 period. The disbursement to beneficiaries shows a significant increase: from 54% at the end of 2013 to 77% at the end of 2014.

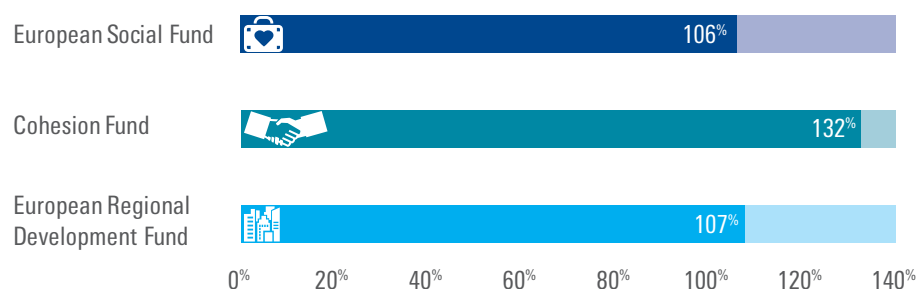
Overall, there is a trend of accelerated absorption and project prioritisation in order to foster the economic growth of the country. Continued support is provided to strengthen the administrative capacity of managing, certifying and audit authorities, and further steps have been planned to prevent a considerable loss of funds.

Successes

Bulgaria has made a lot of effort to increase SCF absorption. The acceleration of implementation achieved was the result of substantial improvements regarding faster verification and payment processes, simplification of procurement rules, preparation of major infrastructure projects, introduction of electronic submission of applications and reporting through the EU Funds information portal, and intensive use of financial instruments.

A notable success during the reporting period was the enhancement of the national regulations regarding financial corrections, aiming to improve the financial correction procedure which now entails the option, where applicable, for sharing the responsibility for financial corrections between beneficiaries and managing authorities. The amended regulations include a procedure for regular analysis of financial corrections to achieve prevention, a coherent approach and coordinated corrective actions at an early stage.

Contracted grants – breakdown according to EU fund



Problems

At the beginning of the 2007-2013 programming period, the SCF financial management and control systems did not operate effectively and efficiently enough. Administrative staff and beneficiaries needed to follow the path of learning and developing. Many of the initial problems have been overcome but there are still challenges related to programming and design of aid schemes, further simplification of procedures, and better prioritisation based on a cost-benefit analysis.

In 2014, the payments under OP Environment were suspended and the payments under OP Regional Development were interrupted. The national authorities made respective financial adjustments and took the necessary steps in order to improve and strengthen management and control systems. As a result, the Commission restarted the payments for the two programmes.

Lessons learned

In the current programming period 2014-2020, there should be a greater focus on better strategic planning, maintaining and further development of the established administrative capacity, optimisation of the management and control systems through simplification of the procedures, and using, where applicable, simplified cost options. The electronisation of the processes of project application and payment claims/verifications which has started should be completed in a timely fashion. Complementary to the compliance controls, in the current programming period a stronger focus should be placed on achieving the objectives as a basis for monitoring, evaluation and review of performance of the programmes.

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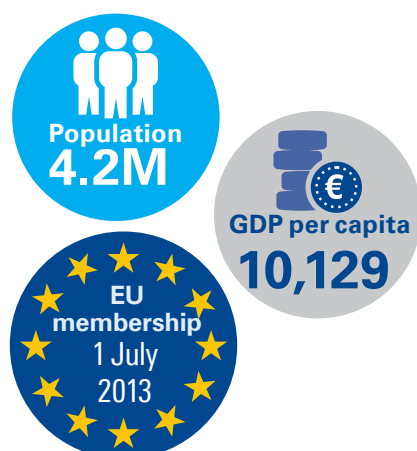
E: itodorova@kpmg.com

Photo: Investments for improving the energy efficiency of Color Garden AD, Bulgaria, 2015



02 Croatia

EU programme information



Sources: EUROSTAT data
KPMG calculation

General observations

The Republic of Croatia, by becoming a full member of the European Union on 1 July 2013, has become a beneficiary of European funds. Soon after its accession, the main programme document which sets out priorities for the use of funds from the EU structural instruments (the European Regional Development Fund, the European Social Fund and the Cohesion Fund), the National Strategic Reference Framework (NSRF), was signed and approved by the European Commission (EC) on 26 August 2013. It focuses on four key sectors for development, representing an extension of the IPA programme Component III and Component IV (Transport, Environment, Regional Competitiveness and Human Resources Development).

During 2014 several key activities were undertaken in order to improve the existing system for EU funding in Croatia:

Development of Communication Strategy

In January 2014, a Communication Strategy was prepared which represented an instrument in the transitional process from IPA funds to the Structural Funds in the new financial perspective, covering the period from 1 July 2013 to 2016. After that period, it will be replaced with a new Communication Strategy focused on informing and transparency measures of structural instruments in the Financial Framework 2014-2020.

Croatian Government and European Commission Partnership Agreement

The European Structural and Investment Funds (ESIFs) are financial instruments that are crucial for Croatia's efforts to achieve its targets for EU 2020, implementing structural reforms, and ensuring its alignment with the EU. The Croatian Government and the EC have prepared a Partnership Agreement on the use of ESIFs for growth and job creation in the 2014-2020 Framework, which was adopted by the European Commission on 30 October 2014. The Framework sets the foundations for investing a total of EUR 10.7 billion in Cohesion Policy funding in the EU Financial Period 2014-2020.

Of the above-mentioned amount, EUR 8.4 billion is planned for Cohesion Policy goals, EUR 2.0 billion for Agriculture and Rural Development, and EUR 0.3 billion for the development of fisheries.

However, due to EU regulations and procedures, both the Partnership Agreement and Operational Programmes need to be adopted before Croatia can start using the funds, which is the reason there were no contracted grants in 2014.

Adoption of New Operational Programmes

By the end of the year, two of the Operational Programmes had been adopted, the "Operational Programme Competitiveness and Cohesion 2014-2020" ("OPCC", adopted on 12 December 2014), and the "Operational Programme Efficient Human Resources 2014-2020" ("OPEHR", adopted on 17 December 2014), setting the foundations on which Croatia can begin using the allocated funding.

The total 2014-2020 Financial Framework's allocation is over 3% of GDP on an annual basis or about 10 times as much as that for 2007-13, representing a huge opportunity for Croatia.

Trends and successes

Limited administrative and technical capacities in public administrative bodies at the local and the beneficiary level, combined with difficulties linked to the switchover from the IPA to the ESIF, have contributed to delays in the absorption of the 2007-2013 allocation.

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 1.3 billion
Contracted grants*	EUR 0.97 billion
Contracting ratio	32%
Paid grants	EUR 0.48 billion
Payment ratio	9%

*IPA

In spite of these limitations, in the last 6 months of 2013 and throughout 2014, according to publicly available data, Croatia demonstrated a tendency of substantial growth in performance. In the above-mentioned period, Croatia realised EUR 0.97 billion of contracted grants from the 2007-2013 Perspective's allocated amount of EUR 1.27 billion, including IPA and Structural Funds.

Additional improvements have been made since Croatia joined the EU, such as a reduction in the average procedure lead time from 14 months to 7 months. The ultimate goal is to reach a lead time of 4 months.

In the period from 1 January to 31 December 2014, positive remarks related to contracted grants and grants paid to beneficiaries were recorded. As at 31 December 2014, payments made to beneficiaries exceeded EUR 110 million, with contracted grants in the amount of EUR 410 million, demonstrating a significant increase in relation to previous years.

EU funding was used to finance the R&D infrastructure of some universities and modernisation of school curricula. Also, there were other business and tourism infrastructure projects that are still in progress, such as the development of water-utility infrastructure in several cities.

In spite of facing limited administrative and technical capacities in public administrative bodies, in December 2014 Croatia adopted an action plan to strengthen current capacities and public procurement procedures, which is to be implemented in November 2015. This should ensure the effective and transparent application of public procurement regulations, and improve monitoring and the detection of irregularities.

Areas for improvement and lessons learned

The main short-term challenges for Croatia stem from the need to absorb the 2007-2013 allocation by the end of 2016 at the same time as launching the new 2014-20 programme.

Croatia has taken measures to facilitate and accelerate the preparation and approvals of projects since joining the EU. Consequently, Croatia's results have improved as a result of the involvement of accredited institutions in the processes of managing EU funds with strong collaboration with the Managing Authority.

It is essential for the country to continue with increased efforts to make the most of the remaining funds from the 2007-2013 Framework and to be fully prepared for the opportunities provided by the 2014-2020 Financial Framework.

If the funding is to be managed effectively and absorbed in the coming years, Croatia will need to make a major effort to ensure that there is adequate improvement in procurement processes, fund management and control, fund monitoring and evaluation, and mobilisation of stakeholders to prepare and implement quality, results-oriented projects.

