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## **1. GENERAL CONTEXT**

### **1.1. Convergence and economic development in the beneficiary countries of the Cohesion Fund**

#### **1.1.1 Greece**

In 2005, Greek GDP per capita in PPS reached 84% of the EU-25 average. Real GDP<sup>1</sup> growth has been around 4¼% in 2006, mainly driven by domestic demand. HICP inflation in 2006 was recorded at 3¼%. The general government deficit outcome for 2006 was 2.6% of GDP. This outcome includes one-off revenues of 0.6% of GDP. Government debt declined to 104½% of GDP.

Greece submitted its sixth update of the stability programme covering the period 2006-2009 on 18 December 2006. The macro-economic scenario underlying the programme foresees robust real GDP growth, at an average annual rate of 4%. The growth momentum of the Greek economy is supported by a series of structural reforms aimed at enhancing productivity and investment. Inflation is expected to decelerate gradually, from 3¼% in 2006 to 2¾% in 2009. The update's budgetary strategy aims at pursuing fiscal consolidation towards a balanced budget after the planned correction of the excessive deficit in 2006. The projected adjustment is achieved through both higher tax revenues and lower expenditures.

In its Opinion on the updated stability programme of 27 February 2007, the Council noted that following a significant fiscal consolidation and in a context of strong growth prospects, the programme is consistent with the correction of the excessive deficit by 2006 and it envisages progress towards the medium term objective (MTO). However, the MTO would not be attained within the programme period. The consolidation, which also relies on a significant decline in the interest burden, is subject to some risks as specific measures are only partially spelled out after 2007. Following the correction of the excessive deficit, the Council invited Greece to take advantage of the economic good times strengthening the adjustment towards the MTO and ensuring that the debt-to-GDP ratio is reduced accordingly. In addition, the Council called for continuing the improvements in the budgetary process by further increasing its transparency, spelling out the budgetary strategy within a longer time perspective and effectively implementing mechanisms to monitor and control primary expenditure. The Council invited Greece to improve the long-term sustainability of public finances by achieving the MTO, controlling public pension and healthcare expenditures and resolutely implementing ambitious reforms.

#### **1.1.2. Spain**

In 2005, Spain's GDP per capita in PPS has reached 98% of the EU-25 average while real GDP in 2006 has grown by 3.9%. Consumer price inflation has risen by 3.6% on average (3.4% in 2005), although inflationary pressures have eased to 2.6% in the

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<sup>1</sup> This data is based on GDP figures provided by the Greek authorities as an annex to the EDP notification of April 2007 and not on the "revised" GDP data reported by the Greek authorities in the EDP notification Tables in April 2007. Using the latter would lead to an upward revision of nominal GDP by around 26% per year since 2000. Given the magnitude and complexity of the revision, is still undergoing complete examination by Eurostat.

last quarter of 2006. According to the April 2007 EDP notification, general government balance has reached a surplus of 1.8% of GDP, well above the initial targets. This better result stems from higher-than-expected revenues, whereas expenditures would have been implemented broadly as planned. Additionally, the debt-to-GDP ratio has declined to 39.7% in 2006 compared to 43.1% in 2005.

Spain submitted its eighth update of its stability programme, covering the period 2006-2009, on 29 December 2006. The macro-economic scenario underlying the programme projects real GDP growth of 3.4% in 2007 and 3.3% for the rest of the period. Growth should be exclusively underpinned by domestic demand implying that the contribution of net exports would still be negative. The update aims at maintaining macroeconomic and budgetary stability and at fostering productivity by increasing infrastructure, human and technological capital. The general government surplus is envisaged to decline from 1.4% of GDP in 2006 to about 1% in 2009. The time profile of the primary surplus is similar, falling from 3% of GDP in 2006 to 2¼% in 2009.

In its Opinion on the update of 27 March 2007, the Council considered the baseline macro-economic scenario in the programme as plausible, the medium term budgetary position as sound and concluded that the budgetary strategy provided a good example of fiscal policies conducted in compliance with the Stability and Growth Pact. However, the Council recalled that maintaining a strong budgetary position, thus avoiding an expansionary fiscal stance, is important in the light of large and rising external imbalances and the existing inflation differential with the euro area. Additionally, the Council, in view of the projected increase in age-related expenditure, invited Spain to further improve the long term sustainability of public finances with additional measures to contain the future impact of ageing on spending programmes.

### **1.1.3. Portugal**

Portugal's GDP per capita in PPS attained 71% of the EU-25 average in 2005 following a decreasing trend observed since 2002. In 2006, GDP increased by 1.3% in real terms, with the external sector providing the main contribution to growth. Unemployment stabilized at almost 7¾% of the labour force and HICP inflation rose to an annual average of 3%. The general government deficit was slightly less than 4% of GDP in 2006, which compares with an outturn of some 6% of GDP in 2005. Both the revenue and the expenditure side provided important contributions to the deficit reduction; higher revenues and lower investment spending helped the overachievement of the 2006 budgetary target. The government debt ratio rose to 64.7% of GDP in 2006, up from 63.6% in 2005.

The most recent update of the Portuguese stability programme, covering the period 2006-2010, was submitted on 15 December 2006. It projects real GDP growth to pick up over the programme period from 1.8% in 2007, to 3% in 2010. Growth is assumed to be gradually driven by domestic demand, whereas the external sector is projected to make a positive, albeit declining, contribution to GDP growth. The programme targets a reduction of the general government deficit ratio to 3.7% of GDP in 2007 and 2.6% in 2008, up to 0.4% in 2010. Last March, the deficit target for 2007 was revised to 3.3% of GDP. The stability programme envisages the fiscal adjustment to take place on the back of structural measures concentrating on curbing



primary current expenditure, with some additional help coming from higher tax receipts in 2007.

In its Opinion on the updated stability programme of 27 February 2007, the Council considered that the programme is broadly consistent with a correction of the excessive deficit by 2008, conditional on a full and effective implementation of the measures announced therein and on their reinforcement in case of lower-than-projected economic growth. At the same time, the Council considered that, after 2008, the programme envisages adequate progress towards the MTO, but there are risks to the achievement of the budgetary targets. The Council invited Portugal to implement with rigour the structural measures envisaged in the programme so as to correct the excessive deficit by 2008, envisaging the subsequent adjustment towards the MTO and ensuring that the debt-to-GDP ratio is reduced accordingly. The Council called Portugal for pursuing the ongoing reform of public administration, strengthening the budgetary framework and improving the long-term sustainability of public finances.

#### **1.1.4. Cyprus**

In 2005, Cyprus' GDP per capita in PPS attained 89% of the EU-25 average, while real GDP grew by 3.8% in 2006. HICP inflation in 2006 was recorded at 2.2%. Over the same year, the general government deficit reached 1.5% of GDP, representing an improvement of almost 0.5% from the 2006 target in the Budget Law. The better-than-targeted deficit outcome has been achieved without resorting to any temporary measures, as revenues of 0.3% of GDP stemming from building permits have not materialised. Nonetheless, this was more than compensated by higher-than-expected tax receipts reflecting the buoyant performance of the construction and real estate sector as well as improved tax administration and collection by the Land and Survey Department. In 2006, the debt-to-GDP ratio decreased to 65.3% from 69.2% of the previous year. .

Cyprus submitted the third update of its convergence programme, covering the period 2006-2010, on 6 December 2006. The update envisages GDP growth of around 4% over the programme period. After the correction of the excessive deficit in 2005 and the abrogation of the excessive deficit procedure in June 2006, the programme aims at further consolidating public finances. The general government balance is expected to improve from a deficit of 1.9% of GDP in 2006 to a balanced position in 2010.

In its Opinion on the updated convergence programme of 27 February 2007, the Council noted that based on the estimated outturn for 2006 and taking account of the balance of risks to the budgetary targets, after the correction of the excessive deficit in 2005, the programme is making good progress towards the MTO over the programme period, owing to expenditure restraint and in a context of strong growth prospects. The Council invited Cyprus to control public pension expenditure and implement further reforms in the areas of pensions and health care in order to improve the long-term sustainability of the public finances and to implement the fiscal consolidation path as foreseen in the programme.

### **1.1.5. Czech Republic**

In 2005, Czech Republic's GDP per capita in PPS stood at 74% of the EU-25 average. In 2006, the Czech economy continued to grow strongly with GDP increasing by around 6%. The main contribution to growth was provided by domestic demand, in particular gross fixed capital formation, with a declining contribution from net exports. In spite of strong growth, inflation (HICP) was around 2.1% in 2006. The government deficit for 2006 was notified at 2.9% of GDP, an improvement from 2005 (3.6% of GDP) and beneath the target of 3.8% of GDP in the November 2005 convergence programme. This was due to stronger growth and the rollover of budgetary allocations.

The Czech Republic submitted the most recent update of its convergence programme, covering the period 2006-2009, on 15 March 2007. The macroeconomic scenario presented in the programme projects real GDP growth to be 6% in 2006, slowing down to 4.9% in 2007 and to 4.8% in 2008 and 2009. The convergence programme presents a general government deficit of 4% of GDP in 2007, declining to below the 3% of GDP reference value only beyond the programme period (by 2010). The consolidation will be mainly achieved by a decline in public consumption over the programme period and a rise in revenues due to an increase in EU transfers.

The most recent convergence programme is currently being assessed by the Commission services and a Council Opinion is expected on 10 July 2007 at the earliest.

### **1.1.6. Estonia**

In 2005, Estonia's GDP per capita in PPS increased to 60% of the EU-25 average, with buoyant real GDP growth of 10.5% in 2005 and 11.4% in 2006, further accelerating the rapid catching-up process. HICP inflation increased to 4.4% in 2006 (2005, 4.1%). Estonia posted a higher-than-projected general government surplus in 2006 of 3.8% of GDP, despite September's supplementary budget including additional spending – mainly investments – of 1.6% of GDP. The stronger outturn than the budgeted nominal balance occurred due to higher-than-projected real and nominal output growth. Government gross debt fell to just over 4% of GDP at the end of 2006, the lowest in the EU-27.

Estonia submitted the 2006 update of the convergence programme covering the years 2006-2010 on 1 December 2006. The programme projected output growth to abate from a peak of 11% in 2006 to more moderate levels of 8.3% and 7.7% respectively in 2007 and 2008 with an annual average growth of around 8½% over the entire programme period. The main goals of the medium-term budgetary strategy embodied in the programme are keeping the general government finances at least in balance and securing long-term sustainability in the light of the budgetary impact of population ageing. The budgetary strategy foresees the general government surplus to decline from 2.5% of GDP in 2006 (which was outperformed by 1.3 percentage points, see above) to around 1¼% in 2007-2008 and to around 1½ % thereafter.

The Council examined Estonia's update of the convergence programme on 27 February 2007. The Council assessed that the macroeconomic scenario was based on cautious growth assumptions, even though the projected medium-term path of a

smooth deceleration of growth from the current pace prone to overheating was clearly surrounded by risks. The Council noted that the medium-term budgetary position was sound and the budgetary strategy provided a good example of fiscal policies conducted in compliance with the Stability and Growth Pact, even though the planned weakening of the budgetary surplus in 2007 during good economic times implied a pro-cyclical stance of fiscal policy.

#### **1.1.7. Hungary**

In 2005, Hungary's GDP per capita in PPS reached 63% of the EU-25 average. Real GDP grew at 3.9% in 2006, after 4.2% in 2005. Growth was primarily driven by net exports while the contribution from domestic demand decreased. HICP inflation increased to 4% in 2006 from 3.5% in 2005. The 2006 general government deficit reached 9.2% of GDP significantly missing the budget target established at 6.1% of GDP in the convergence programme update of December 2005. The main reasons for this strong deviation are expenditure overruns (operational costs of central budgetary institutions, pension and health-care expenditure and local government investment), as well as the inclusion of motorway investment inside the general government (1.1% of GDP). A number of fiscal measures amounting to around 2% of GDP, adopted by the Hungarian authorities after the Parliamentary elections, prevented the deficit from rising beyond 10% of GDP. In 2006, the debt-to-GDP ratio increased by more than 4 percentage points, to 66% of GDP.

Hungary submitted the 2006 update of the convergence programme on 1 December 2006, covering the period 2006-2010. The programme aims at correcting the excessive deficit by 2009 with economic activity expected to slow down in the years 2007 and 2008, and to recover to pre-consolidation growth rates by 2009. The deficit reduction of around 7 percentage points of GDP from 2006 to 2010 mainly relies on expenditure cuts. The medium-term objective for the budgetary position set in the programme is a structural deficit of 0.5% of GDP but it is not planned to be reached within the programme period.

In its Opinion of 27 February 2007 on the update of the convergence programme, the Council considered the macroeconomic scenario to be broadly plausible up to 2008, but rather favourable in the outer years. The Council welcomed that the programme plans to reduce the very high deficits through a frontloaded fiscal adjustment meant to correct the excessive deficit by 2009. The Council took note of a number of revenue-increasing and expenditure-containing measures implemented in the second half of 2006, as well as the initial steps in reforming the public administration, health care, pension and education. However, the Council considered the deficit and debt targets presented in the programme as subject to risks that the outcomes may be worse than expected, especially from 2008 onwards.

#### **1.1.8. Latvia**

In 2005, Latvia's GDP per capita in PPS reached around 48% of the EU-25 average. In 2006 real GDP growth rose to 11.9%, compared to 10.6% in 2005. Investment and private consumption were the driving factors behind the strong growth performance. However, the economy showed clear signs of overheating, with a particularly significant widening in the external deficit which increased to around 20% of GDP. HICP inflation remained high, averaging 6.6% for the year. The general government

achieved a surplus of 0.4% of GDP in 2006, a considerable improvement with respect to the original budget target for the year of a deficit of 1.5% of GDP. The better outcome resulted from higher-than-expected tax revenues, due to higher-than-projected nominal GDP growth. The gross debt-to-GDP ratio remained very low (10% of GDP).

Latvia submitted the most recent update of the convergence programme covering the period 2006-2009 on 12 January 2007. The programme projected real GDP growth to ease to 9.0% in 2007, followed by a further deceleration of growth to 7.5% in both 2008 and 2009. Private consumption and investment are projected to remain the main driving forces of growth, with the contribution of net exports remaining negative throughout the programme period. The update aimed at a modest reduction of the general government deficit, from 1.3% of GDP in 2007 to 0.4% in 2009. This would have represented a significant fiscal easing in 2007 in the context of continuing very high demand pressures and considerable macroeconomic imbalances. However, on 6 March 2007, as a part of more general measures aiming at reducing inflation, the government set more ambitious fiscal objectives, namely balanced budgets for 2007 and 2008 and surpluses in 2009 and 2010.

In its Opinion on the update of 27 March 2007, the Council considered that the macroeconomic scenario underlying the programme was subject to significant risks due to large external imbalances, high inflation and increasing signs of overheating. Accordingly, the Council concluded that it would be appropriate for Latvia to pursue more ambitious budgetary positions than planned in the convergence programme, as part of a broader reform strategy to reduce the risks of macroeconomic instability. The Council judged that the anti-inflation plan of the government, if fully implemented, would represent an important step in the right direction.

### **1.1.9. Lithuania**

In 2005, Lithuanian GDP per capita in PPS increased further to some 52% of the EU-25 average. In 2006, led by robust domestic demand, economic activity remained strong. GDP growth reached 7.5% while it was 7.6% in 2005. HICP inflation increased strongly to 3.8% compared to 2.7% of 2005. The government deficit was 0.3% of GDP against a targeted deficit of 1.4% of GDP. The better-than-expected outcome resulted from higher-than-planned revenues, in spite of a supplementary budget in July 2006 which increased expenditures by around 0.5% of GDP. Gross government debt amounted to 18.2% of GDP.

The third update of the Lithuanian convergence programme, covering the period 2006-2009, was submitted on 13 December 2006. The macroeconomic scenario presented in the programme projected real GDP to decelerate from 7.8% in 2006 to 4.5% in 2009, implying an annual average growth of 5.9% over the entire programme period. The programme's main goal is to gradually reduce the general government deficit and to achieve a medium-term objective of a structural deficit of 1% of GDP in 2008 and a balanced budget in 2009. The fiscal consolidation foreseen in the programme relies on an ambitious increase in the revenue-to-GDP ratio significantly higher than the increase in the expenditure-to-GDP ratio.

In its Opinion issued on 27 February 2007, the Council noted that the convergence programme envisaged progress towards the programme's MTO but that the

budgetary strategy outlined in the programme might not be sufficient to ensure that this would be reached in 2008. The Council judged that there were risks to the achievement of budgetary targets from 2008 onwards and that a frontloaded consolidation was particularly important in view of the pressures on inflation and on the external balance. The Council invited Lithuania to strengthen its structural adjustment, aiming for a more demanding deficit target in 2007, as well as to continue to improve the medium-term framework for the planning and control of public finances.

#### **1.1.10. Malta**

In 2005, Malta's GDP per capita in PPS stood at 70% of the EU-25 average. Real GDP grew by 2.9% in 2006, driven by strong domestic demand and to a lesser extent by a positive contribution of the external sector. HICP inflation in 2006 increased to 2.6% on account of higher energy prices. The general government deficit in 2006 stood at 2.6% of GDP, representing a slight improvement over the target for the same year of 2.7% of GDP presented in the 2006 budget. The debt-to-GDP ratio was 66½% in 2006.

Malta's third update of the convergence programme covering the period 2006-2009 was submitted on 7 December 2006. The update foresees economic activity to remain strong until the end of the programme period. According to the update, GDP growth is forecast to hover around 3% during the 2007-2009 period underpinned by a more dynamic external sector. The budgetary strategy outlined in the update aims at pursuing fiscal consolidation to reach a balanced position by 2009, after the planned correction of the excessive deficit in 2006.

In its Opinion of 27 February 2007 on the update of the convergence programme, the Council noted that although Malta seemed on track to correct the excessive deficit by 2006, there are risks to the achievement of the budgetary targets, especially after 2007. The programme envisages adequate progress towards achieving the MTO in the context of strong growth prospects. The Council invited Malta to pursue the planned progress towards the MTO, ensure that the debt-to-GDP ratio was reduced accordingly and make further progress in the design and implementation of the healthcare reform in order to improve the long-term sustainability of public finances.

#### **1.1.11. Poland**

Poland's GDP per capita in PPS was at 50% of the EU-25 average in 2005. Real GDP increased by 6.1% in 2006. Poland pursued a successful policy of disinflation in recent years, resulting in HICP inflation of around 1.3% in 2006. According to the April 2007 fiscal notification, the 2006 general government deficit was 3.9% of GDP (including the pension reform cost), as expected in the November 2006 update of the convergence programme. Government debt stood at 47.8% of GDP in 2006, slightly increasing from the level reached in 2005.

Poland submitted its most recent update of the convergence programme on 30 November 2006. The programme covers the period 2006 to 2009. The macroeconomic scenario underlying the programme envisages real GDP growth to reach 5.4% in 2006 and to broadly stabilise (around 5¼% on average) over the rest of the programme period. The budgetary strategy of the convergence programme aims



at correcting the excessive deficit by 2007 by qualifying for the provision of the reformed Stability and Growth Pact which allows a part of the pension reform cost to be deducted. For the following years, the programme plans a gradual reduction of the headline general government deficit so as to reach the 3% deficit-to- GDP target by 2009.

In its Opinion on the Convergence Programme update issued on 27 February 2007, the Council recalled that the action taken until that time did not appear adequate and the planned measures appeared insufficient to achieve the correction of the excessive deficit. The Council concluded that, while in subsequent years the programme envisaged to make appropriate progress towards the medium-term objective (structural deficit of 1% of GDP) in a context of strong growth prospects, there were important risks to the achievement of the budgetary targets and the durability of the adjustment. The Council invited Poland to ensure the correction of the excessive deficit by 2007 in line with a new recommendation under Article 104(7); take advantage of the good economic times, using any extra revenue for deficit reduction; strengthen the pace of adjustment towards the MTO after the planned correction of the excessive deficit, by specifying and implementing additional measures, especially on the expenditure side; and safeguard the results of the pension reform.

#### **1.1.12. Slovakia**

Slovak GDP per capita in PPS was estimated at 57% of the EU-25 average in 2005. Economic growth in 2006 accelerated rapidly to 8.3% from the 6% recorded in 2005. It was still mainly driven by domestic demand, particularly by investment and private consumption, but the external growth contribution also entered positive territory. Adjustments in administered prices at the end of 2005 induced by rising energy prices led to an increase in average annual HICP inflation to 4.3% in 2006. Higher-than-expected GDP and employment growth combined with lower interest expenditure ensured that the 2006 general government deficit (including the pension reform costs) ended up at 3.4% of GDP, almost 1 percentage point below the level foreseen in the 2006 budget, in spite of increases in some public expenditure. The latter were mitigated by the fact that a lower-than-expected absorption of EU funds eased demands on public expenditure through co-financing.

Slovakia submitted the most recent update of its convergence programme, covering the period 2006-2009, on 1 December 2006. The programme projects real GDP growth to increase from 6.6% in 2006 to 7.1% in 2007 and then to decrease to 5.5% and 5.1% in 2008 and 2009, respectively. Growth contributions of both final domestic and external demand are projected to remain positive over the whole programme period. According to the programme the headline general government deficit should gradually decline from 3.7% of GDP in 2006 to 2.9%, 2.4% and 1.9% of GDP in 2007, 2008 and 2009, respectively. The envisaged fiscal consolidation relies on expenditure restraint with respect to both current and capital expenditure.

The Council Opinion on the updated Convergence Programme of Slovakia was adopted on 27 February 2007. The Council considered that the programme was consistent with a correction of the excessive deficit by 2007 and envisaged limited progress towards the MTO thereafter. The Council invited Slovakia to exploit the strong growth prospects to strengthen the structural adjustment so as to ensure the correction of the excessive deficit in 2007 with a larger margin and to speed up the

progress towards the MTO. The Council invited Slovakia to reinforce the binding character of the medium-term expenditure ceilings for central government.

### **1.1.13. Slovenia**

In 2005, Slovenian GDP per capita in PPS stood at around 82% of the EU-25 average. In 2006, real GDP growth accelerated reaching 5.2%. Economic activity was driven mainly by domestic demand. A smooth disinflationary trend was interrupted by rising oil prices over the first eight months of 2006. However, the annual inflation rate remained at 2.5%, almost unchanged if compared with previous year.

Slovenia submitted its first stability programme, covering the period 2006-2009, on 7 December 2006. The macro-economic scenario underlying the programme foresees real GDP to grow steadily at above 4% over the programme period. Slovenia's budgetary strategy foresees the medium-term target, a structural deficit of 1.0% of GDP to be achieved by 2009. The adjustment to the medium-term objective will be mainly achieved by a reduction in the expenditure-to-GDP ratio while revenues are planned to decrease to a lesser extent as a percentage of GDP.

In its Opinion on the first Slovene stability programme, adopted on 27 February 2007, the Council regarded the budgetary consolidation strategy as having set plausible targets. The risks to the budgetary projections in the programme were considered as broadly balanced; nonetheless, the budgetary outcome could be worse than projected in 2009. According to the Council, the programme provides a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations, nonetheless the pace of the adjustment towards the MTO is insufficient and should be strengthened to be in line with the provisions of the Stability and Growth Pact, which specifies that, for euro area and ERM II Member States, the annual improvement in the structural balance should be higher than 0.5% of GDP in good economic times.

## **1.2. Conditionality**

The Council Regulation on the Cohesion Fund<sup>2</sup> that served as the basis for the application of the principle in 2006 states that “no new projects or, in the event of important projects, no new project stages shall be financed by the Fund in a Member State in the event of the Council, acting by a qualified majority on a recommendation from the Commission, finding that the Member State ... has not implemented [its stability or convergence programme] in such a way as to avoid an excessive deficit.”

In 2006, four recipient Member States under the Cohesion Fund (Cyprus, Hungary, Poland and Portugal) were involved in additional steps of the excessive deficit procedure. For neither of these countries did these steps raise the issue of the application of the Cohesion Fund macroeconomic conditionality.

The Council decided in June 2006 to abrogate the procedure for Cyprus, as it corrected its excessive deficit in 2005. In the case of Portugal, the Commission

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<sup>2</sup> Council Regulation (EC) No. 1164/1994 of 16 May 1994, as amended by Council Regulation (EC) No. 1264/1999 of 21 June 1999.

issued a communication in June 2006 stating that the country is on track to correct its excessive deficit.

It has already been established twice since the start of the excessive deficit procedure in 2004 that Hungary has not taken effective action in response to the Council recommendations, first in January 2005 and then in November 2005. However, at none of these occasions did the Commission recommend a suspension of Cohesion Fund commitments to the Council. Hungary is a Member State with a derogation from the application of further steps of the excessive deficit procedure. Thus, after the September 2006 submission of the revised 2006 convergence programme update, the Council could address further recommendations to Hungary only on the basis of a new Article 104(7) decision. Should the country fail to comply with this recommendation, the issue of suspension of Cohesion Fund commitments will arise.

In November 2006, Poland was issued an Article 104(8) decision by the Council, establishing that its actions taken to correct its excessive deficit in line with the 2004 Council recommendations were proving to be inadequate. This decision was issued still on the basis of targets set in the 2005 update of the convergence programme and in the spring 2006 fiscal notification. However, according to the recent, 2006 update of the convergence programme, Poland will correct its excessive deficit by 2007, by qualifying for the provision of the reformed Stability and Growth Pact which allows a part of the pension reform cost to be deducted.

Greece is apparently on the way to correct its excessive deficit: in line with the Article 104(9) Council decision of February 2005, it reduced its deficit below 3% of GDP in 2006. In three recently acceded Member States placed in excessive deficit in 2004 – the Czech Republic, Malta and Slovakia – the budgetary developments necessitated no further steps of the excessive deficit procedure since the Commission concluded in December 2004 that all these countries had taken effective action in response to the Council recommendations. However, an abrogation of the excessive deficit procedure did not take place for these countries in 2006. In line with the Council recommendations, Malta corrected its excessive deficit by 2006. Slovakia will reduce its deficit below 3% of GDP by 2007, while the Czech Republic plans to reach this goal by 2010.

The regulation on the Cohesion Funds for the period 2007-2013 has cleared several uncertainties that surrounded the application of Cohesion Fund conditionality in the past. It foresees that an Article 104(8) decision provides an opportunity for the Commission to propose the suspension of Cohesion Fund support. In turn, the Council may decide to suspend the totality or parts of future commitments. If later on the Council finds in the context of the EDP that the Member State has taken the necessary corrective action, this automatically implies a decision to lift the suspension of Cohesion Fund commitments. Rules for re-budgeting the suspended commitments were created.

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<sup>3</sup> Council Regulation (EC) No. 1084/2006 of 11 July 2006, establishing a Cohesion Fund and repealing Regulation No. 1164/1994.



## **2. IMPLEMENTING PRINCIPLES AND ASSISTANCE GRANTED**

### **2.1. Coordination with other Community policies**

#### **2.1.1. Competition**

Council Regulation n°1164/94 on the Cohesion Fund and Commission Regulation n°16/2003 laying down special detailed rules as regards eligibility of expenditure state that the projects adopted by the Commission must meet the compatibility criteria with the Community rules concerning competition.

Provided the rules on public procurement are complied with, and free access to infrastructures co-financed is guaranteed for all operators meeting the necessary technical and legal conditions, such assistance does not provide specific firms with any special advantage.

#### **2.1.2. Environment**

In agreement with Article 8 of Regulation (EC) n°1164/94, the projects co-financed by the Cohesion Fund must be consistent with the treaties, Community law and Community policies, including those concerning environment.

In general, the projects supported by the Cohesion Fund contribute to the global objectives of environmental policy in relation to sustainable development, in particular to the achievement of the priority areas of the Sixth Action Programme, notably for the management of natural resources, waste management and in relation to investments that seek to limit the impacts from climate change. The seven Thematic Strategies adopted in 2005 and 2006 in the fields of air, resources, waste and recycling, urban environment, soil, marine and pesticides are relevant to the Cohesion Fund co-financed operations.

The updated Sustainable Development Strategy which was adopted in June 2006 by the European Council also underlined the importance of climate change and clean energy, sustainable transport, sustainable production and consumption, conservation and management of natural resources and public health.

During 2006, the Cohesion Fund continued to contribute to the implementation of the environmental legislation, not only through the direct financing of infrastructures, but also by providing incentives encouraging the application of relevant directives as part of the preconditions to the granting of support. This concerns notably thematic interventions with territorial dimension such as nature preservation, waste management and wastewater management and environmental impact assessment (EIA).

The Acts of Accessions of the new Member States have set intermediate targets for the investment in the environment acquis. Therefore, these countries have set water and waste management as important priorities for their expenditures. Investments and infrastructure needs remain high in the majority of cases for the key directives in fields such as waste management and water (in particular urban wastewater treatment), but also in the fields of air quality and in efforts to reduce industrial pollution (Integrated Pollution Prevention and Control). Support for environmental

infrastructure under the Cohesion Fund is therefore crucial for the new Member States.

#### Drinking water

The Commission services take into account the provisions of Directive 2000/60/EC – Water framework Directive – in the appraisal of the co-financing applications. Dams can only be co-financed if they have environmental goals. This was confirmed in a letter to the Member States of 23 June 2003 from Commissioners Barnier and Wallström.

#### Urban wastewater

With regard to urban wastewater, the projects concerning wastewater treatment are co-financed to the appropriate level (primary, secondary or tertiary according to the designation of the receiving areas, respectively less sensitive, normal or sensitive), in accordance with Directive 91/271/EEC as amended. This was also underlined in a Commissioner-level letter to the Member States sent on 3 July 2003.

The Commission, in the appraisal of co-financing applications, takes into account the inclusion of the projects in overall functional systems and their integration into River Basin Management Plans.

#### Environmental impact assessment

The requirement for the consideration of impacts under the EIA procedure for the projects covered by Directive 85/337/EEC as amended, and the evaluation under Article 6 of Directive 92/43/EC "Habitats", the consultation of competent environmental authorities and the participation of the public, provide procedural safeguards before Cohesion Fund projects are co-financed. In some cases, minimization and compensation measures are implemented.

#### Waste

In the field of waste management, the Commission evaluates the financing requests taking into account the policy and the legislation applicable for this sector, in particular the requirements of Directive 1999/31/CE on landfills, the guidelines on waste hierarchy, the presence of Waste Plans, as well as the relevant Thematic Strategy.

#### Climatic change

The implementation of the Kyoto protocol is one of the key environmental objectives of the EU. In the last years, the European Climate Change Programme (ECCP) has put forward a number of key instruments to meet Kyoto targets, mainly related to energy and transport. The ECCP has also highlighted the importance of the integration of climate change into other EU policies, and in particular into Cohesion Policy. This is shown by the close link between greenhouse gases on the one hand and economic developments and the organisation/development of energy and transport systems on the other. The Cohesion Policy can help create important leverage for action at Member State and regional level.