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03 Czech Republic

EU programme information



Sources: EUROSTAT data
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 26.3 billion
Contracted grants	EUR 25.2 billion
Contracting ratio	96%
Paid grants	EUR 18.1 billion
Payment ratio	69%
EC certification	EUR 17.2 billion
EC certification ratio*	65%

*EC certification ratio = EC certification / Total budget *100

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at end of 2014)
ERDF	99.7%
CF	86.2%
ESF	104.0%

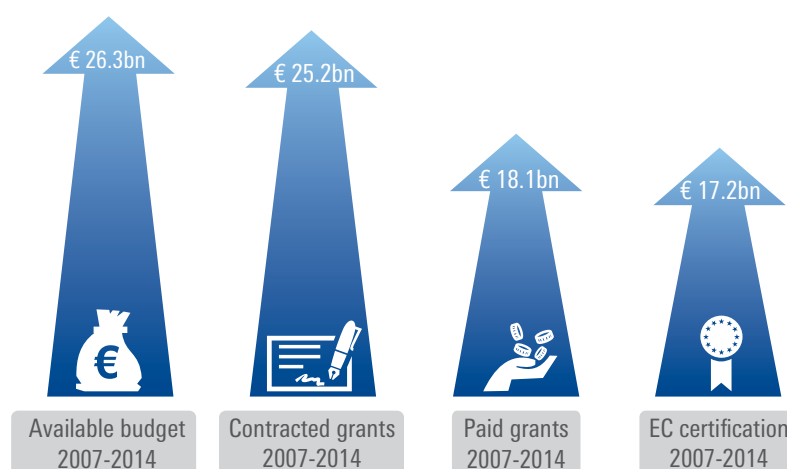
General observations

Presently, more than 100% of the total allocation for the 2007-2013 programming period has been already contracted. However, this indicator exhibits different values for the individual operational programmes. About half of them (e.g. OP Human Resources and Employment, ROP Central Bohemia, OP Enterprise and Innovation) have exceeded allocation, while the pace of contracting for other OPs has lagged since the beginning of the programming period (e.g. OP Environment, OP Research and Development for Innovation). The value of funds paid to the beneficiaries at 31 December 2014 reached only 69% of the total budget of the period 2007-2013. Most projects already paid may be identified for ROP Northeast, OP Transport, OP Prague – Competitiveness and OP Enterprise and Innovation. Programmes that are facing a problematic drawing are OP Research and Development for Innovation, Integrated Operational Programme and OP Environment.

This overview shows that despite the advanced stage of the programming period, a large amount of available funds still remains in the total allocation for the Czech Republic, in tens of billions of CZK. Although the final evaluation of the support in the 2007-2013 period will be possible only after a longer delay. Even in light of the results of the certification and the volume of actually reimbursed funds from the European Commission, it is already clear that the final drawing of granted allocation will represent a major challenge for the Czech Republic. In December 2014, managing authorities succeeded in disbursing commitments to beneficiaries and also, in cooperation with the Ministry of Finance and the Ministry for Regional Development, submitted to the European Commission an enormous amount of resources for reimbursement. As a result of this the amount of available European funds for 2014 is likely to be reduced significantly, but it is obvious that the 100% drawing target will certainly not be reached.

During 2007-2013 the Czech Republic faced several challenges. The first complication, which had an impact on the turnover of public administration employees, was the absence of procurement of regulating the stability of the employees of the implementation structure. This has resulted in slow absorption of EU funds, especially at the beginning of the programming period.

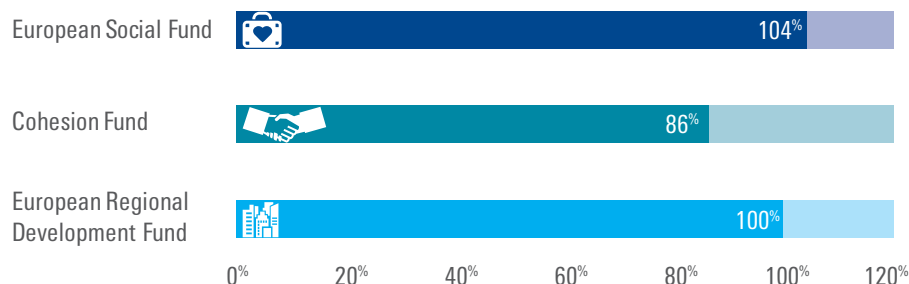
EU Funds implementation in the Czech Republic as at December 2014



EU funds implementation progress in the Czech Republic in 2007-2014 (%)



Contracted grants – breakdown according to EU fund



The Czech Republic was also criticised on several occasions for errors and lack of transparency in public tender procurement, which led to the suspension of payments for some programmes. Complicated administration caused a time delay in reimbursement payments, which resulted in insufficient utilisation of allocated funds. Another factor with which the Czech Republic needs to deal is the increase of allocation due to the foreign exchange intervention made by the Czech National Bank in November 2013.

Significant improvement has been identified in the 2007-2013 period in the area of restructuring the audit system and increase in the effectiveness of the governance system. At the same time a significant stabilisation of the overall implementation of the system and the removal of turnover of employees of the implementation structure compared with the beginning of the programming period were also identified. Those two trends should help the Czech Republic to achieve the effective management and control of operational programmes in the next programming period.

New programmes are prepared for the programming period 2014-2020, which will be co-financed from the European Structural and Investment Funds (ESIF). The programming period 2014-2020 will offer a smaller number of operational programmes, simplified rules and a uniform methodology for all programmes in order to achieve greater efficiency and transparency. The principles on which emphasis will be placed by the MA are: the principle of strategic focus and networking, the principle of support of quality projects and the principle of easier preparation and implementation of projects. The key targets in the period 2014-2020 are considered reducing administrative burdens and computerisation of programme implementation, adjustment of continuous evaluation system of human resources and reducing the number of modifications of methodological documents.

Programming period 2014-2020

The allocation from ERDF, ESF and CF for the Czech Republic for the period 2014-2020 was set at EUR 21.6 billion, which represents about 10% of the total allocation for all CEE countries. The allocation for the new programming period is about EUR 4.7 billion less than the amount that was intended for the Czech Republic in the previous period 2007-2013, which, however, will most likely not be completely drawn.

Compared to the previous programming period there has been a reduction in the number of operational programmes, particularly in regional OPs. The original seven regional operational programmes are replaced by a single integrated regional operational programme. For the programming period 2014-2020 the following operational programmes were approved:

- Integrated Regional OP
- OP Transport

*Photo: Energy savings within production process in Tawesco company, Czech Republic, 2012 and 2014
Tawesco s.r.o., <http://www.tawesco.cz>*



- OP Enterprise and Innovation for Competitiveness
- OP Research, Development and Education
- OP Environment
- OP Employment
- OP Prague – a pole of growth
- OP Technical Assistance

The largest allocation was assigned to OP Transport (EUR 4.7 billion) and the Integrated Regional OP (EUR 4.6 billion). The least funds were allocated to OP Prague – a pole of growth (EUR 0.2 billion).

A Partnership Agreement between the EC and the Czech Republic was approved by the European Commission on 26 August 2014. The Government of the Czech Republic approved the operational programmes in July 2014, and subsequently submitted them for approval to the European Commission. However, the final versions of all operational programmes have not yet been officially approved by the European Commission.

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04 Estonia

EU programme information



Sources: EUROSTAT data
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 3.4 billion
Contracted grants	EUR 3.3 billion
Contracting ratio	98%
Paid grants	EUR 3.0 billion
Payment ratio	87%
EC certification	EUR 2.8 billion
EC certification ratio*	84%

Sources: Cumulative reports for foreign financing <http://www.fin.ee/financial-info>; inquiries from the Ministry of Finance

*EC certification ratio = EC certification / Total budget

*100%

General observations

The priorities and goals for structural assistance are set out in the National Strategic Reference Framework 2007-2013. The framework is carried out through three operational programmes (OP):

- OP for Human Resource Development;
- OP for the Development of the Living Environment;
- OP for the Development of Economic Environment.

The structural assistance available for the framework programme is equivalent of EUR 3.4 billion.

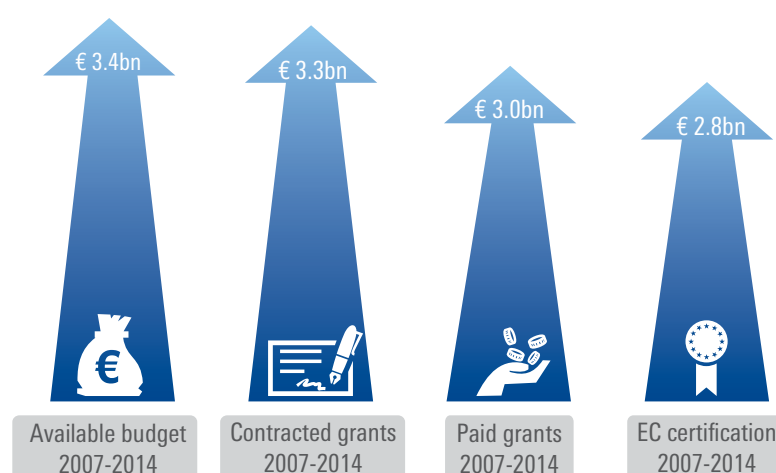
Trends

During the financial period of 2007-2013 large investments were made in infrastructure, including roads, water and waste management, schools, hospitals, community houses, R&D infrastructure, etc. Additionally, EU structural assistance was invested in advancing technology development centres and centres of excellence, and increasing the supply of skilled workers.

Successes

Structural assistance has been successfully used to reorganise and modernise vocational education to raise its competitiveness. Another achievement is using structural assistance for building innovation systems and for investing in R&D. EU funding was used to finalise merging some universities and academies of science and thereby raise the quality of education. Also, structural assistance has been invested in optimising the infrastructure of central and regional hospitals, scheduled to be completed during 2014-2020. Structural assistance has helped to increase the competitiveness of Estonian companies through increased investments in R&D and exports.