Preventing significant increases in greenhouse gases emissions is even more important for the new Member States where major investments in transport, housing and energy systems are expected. The situation of the new Member States could be compared with the development of the four EU-15 Cohesion Countries (Greece, Ireland, Portugal, Spain) in the last ten years: despite the fact that the burden sharing agreement on meeting the Kyoto targets is allowing a significant increase in greenhouse gas emissions in these countries, they are now confronted with severe difficulties in meeting their targets.

#### Polluter pays principle

The projects financed under the Cohesion Fund make it possible to implement the polluter pays principle by the application of differentiated co-financing rates. The application of the polluter pays principle is strengthened by the application of Directive 2000/60/EC (Water Framework Directive).

#### Partnership

The environmental monitoring of projects is carried out by Member States. The competent authorities in the field of environment are associated to the project assessment through consultations and by their participation in the monitoring committees.

### **2.1.3. Transport**

In the transport sector, Community support is delivered in a coordinated way by a variety of instruments: Cohesion Fund, ISPA, ERDF, Trans-European Networks programmes, EIB loans. Financial support from these instruments is essentially directed towards the Trans-European transport networks (TEN-T).

In agreement with Article 3 of Regulation (EC) n° 1164/94 as amended by Regulation (EC) n°1264/1999, the Cohesion Fund may provide assistance for the transport infrastructure projects of common interest, financed by Member States and which are identified within the framework of the Guidelines for the development of the TEN-T.

The Community guidelines on TEN-T were established by Decision n° 1692/96/EC as amended by Decision n° 884/2004/EC. The Decision specifies 30 priority projects of European interest and calls on Member States to give priority to these projects. Article 19a) of Decision n° 884/2004/EC provides that when submitting their projects under the Cohesion Fund, in accordance with Article 10 of Regulation (EC) n° 1164/94, the Member States shall give appropriate priority to the projects declared to be of European interest.

### **2.1.4. Public procurement**

Member States are required to ensure that all operations comply with EC legislation, including the new public procurement Directives 2004/17/EC and 2004/18/EC. On the deadline for implementation of these Directives (31 January 2006), not all Member States had brought into force the necessary laws to comply with them. Therefore, the Commission initiated proceedings under Article 226 of the treaty for non implementation of the above mentioned Directives.

In the context of their "modus operandi", Directorates General for Regional Policy and for Internal Market have proceeded in 2006 with the co-ordination of the Commission's action in cases of infringement to public procurement rules which led, in several cases, to the suspension or recovery of assistance already paid and to the initiation of proceedings under Article 226 of the treaty.

To ensure compliance with EU Public procurement rules, the Commission has also encouraged national authorities to adopt various preventive measures such as appropriate training for staff involved in awarding contracts and issuing procedural guidelines.

## **2.2. Coordination with the Structural Funds: the strategic reference frameworks (SRF)**

### **2.2.1. Environment**

#### **Greece**

The Strategic Reference Framework (SRF) for environmental projects in Greece is the reference tool for interventions which aim to enhance the compliance of the country with its obligations arising from the EU environmental legislation and to contribute to sustainable development. The SRF is described in the Operational Program "Environment" of the Greek Community Support Framework 2000-2006 and it was approved initially by the Commission on 24 July 2001 (Decision E(2001) 1357). In this context, the Cohesion Fund co-finances interventions to cover the major infrastructure needs of Greece in the field of drinking water, waste water and urban solid waste.

The solid waste management interventions are based on the 2003 National Solid Waste Management Plan which in turn is linked to Regional Management Schemes. The strategic objective is the appropriate management of urban solid waste and, where necessary, the rehabilitation of environmentally polluted or degraded by waste areas. Besides, in accordance with the requirements of Directive 91/271/EEC, a similar planing has been drawn up for the treatment of urban waste water.

In 2006, the CF co-financed three (3) new interventions in the field of waste water management so as to meet the requirements of the Community legislation.

#### **Spain**

The priority sectors for interventions to be financed by the Cohesion Fund for the 2000-2006 programming period are water supply; sewage and wastewater treatment; municipal, industrial and hazardous waste management.

The interventions are selected in the context of a coordinated strategic approach designed for each of the sectors selected, identifying the main priorities for intervention.

#### **Portugal**

The environment strategic reference framework for Cohesion Fund in Portugal for 2000-2006 is included in the Operational Programme for Environment of the

Portuguese Community Support Framework 2000-2006 and provides the coordination tool between Cohesion Fund and the Structural Funds. The main objectives defined were to further develop and complete the basic environment infrastructure, to ensure conditions for sustainable development, environmental protection and management of natural resources. The priority sectors financed by the Cohesion Fund are the "Water Supply", the "Sewerage and Wastewater Treatment" and the "Urban Waste Management". The Cohesion Fund projects approved in 2006 are aimed at contributing to the accomplishment of this strategy.

The strategic reference framework was updated in the Mid-term review exercise conducted in 2004, which emphasized the need for reinforcing coordination between the Cohesion Fund and Structural Funds. In this context, the regional programmes have also focused on projects that contribute to the accomplishment of the municipal systems of water supply, urban waste water treatment and solid waste treatment.

### **Cyprus**

The Cypriot Strategic Reference Framework is to address solid and hazardous waste, waste water treatment, air pollution and drinking water. However, the scarcity of funds available has made it necessary to focus for the environment sector on one solid waste project.

### **Czech Republic**

The strategic reference framework for environmental projects is described in a separate chapter of the Community Support Framework for the Czech Republic and of the Operational Programme Infrastructure (OPI) for the period 2004 – 2006 approved by the Commission on 21 June 2004 (Decision C(2004) 2325).

### **Estonia**

The Estonian authorities presented their strategic reference framework for the environment sector in 2003 which is the basis for assistance under the Cohesion Fund to all individual projects in the waste water, drinking water, solid waste and air sectors.

As regards the coherence with Structural Funds, there is a clear dividing line as all projects in the waste water and water sectors as well as all large-scale projects in the solid waste sector are covered by the Cohesion Fund. Due to the small size of projects in the waste water and water sector, several projects have been grouped according to the sub-river basin in which they are located.

### **Hungary**

The Hungarian authorities presented the Cohesion Fund Strategic Reference Framework for the environment sector for the period 2004-2006 in December 2003. The Strategic Reference Framework specifies as priority areas the development of waste water, drinking water and solid waste facilities, as well as the protection of resources by remediation measures.

At the end of 2006 the total of the CF financial envelope had been allocated mainly to projects in the area of waste water and solid waste (23 projects), one project

aiming at the improvement of drinking water quality and one project focusing at remediation.

The projects co-financed under the Cohesion Fund are large-scale investment projects above the € 10 million threshold for total cost focusing on achieving compliance with the environmental acquis. Small-scale projects covering also other environmental areas (e.g. nature conservation, animal waste management, sustainable flood management, air and noise monitoring and energy management) are financed by ERDF under the Environmental Protection and Infrastructure Operational Programme (EIOP).

At the end of 2006 the full amount allocated to the environment chapter of the CF could be committed in accordance with the financial plans.

### **Latvia**

The Latvian authorities submitted the revised Cohesion Fund Reference Framework to the Commission on 24 February 2005. The main revisions of the document related to the Environmental sector – the document has been complemented with specific information on Air Protection. The Reference Framework has also been supplemented with additional information regarding functions and responsibilities of the involved authorities. Furthermore, modifications have been made in the list of the Cohesion Fund projects in both environment and transport sectors. On the basis of the suggestions made by the Commission the Latvian Authorities adjusted and restructured the presentation of the Environmental Sector part of the document. The main aim of these adjustments was to achieve a more focussed document. The reworked document was submitted to the Commission by the Latvia Authorities on 23 September 2005. The Commission confirmed its agreement on the revised Cohesion Fund Reference Framework for Latvia on 10 November 2005.

In 2006 there were no changes in the Cohesion Fund Reference Framework for Latvia in the relation to environment sector.

### **Lithuania**

The Cohesion Fund Strategy for the years 2004-2006 was presented by Member State and adopted by the Commission in 2004.

As the priority sectors in environmental sector, Lithuania focuses on: solid and hazardous waste management; drinking water supply; sewerage and wastewater treatment. Implementation of the individual projects under these priorities is in line with the Community's' Environmental Directives.

Cohesion Fund assistance is concentrated on large scale and heavy investments (above €10 million). The small scale environmental activities are financed via Structural Fund through the measure "Improvement of the quality of environment and prevention of environmental damage" (€24,61 million). This ensures the complementarity of interventions between Cohesion and Structural Funds.

In 2006 the Commission adopted two decisions for river basin water projects with the total CF grant of €57,22 million.

## **Malta**

The Structural Funds and the Cohesion Fund will, as a priority, assist compliance with environmental standards established in the relevant Community Directives, in particular with regard to waste management and water. The management, sustainable treatment and disposal of solid waste, both urban and industrial, according to Community policy and legislation, as well as addressing the key environmental issues at a national level, will be a high priority.

## **Poland**

The strategic reference framework for Cohesion Fund is a basis for the selection of all the individual projects in the priority sectors for assistance to be financed through the Cohesion Fund. For the 2004-2006 programming period the priority sectors are: improvement of the quality of surface water, and improvement of the distribution and quality of drinking water; rationalisation of waste management and protection of soils; improvement of air quality; improvement of safety from flooding.

At the same time, under Structural Funds assistance, a special measure 1.2 Environmental protection infrastructure is implemented within Integrated Regional Operational Programme (IROP) 2004-2006. This measure, co-financed by ERDF (310m €), provides for construction of environmental infrastructure projects with total budget below 10m €.

Small scale environmental infrastructure is implemented within Priority 3 Local Development of IROP 2004-2006, where projects of less than 1m € in environment sector can be financed.

## **Slovakia**

Slovakia transmitted to the Commission the final version of its Strategic reference framework 2004-2006 in March 2004. This strategy links the various community policies with the national policies in the transport infrastructure (Trans-European networks) and environment sectors, and ensures complementarity of interventions between Cohesion Fund and the Structural Funds.

In the environment sector, some short term priority objectives (up to 2006) have been designed to meet the urgent environmental needs that affect the population's quality of life and the economic development of the regions.

Strategic objectives in the Environment sector:

Support for environmental infrastructure in Water management: Drinking water supply; Collection and treatment of waste water; Anti-flood protection.

Support for environmental infrastructure in Waste management: Waste incineration plants; Support for integrated management of waste management; Support for the creation of public-private partnership in waste management at the regional level.



## **Slovenia**

The Strategic Reference Framework for Cohesion Fund assistance was presented by the Slovene authorities in 2003 and constitutes the basis for Cohesion Fund contributions to projects in the waste water, drinking water and solid waste sectors. Its main focus lies on the adequate implementation of the directives on Urban Waste Water and Drinking Water as well as of the EU Waste Framework Directive. This is also largely in line with Slovenia's sector specific strategies and environmental objectives for Cohesion Fund assistance such as sustainable protection of water resources, modernisation of water supply networks and construction of wastewater treatment facilities and sewer networks in order to ensure the compliance with environmental standards.

No major changes to the list of priority investment projects were introduced in 2006.

### **2.2.2. Transport**

#### **Greece**

The strategic reference framework (SRF) for transport projects in Greece, updated in the context of the 2005 mid-term review evaluation, is included in the Operational Programs "Road axes, Ports, Urban development" and "Railways, Airports, Urban transport" approved initially in March and April 2001 respectively. It covers interventions by the Cohesion Fund and the ERDF which, among others, aim to:

- a) complete the priority TEN road axes in Greece, i.e. the PATHE, EGNATIA and IONIAN axes, as well as the Korinthos – Tripoli – Kalamata/Sparti motorway,
- b) complete the modernisation of the PATHE railway axis, also part of the TEN, including its electrification and signalling systems and construct freight railway line from the Ikonio port to the railway freight centre of Thriassio,
- c) modernise the infrastructure facilities of Igoumenitsa and Heraklion ports including the construction of new port infrastructure at Lavrio, and modernise the airports of Thessalonica and Heraklion and the air traffic control system in Greece.

In 2006, one new road and one new port project were approved under the Transport sector.

#### **Spain**

In the framework of the discussions between Commission and Member State, the Spanish authorities presented a document concerning investments in Trans-European transport Networks (TEN-T), which determines the overall strategy in this sector for the 2000-2006 period. Furthermore, the Spanish authorities have defined a strategy for the use of the Structural Funds and the Cohesion Fund, in order to reach a better coherence and complementarity between these instruments.

The use of the Cohesion Fund in financing investments in the Trans-European transport networks mainly concern:



The high speed railway (Madrid – Barcelona – French border; Madrid – Valladolid; and Madrid – Valencia) are the axes that will contribute to a better intermodal balance, with an environmental-friendly dimension. These projects are the main priority for transport interventions in the 2000-2006 period. The Cohesion Fund is the main financing source of these four railway lines.

Ports are also of special importance. Contrary to networks-type infrastructures, the interventions in ports infrastructures allow for a more affordable financing. The Cohesion Fund has been financing some ports infrastructures in different regions of Spain.

### **Portugal**

In 2006 the main activity of the Cohesion Fund in Portugal was the implementation of projects adopted in previous years, as 2006 Commission decisions concern 2 new projects only. The projects under implementation provide a contribution to the development of the trans-European transport network and enhance the multimodal articulation amongst the several means of transport in place, in line with the objectives of the reference framework. The ongoing investments in railway infrastructures linking Portugal to the North and the South of Spain deserve to be mentioned in this context.

### **Cyprus**

The Cypriot Strategic Reference Framework for transport focuses on motorways, ports and airports. However, scarcity of funds available has made it necessary to focus on one road construction project for the Transport sector.

### **Czech Republic**

The strategic reference framework for transport projects is described in a separate chapter of the Community Support Framework for the Czech Republic and of the Operational Programme Infrastructure (OPI) for the period 2004 – 2006 approved by the Commission on 21 June 2004 (Decision C(2004) 2325).

### **Estonia**

The Estonian authorities presented their strategic reference framework for the transport sector in 2003. This document forms the basis for assisting individual projects in the road, rail, airport and port sectors. The Cohesion Fund focuses on projects which belong to the TEN-T whereas Structural Funds support projects which are complementary to the TEN-T. The major priority in the road sector is to close the missing sections within Corridor I and IX.

### **Hungary**

The Cohesion Fund focuses on projects which belong to the TEN-T (Trans-European Networks for Transport), whereas Structural Funds support projects which are complementary to the TEN-T network, cover the development of express roads and highways, the construction of by-pass roads and the development of suburban public transport as well as intermodal logistics centres. In the rail sector the main

priority of the Cohesion Fund is the modernization of the existing infrastructure along Corridors IV and V. In the aviation sector the funding strategy focuses on safety and security issues. For the road sector the supported projects are linked to the strengthening of highway infrastructure for a maximum axle load of 11,5t and the continuation of the motorway ring road construction around Budapest.

Since 2004 the Hungarian authorities have devoted significant efforts to preparing the strategies for the 2007-2013 programming period. In spring 2004 the Hungarian Authorities started to elaborate a business strategy for the railway sector covering infrastructure, rail traffic management (ERTMS - ETCS and GSM-R) and operation. The drafting of regional public transportation strategies was launched in parallel as in the 2007-2013 programming period this sector can receive support from the Cohesion Fund.

By end of 2006 the full amount allocated to the transport chapter of the CF could be committed in accordance with the financial plans.

### **Latvia**

In the revised Cohesion Fund Reference Framework the modifications have been made in the list of the Cohesion Fund projects in both environment and transport sectors. The Commission confirmed its agreement on the revised Cohesion Fund Reference Framework for Latvia on 10 November 2005.

In 2006 there were no changes in the Cohesion Fund Reference Framework for Latvia in the relation to transport sector.

### **Lithuania**

The main investment from the Cohesion Fund is associated with the modernisation and reconstruction of Trans-European Transport Corridors I, IA, IXB, D and correlative transport nodes and links (the future TEN-T network).

Since large-scale projects (over €10 million) in the transport sector, related to the development of TEN-T, shall be financed from the Cohesion Fund, the SF Transport section includes measures necessary for receiving support from Structural Funds for regional-local development, i.e. they are intended to ensure good access to the Trans-European corridors, to improve transportation from counties to industrial, business and tourism centres, to improve traffic conditions in towns, to reduce transport congestion, to improve transport infrastructure so that it meets needs of tourism and small and medium business development.

### **Malta**

The recent growth in both private ownership of vehicles and goods transportation by road has become a cause of concern as it has caused more damage on the road network and emit higher levels of harmful exhaust. Besides, economic costs due to congestion are increasing. In this context the quality of Malta's road infrastructure needs to be improved to bring it to a reasonable state of repair and to ease bottlenecks and general congestion.

The Structural Funds and Cohesion Fund have prioritised the upgrading of various stretches of TEN-T arterial tracts in both Malta and Gozo, mainly around the main international and national seaports and international airport. A group of projects was submitted for Cohesion Fund co-financing in 2005 upgrading a total of 5.8 kms of roads in Malta and Gozo.

## **Poland**

The Reference Framework document for the Cohesion Fund was a joint document for the Environment and the Transport sectors. The Polish Authorities adopted a coherent and coordinated strategy for the Transport sector, thus ensuring complementarity and avoiding overlaps between the Cohesion Fund funded projects and the projects funded under the Transport Operational programme.

This coordinated strategy for both the ERDF and the CF focused on the following priorities:

- (1) Balanced development of different transport modes;
- (2) Safer road infrastructure.

Under the Cohesion Fund, priority 1 of this strategy was implemented through the modernization of the TEN-T railway network and priority 2 of the integrated strategy was implemented through the construction of motorways and expressways on the TEN-T road network.

## **Slovakia**

In the field of transport, the strategic reference framework 2004-2006 envisages in particular the development of road and rail transport infrastructures on the European corridors crossing Slovakia (corridors IV, V and VI primarily).

Strategic objectives in the Transport sector:

- Road infrastructure: development of motorways on the TEN-T corridors; in the area of the capital Bratislava; on corridor V/A between Bratislava, Žilina and Poprad; on corridor VI between • adca and the Polish/Slovak border; on other corridors in case of economically effective investment.
- Rail infrastructure: Renovation and modernisation of the international corridors IV, V, VI to comply with the technical parameters of tracks according to the AGC and AGTC treaties and to achieve operational speed of 160km/h on the corridor IV section Kúty-Bratislava-Štúrovo and the corridor V/A section Bratislava-Žilina stretch and 120-140 km/h on the Žilina-Košice section.

## **Slovenia**

The national authorities have defined in 2003 a National Cohesion Strategy for the Transport sector which identifies the objectives of its transport strategies and the projects to be financed through the Cohesion Fund. It involves the country establishing itself as a maritime transit country within the European Union and market its geopolitical position at the crossroads of two important European corridors

(Corridors V and X) along the existing southern border of the EU. An important role will be played by the port of Koper, and by logistic centres at the crossroads of these corridors in Koper, Ljubljana and Maribor.

To this end, bottlenecks on corridors must first be removed involving the completion of the motorway network, upgrading, modernisation and completion of the rail network and the increase of the range of logistical services.

### **2.3. Implementation of the budget, commitments and payments and overview of the period 2000-2006**

#### **2.3.1. Budget available for 2006**

In accordance with Article 4 of Regulation (EC) n°1164/94, as amended by Regulation (EC) n°1264/1999 (Cohesion Fund Regulation), Cohesion Fund resources available for commitment in 2006 amounted to € 6 032 082 110 (current prices). This amount includes technical assistance credits of € 8 100 000. It should be noted that the Cohesion Fund covers thirteen Member States and that Ireland as a result of economic growth is no longer eligible since 1 January 2004.

In accordance with the brackets for the allocation of resources by Member State laid down in Annex I to the Cohesion Fund Regulation, the indicative allocation of these appropriations by Member State for 2006 is as follows:

<b>Member State</b>	<b>Allocation 2006 in Euro, current prices</b>
<b>Spain</b>	1 814 727 464
<b>Greece</b>	494 199 366
<b>Portugal</b>	494 199 366
<b>Cyprus</b>	20 658 218
<b>Czech Republic</b>	363 498 329
<b>Estonia</b>	113 923 369
<b>Hungary</b>	426 632 155
<b>Latvia</b>	168 233 225
<b>Lithuania</b>	226 099 063
<b>Malta</b>	8 445 901
<b>Poland</b>	1 602 210 323
<b>Slovakia</b>	218 794 500
<b>Slovenia</b>	72 360 831
<b>Technical Assistance</b>	8 100 000
<b>TOTAL</b>	<b>6 032 082 110</b>

### 2.3.2. Implementation of the 2006 budget

Budget implementation in 2006, with indexation of the appropriations carried-over, was as follows:

**Table 1. Implementation of commitments in 2006 (in Euro)**

Commitment Appropriations	Initial	Movements	Final resources	Outturn	Cancelled	Carryovers 2007
<b>2006 Budget</b>	6 032 082 110	-	6 032 082 110	6 032 082 110	-	-
Appropriations carried over from 2005	-	-	-	-	-	-
Appropriations made available again	-	-	-	-	-	-
Repayments	-	-	-	-	-	-
<b>TOTAL</b>	<b>6 032 082 110</b>	<b>-</b>	<b>6 032 082 110</b>	<b>6 032 082 110</b>	<b>-</b>	<b>-</b>

Under Article 7 of the Financial Regulation, appropriations not implemented at the end of the year are cancelled, unless the Commission adopts a specific decision to carry them over. In 2006, the commitment appropriations were entirely used and no appropriations were carried over to 2007.

**Table 2. Implementation of payments in 2006 (in Euro)**

Payment Appropriations	Initial	Movements	Final resources	Outturn	Cancelled	Carryovers 2007
<b>2006 Budget</b>	3 515 408 175	- 500 000 000	3 020 358 175	3 015 989 461	4 368 713	-
Appropriations carried over from 2005	-	-	-	-	-	-
Appropriations made available again	60 776	-	-	-	-	60 776
Repayments	-	-	-	-	-	-
<b>TOTAL</b>	<b>3 515 468 951</b>	<b>-500 000 000</b>	<b>3 020 358 175</b>	<b>3 015 989 461</b>	<b>4 368 713</b>	<b>60 776</b>

The implementation rate of payments in the first nine months of the year progressed well and at end-September 2006 has reached the level comparable to end-November 2005. Yet, the remaining appropriations could not be executed without jeopardising the principle of sound financial management and a transfer of a total € 500 million of payment appropriations was made from the Cohesion Fund to ERDF (as part of the global transfer procedure with other Structural Funds). This transfer meant that some 99.8 % of the payment appropriations were executed in 2006. Implementation of the appropriations by country is shown in the following tables (Tables 3, 4 and 5, refer).

**Budget implementation of appropriations in 2006 by Member State:**

**Table 3. Commitment appropriations 2006 (in Euro) - including technical assistance**

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	%	Amount	%	Amount	Amount	% MS on Total
<b>Spain</b>	1 045 081 820	57.6	769 323 551	42.4	315 453	1 814 720 824	30 %
<b>Greece</b>	191 616 437	38.8	298 556 462	60.4	4 026 467	494 199 366	8.4 %
<b>Portugal</b>	273 923 751	55.4	218 291 973	44.2	1 983 642	494 199 366	8.2 %
<b>Cyprus</b>	15 599 762	75.5	5 058 456	24.5	-	20 658 218	0.3 %
<b>Czech Republic</b>	169 425 877	46.6	192 728 948	53.0	1 343 504	363 498 329	6 %
<b>Estonia</b>	51 641 255	45.3	59 936 657	52.5	2 505 460	114 083 372	1.9 %
<b>Hungary</b>	210 331 313	49.3	209 390 382	49.1	6 910 457	426 632 152	7.1 %
<b>Latvia</b>	84 648 355	50.3	75 472 277	44.9	8 112 593	168 233 225	2.8%
<b>Lithuania</b>	121 403 548	53.7	99 888 363	44.2	4 807 152	266 099 063	3.7 %
<b>Malta</b>	4 305 250	51.0	4 075 480	48.7	65 171	8 445 901	0.1 %
<b>Poland</b>	751 359 517	46.9	828 944 996	51.7	21 905 810	1 602 210 323	26.5 %
<b>Slovakia</b>	79 712 721	36.4	138 255 724	63.2	826 055	218 794 500	3.6 %
<b>Slovenia</b>	27 925 173	38.6	44 270 658	61.2	165 000	72 360 831	1.2 %
<b>TOTAL</b>	<b>3 026 974 779</b>	<b>50.1%</b>	<b>2 944 193 927</b>	<b>48.9%</b>	<b>52 966 764</b>	<b>6 024 135 470</b>	<b>100 %</b>
<b>Technical Assistance</b>	-	-	-	-	4 218 779	4 218 779	-

**Table 4. Payment appropriations 2006 (in Euro) - including technical assistance**

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	%	Amount	%	Amount	Amount	% MS on Total
<b>Spain</b>	558 740 071	43.6	723 413 784	56.4	819 183	1 282 973 038	47.0
<b>Greece</b>	194 069 922	40.2	289 132 091	59.8	-	483 202 013	17.7
<b>Ireland</b>	27 991 936	70.8	11 521 393	29.2	-	39 513 329	1.4
<b>Portugal</b>	148 750 484	73.1	53 874 121	26.5	899 853	203 524 458	7.5
<b>Cyprus</b>	-	0	6 001 512	100	-	6 001 512	0.2
<b>Czech Republic</b>	32 982 124	26.2	92 544 105	73.6	278 460	125 804 689	4.6
<b>Estonia</b>	6 769 474	17.0	32 972 870	82.9	23 322	39 765 666	1.5
<b>Hungary</b>	82 157 579	70.9	33 767 249	29.1	-	115 924 828	4.2
<b>Latvia</b>	14 060 182	23.4	42 930 570	71.5	3 075 450	60 066 202	2.2
<b>Lithuania</b>	17 587 842	36.0	31 243 260	64.0	-	48 831 102	1.8
<b>Malta</b>	-	0	2 591 637	100	-	2 591 637	0.1
<b>Poland</b>	15 601 766	6.1	239 697 120	93.7	589 292	255 888 178	9.4
<b>Slovakia</b>	18 811 566	58.7	13 218 768	41.3	-	32 030 334	1.2
<b>Slovenia</b>	7 502 018	24.1	23 651 860	75.9	-	31 153 878	1.1
<b>Undefined</b>	-	0.0	-	0.0	965 686	965 686	-
<b>TOTAL</b>	<b>1 125 024 964</b>	<b>41.2 %</b>	<b>1 596 560 340</b>	<b>58.5 %</b>	<b>6 651 246</b>	<b>2 728 236 550</b>	<b>100,0</b>
<b>Technical Assistance</b>	-	-	-	-	1 625 128	1 625 128	-

Figures for the new Member States refer only to payments for projects adopted under the Cohesion Fund as from 1 May 2004 (i.e. not taking into account pre-accession aid for ISPA projects). Table No 5 shows the payments made in 2006 in relation to ISPA projects adopted before accession.

**Table 5. New Member States – Payments made in 2006 related to former ISPA projects**

Member State	Technical Assistance	Environment		Transport		TOTAL	
		Amount	%	Amount	%	Amount	% MS on Total
<b>Czech Republic</b>	448 521	48 347 040	35.8	86 126 672	63.8	134 922 233	19.8 %
<b>Estonia</b>	1 036 078	17 872 983	55.6	13 213 810	41.1	32 122 871	4.7 %
<b>Hungary</b>	856 649	42 045 203	54.0	34 943 145	44.9	77 844 997	11.4 %
<b>Latvia</b>	3 890 083	12 195 774	24.8	33 083 549	67.3	49 169 406	7.2 %
<b>Lithuania</b>	1 955 102	21 227 151	55.0	15 421 582	39.9	38 603 835	5.7 %
<b>Poland</b>	1 872 421	136 381 574	51.4	126 946 209	47.9	265 200 204	38.9 %
<b>Slovakia</b>	2 120 189	33 197 820	43.6	40 809 790	53.6	76 127 799	11.2 %
<b>Slovenia</b>	0	5 176 729	73.4	1 875 000	26.6	7 051 729	1.0 %
<b>TOTAL</b>	<b>12 179 043</b>	<b>316 444 274</b>	<b>46.5</b>	<b>352 419 757</b>	<b>51.7</b>	<b>681 043 074</b>	<b>100 %</b>

The following table indicates the total implementation in 2000-2006 in each country (excluding technical assistance):



### 2.3.3. Overview of the 2000-2006 period

At the end of 2006, the outstanding commitments (RAL) corresponding to the 2000-2006 period amounted to € 15 682 million (€ 13 206 million for CF and € 2 476 million for ex-ISPA projects). The current regulatory framework for commitment and payments implies relatively large stock of outstanding commitments. They are equal to the amount corresponding to approximately three years of commitments, which among others is caused by the fact that the rule of automatic decommitment ('N+2 rule') does not apply to the Cohesion Fund.

**Table 7.1. Cohesion Fund accepted amounts in 2000-2006 (including RAL)<sup>4</sup>**

Country	Net Committed	Paid	RAL
Greece	2 815 806 760	1 236 273 691	1 579 533 069
Ireland	575 411 134	517 830 136	57 580 998
Portugal	3 128 862 926	1 467 756 462	1 661 106 465
Spain	11 773 161 809	7 383 381 713	4 389 780 096
<b>TOTAL EU-4</b>	<b>18 293 242 629</b>	<b>10 605 242 001</b>	<b>7 688 000 628</b>
Cyprus	54 014 695	11 059 968	42 954 727
Czech Republic	748 976 735	141 131 405	607 845 330
Estonia	242 449 651	39 765 666	202 683 985
Hungary	812 924 360	185 512 701	627 411 659
Latvia	376 863 199	79 841 253	297 021 946
Lithuania	517 642 688	97 697 349	419 945 339
Malta	21 966 289	2 591 637	19 374 652
Poland	3 191 270 327	255 730 261	2 935 540 066
Slovakia	264 254 882	32 030 334	232 224 548
Slovenia	172 654 702	39 651 472	133 003 230
<b>TOTAL EU-10</b>	<b>6 403 017 528</b>	<b>885 012 045</b>	<b>5 518 005 483</b>
<b>TOTAL</b>	<b>24 696 260 157</b>	<b>11 490 254 046</b>	<b>13 206 006 111</b>

<sup>4</sup> Commitment is lower than allocation (Table 6, refers) due to decommitment of unused amounts and closure.