EU Funds implementation in Estonia as at December 2014



Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at end of 2014)
ERDF	97.2%
CF	99.52%
ESF	98.11%

EU funds implementation progress in Estonia in 2007-2014 (in %)



Source: Cumulative reports for foreign financing <http://www.fin.ee/financial-info>; inquiries from the Ministry of Finance

Contracted grants – breakdown according to EU fund

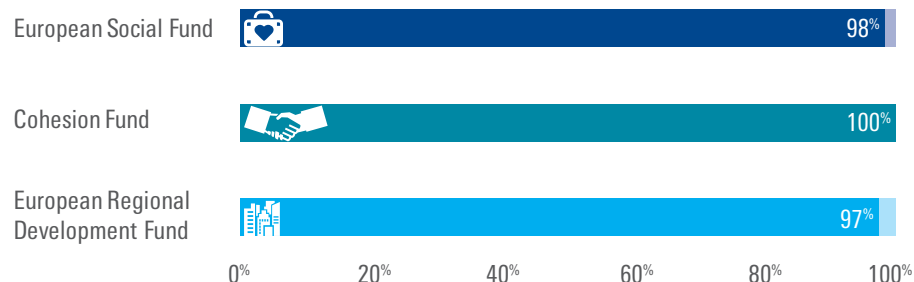


Photo: Maritime Museum's Seaplane harbour's development into a modern and comprehensive marine and technical history museum – stage II, Estonia, 2012, Ministry of Finance of the Republic of Estonia



Problems

During 2007-2013 significant investments were made in infrastructure; however, recent discussions have raised concerns about the impact of increased administration and maintenance costs to the state and local governments' budgets. Urbanisation is still a problem in Estonia despite investments made in developing rural areas. More work needs to be done in aligning vocational and higher education curricula with labour market needs.

Lessons learned

In the long run, Estonia is developing from a net-receiver into a net-contributor. Therefore, it is necessary to use EU funding as strategically as possible to ensure a long-term impact.

The main aim for the new period is to raise productivity and employment. To achieve this, around 30% of EU assistance will be invested into education, employment and social inclusion and another 30% into promoting R&D, innovation and entrepreneurship. Six per cent of EU assistance will be invested in the ICT and in improving the efficiency of citizen-centred and coherent public governance. Compared to the previous programming period, less money will be invested into transportation, resource effectiveness and environmental protection.

Estonia used the new possibility to compose only one operational programme for Cohesion Policy Funds (ESF, ERDF, CF) for 2014-2020 instead of three in 2007-2013 to improve coordination, efficiency and to achieve better results in using the funds.

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Photo: Development of Kiviõli adventure tourism centre, Estonia
2013, Ministry of Finance of the Republic of Estonia

05 Hungary

EU programme information



Sources: EUROSTAT data
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 24.9 billion
Contracted grants	EUR 28.0 billion
Contracting ratio	112%
Paid grants	EUR 21.7 billion
Payment ratio	87%
EC certification	0
EC certification ratio*	0

*EC certification ratio = EC certification / Total budget *100

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at end of 2014)
ERDF	111.69%
CF	117.30%
ESF	103.07%

General observations

In the 2007-2013 programming period the allocation of EU funds was outlined by the National Strategic Reference Framework “New Hungary Development Plan” and from 2010 mostly by the “New Széchenyi Plan”. The plans covered overall 15 programmes including seven sectorial, six regional, one Regional Competitiveness and Employment objective and one Technical Assistance Operational Programme. The total available budget for the period was EUR 24.92 billion in community co-financing.

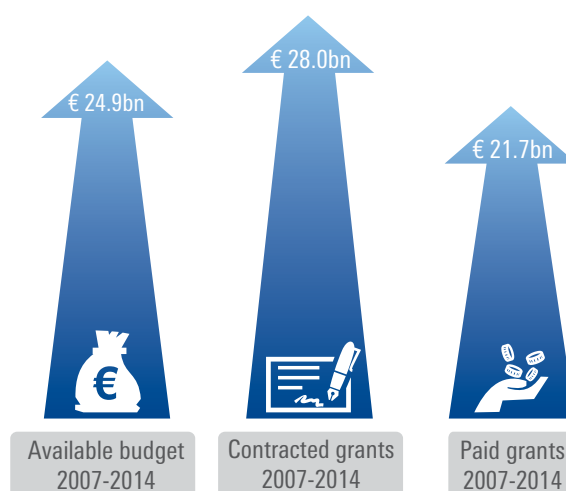
Hungary’s performance in the implementation of the cohesion policy has improved in terms of payments between 2013 and 2014. The payment ratio increased by 25 percentage points (to 87%), which is considered to be the greatest increase in payment ratios in Hungary during the period of 2007-2013. It grew most rapidly within the Cohesion Fund by 31 percentage points. The contracting ratio increased by 6 percentage points from 106% to 112%, the highest contracting ratio being within the Cohesion Fund (117%). By the end of 2014 paid grants reached EUR 21.7 billion, increasing the amount of paid grants by 25 percentage points compared to previous year.

Looking at the upcoming period of 2014-2020, the budget is planned to slightly increase to EUR 25.03 billion. As of February 2015, the European Commission has already accepted five operational programmes for the next period, amounting to a budget of EUR 18.7 billion.

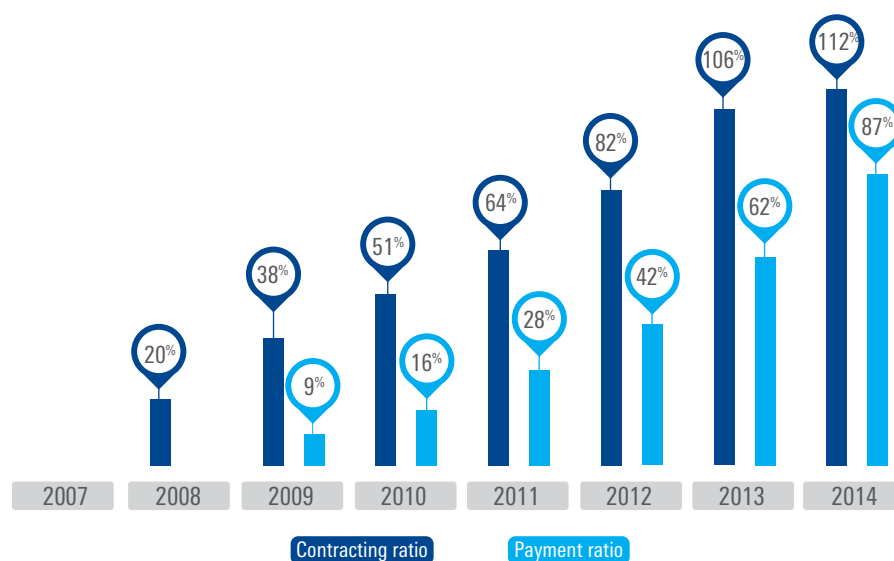
Trends

Hungary focused on two main issues in 2014: firstly, to accelerate the payments of the current period of 2007-2013 and secondly, to finalise planning the upcoming programming period of 2014-2020. Aiming to withdraw the entire available EU funding budget by the end of the current period, Hungary started an overall audit programme to review all projects and beneficiaries in order to filter delayed and non-transparent projects and reallocate the reclaimed funding. In 2014, the results of this audit were released, funding from delayed and non-transparent projects were reclaimed and calls for new tenders and projects were released using the revolving funds.

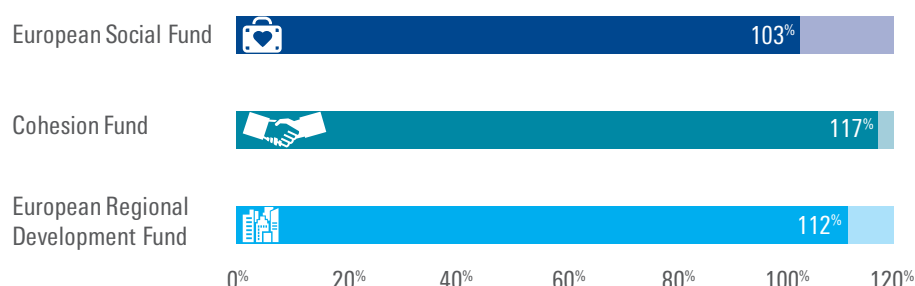
EU Funds implementation in Hungary as at December 2014



EU funds implementation progress in Hungary in 2007-2014 (in %)



Contracted grants – breakdown according to EU fund



By 2014, altogether EUR 28 billion in grants has been contracted from the Structural Funds and the Cohesion Fund, which equates to an overall contracting ratio of 112%. In the period 2007-2013, Hungary experienced both rapid and moderate upward trends regarding contracting and payment ratios. The risk of low absorption was mitigated in 2013, by successfully accelerating the contracting and achieving an overcommitment for both ERDF (104%) and CF (115%).

Approaching the closing year of the period, payment ratios played an outstanding role in 2014, therefore high emphasis was put on accelerating payment, aiming to reach a payment ratio of 100% by 2015. The overall payment ratio has been increasing gradually in the last years: it grew by 20 percentage points in 2013 (to 62%) and 25 percentage points in 2014 (to 87%). The payment ratio should increase by 13 percentage points in 2015 in order to achieve complete withdrawal of the available funds, which might pose further challenges facing the closing settlement at the end of 2015.

Successes

The Transport OP achieved a growth of 22 percentage points in payment ratio and had the highest payment and contracting ratio among the operational programmes in 2014. The Environment and Energy OP (EEOP) also achieved an impressive growth regarding payment ratios as it grew from 48% to 67%. As a result of successfully accelerating payment in 2014, in general, OPs' payment ratios vary between 72-82%. The differences in payment ratios were stabilised in 2014 as the range between the lowest and highest payment ratio decreased from 36% (in 2013) to 21%.

Challenges

Despite the significant general improvement in payment ratios the six regional OPs faced challenges: even though they slightly increased their payment ratios, they grew very slowly and had a rather low payment ratio with an average of around 74%. The Social Infrastructure OP (SIOP) and the Environment and Energy OP (EEOP) had the lowest payment ratios of 61% and 67% with a contracting ratio lower than 100%.

The overall payment ratio in 2014 was 87%, which might be a challenge for the institutional system in achieving a satisfying absorption rate by the end of 2015. For this reason Hungary is working excessively on withdrawing the entire budget by accelerating payments, filtering delayed and non-transparent projects and reallocating reclaimed funding.

Photo: The Science Park of NI Hungary Kft., GOP-1.2.1-12/B-2012-0002, Hungary, 2012



Lessons learned

From 2014 the most important takeaway is the successful pursuance of a dual focus: managing the closing and planning the upcoming period.

Approaching the close of the 2007-2013 programming period, accelerating payment is a key success factor in order to withdraw as much of the available EU funding as possible. Moreover, quantifying the potential amount of revolving grants is also necessary to avoid funding loss: continuous and systematic review of beneficiaries and projects in order to evaluate the risk of implementation is necessary. It is also important to ensure the availability of human resources both for the currently closing and upcoming programming period. In addition, to prevent the institutional system from facing intense challenges nearing the end of a period (such as lack of time and human resources), programme implementation shall be the priority from the very early stages of the next programming period.

Building on the lessons learned from the period of 2007-2013, Hungary is planning to use the available resources more effectively and in a focused way in the upcoming period. In contrast to the current 15 operational programmes financed from the ERDF, ESF and CF, in 2014-2020 only eight are under development. There is also an intent to shift the thematic focus: 60% of the total available budget is aimed at supporting economic development, which is a significant increase compared to the previous period. As a result, the available budget for the Economic Development and Innovation OP is nearly three times more than its predecessor's. Financial instruments are also receiving more emphasis, by more than tripling the available budget for loan, guarantee and venture capital programmes.

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06 Latvia

EU programme information



Sources: EUROSTAT data
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 4.5 billion
Contracted grants	EUR 4.8 billion
Contracting ratio	105%
Paid grants	EUR 3.9 billion
Payment ratio	86%
EC certification	EUR 3.7 billion
EC certification ratio*	81.24%

*EC certification ratio = EC certification / Total budget *100

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at end of 2014)
ERDF	107.34%
CF	98.83%
ESF	110.54%

General observations

The total allocated Cohesion Policy funding for the 2007-2013 programming period is equivalent to EUR 4.53 billion with the additional co-financing from the government of Latvia amounting to EUR 1.15 billion.

According to the EU Funds implementation progress as at 31 December 2014, the total amount of contracted EU funding is EUR 4.75 billion or 104.9% of the total available budget, which means that contracts are already being signed using the allocated overcommitments in addition to the approved EU funding. The aim of overcommitments is to ensure 100% absorption of available EU funds by compensating for instances of non compliance and terminated contracts. The total budget for overcommitments amounts to EUR 404.5 million.

Payments to final beneficiaries including recovered amounts reached EUR 3.88 billion or 85.7% of the total available budget and interim payments received from the European Commission total EUR 3.68 billion or 81.2% of the total available budget.

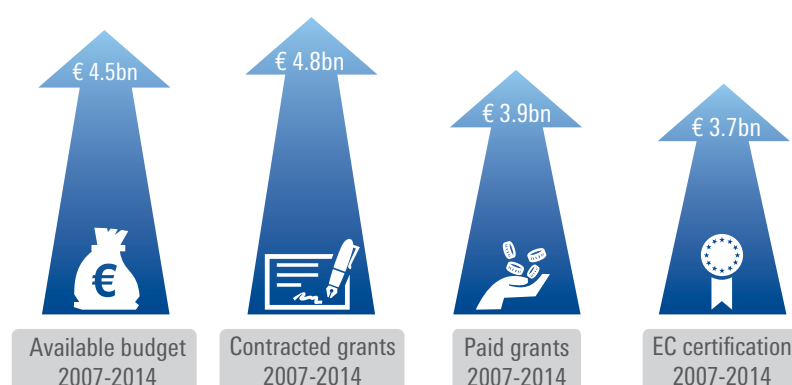
Trends

According to the Managing Authority or the Ministry of Finance of the Republic of Latvia:

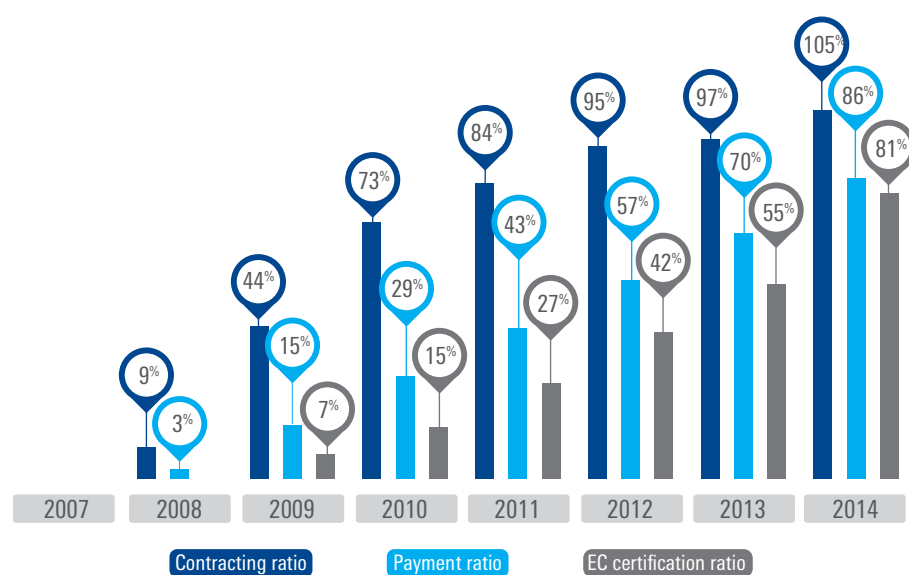
- EU fund investments have generated an increase in the growth of Latvia's GDP by 1.1%;
- It is expected that in 2014 EU fund investments will have a positive impact on the growth of private consumption, increasing the growth rate by 1.8%;
- In 2014 EU fund investments will increase the formation of gross fixed capital by 1.2%;
- It is expected that the impact of EU funds on export growth of goods and services will be approximately 0.7%;
- EU funded projects will continue having a positive impact on employment dynamics in 2014, increasing the growth rate of the number of employed people by 0.3%.

In the programming period 2007-2013 the largest proportion of the total available EU funding of EUR 4.53 billion is allocated to transport and information and communications technology (ICT) (30.2%), while the rest of EU funding is divided among environment (16.6%), entrepreneurship and innovations (10.5%), education (10.4%), employment and social inclusion (7.3%), urban environment (6.1%), science (5.6%), health (4.8%), and energy (4.4%) and other (4.1%).

EU Funds implementation in Latvia as at December 2014



EU funds implementation progress in Latvia in 2007-2014 (%)



Contracted grants – breakdown according to EU fund

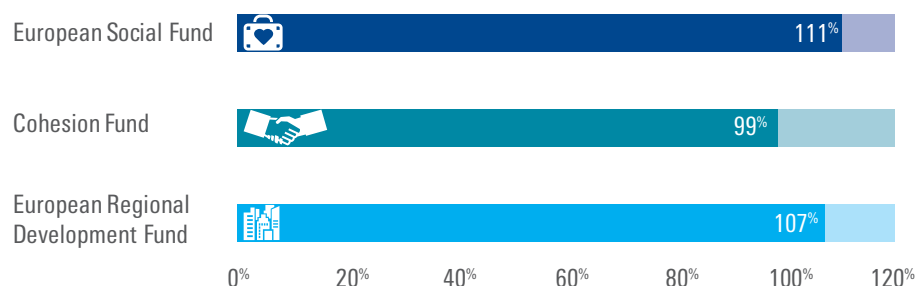


Photo: Revitalisation of the degraded territory in the block of Maskavas, Krasta un Turģeneva streets, Latvia, 2013
Ministry of Finance in Latvia



Successes

According to the Ministry of Finance of the Republic of Latvia, the achieved results of the 2007-2013 programming period show that there have been positive contributions to the economy of Latvia and its population. For example, in the field of labour and social support, 148,609 unemployed people and job seekers have been retrained and educated; 205,457 unemployed people have been involved in socially useful work; and 59,525 people at risk of social exclusion have been supported. In the field of education, 21,832 general education teachers have improved their competency and qualifications, 71,284 vocational education students have received direct support in the form of scholarships, and 153 research projects have received funding. In the field of business and innovation, 1,059 economically active businesses have been supported in business incubators, and 2,163 projects have received support for participating in international exhibitions. In the field of transport, 784.7 km of roads and streets as well as 52 km of railway have been reconstructed.