**Table 7.2. Accepted amounts for former ISPA projects 2000-2006 (including RAL)**

<b>Country</b>	<b>Net Committed</b>	<b>Paid</b>	<b>RAL</b>
<b>Czech Republic</b>	479 117 990	351 044 435	128 073 555
<b>Estonia</b>	185 251 384	121 573 113	63 678 271
<b>Hungary</b>	669 677 980	307 713 993	361 963 987
<b>Latvia</b>	333 856 759	183 662 936	150 193 823
<b>Lithuania</b>	307 765 169	161 019 456	146 745 712
<b>Poland</b>	2 444 163 012	1 093 425 990	1 349 686 751
<b>Slovakia</b>	501 995 906	263 375 354	238 620 552
<b>Slovenia</b>	83 499 178	45 820 204	37 678 974
<b>TOTAL</b>	<b>5 005 327 377</b>	<b>2 527 635 482</b>	<b>2 476 641 625</b>

Table 8 illustrates that outstanding commitments for a given year of commitment slowly but gradually decrease. The amount of commitments nearly doubled in 2004 as a result of accession of 10 new Member States.

**Table 8. Evolution of outstanding commitments by year of commitment (2000-2006)**

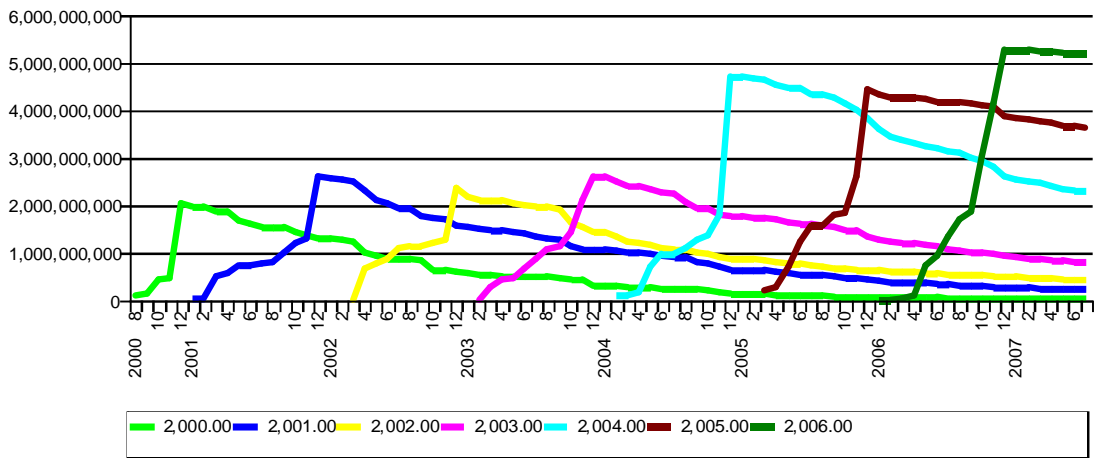
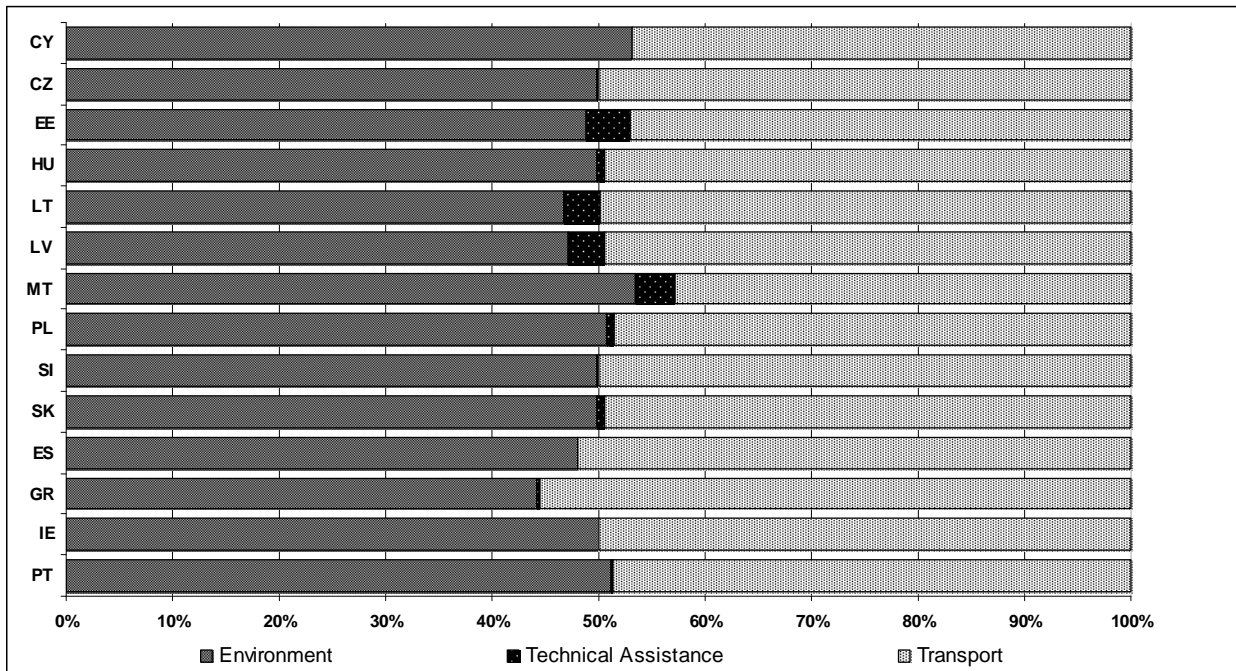


Table 9 below shows the balance between transport and environment sectors over the period. Although the distribution per year of the Cohesion Fund between transport and environment varied among the Member States, the regulatory balance of 50:50 over the whole period was globally maintained.

**Table 9. Distribution of Cohesion Fund commitments by type (period 2000-2006)**



### 2.3.4. Implementation of the budget for the 1993-99 period

Changes in 2006 in appropriations to be settled for 1993-99 were as follows:

**Table 10. Settlement in 2006 of commitments for the period 1993-99 (in Euro)**

<b>Member State</b>	<b>Initial Amount to be settled</b>	<b>Decommitments</b>	<b>Payments</b>	<b>Final Amount to be settled</b>
<b>Spain</b>	204 299 149	17 163 676	99 864 092	87 271 381
<b>Greece</b>	82 165 494	52 585 827	3 476 269	26 103 398
<b>Ireland</b>	29 637 545	19 003	17 387 263	12 231 279
<b>Portugal</b>	29 514 596	1 555 707	15 998 198	11 960 691
<b>TOTAL</b>	<b>345 616 784</b>	<b>71 324 213</b>	<b>136 725 822</b>	<b>137 566 749</b>

Cohesion Fund commitments are made from differentiated appropriations. In other words, the payments follow the initial commitments of resources. If all the projects are implemented in line with the decisions, an amount to be settled exists "automatically" because of the gap between the date of the decision and the date of payment of the balance (normally 4 to 5 years).

In order to avoid an excessive delay between commitments and payments, a particular effort to clear outstanding appropriations – on actions that begun before 2000 – was continued. Some 40 % of the outstanding appropriations existing at the beginning of the year were either paid or subject to decommitment in 2006. By the end of 2006, outstanding appropriations had fallen to just 2.7 % of the annual budget of the Cohesion Fund (compared to some 50 % at the end of 2002, 39 % at the end of 2003, 15 % at the end of 2004 and 6.7 % at the end of 2005). This effort to reduce outstanding appropriations is maintained in 2007 in partnership with the national authorities who are responsible for project implementation and the related payment claims.

## **3. THE PROJECTS AND MEASURES ADOPTED**

### **3.1. Assistance from the Fund by Member State**

#### **3.1.1. Greece**

In 2006 the Commission approved new Cohesion Fund grants for a total of some 115 M€, with the same amount being committed on the budget of 2006. More specifically, three new Environment projects and two new transport projects have been approved. In addition, one modification decision relating to "technical assistance for environmental projects" entailing a grant increase was also approved.

Taking into account 380 M€ in follow up commitments for decisions adopted in previous years, the total amount of Cohesion Fund commitments for Greece in 2006 reached around 495 M€.

The following table shows the Cohesion Fund assistance approved in 2006 as well as the total amount committed:

	<b>Total eligible cost (M€)</b>	<b>Total CF assistance (M€)</b>	<b>Commitments 2006* (M€)</b>
Environment	47.2	35.4	196.6
Transport	143	79.7	298.5
<b>Total CF</b>	<b>190.2</b>	<b>115.2</b>	<b>495.1</b>
% Environment	25%	31%	40%
% Transport	75%	69%	60%

\* including commitments based on the decisions taken in 2006 and in previous years

### 3.1.1.1 Environment

In the budget year 2006, the Cohesion Fund co-financed investments in the sector of waste water treatment. The aim was to complete the cycle of assistance, filling the gaps in the existing systems so as to implement the agreed strategic reference framework.

The following decisions were approved in 2006:

<b>Project number</b>	<b>Project title</b>	<b>Total cost (€ million)</b>	<b>CF grant (€ million)</b>	<b>2006 Commitments (€ million)</b>
2005GR16CPE003	Sewage network of Epanomi	14.73	11.05	11.05
2006GR16CPE001	Wastewater drainage in Kranidi	11.03	8.28	8.28
2006GR16CPE002	Extension and Completion of the waste water treatment plant of Thessalonica, phase III: drying unit, studies, expropriations of sector B KAA	14.80	11.10	11.10
2005GR16CPA001	Technical Assistance within the framework of Cohesion Fund (2000-2006)	6.68	5.00	5.00
<b>TOTAL</b>		<b>47.24</b>	<b>35.43</b>	<b>35.43</b>

Three new projects totalling 30.5 M€ of Cohesion Fund assistance were approved in 2006. The whole amount was committed from the 2006 budget. In addition, the Commission issued one modification decision for the Environmental Technical Assistance project, which resulted in an increase of the Cohesion Fund grant by a total of 5 M€. This amount was also committed from the 2006 budget. Therefore, the total new Cohesion Fund assistance approved in 2006 in the environment sector amounts to some 35.5 M€.

Furthermore, on account of decisions taken in the previous years, an amount of 161 M€ was committed from the 2006 budget.

In addition, the Commission issued six (6) modification decisions without any increase in the Cohesion Fund grant.

Finally, the Commission issued forty (40) modification decisions which resulted to a decrease of Cohesion Fund grants by a total of some 137 M€.

### 3.1.1.2 Transport

In 2006 the European Commission approved two new projects in the Transport sector totalling some 80 M€ of Cohesion Fund assistance. The whole amount was committed from the 2006 budget.

The following projects were approved in 2006.

Project number	Project title	Total cost (€ million)	CF grant (€ million)	2006 Commitments (€ million)
2005GR16CPT002	Egnatia section – Anilio tunnel to Malakassio tunnel - construction of a new motorway branch	85.00	46.75	46.75
2005GR16CPT003	Igoumenitsa Port – phase B	58.00	33.01	33.01
<b>TOTAL</b>		<b>143.00</b>	<b>79.76</b>	<b>79.76</b>

Based on decisions taken in the previous years, an amount of some 219 M€ has been committed in the 2006 budget for the transport sector.

Furthermore, the Commission issued six (6) modification decisions, which resulted to a decrease of the Cohesion Fund grant by a total of 70 M€.

Finally, the Commission issued six (6) modification decisions without any increase in the Cohesion Fund grant.

### 3.1.2. Spain

In 2006, most of the budget available was used to exhaust commitments linked to projects adopted in the previous years. Furthermore, there was a need to reach the balance between environment and transport. No new projects were adopted in the

transport sector, while 12 new decisions were taken concerning environment projects, for a total assistance amounting to € 187.1 million. These new decisions, together with some modifying decisions leading to increases in the EU assistance were possible thanks to cost savings made on some other projects adopted previously. The budget available to Spain for 2006 (€ 1 814.7 million) was entirely used.

Some 57.6 % of these commitments were made in the environment sector, whereas 42.4 % were interventions in the transport sector.

In 2006, some 97 cost savings decisions were adopted in order to reduce the total cost of projects whose EU assistance was not entirely used. This has enabled to free credits and re-allocate them to other projects. Some of these cost savings decisions were grouped, while others were taken separately. In total, some 181 modifying decisions were taken during the year.

The following table indicates the amount corresponding to each sector.

	<b>Total eligible cost (M€)</b>	<b>Total CF assistance (M€)</b>	<b>Commitments 2006 (M€)</b>
Environment	272.6	209.2	1 045.4
Transport	0	0	769.3
<b>Total CF</b>	<b>272.6</b>	<b>209.2</b>	<b>1 814.7</b>
% Environment	100 %	100 %	57.6 %
% Transport	0	0	42.4 %

#### *3.1.2.1 Environment*

In 2006 the major part of the assistance to environment projects was dedicated to wastewater treatment, followed by water supply projects. A total of 12 new projects were adopted during the year. Furthermore, some 160 project modifications have also been adopted, of which 12 entailed cost increases, 87 with cost-savings, the remaining having non financial incidence.

<b>Sector</b>	<b>Total eligible cost (M€)</b>	<b>CF contribution (M€)</b>	<b>Commitments 2006 (M€)</b>
Water supply	86.67	70.05	90.25
Wastewater treatment	169.28	125.88	189.06
Solid waste	16.62	13.29	38.15
<b>Total</b>	<b>272.57</b>	<b>209.22</b>	<b>317.46</b>

## Water supply

In 2006 the Community aid for water supply projects totalled € 70.05 million. Four new decisions were adopted as well as two decision modifications with increase in CF contribution.

The projects financed in this sector aim primarily to ensure supply for the population of sufficient quantities of drinking water and to guarantee the quality of the water distributed to the consumers by the construction of treatment stations and water distribution by supply mains.

<b>Water supply</b>			
<b>Projects adopted in 2006</b>			
<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€ million)</b>	<b>CF assistance (€ million)</b>
2005-ES-16-C-PE-026	Mejora de la conducción para abastecimiento a Ciudad Real y su comarca desde el embalse de Gasset y nuevo depósito en Ciudad Real	18.17	12.72
2005-ES-16-C-PE-028	Conducciones de impulsión y distribución de agua desde la Presa de la Colada a la comarca de Almadén y sus montes	15.72	12.57
2006-ES-C-PE-002	Actuaciones en la ETAP de l'Ampolla del Consorci d'Aigües-Tarragona	31.10	26.44
2006-ES-C-PE-003	Abastecimientos en el Baix Camp y en el Baix Penedés (Tarragona)	19.36	16.46

## Waste water treatment

The aid allocated to this sector in 2006 amounts to € 125.88 million.

Eight decisions were adopted for projects and groups of projects carried out in the agglomerations located in the main river basis, as well as five modifying decisions entailing cost increases. These projects concern the improvement of the water treatment networks, construction of collectors in several regions and construction and extension of the sewage treatment plants.