Lessons learned

To maximise the absorption of EU funds for the 2014-2020 programming period, it is important for the Managing Authority and the Co-operation Institution to become more active partners providing operators with access to efficient support. To reduce the administrative burden the new institutional framework includes only one Co-operation Institution instead of six as in the previous period, and the number of Responsible Institutions will be increased to 10 instead of nine. In addition, the Responsible Institutions will no longer be delegating to Co-operation Institutions, but both the Responsible Institutions and the Co-operation Institution will have a clear allocation of functions, and only the Co-operation Institution will approve projects and enter into agreements. This will lead to a more effective and simplified implementation system of EU funds.

(Source: www.esfondi.lv)

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Photo: Improvement of the infrastructure for in-patient care at SIA Liepājas reģionālā slimnīca to raise the quality of health care services and cost efficiency, Latvia, 2014, Ministry of Finance in Latvia

07 Lithuania

EU programme information



Sources: EUROSTAT data
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 6.8 billion
Contracted grants	EUR 6.8 billion
Contracting ratio	100%
Paid grants	EUR 6.0 billion
Payment ratio	88%
EC certification	EUR 5.8 billion
EC certification ratio*	86%

Sources: Cumulative reports for <http://www.esparama.lt/>; inquiries from Ministry of Finance
*EC certification ratio = EC certification / Total budget
*100%

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at end of 2014)
ERDF	99.78%
CF	99.42%
ESF	101.09%

General observations

According to EU fund usage, Lithuania is one of the leading countries in the EU. By the end of 2014 Lithuania had allocated most of the EU assigned budget for programming period 2007-2013. More than 8,300 projects, worth EUR 6 billion, were financed throughout the entire period, while EUR 930 million were paid in 2014.

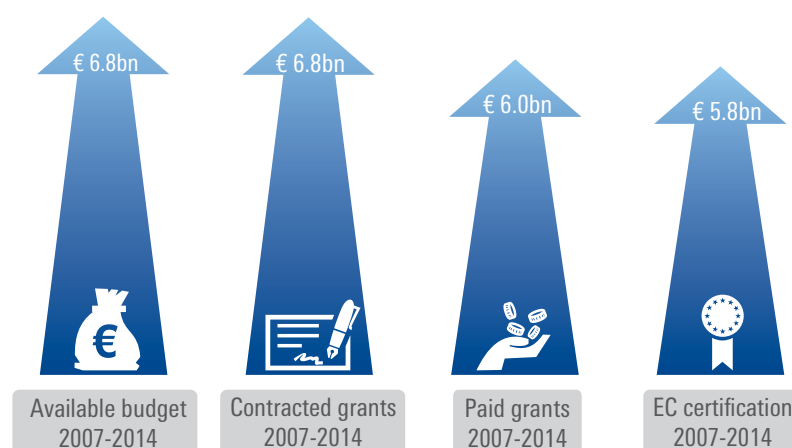
In 2014 Lithuania set out priorities for future cooperation that were agreed upon in the Partnership Agreement with the European Commission and detailed in "Operational Programme for the European Union Funds' Investments in 2014-2020".

EUR 6.7 billion in total was assigned to the "Operational Programme for the European Union Funds' Investments in 2014-2020" EUR 3.5 billion of which will be paid under the European Regional Development Fund; EUR 2.0 billion – Cohesion Fund; EUR 1.1 billion – European Social Fund; and EUR 31.8 million is planned for the Youth Employment Initiative.

The European Structural and Investment Funds (hereinafter – ESIF) will assist Lithuania in achieving the national Europe 2020 targets and flagship initiatives:

- R&D expenditure in relation to GDP is to increase from 0.9% (2012) to 1.9% (2020);
- In relation to energy objectives, the ESIF will provide a significant contribution to reducing energy consumption in buildings and enterprises. Energy from renewable energy sources is expected to increase from 21.7% (2012) to 23.0% (2020);
- The ESIF will contribute to an increased employment rate of 20-64 year-olds with a target of 72.8% by 2020 (69.9% in 2013), reduced risk of poverty and social exclusion (to 814,000 inhabitants in 2020; 975,000 in 2012) and improved adaptation of education to suit labour market needs.

EU Funds implementation in Lithuania as at December 2014



EU funds implementation progress in Lithuania in 2007-2014 (%)



Sources: Cumulative reports for <http://www.esparama.lt/>; inquiries from Ministry of Finance

Trends

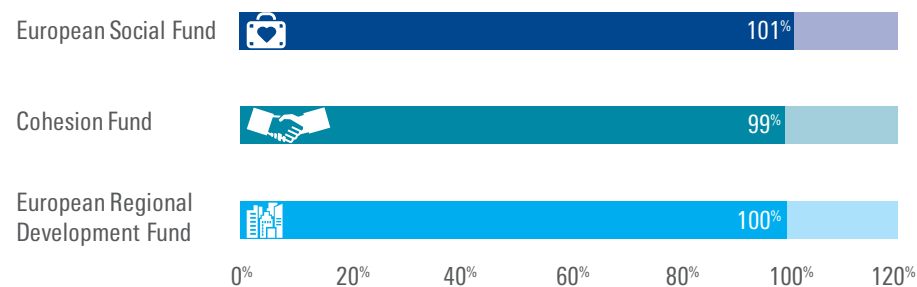
In 2014, the majority of EU funds was spent on economic growth, in particular business efficiency improvement and business environment development.

Successes

Lithuania was the first one to successfully agree on “Operational Programme for the European Union Funds’ Investments in 2014-2020”, which puts a stronger emphasis on the importance of a long-term economic growth and human resource development.

Also, after examining the benefits of the programming period of 2007-2013, it was found that the aid helped Lithuania to recover more quickly after the economic crisis. The main reason for this was that there was a special attention given to sectors that were damaged the most at that time (tourism, agriculture, etc.).

Contracted grants – breakdown according to EU fund



Problems

One of the main issues throughout the 2007-2013 programming period was long, complicated and sometimes vague procedures for administration of EU funding. For example, when looking at the results from the aid for local and urban expansion, it can be seen that the potential from the aid was not fully exploited. The overall condition of the area was not taken into account when choosing the projects, thus the areas could not receive the maximum benefits from the aid. To overcome this issue, Lithuania has to implement a more effective application and evaluation procedure, so that the projects that will have the biggest value added from the aid would get the funding. At the same time, control procedures could be improved in order to efficiently use the funds.

Another challenge faced by Lithuania in 2014 was keeping the same rate of payments as in the previous years, as well as balancing it with the upcoming programme for 2014-2020. This has to be taken care of in order to avoid budget fluctuations, which would damage the overall economic situation in the country.

Lessons learned

An easement of the application procedure for some measures led to an increase in interested parties, thus Lithuania should keep improving application procedures in order to reach the general public.

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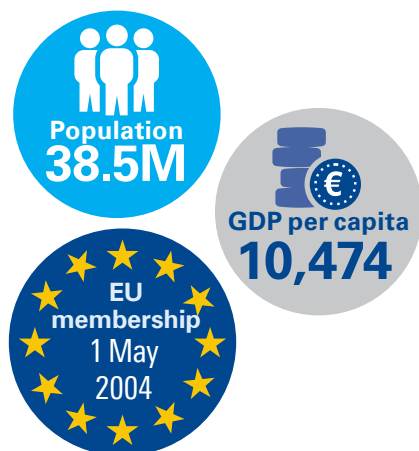
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Photo: Romuva gymnasium of Šiauliai city reconstruction, Lithuania, 2009-2010
Ministry of Finance of the Republic of Lithuania

08 Poland

EU programme information



Sources: EUROSTAT data, 2014
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 67.2 billion
Contracted grants	EUR 68.2 billion
Contracting ratio	102%
Paid grants	EUR 52.5 billion
Payment ratio	78%
EC certification	EUR 54.0 billion
EC ratio*	80%

*EC certification ratio = EC certification / Total budget *100%

General observations

In the 2007-2013 period, Poland's main programming document, the National Strategic Reference Framework (NSRF) covered 21 operational programmes:

- four sectoral operational programmes (OPs):
 - Operational Programme Innovative Economy
 - Operational Programme Infrastructure and Environment
 - Operational Programme Human Capital
 - Operational Programme Development of Eastern Poland
- 16 regional OPs
- one technical assistance OP.

These OPs were established on the basis of three main Structural Funds, which exist at the EU level: the European Regional Development Funds, the Cohesion Fund and the European Social Funds.

The EU funds available for the framework programme total EUR 67.19 billion, which is the biggest amount for development among the CEE countries.

Besides the NSRF there are other programmes being implemented, including:

- the European Agricultural Fund for Rural Development, implemented within Rural Development Plan;
- the European Agricultural Guarantee Fund;
- the European Fisheries Fund, implemented within National Fisheries OP.

EU funds, among other factors, influenced the GDP per capita growth up to EUR 10,474 in 2014.

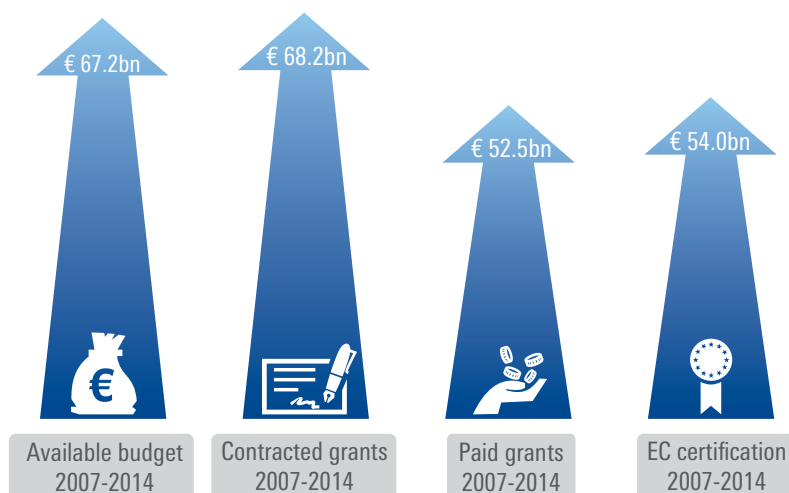
Trends

In 2007-2013 financial budgeting period, the vast majority of the EU funds in Poland were spent on infrastructure. That included a wide variety of projects, from roads, rails, airports, sewage water treatments plans, and improvement of hospital buildings to the development of city biking routes. These investments aim at improving the quality of life in Poland to meet the standards of Western Europe.

Contracting and payment ratio – breakdown according to EU fund and EC certification

EU fund	Contracting ratio (at end of 2014)	Payment ratio	EC certification
ERDF	100.6%	77.8%	82.3%
CF	101.3%	74.0%	76.7%
ESF	105.4%	88.2%	82.3%

EU Funds implementation in Poland as at December 2014



EU funds implementation progress in Poland in 2007-2014 (%)

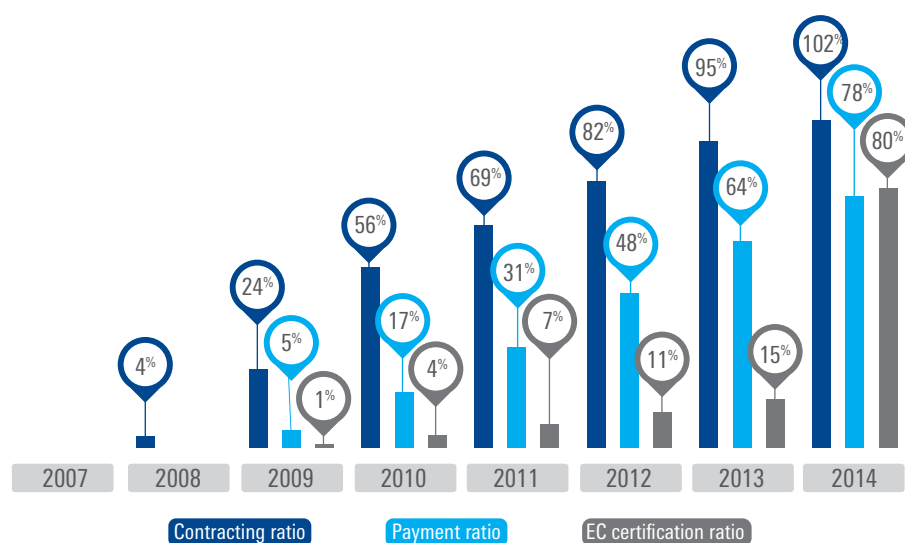
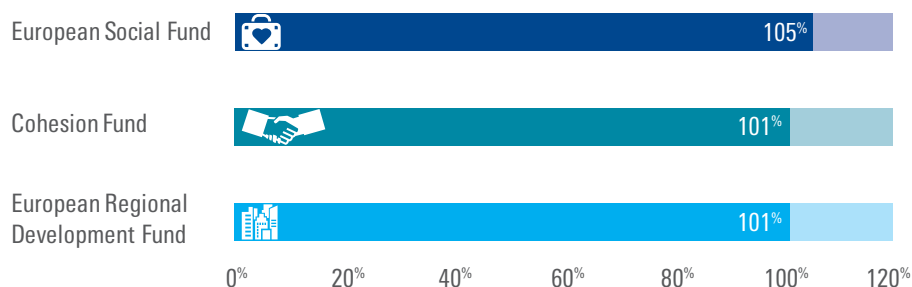


Photo: Revitalisation of the Kluczbork City, including renovation of City Hall, roads and a rain drain system around the Marketplace, Poland, Ministry of Infrastructure and Development

Contracted grants – breakdown according to EU fund



Successes

The Structural Funds have been a useful instrument to reduce the impact of the economic crisis. Well invested European funds also had a positive effect on GDP growth in Poland and increased the competitiveness of the Polish economy. EU funds helped in the development of entrepreneurship and in creation of new jobs. Additionally, more and more people have had easy access to modern roads, rails and sewage water treatments plans.

Areas for improvement

Looking back to 2007, the main challenge was how to improve the system of distribution of EU funds, so they could be contracted and paid in the easiest way. Contracting and spending EU funds is an important element of the national economy, hence it impacts the GDP of Poland. More equalised contracting and spending will impact more than just the economic data, especially for long-term infrastructure projects. A prolonged project preparation phase leads to peaks in contracting and spending that result in low quality of delivery and increased risk for projects.

Lessons learned

Rules and procedures for implementation of the new budgeting period 2014-2020 should be simpler and faster for beneficiaries and for authorities as well. It is important to think in the long-term, especially in the area of aid schemes and selection of projects that would be co-financed by the EU. More funds should be assigned for projects that, on the one hand, will guarantee a high degree of efficiency regarding use of EU funds, but on the other hand will still enhance Poland's competitive advantage (e.g. developing new skills for the younger generations, R&D and ITC investments, investments in transport and infrastructure).

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09 Romania

EU programme information



Sources: EUROSTAT data
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 19.2 billion
Contracted grants	EUR 20.3 billion
Contracting ratio	106%
Paid grants	EUR 10 billion
Payment ratio	52%
EC certification	EUR 8.6 billion
EC certification ratio*	45%

*EC certification ratio = EC certification / Total budget *100%

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at end of 2014)
ERDF	108.6%
CF	93.0%
ESF	120.5%

General observations

At present, the current absorption rate of Structural and Cohesion Funds for the 2007-2013 financial framework has reached an estimated value of 52.59%. Despite real progress over the last 2 years, Romania still sits below the target rate of 80% announced by the Minister of European Funds for the year-end 2015. According to the key statistics published by the European Commission (EC) for 2014, Romania continues to rank among the last countries in the Member States' hierarchy in terms of absorption.

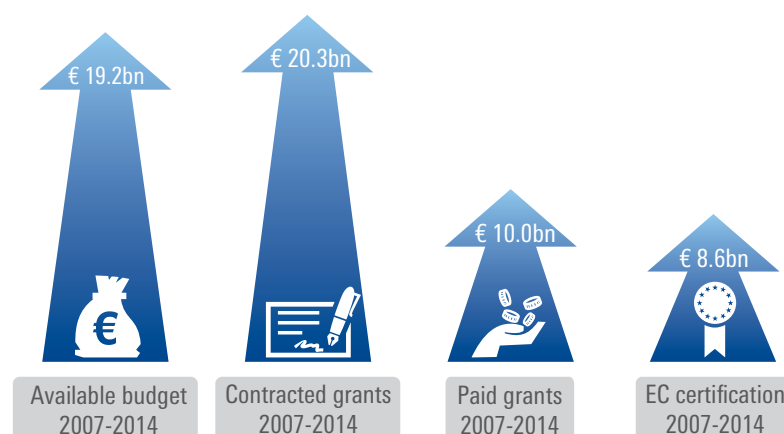
With respect to the new programming period 2014-2020, the following first steps have been made by the Ministry of European Funds:

- The structure of the majority of the Sectorial Operational Programmes were modified;
- The managing authorities have passed under the subordination of only two ministries: the Ministry of European Funds and the Ministry of Regional Development and Public Administration;
- Most of the Operational Programmes (four out of six) have been approved by the EC;
- The first calls for proposal are expected to be launched by the end of April 2015.

Trends

Over the past 2 years, Romania has registered important progress regarding the absorption of EU Structural and Cohesion Funds. Although at the end of 2012 Romania registered a very poor absorption level of only 14.9%, statistical data showed a significant improvement in the following years, the value of this indicator reaching 33.5% at the end of 2013 and 51.81% as at 31 December 2014. At present, the current absorption rate of Structural and Cohesion Funds for the 2007-2013 financial framework has reached an estimated value of 52.59% (i.e. EUR 10.02 billion), which is approximately 1.57 times higher than its level at the end of 2013, respectively 3.53 times higher than its level at the end of 2012.