<b>Waste water treatment</b>			
<b>Projects adopted in 2006</b>			
<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€ million)</b>	<b>CF assistance (€ million)</b>
2005-ES-16-C-PE-020	Saneamiento y depuración de aguas en municipios de las Tablas de Daimiel	12.60	8.82
2005-ES-16-C-PE-025	Reforma de la EDAR Almagro y Bolaños de Calatrava y colectores y Ampliación EDAR Ciudad Real y colectores	29.15	20.40
2005-ES-16-C-PE-027	Saneamiento y depuración de aguas en municipios de las Lagunas de Ruidera (Ciudad Real y Albacete)	10.64	7.45
2005-ES-16-C-PE-037	Actuaciones adicionales de tratamiento de aguas en San Feliz de Llobregat, Gavá y Prat de Llobregat	43.77	35.57
2005-ES-16-C-PE-045	Depuración de vertidos en municipios de la provincia de Toledo	34.14	22.19
2006-ES-16-C-PE-001	Recogida de lodos de depuradoras y conducciones e instalaciones de aguas residuales de Zamora	2.83	2.26
2006-ES-16-C-PE-010	Saneamiento y depuración en la zona sur y oriental de Córdoba. C.H. del Guadalquivir	18.29	14.63
2006-ES-16-C-PE-011	Infraestructuras hidráulicas de saneamiento en la C.H. del Norte Galicia-Costa	9.44	7.55

### **Solid waste**

In 2006, five modifying decisions with cost increases have been adopted linked to urban solid waste, composting factories and waste treatment plants. The aid allocated to this sector amount to €13.3 million.

#### *3.1.2.2 Transport*

In 2006, in order to reach the appropriate balance between projects in the environment and in the transport sectors, no new projects were adopted by the Commission in the transport sector.

The budget available for this sector, amounting to € 769 million was dedicated to the commitment of the remaining balance and the annual commitments related to projects adopted in the previous years.

A total of 26 modifying decisions were adopted, of which 10 entailed cost savings, the remaining having no financial incidence.

### 3.1.3. Portugal

The level of commitments' execution in 2006 corresponds to a full use of the financial funds available, as in previous years. In 2006, the Commission approved only 6 new Decisions, out of which 2 concern the transport sector and 4 the environment sector (corresponding to the same number of projects or groups of projects); this new projects represent 23% of the total available for commitments.

Further to the above, increases in the values of the assistance provided by the Cohesion Fund were approved in respect of 5 environment projects and in 1 transport project. The increases in the environment projects were justified above all by the need to enter new components. The transport project concerns a port in Açores where the increase of costs relates to the reconstruction of an important part of the facilities destroyed by a tempest occurred during the execution of the works. The measure concerning Technical Assistance to the management of the environment projects was also reinforced in 2006, with the aim to ensure that additional requirements regarding controls on public procurement procedures would be fulfilled, as foreseen under the "Action Plan". The level of the reinforcements in the 2006 commitments was of 6%.

The 6 new projects cited above represent eligible investments of € 143.8 million, for which Cohesion Fund assistance totalling 112.1 million was granted and committed under the 2006 budget, the last year for commitments.

The reinforcements approved in 2006 corresponded to an increase in eligible investments for existing projects of € 42.6 million, representing a Cohesion Fund assistance of € 32 million.

The following table shows the Cohesion Fund assistance approved in 2006 as well as the total committed:

Sector	Total eligible cost *(€ million)	Total CF assistance *(€ million)	2006 commitments (€ million)
Environment	141.7	111.8	273.9
Transport	43.7	31.4	218.3
Technical assistance	1	0,8	2
<b>Total CF</b>	<b>186.4</b>	<b>144.1</b>	<b>494.2</b>
% Environment	76	77.6	55.4
% Transport	23.5	21.8	44.2
% Technical assistance	0.5	0.6	0.4

(\*) Including new projects and financial reinforcements approved in 2006 for projects adopted in previous years

Most of the 2006 commitments (71%) concern final commitments for projects approved in previous years. It is to be noted that, since 2006 was the last year for committing CF credits, the final commitments required and in-depth analysis of the projects concerned in order to identify potential cost-savings; as a result, 16 Modifying ("cost saving") Decisions were adopted, allowing the reallocation of the amounts saved to new projects.

As in the last two years, the total committed for environment projects was higher than for transport projects (55, 4% and 44, 2%, respectively). This has contributed to achieve a fine tuned balance between the amounts granted to those sectors. Out of the total committed in 2000-2006 (€ 3317.1 million), the amount allocated to environment projects reached € 1675.2 million (50.5 % of the total); that was slightly above the amount allocated to transports (€ 1635.4 million, representing 49.3% of the total). The remainder concerns Technical Assistance measures (€ 6.5 million).

The following table presents the total committed amounts by sector for the period 2000-2006:

<b>Sector</b>	<b>Total CF commitments 2000-2006 (€ million)</b>	<b>% of total commitments</b>
Environment	1 675.2	50,5
Transport	1 635.4	49,3
Technical assistance	6.5	0,2
<b>Total CF</b>	<b>3 317.1</b>	<b>100</b>

### 3.1.3.1. Environment

As in the previous period, the priorities for assistance from the Cohesion Fund in 2000-2006 have been waste-water treatment, supply of drinking water and urban waste treatment.

In the 4 new environmental projects approved by the Commission in 2006, 2 of them concern water supply interventions integrated in multi-municipal solutions, 1 concern a group of projects for water supply and waste water treatment, and the 4th concerns a study on a geographical extension of the present solutions on waste water treatment.

Moreover, increases in the values of assistance provided by the Cohesion Fund were authorised in respect of 2 Solid Urban Waste projects, of 2 waste water groups of projects and of 1 integrated project in waste water treatment and water supply. The waste water and water supply projects respected the approach followed in this period, based on the concept of inter-municipal integrated systems, implemented on a river basin basis, under a unified management and covering both water supply and waste water treatment.

The breakdown for the commitment appropriations approved in 2006 in respect of these interventions, including the reinforcements, is provided in the table below:

<b>Sector</b>	<b>Total eligible cost € million)</b>	<b>CF assistance (€ million)</b>	<b>% of assistance</b>	<b>2006 commitments (€ million)</b>
Integrated projects (waste water treatment and water supply)	33.7	23.4	21	23.4
Water Supply	82.5	68.0	60,8	68.0
Waste-Water treatment	17.1	13.8	12.4	13.8
Solid Waste	8.3	6.6	5.9	6.6
<b>Total</b>	<b>141.6</b>	<b>111.8</b>	<b>100%</b>	<b>111.8</b>

### **Waste-Water Treatment and Water Supply**

All projects adopted on waste-water treatment and water supply concern integrated solutions on a river basin level, which shows that an efficient use of water resources has been pursued, in line with Community environmental requirements. A multi-municipal approach has been followed, in accordance with the principles underlying this programming period. It is to be noted that all new approvals correspond to further phases of groups of projects adopted in earlier years. Moreover, 3 decisions approved in previous years were reinforced, due either to the inclusion of new components or to additional works required under environmental legal dispositions whose entering into force occurred after approval of the initial grant applications.

### **Solid Urban Waste**

During 2006, no new applications for co-financing of projects in this field were adopted. Two Commission Decisions approved in previous years were reinforced, following either adjustments to the technical solutions initially foreseen or the inclusion of new components under the requirements of Directive 1999/31/EC.

### **List of projects**

Environmental projects adopted in 2006, as well as earlier projects in respect of which financial increases in the assistance provided by the Cohesion Fund were adopted, are shown in the following table:

<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€ million)</b>	<b>CF assistance (€ million)</b>
<b>INTEGRATED PROJECT (Waste-Water and Water Supply)</b>			
New project			
2005/PT/16/C/PE/007 –	Gestão Optimizada da água na Região Autónoma da Madeira – 2nd phase	19.3	14.1
Financial reinforcement			
2000/PT/16/C/PE/009	Águas do Minho Lima 1st. phase	14.4	9.4
<b>WATER SUPPLY</b>			
New project			
2006/PT/16/C/PE/001	Águas de Trás os Montes e Alto Douro, 5th phase	53.9	43.7
2006/PT/16/C/PE/002	Águas do Minho Lima, 4rd phase	28.6	24.3
2004/PT/16/C/PE/006	Águas do Oeste – 2ª fase	5.0	3.5
<b>WASTE-WATER TREATMENT</b>			
New project			
2006/PT/16/C/PE/003	Águas do Ave – Estudos, projectos e assessorias	4.3	3.6
Financial reinforcement			
2002/PT/16/C/PE/007	Águas de trás-os-Montes e Alto Douro – 1st phase	7.8	6.6
<b>SOLID WASTE</b>			
Financial reinforcement			
2002/PT/16/C/PE/006	Urban Waste of Vale do Ave – 3rd phase	3.2	2.7
2004/PT/16/C/PE/002	Urban Waste Compost of Planalto Beirão	5.2	3.9

### 3.1.3.2. Transport

Two new projects were adopted in the transport sector in 2006. The first one deals with the improvement of infrastructure in the port of Funchal in Madeira, following the transfer of activities linked to freight traffic directed to the port of Caniçal (co-financed by the Cohesion Fund since 2003). This project is included in the reorganization plan of the port infrastructure in Madeira and targets the capacity increase and the conditions of passengers traffic as well as improve the capacity of the cruise ships. The second project deals with the construction of the Quintanilha bridge and its accesses (part of IP4), which will enable a link with Northern Spain, through the Trans-European network.

Moreover, a financial reinforcement for an Azores port project was approved due to the need of reconstruction of an important part of the facilities destroyed by a tempest occurred during the execution of the works.

In view of the high approval level of major projects during the first years of the 2000/2006 period, the room for new approvals has become narrow. The breakdown for the commitment appropriations approved in 2006 in respect of these interventions, including financial reinforcements, is provided in the table below:

<b>Sector</b>	<b>Total eligible cost (€ million)</b>	<b>CF assistance (€ million)</b>	<b>% of assistance</b>	<b>2005 commitments (€ million)</b>
Ports	29.5	19.7	61.8%	19.7
Road	14.2	11.7	38.2%	11.7
<b>Total</b>	<b>43.7</b>	<b>31.4</b>	<b>100%</b>	<b>31.4</b>

Transport projects adopted in 2006 are shown in the following table:

<b>TRANSPORT PROJECTS</b>			
<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€ million)</b>	<b>CF assistance (€ million)</b>
<b>PORT PROJECTS</b>			
New project			
2006/PT/16/C/PT/001	Porto de Funchal Madeira	23.5	14.7
Reinforcement			
2003/PT/16/C/PE/010	Porto da Praia da Vitória	6	5
<b>ROAD PROJECTS</b>			
2006/PT/16/C/PT/002	IP4 – Ponte Quintanilha e Respectivos Acessos	14.2	11.7

### 3.1.4. Cyprus

In the pre-accession phase Cyprus was not eligible for support under ISPA. The budget available for Cyprus within the programming period after accession is € 54 million. In 2005 the Commission approved the second Cypriot Cohesion Fund project which allowed Cyprus to take up all available funds. Therefore, no new projects have been adopted in the course of 2006.

The final sector balance is slightly in favour of environment. By end of 2006 the full amount allocated to the CF for Cyprus could be committed in accordance with the financial plans.

#### 3.1.4.1. Environment

In 2006, commitments were made on the environmental project adopted by the Commission in 2005 dealing with waste treatment and disposal installations for the Larnakas-Ammochostos regions:

	<b>Project title</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2006 commitment (€ million)</b>
Solid waste	New landfill for Larnaka and Ammochostos regions	43.6	28.7	15.6

### 3.1.4.2. Transport

In 2006, commitments were made on the Limassol motorway ring transport project which was adopted by the Commission in 2004. This project is of strategic importance, as the motorway links the island with the Limassol port which is on a TEN corridor.

	<b>Project name</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2006 commitment (€ million)</b>
Road	Upgrading of the Limassol bypass Germasogeia and Ay. Athanasios Roundabouts	40.8	25.3	5.1

### 3.1.5. Czech Republic

In 2006, the Commission approved four projects under the Cohesion Fund. All of these projects were made in the environment sector.

	<b>Total eligible cost (€ million)</b>	<b>Total CF financing (€ million)</b>
Environment	80.05	54.97
Transport	0	0
<b>Total FC</b>	<b>80.05</b>	<b>54.97</b>
% Environment	100 %	100 %
% Transport	0	0



### 3.1.5.1. Environment

Four projects with a total grant amounting to € 54.97 million were adopted in 2006.

<b>Project number</b>	<b>Name of the project</b>	<b>Total eligible cost (€ million )</b>	<b>CF financing (€ million)</b>
2005CZ16CPE003	Jihlavsko – Reconstruction and finalisation of wastewater infrastructure	15.01	10.05
2005CZ16CPE011	Olse – revitalisation of the river basin, phase 1	36.07	26.33
2005CZ16CPE012	Taborsko – wastewater infrastructure	14.25	7.69
2005CZ16CPE022	Clean Upper Elbe (Ciste Horni Labe)	14.73	10.90

### 3.1.5.2. Transport

No new transport projects were adopted in 2006, but the Commission adopted six modifying decisions, among which Motorway D1 project (section Krom••í• West – Krom••í• East) represents significant physical and financial increases.

### 3.1.6. Estonia

In 2006, the Commission adopted 1 new decision granting assistance from the Cohesion Fund totalling € 23.1 million. Ten amending decisions were approved, four of them increasing the assistance by € 14.5 million. Assistance was reduced due to costs-savings in case of 5 projects, in total by € 8.3 million. The released amount was re-used in other projects. In total, € 114.1 million was committed to Estonian projects in 2006. This is € 0.16 million above the initially foreseen level.

The following table shows the Cohesion Fund assistance approved in 2006 and the total amount committed.

	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2006 commitments (€ million)</b>
Environment	0	0	0
Transport	71.5	23.1	23.1
Technical Assistance	0	0	0
<b>Total CF</b>	<b>71.5</b>	<b>23.1</b>	<b>23.1</b>
% Environment	0%	0%	0%
% Transport	100%	100%	100%

### *3.1.6.1. Environment*

No environmental projects have been approved in 2006. One Commission Decisions was modified with grant increase.

<b>Project number</b>	<b>Name of project</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2006 commitments (€ million)</b>
Modified Decisions with grant increase				
2002EE16PPE013	Kohtla-Järve area sewage treatment system	39.9	33.9	11.8

### *3.1.6.2. Transport*

In 2006 the Commission adopted one project concerning maritime transport in the transport sector. Three Commission Decisions were modified with grant increase.

<b>Project number</b>	<b>Name of project</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2006 commitments (€ million)</b>
New Decision				
2006EE16CPT001	Eastern extension of Muuga Harbour	71.5	23.1	23.1
Modified Decisions with grant increase				
2002EE16PPT003	E20 : Tallinn-Narva Road, Reconstruction Kukruse- Johvi	40.2	12.1	6.0
2004EE16CPT002	Rehabilitation of Jõhvi-Tartu-Valga Road	41.3	33.9	9.0
2005EE16CPT001	Rehabilitation of Tallinn Airport Airside Area	35.0	28.9	12.5
<b>Total</b>		<b>188.0</b>	<b>98.0</b>	<b>50.6</b>

### 3.1.7. Hungary

In 2006, only one project in the environment was adopted by the Commission. Indeed, as mentioned in the 2005 annual report, Hungary had virtually already used its total 2004-2006 Cohesion Fund financial envelope by the end of 2005.

	<b>Total eligible costs (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2006 commitments (€ million)</b>
Environment	24.0	20.4	20.4
Transport	0	0	0
<b>Total CF</b>	<b>24.0</b>	<b>20.4</b>	<b>20.4</b>
% Environment	100 %	100 %	100 %
% Transport	0	0	0

The table below shows the situation for both the environment and the transport sectors for the whole period 2000-2006. The total amount committed in 2006 for Cohesion Fund projects equals € 426,6 million. The full Cohesion Fund financial envelope has been allocated to projects.