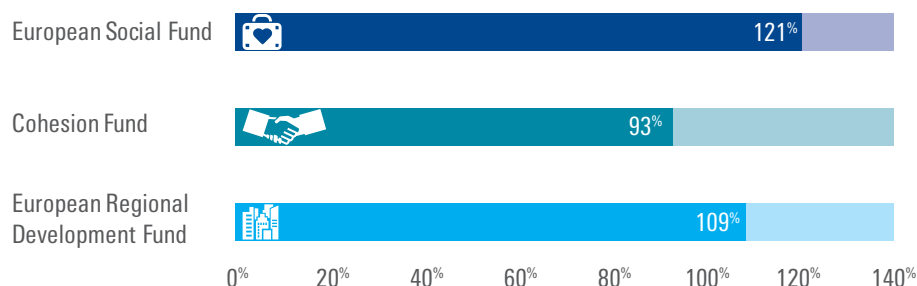
EU Funds implementation in Romania as at December 2014



EU funds implementation progress in Romania in 2007-2014 (%)



Contracted grants – breakdown according to EU fund



Successes

A set of measures has been adopted by the Romanian authorities in charge with the implementation of Structural Funds which led to an increase of the absorption rate within the programming period 2007-2013. The most important ones include:

- Improvement of the cash flow for public and private beneficiaries which are unable to pay invoices for supplies, works and services by introducing the direct payments mechanism for payment claims;
- Decrease of the procedural time frame for processing reimbursement claims from 45 to 20 working days;
- Temporary allocation of amounts drawn from payments related to privatisation towards the main credit holders acting as Managing Authorities for the period of pre-suspension of Operational Programmes, in order to secure the funds necessary for internal payments to final beneficiaries;
- Reimbursement by the EC of expenditures already incurred within major projects financed through SOPs Environment and Transport, prior to the issuing of approval decisions by the EC;

- Improvement of beneficiaries' cash flow by covering from the state budget the amounts corresponding to the financial corrections not imputable to beneficiaries;
- Approval of the simplified procedure for the award of contracts for goods, works and services in the case of private beneficiaries.

Problems

The main problems identified during the programming period 2007-2013 are outlined below:

- Late launch of calls for proposals
For most Operational Programmes the launch of the calls for proposals did not occur in 2007, but after 12-18 months from the start of the 2007-2013 programming period. This fact was reflected in a low value of expenses reimbursed by the EC between 2007 and 2009, with negative effects on the absorption level for that period.
- Delays in the submission and evaluation process of reimbursement claims caused by:
 - frequent changes made by the beneficiaries in the calendar of reimbursement claims as a result of the 6-12 month delays on works contracts;
 - slow pace of works' execution;
 - submission of numerous low value reimbursement claims as compared to the total value of the financing contract;
 - complexity and lack of consistency of the procedures related to the assessment of reimbursement claims;

Photo: Silistea Eolian Park, European Regional Development Funds, POSCCE, Romania



- large number of the requested supporting documents;
- limited number of well-qualified experts on the market and their low level of specialisation in the evaluation of reimbursement claims;
- lack of expertise among the beneficiaries regarding the preparation of reimbursement claims;
- delays in outsourcing evaluation services of reimbursement claims.

Lessons learned

Based on the lessons learned during the previous programming period 2007-2013, the public authorities should take appropriate measures/actions to improve the absorption rate for the new programming period 2014-2020, such as:

- A clear set of development priorities should be defined for ensuring a greater complementarity between interventions co-financed by the EC and those financed from budgetary sources, with positive effects on the sustainability of the support measures for the national economy;
- The Romanian authorities should concentrate their efforts on a more efficient use of technical assistance resources;
- The launch of the procurement procedures for technical assistance services should be adequately correlated with the planning of the calls for proposals, thus optimising the use of outsourced resources while avoiding new blockages within the Romanian authorities responsible for the implementation and management of EU funds;
- The public procurement laws and regulations should be modified in such a way that the technical assistance contracts be awarded based on the best value for money principle rather than the lowest price award criterion;
- The technical assistance resources should be used to a greater extent to increase the salaries of the Managing Authorities' and Intermediate Bodies' staff involved in the management and implementation of EU funds;
- The role of the financial institutions should be increased and various financial instruments should be used.

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10 Slovakia

EU programme information



Sources: EUROSTAT data
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 11.7 billion
Contracted grants	EUR 13.1 billion
Contracting ratio	112%
Paid grants	EUR 7.6 billion
Payment ratio	65%
EC certification	EUR 5.4 billion
EC certification ratio*	47%

*EC certification ratio = EC certification / Total budget *100%

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at end of 2014)
ERDF	113.44%
CF	106.53%
ESF	121.82%

General observations

Slovakia is implementing EU funds through various programmes. Priorities of the National Strategic Reference Framework (NSRF) are implemented through 11 operational programmes (OP) where there are seven operational programmes¹ under the Convergence objective, three multi-objective operational programmes² (for the Convergence objective and the Regional Competitiveness and Employment objective) and one operational programme³ under the Regional Competitiveness and Employment objective. Besides NSRF there are programmes implementing the European Agricultural Fund for Rural Development, the European Fund for Fisheries and the Cross-Border Cooperation programmes.

Trends

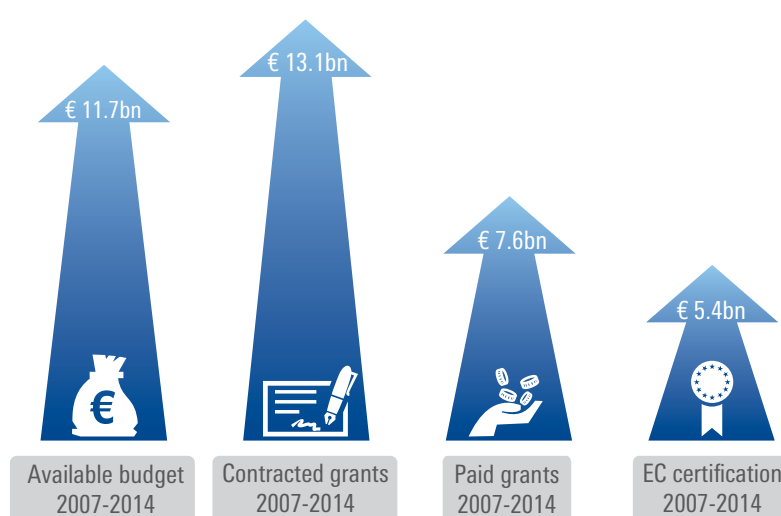
The beginning of the programming period 2007-2013 was marked by delayed management and control mechanism settings for each operational programme. The low rate of contracting and withdrawal in the initial years for some operational programmes became an urgent issue.

Slovak implementing bodies took crucial measures to improve the state of implementation. Several revisions of operational programmes as well as transfer of funds to areas more attractive for the beneficiaries assisted in this improvement.

Successes

EU funds have been a useful instrument to reduce the impact of the economic crisis, to slow growth of unemployment and to secure contracts, especially for domestic suppliers. One of the major successes was the partial modernisation of infrastructure in the areas of education, social services, culture, non-commercial rescue services and other civil infrastructure in towns and municipalities, creating the necessary precondition for increasing benefits to citizens and entrepreneurs from services linked to supported infrastructure as well as the implementation of a number of “major projects” whose total cost exceeds EUR 50 million, which could not have been achieved without the support of the EU.

EU Funds implementation in Slovakia as at December 2014

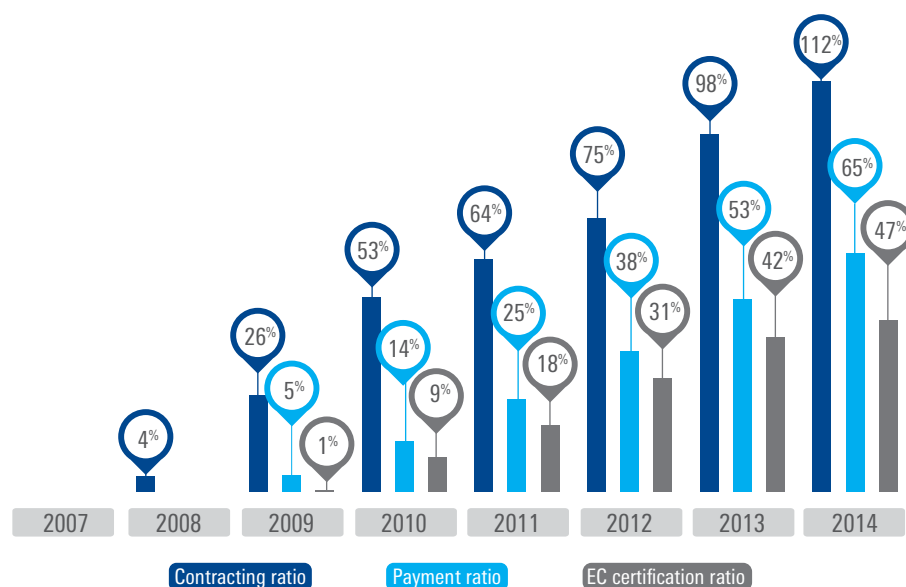


¹ OP Transport (ERDF and CF), OP Environment (ERDF and CF), Regional OP (ERDF), OP Health (ERDF), OP Informatisation of the Society (ERDF), OP Competitiveness and Economic Growth (ERDF) and OP Technical Assistance (ERDF)

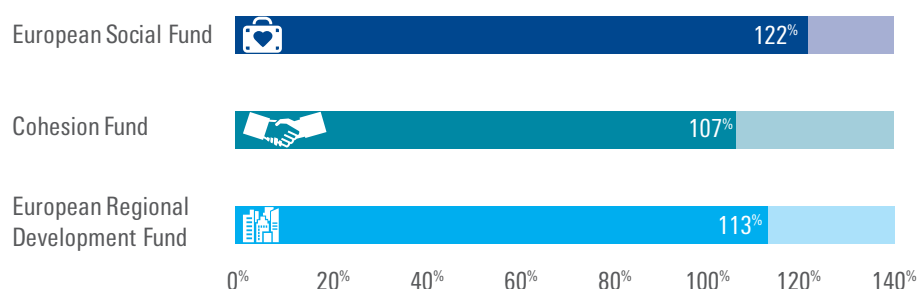
² OP Research and Development (ERDF), OP Employment and Social Inclusion (ESF), OP Education (ESF)

³ OP Bratislava Region (ERDF)

EU funds implementation progress in Slovakia in 2007-2014 (%)



Contracted grants – breakdown according to EU fund



Problems (areas for improvement)

The delays in implementing the operational programmes themselves could be regarded as the most serious problem of NSRF implementation. Factors which delay implementation include repeated deficiencies associated with public procurement, its realisation by beneficiaries, changes to the Public Procurement Act and insufficient verification of public procurement processes by the managing authorities.

Based on the problems identified with implementation, several recommendations/measures have been received by the responsible Slovak authorities. One of these was drawing up action plans to accelerate fund absorption, which clearly sets out the tasks, responsible bodies and deadlines necessary to make progress in the implementation. The most risky operational programmes according to their development and status of implementation are OP Transport, OP Environment, OP Informatisation of Society, OP Research and Development, OP Education and OP Bratislava Region, which showed long-term contracting or withdrawal under the average OP NSRF.

Among the most fundamental weaknesses is dependence on the political cycle, which is quite unpredictable and difficult to be prepared for. As a consequence, the political cycle often leads to changes in programming documents in terms of the priorities of the newly formed government, or changes in already set and commenced processes and the individual steps in the implementation of various operational programmes.

In addition, frequent deliberations among experts in various management positions disturb work continuity and implementation of individual projects.

Previous experiences are crucial in the context of audits performed either by the Slovak Audit Authority or the relevant EU authorities.

Lessons learned

The Slovak Republic is taking steps to increase the transparency of fund management, and process simplification, such as simplified submission and evaluation of project applications, and smooth preparation and implementation of projects with reduced administrative burden for applicants. Strict rules need to be set on controls and audits while ensuring that these procedures are adequate and do not pose an unnecessary burden. In the programming period 2014-2020, Slovakia is respecting the recommendations of the European Commission as outlined in a position paper, Partnership Agreement and operational programmes, as well as according to experiences and lessons learned from the previous programming period. As a result, Slovakia has reduced the number of operational programmes compared to the previous programming period.

Programming period 2014-2020

Preparations for the start of the programming period 2007-2013 lasted longer than expected as well as the new Partnership Agreement and operational programmes for the programming period 2014-2020. A Partnership Agreement was sent to the EC on 14 February 2014 and signed on 20 June 2014. Operational programmes were approved by the end of 2014.

One of the main challenges is the transfer of best practice, know-how and lessons learned from the programming period 2007-2013 to the 2014-2020 period and ensuring the implementation of ongoing projects in parallel with project development of the programming period 2014-2020.

The main funding priorities of the Slovak Republic in the programming period 2014-2020 are the promotion of science and innovation, and their interconnection; investment in infrastructure (transport and ICT); the promotion of human resources; the fight against unemployment, education and inclusion of marginalised communities; public administration reform; and investment in environmental protection, including anti-flood measures and investment in the region (for municipalities, cities and other relevant partners).

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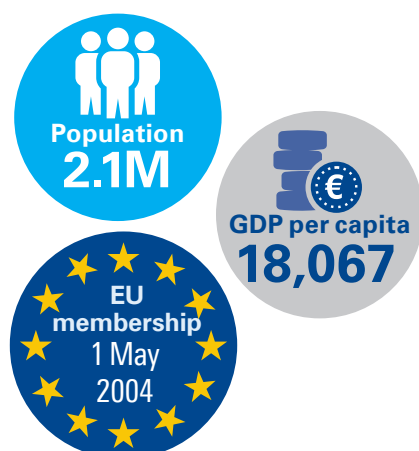
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11 Slovenia

EU programme information



Sources: EUROSTAT data
KPMG calculation

Progress Report 2007-2014

Structural assistance (ERDF, CF, ESF)	
Available budget	EUR 4.1 billion
Contracted grants	EUR 4.3 billion
Contracting ratio	104%
Paid grants	EUR 3.4 billion
Payment ratio	83%
EC certification	EUR 3.1 billion
EC certification ratio*	77%

*EC certification ratio = EC certification / Total budget *100%

Contracting ratio – breakdown according to EU fund

EU fund	Contracting ratio (at end of 2014)
ERDF	102.95%
CF	108.64%
ESF	98.23%

General observations

The system of EU cohesion policy execution in Slovenia is established so that payments to beneficiaries are primarily made from national accounts for which the state is later reimbursed from sub-accounts established for EU fund collection. The government office for development and European cohesion policy monitors fund disbursement in Slovenia. Slovenia directs the EU funds mainly into activities for enhancement of economic and social development and contribution to the reduction of regional disparities. Therefore, different projects are implemented in the field of territorial cooperation, sustainable development, employment rate and the development of the EU regions, rural areas and city areas that are less developed.

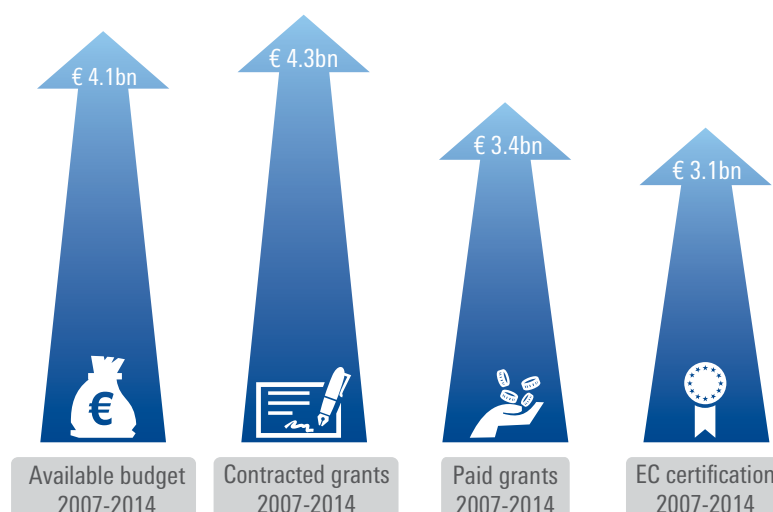
Successes

The Managing Authority, on the basis of a decision taken by the government of Slovenia, measures so-called additional entitlement spending for which it allocated more resources than are available under the applicable operational programme. The decision for fund allocation is based on the probability of project realisation or cancellation and accordingly EU funds can still be 100% absorbed.

The Government has also decided that for the implementation of the cohesion policy it needs to ensure the establishment of autonomous government agencies. Due to the specificity of tasks in the field of European funds policy, higher transparency between participants, and to avoid conflicts of interest, a special government department as the managing authority for the implementation of the cohesion policy will be established. This way Slovenia can improve conditions for the absorption of EU funds. The Government also wants to ensure:

- clearly defined responsibilities of various governmental organs;
- greater transparency, efficiency and responsiveness of the system;
- ongoing coordination and better communication between the participants in the system;
- simplified and efficient financial management;
- imposition of uniform rules and guidelines for the implementation of EU funds policy;
- concentration of knowledge and experience; and
- faster transfer of knowledge and information.

EU Funds implementation in Slovenia as at December 2014



EU funds implementation progress in Slovenia in 2007-2014 (%)



Contracted grants – breakdown according to EU fund

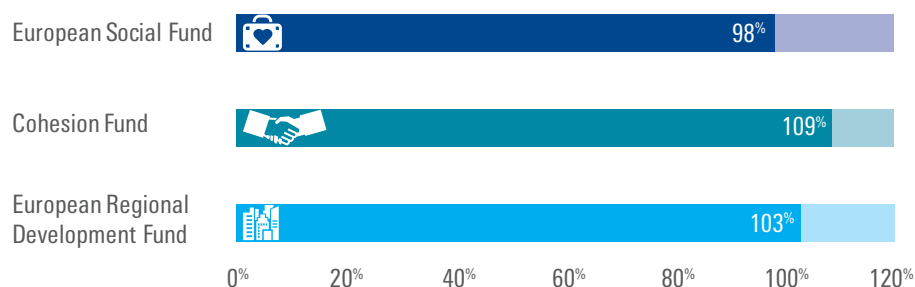


Photo: The Celje regional waste treatment centre – a joint project of 24 municipalities of the Savinja region, Slovenia,
<http://www.eu-skladi.si/funds/best-practices/op-rv/the-celje-regional-waste-treatment-centre-2013-a-joint-project-of-24-municipalities-of-the-savinja-region>



Problems

A system of implementation of EU funds policy has been in place in Slovenia and embodies many governmental organs at different levels. Changes of responsible persons, system structure and implementation procedures represent the main difficulties in its implementation. The implementation of EU funds policy in Slovenia is additionally inhibited by Slovenian regulation for general funds of the state budget as well as for specific European funds. The regulation is not consistent; the same types of tasks are determined by various procedures and use of a variety of expressions. The staff involved in the implementation of the EU funds policy therefore faces many problems. It is not always clear which procedures should be used.

One of the key problems in the implementation of EU funds policy is the Information System ISARR. Data supplied from this system (from the managing authority) are inadequate and in some cases inaccurate.

Lessons learned

Slovenia ranked 10th in disbursement of EU funds among 28 EU Member States at the end of 2014. Notwithstanding the high turnover in the year 2014, the dynamics of payments to beneficiaries in 2015 must be further increased. In view of this it will be necessary to closely monitor and react quickly in case of a lag in monthly dynamics.

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