	<b>Total eligible costs</b> (€ million)	<b>Total CF assistance</b> (€ million)	<b>Commitments</b> (€ million)
Environment (incl. TA)	1.161,3	743,1	743,1
Transport (incl. TA)	1.151,0	739,8	739,8
<b>Total CF</b>	<b>2.312,3</b>	<b>1.482,9</b>	<b>1.482,9</b>
% Environment (incl. TA)	50,2 %	50,1 %	50,1 %
% Transport (incl. TA)	49,8 %	49,9 %	49,9 %

### 3.1.7.1. Environment

In 2006, one Cohesion Fund project in the environment sector (Üröm-Csókavár remediation) was adopted by the Commission. Following the adoption of this project, the savings generated in other projects could be reallocated.

	<b>Total eligible costs</b> (€ million)	<b>Total CF assistance</b> (€ million)	<b>2006 commitments</b> (€ million)
Üröm-Csókavár remediation	24,0	20,4	20,4

During the 2000-2006 period, the Cohesion Fund has financed projects in the area of solid waste (13), wastewater (10), drinking water (1), remediation (1), as well as six technical assistance projects.

The thirteen solid waste projects support the development of waste management in 1453 settlements (affecting more than 4.3 million people, or 43 % of Hungarian population). The ten wastewater projects develop wastewater collection and treatment in 111 settlements affecting more than 1.8 million people (19 % of Hungarian population), whereas the drinking water project affects 41 settlements with more than 108 000 people. The remediation project is reducing the risks related to the drinking water sources of approximately 1.1 million people.

Eleven environment-related projects were modified in the course of 2006. Modifications referred mostly to the extension of eligibility deadlines as well as the redistribution of funds saved during project implementation.

### 3.1.7.2. Transport

No new projects were adopted in 2006 in the transport sector.

The average assistance rate for transport projects decided before accession (ISPA) was 50.6 %. The average contribution rate including the four projects decided after accession is 64.3 %.

Nine transport related projects were modified in the course of 2006. In general modifications referred to the extension of eligibility deadlines as well as to the redistribution of funds saved during project implementation.

Technical assistance

Out of the 13 technical assistance projects decided for the transport and environment sectors between 2000 and 2006, seven have already been closed.

### 3.1.8. Latvia

In 2006 the Commission adopted three new decisions granting assistance from the Cohesion Fund to projects in the environment sector for a total amount of € 37.66 million. They include one technical assistance project, one solid waste management project, and one project related to district heating.

	<b>Total eligible costs (€ million)</b>	<b>CF assistance (€ million)</b>	<b>2006 commitments (€ million)</b>
Environment	51.70	37.66	37.66
Transport	0	0	0
Technical Assistance	0	0	0
<b>TOTAL</b>	<b>51.70</b>	<b>37.66</b>	<b>37.66</b>

The total allocation for Latvia for the period 2000-2006, which amounts to € 710 767 536 (Cohesion Fund + ISPA) was fully committed and equally shared between the transport and environment sector. The total commitments for Latvia made in 2006 amounted to € 168.233 million. This includes an amount of € 37.66 million committed to the new projects approved in 2006 and commitments for on-going projects in the form of annual instalments and through the modifying decisions - € 75.81 million for transport projects and € 54.76 million for environment projects.

During 2006, the Commission made 61 payments amounting to € 109.23 million. This is an increase with 36% compared with 2005.

Concerning projects approved in previous years, one decision for a corrigendum and eighteen modifying decisions were adopted in 2006. This included granting additional resources to a number of ongoing projects both in the transport and environment sector.

### 3.1.8.1. Environment

In the environment sector assistance of € 37.66 million will be provided to three new projects. All assistance was committed in 2006. In financial terms, the most important project out of these three was "Development of the District Heating System of Ventspils". This project provides assistance for air pollution reduction and is the first project in this sector co-financed by the Cohesion Fund in Latvia.

The following table shows the projects adopted in 2006:

<b>Project Number</b>	<b>Title of Measure</b>	<b>Total Eligible Cost (€ million)</b>	<b>Total CF Assistance (€ million)</b>	<b>Committed in 2006 (€ million)</b>
2005LV16CPE001	Development of the District Heating System of Ventspils City	47.95	34.60	34.60
2006LV16CPA001	Technical assistance for development of water service projects in Latvia	3.06	2.57	2.57
2006LV16CPE001	Solid Waste Management in Ziemeļvidzeme Region, Stage II	0.69	0.49	0.49
<b>TOTAL</b>		<b>51.70</b>	<b>37.66</b>	<b>37.66</b>

#### **Air pollution reduction**

Project "Development of the District Heating System of Ventspils City". The main objective of this project is to ensure the compliance of the district heating system of Ventspils City with the requirements of Council Directive 1999/32/EC of 26 April 1999, amending Directive 93/12/EEC, relating to a reduction of the sulphur content in certain liquid fuels. It will substantially reduce the acidifying sulphur dioxide (SO<sub>2</sub>) emissions in Ventspils, currently generated by two inefficient heat production facilities using Heavy Fuel Oil with sulphur content higher than 1%. There are two interlinked components within the scope of this project, namely the construction of a junction between two existing heat supply zones to ensure efficient operation of the new cogeneration plant, and the building of the new cogeneration plant. Both project complements are mutually interconnected.

The integrated approach of this project will result in environmental improvements and contribute significantly to upgrading heat and electricity supply at local (Ventspils City), regional (Kurzeme) and national level.

The project will be implemented as a Public-Private Partnership arrangement by attracting a private investor. This will be the first PPP project with Cohesion Fund participation in Latvia.

The scope of assistance provided under the framework of the Cohesion Fund is limited to supporting environmental investments in line with objectives set in Article 174 of the Treaty and the EU Environmental action plans. Therefore the assistance is limited to the environmental component of the heating system that leads to reduced emissions. Energy generation per se is excluded from support.

### **Water management**

Project "technical assistance for the development of water service". The main objective of this project is to assist the government of Latvia and local municipalities to fulfil the commitments regarding implementation of environmental legislation in the field of public water services, through the preparation of high quality documentation for investment projects. This is a group of projects consisting of three subprojects:

The objectives of the Project No 1 "Technical assistance for the project "Development of water services in C•sis, stage III" are to prepare tender dossiers for service and works contracts included in the investment projects, to provide sewerage network survey and investigation, computerised sewerage network database on GIS principles and to provide sewerage network modelling.

The objectives of the Project No 2 "Technical assistance for the project "Development of water services in Ogre, stage II" are to prepare tender dossiers for service and works contracts included in the investment projects, and to provide storm-water and sewerage network survey and investigation, computerised network database on GIS principles.

The objectives of the Project No 3 "Preparation of next stage investment projects for water services development in 13 municipalities" are to prepare Feasibility Studies for next stage investment projects in 13 municipalities and to prepare documentation for service and supply contracts.

### **Solid Waste**

Project "Solid waste Management in Zieme•vidzeme Region, Stage II" is the second stage of the Project "Solid Waste Management in Zieme•vidzeme Region". The first stage investments were implemented under the Cohesion Fund (earlier ISPA) co-financed project 2001/LV/16/P/PE/006 "Solid Waste Management in Zieme•vidzeme Region" which was completed at the end of 2005. The objective of this project is to provide the supply and installation of a "sandwich" type treatment facility according to defined technical specifications for landfill "Daibe", as well as provide the training of the staff regarding the operation and maintenance of the new facility. The project will prevent potential harmful impact on the environment, in particular pollution of surface waters, ground water and soil, that would otherwise occur.

### 3.1.8.2. Transport

No new projects in the transport sector were adopted during 2006, as the allocation for transport was almost fully covered by the planned annual instalments for on-going projects.

### 3.1.9. Lithuania

In 2006 the Commission approved three new projects under the Cohesion Fund in Lithuania: two in the environmental sector and one in the transport sector. Total CF assistance for newly approved decisions is € 68.78 million. The transport sector accounted for 17% of the commitments in 2006 and the environmental sector for 83%.

The table below shows the CF assistance for Lithuania, approved in 2006.

	<b>Total eligible costs (M €)</b>	<b>Total CF assistance (M €)</b>	<b>Committed in 2006 (M €)</b>
Environment	72.01	57.22	57.22
Transport	13.60	11.56	11.56
<b>TOTAL CF</b>	<b>85.61</b>	<b>68.78</b>	<b>68.78</b>
% Environment	84%	83%	83%
% Transport	16%	17%	17%

#### 3.1.9.1. Environment

In 2006 the European Commission adopted two new decisions for groups of environmental projects in the field of water supply and waste water treatment field with a total CF grant of € 57.22 million.

<b>Project Number</b>	<b>Project title</b>	<b>Total eligible costs (€ million)</b>	<b>CF grant (€ million)</b>	<b>2006 Commitments (€ million)</b>
2005LT16CPE004	Neris river basin investment programme, 1st stage (Vilnius city and district municipalities)	25.45	19.96	19.96
2006LT16CPE001	Venta - Lielupe river basin investment programme, 1st stage, 1st phase	46.56	37.25	37.25



In 2006 six modifying decisions have been made. Three of them have been done in the field of water and wastewater and three modifications in waste management field.

### 3.1.9.2. Transport

In 2006, the European Commission adopted one new railway project. Four modifying decisions were also adopted in 2006 with no cost increases.

<b>Project Number</b>	<b>Project title</b>	<b>Total eligible costs (€ million)</b>	<b>CF grant (€ million)</b>	<b>Committed (€ million)</b>
2005LT16CPT002	Extension of Station Tracks on Corridor IX Stage 1	13.60	11.56	11.56

The newly adopted project includes the rehabilitation and modernisation of railway lines on transport Corridors IX and I. The project will improve and expand the core parts of the rail network and will increase cargo flows through improved quality of services on the above-mentioned corridors. It is expected that the improved infrastructure will allow for transit of heavy and extra-long freight trains.

### 3.1.10. Malta

In 2006 no new projects were adopted by the Commission, as the whole envelope available for Malta for the 2004-2006 period has been already used by projects adopted previously.

All commitments made during the year (€ 8 445 901) were linked to three projects adopted previously in the sectors of environment and transport, as well as to one technical assistance project.

### 3.1.11. Poland

In 2006 the Commission adopted six new decisions – two in the environment sector and four in the transport sector (including three technical assistance projects). Cohesion Fund assistance amounts to € 279.5 million of which the total was committed in 2006.

The balance between transport and environment sectors was respected in order to reach the 50:50 split and the end of 2006 (including technical assistance for the environment and transport sectors).

<b>New projects adopted in 2006</b>			
	<b>Total eligible costs (€ million)</b>	<b>CF assistance (€ million)</b>	<b>2006 commitments (€ million)</b>
Environment	54.4	36.2	36.2
Transport	339.9	224.4	224.4
Technical Assistance	22.2	18.8	18.8
<b>TOTAL</b>	<b>416.5</b>	<b>279.4</b>	<b>279.4</b>

For projects adopted in the 2000-2005 period, commitments amounting € 1 322.6 million were made, taking into account amendments made. A total of 51 amending decisions were adopted.

<b>Projects adopted in the 2000-2005 period</b>			
	<b>Total eligible costs (€ million)</b>	<b>CF assistance (€ million)</b>	<b>2006 commitments (€ million)</b>
Environment	4 212.3	2 798.9	715.1
Transport	3 006.7	2 516.7	604.6
Technical Assistance	66.7	40.2	3.0
<b>TOTAL</b>	<b>7 285.7</b>	<b>5 355.8</b>	<b>1322.7</b>

### *3.1.11.1. Environment*

The cost saving exercise of 2006 (modification of financial tables after the completion of tendering or change of the scope of project) in the environment sector generated 38.6 million Euro which allowed for approval of 2 new projects submitted to the Commission in 2004 and 2005 respectively. The remainder of 2.4 million was absorbed by Transport.

The following table shows projects adopted in 2006.

<b>Project Number</b>	<b>Project name</b>	<b>Total Eligible Cost (€ million)</b>	<b>Total CF Assistance (€ million)</b>	<b>Committed in 2006 (€ million)</b>
2004/PL/16/C/PE018	Sieradz, water and waste water management	30.96	17.03	17.03
2005/PL/16/C/PE/010	Niepolomice WW	23.43	19.20	19.20

### **Technical assistance**

In 2006, no Cohesion Fund grant was awarded to technical assistance projects in the environment sector.

For projects adopted in 2000-2005 commitments of € 715.1million were made. The Commission adopted 31 amending decisions.

#### *3.1.11.2.Transport*

The cost saving exercise of 2006 (modification of financial tables after the completion of tendering or change of the scope of project) in the transport sector generated around € 281 million, mainly in road projects, out of which € 76 million were absorbed by the grant increases in three rail projects. The remaining amount was used to co-finance new projects.

In 2006, the European Commission adopted four decisions to co-finance project in the transport sector with a total eligible cost of € 362.1 million and a total contribution from the Cohesion Fund of € 243.2 million. The total commitments in the transport sector (including technical assistance for studies in transport sector) in 2006 amount to € 848.3 million of which € 243.2 million were committed for new projects.

### **Roads**

In 2006, Cohesion Fund assistance was granted to one road project. The project mainly aims at the development of the Corridor VI of the Trans-European transport network and at the connection of the TEN-T Corridor III with southern part of Europe. It constitutes the continuation of another Cohesion Fund project adopted in 2004.

<b>Project Number</b>	<b>Project name</b>	<b>Total Eligible Cost (€ million)</b>	<b>Total CF Assistance (€ million)</b>	<b>Committed in 2006 (€ million)</b>
2006/PL/16/C/PT/001	Construction of A1 motorway, stage II, section Sosnica-Gorzyczki	339.94	224.36	224.36

### **Technical assistance**

In 2006, Cohesion Fund assistance was granted to three technical assistance projects in the transport sector:

<b>Project Number</b>	<b>Project name</b>	<b>Total Eligible Cost (€ million)</b>	<b>Total CF Assistance (€ million)</b>	<b>Committed in 2006 (€ million)</b>
2006/PL/16/C/PA/003	TA for road sector preparation (2007-2013)	15.00	12.75	12.75
2006/PL/16/C/PA/001	TA for railway line CE59 "Miedzylesie-Wroclaw-Kostrzyn-Szczecin"	3.92	3.33	3.33
2006/PL/16/C/PA/002	TA for railway line E-65 Grodzisk Mazowiecki-Katowice	3.24	2.76	2.76

### **3.1.12. Slovakia**

At the end of 2005, Slovakia had already used the entirety of its Cohesion Fund allocation for the 2004-2006 period. Therefore, no new projects were adopted during 2006.

Over the whole period, some 39 projects were adopted by the Commission, for a total eligible cost of € 1 333 million and a CF assistance of € 766.3 million.

The table below summarizes the commitments made in 2006 linked to projects adopted previously.

	<b>Commitments 2006 (€ million)</b>
Environment	80.21
Transport	138.58
<b>TOTAL</b>	<b>218.78</b>

### *3.1.12.1.Environment*

Although no new projects were adopted in the environment sector in 2006, some fourteen modifying decisions were adopted by the Commission. Most of these modifying decisions related to adjustments of end dates and changes of the name of final beneficiaries due to restructuring processes. Cost-savings made on some technical assistance projects were transferred to the project "Water supply and sewerage of Horné Kysuce".

### *3.1.12.2.Transport*

As for the environment sector, no new decisions were made in the transport sector. However, five modifying decisions were adopted in order i.e. to transfer cost-savings from the railway project "Modernisation of rail track Bratislava – Rača – Senkvice" to railway project "Modernisation of the rail track Trnava – Nové Mesto nad Váhom Section Trnava – Piest'any", or modify the name of the final beneficiaries due to restructuring of the former authority responsible for implementation and also postpone end dates.

### **3.1.13. Slovenia**

In 2006, the Commission approved one new environment project and one transport project with a total eligible cost of € 36.3 million. The assistance from the Cohesion fund for these two projects amounts to € 17.6 million, which were entirely committed in 2006.

Five modifying decisions were also adopted in 2006 of which three led to a decrease of the Cohesion Fund assistance granted whereas the other two had no financial impact.

The following table indicates the projects adopted in 2006.

<b>Projects adopted in 2006</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2006 commitments (€ million)</b>
Environment	13.1	5.4	5.4
Transport	23.2	12.2	12.2
<b>Total CF</b>	<b>36.3</b>	<b>17.6</b>	<b>17.6</b>
% Environment	36.0	30.7	30.7
% Transport	64.0	69.3	69.3

In line with the regulatory requirements, the final commitments for all Cohesion Fund and former ISPA projects were carried out by the end of 2006. The final commitments for the environment sector amounted to € 22.7 million and to € 32.1 million for the transport sector. In terms of commitments, the required balance of 50:50 between the two sectors has been achieved for the 2000-2006 period.

The following table presents the total number of projects and the committed amounts by sector for the period 2000-2006.

	<b>Number of projects adopted in 2000 - 2006</b>	<b>Total commitments 2000-2006 (€ million)</b>	<b>% of total commitments</b>
Environment	16	129.5	50.9
Transport	8	122.1	48.0
Technical Assistance	4	2.7	1.1
<b>Total CF</b>	<b>28</b>	<b>254.3</b>	<b>100%</b>

### *3.1.13.1. Environment*

In line with the Strategic Reference Framework, the main aim for assistance from the Cohesion Fund and former ISPA during the period 2000-2006 was to assist municipalities and regions in improving drinking water supplies, waste water networks and treatment and waste management.

In 2006, the Commission adopted one new decision in the field of environment, namely in the water sector targeting the hydraulic improvement of the Ljubljana sewerage system. Cohesion Fund assistance will significantly contribute to the prevention of further water pollution of the Ljubljanica river, of the main recipient Sava river and ultimately of the Danube basin. The main purpose of the project is to ensure the improvement and continuous protection of the water quality in the targeted area by upgrading and enhancing the hydraulic functioning of the existing system and by securing a radical reduction of the average annual volume and frequency of uncontrolled spills due to inadequate overflow structures.

Environment project adopted in 2006 is shown in the following table.

<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€ million)</b>	<b>CF assistance (€ million)</b>
2006/SI/16/C/PE/001	Hydraulic improvement of the Ljubljana sewerage system	13.1	5.4

### *3.1.13.2. Transport*

In 2006, the Commission adopted one new transport project for Slovenia. The project "Construction of the Vrba-Pera•ica Motorway" is located on the North-South corridor that runs from the Karavanka Tunnel on the Austrian border to the Obrežje border crossing with Croatia. The motorway is a part of the Trans-European Transport Corridor X running from Salzburg to Thessaloniki.

The construction of this motorway section will ensure safer and faster transportation of people and goods through this nationally and internationally important corridor as the existing road currently suffers from inadequate capacity and traffic safety problems.

The section Vrba-Pera•ica is one of the last yet to be completed within the alignment Karavanka-Obrežje and the last between the Karavanka Tunnel and Ljubljana. It will connect to the already built Pera•ica-Podtabor section.

The project is in conformity with the national strategic documents concerning the construction of transport infrastructure and was originally identified as a priority in the Strategic Reference Framework under phase B for the period 2006-2008 and is thus being anticipated.

<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€ million)</b>	<b>CF assistance (€ million)</b>
2005/SI/16/C/PT/001	Construction of the Vrba-Pera•ica Motorway	23.2	12.1

## **3.2. TECHNICAL ASSISTANCE AND STUDIES**

### **3.2.1 Technical assistance at the initiative of the Commission**

In 2006, two assignments were agreed upon for the environment sector in Hungary. The purpose of these assignments was the evaluation of technical issues of two CF projects.

For Latvia, two assignments have been finalised in 2006. The purpose of these assignments was: (i) a quality appraisal and verification of data and financial gap

calculations for the project application "Development of the District Heating System of Ventspils City", and (ii) an ex-post assessment of financial data and financial gap calculations for the projects in the water sector.

#### **4. MONITORING, CONTROLS AND IRREGULARITIES**

##### **4.1. Monitoring: committees and missions**

###### **4.1.1. Greece**

###### *4.1.1.1 Monitoring Committees*

As usual, Cohesion Fund projects were discussed in the Monitoring Committees of the relevant 2000-2006 programmes, that is, the regional operational programmes and the Operational programme "Environment" for the environment sector, and the Operational programmes "Roads, ports, metro" and "Railways, airports, urban transport" for the transport sector. At central level, the following technical meetings were held.

On 4-5 April 2006, the Commission services met in Athens with the Cohesion Fund services of the Ministry of Finance and Economics to review progress in tackling issues related to the Cohesion Fund, as a follow up to similar meetings held in 2004 and 2005. In the review meeting participated also the Managing Authorities responsible for the management of the Cohesion Fund projects including the final beneficiaries responsible for the implementation of certain projects. The action plan put in place in 2005 to accelerate project implementation and project progress was assessed.

A second technical meeting took place in Brussels on 11 November between the Commission services and the Ministry of Finance and Economy. The aim of the meeting was to examine the 2006 commitment target including the approval of new projects.

###### *4.1.1.2. Monitoring missions*

Project visits in the course of 2006 concerned smaller environmental projects, which were visited at the occasion of the relevant regional monitoring committees.

###### **4.1.2. Spain**

###### *4.1.2.1. Monitoring Committees*

Two monitoring committees were held in Madrid, the first one on 4-6 April, and the second one on 15-16 November.

The Managing Authority and the Commission chose in partnership the 122 decisions that were due to be followed and analysed during the first meeting. The meeting was organised in six specific sessions: one for projects of the transport sector and five for projects in the environment sector.



For the November meeting, 30 decisions out of the 355 still on-going projects were selected. These decisions concerned only projects in the environment sector. This meeting was organised in four specific sessions.

#### *4.1.2.2. Monitoring missions*

The missions carried out had the objective of checking the state of progress of the projects and also of clarifying certain difficulties encountered in their implementation. These missions concerned the following projects:

Project "Plan de recuperación de los ríos de Pamplona: Arga fase II, Elorz y Sadar". The mission enabled to check the positive progress of some of the works, but also the delay encountered by some others. This is due to the fact that this project is much complex, gathering six interventions, and necessitates negotiations with private owners, expropriations of the lands near the rivers and often complicated environmental impact assessments.

Project "Abastecimiento en Alcañiz, Calanda, Castelaserás y otros". A visit of the project took place, followed by meetings with the persons responsible for the implementation of the project, to verify the progress of works and draw an action plan by the end of the programming period. Also, a follow-up of the conditions set in the decision granting assistance was carried out.

### **4.1.3. Portugal**

#### *4.1.3.1. Monitoring Committees*

According to the Cohesion Fund Regulation, Monitoring Committee meetings are held twice a year. Like in previous years, the 2006 meetings lasted for two days due to the numerous projects discussed. Both 2006 Monitoring Committee meetings were held in Lisbon. The first took place on 6-7 April 2006, the second on 26-27 October 2006.

The April Monitoring Committee reviewed all the ongoing projects and those approaching closure. It also outlined the programming for the rest of the period. At that stage, the estimated available amount for new approvals was increased, as a result of adjustments of total eligible cost in projects approved in previous years, the CF assistance of which had not yet been fully committed. The Portuguese Authorities promised to present proposals for cost saving decisions until the end of April, to confirm the commitment requests for projects approved before 2006 and submit all new applications under the 2000-2006 envelopes as soon as possible.

The results of the "Action Plan", concerning proper application of public procurement rules, were also mentioned. These are presently under scrutiny by the responsible Commission services. As a result of this Plan, the Portuguese authorities have adopted new procedures, notably new check-lists, in order to address infringements of public procurement procedures. The Portuguese authorities also presented the latest developments on the communication campaign, which is aimed at promoting public awareness of Cohesion Fund activities. As in previous meetings, a report on the level of compliance with water and waste directives was presented by the entity responsible for environment.

The October Monitoring Committee meeting focused mainly on projects with particular problems or outstanding issues, as identified by the Commission and/or the Member State. General questions were also discussed, such as the evaluation exercise, the Action Plan on public procurement and the level of budgetary execution. In the framework of the information campaign on the Cohesion Fund activities, a visit to the, exposition "A União Europeia transforma-nos" was paid.

This Monitoring Committee was preceded by technical meetings between the Cohesion Fund national authorities and the Commission, in order to discuss the main issues outstanding, such as: forecast of decisions to be adopted; the final forecast of commitments for 2006; difficulties of implementation of the national strategy for the recovery of biodegradable organic waste; and, closure of projects and winding-up declarations problems.

#### *4.1.3.2. Monitoring missions*

An on-site visit took place on 7 April concerning project "Lisbon metro – Baixa-Chiado/Sta Apolónia link". This project showed important delays and a considerable cost increase due to an accident that occurred in 2000 following which part of the tunnel had to be reinforced.

### **4.1.4. Cyprus**

#### *4.1.4.1. Monitoring Committees*

One Cohesion Fund Monitoring Committee was held in April 2006. Implementation of the transport project is progressing well, whereas the environmental project has been marked by delays and physical works have not yet started.

#### *4.1.4.2. Monitoring missions*

No Cohesion Fund monitoring missions were carried out.

### **4.1.5. Czech Republic**

#### *4.1.5.1. Monitoring Committees*

During 2006, two meetings of the monitoring committee took place. The first was held on 17 and 18 May 2006 and the second on 28 and 29 November 2006.

The Commission underlined the importance of efficient monitoring system for the absorption of the European funds.

Moreover, the need to improve quality of reporting to the monitoring committee meetings by providing realistic expenditures forecasts and homogenous presentations of the relevant monitoring sheets was stressed. The monitoring of the projects should be more proactive.

Last but not least, final beneficiaries and managing authorities were invited to find a solution in order to shorten the period between the approval of the CF projects by the EC and the real start of their construction phase.

#### *4.1.5.2. Monitoring missions*

No Cohesion Fund monitoring missions were carried out.

#### **4.1.6. Estonia**

##### *4.1.6.1. Monitoring Committees*

The fourth (8-10th of March, Tallinn – Tartu) and the fifth (3-5th October, Tallinn – Pärnu) Cohesion Fund Monitoring Committees were attended. Kick-off and roundup meetings were organised always the previous and following days, as a standard procedure. Site visits were conducted in the construction sites of Tartu wastewater network improvement project and to the Muuga Harbour, site of proposed new project.

##### *4.1.6.2. Monitoring missions*

No Cohesion Fund monitoring missions were carried out.

#### **4.1.7. Hungary**

##### *4.1.7.1. Monitoring Committees*

Two Cohesion Fund Monitoring Committee meetings were held in Budapest in the course of 2006, on 10-12 April 2006 and on 16-19 October 2006 respectively. All adopted projects receiving assistance from the Cohesion Fund were reviewed and overall presentations were provided for each sector. The Monitoring Committee meetings were preceded by technical discussions on a project-by-project basis, giving sufficient time to each final beneficiary to present the progress of each project.

In general, project implementation is lagging behind the original timetable. However, the situation has significantly improved during 2005/2006 in comparison to 2004. The contracting and tendering performance improved particularly in the second half of 2005 and 2006 with a number of new contracts signed during 2006. The payment situation has considerably improved and the amount of payments made in 2005 was more than four times higher than in 2004. The payment performance of 2005 could be maintained in 2006.

##### *4.1.7.2. Monitoring missions*

Several monitoring missions were carried out throughout the year to both assess the implementation of ongoing projects adopted in previous years and to pre-appraise projects foreseen for Cohesion Fund co-financing in the new programming period 2007-2013. At the same time, negotiations on the NSRF and the respective Operational Programmes for the programming period 2007-2013 were prepared.

#### **4.1.8. Latvia**

##### *4.1.8.1. Monitoring Committees*

In 2006, two Cohesion Fund Monitoring Committees for Latvia took place:

The 4th Cohesion Fund Monitoring Committee meeting in Latvia held in Riga on 2 May 2006;

The 5th Cohesion Fund Monitoring Committee meeting in Latvia held in Riga on 5 October 2006.

Both meetings were attended by representatives of the Managing Authority, the Paying Authority, the Intermediate Bodies, the implementing agencies and the final beneficiaries responsible for the approved projects. The European Commission attended these meetings as well as representatives from the EIB. The first part of the meetings dealt with horizontal issues: financial execution of on-going projects, issues on the preparation for the programming period 2007-2013, technical assistance for the CF Managing Authority in Latvia, problems with project execution and other issues. Afterwards, the Committee examined and discussed each project individually on the basis of written progress reports.

Generally, the situation with regard to the implementation of projects has been assessed as satisfactory. However, it was observed that Latvia is facing serious problems regarding cost increases for construction. Therefore, several projects are encountering difficulties with tendering and contracting processes; some others with implementation. Nevertheless during 2006 both the Commission and the Latvian Authorities put a lot of effort to find an appropriate solution on a case by case basis for each project encountering problems.

#### *4.1.8.2. Monitoring missions*

On 3 May 2006 projects visits took place. The Commission visited the recently finalised Cohesion Fund (ex-ISPA) project “R•zekne II reception yard (Latvian East-West rail corridor)” (CCI 2000LV16PPT005) facilitating handling of freight trains at the Russian border. This project aims at improving the operations of international transit freight in R•zekne according to modern logistics requirements (especially in terms of flexibility and reliability): after completion of the project, the maximum capacity of the marshalling yard will be 40 million tonnes/year (congestion level at 37 million tonnes/year), the stay of trains and wagons will be shortened and the access for trains to the humps improved. The works performed under this project included site and embankment preparation works, the construction of a new reception yard with 6 full-length tracks plus one 106-meter-long track, switches and signal centralisation, construction of an administration building and extension of a technical building, water treatment facility and atmospheric pollution control system.

A meeting took place also with the Rezekne city council in order to discuss the implementation problems for the Cohesion Fund project “Development of water services in R•zekne city” (CCI 2002LV16PPE009) and general development problems and perspectives for the city. The importance of improving living conditions together with creating job opportunities was emphasised especially to counter strong migration. With respect to the water services project, the discussion allowed to understand better municipal funding mechanisms and their limitations, as well as better assess different possible solutions for the problems encountered with the project. A site visit covered the city’s waste water treatment facility that clearly needs to be replaced.

On 4 October 2006 another project visit took place. Accompanied by the Managing Authority, the Ministry of Transport and the Latvian State Roads agency the Commission visited roads sections on the Via Baltica direction north. The main project visited was “Improvements of ViaBaltica Route - Construction of Saulkrasti Bypass on the Latvian State Main Road A1 from km. 21.05 (Lilaste) to km 40.57 (Skulte)” (CCI 2002LV16PPT008). This is the main road project in Latvia and the first newly constructed road since Soviet times. Construction of the bypass will split the traffic into local and bypassing traffic: heavy international traffic and vehicles, which are going to/coming from Estonia or Northern countries, will be redirected to use the bypass. The project has encountered problems with cost increases and tendering but after lengthy discussions with the Commission and in the Government a solution addressing the problems has been found. The works are progressing well now.

#### **4.1.9. Lithuania**

##### *4.1.9.1 Monitoring Committees*

In 2006, two monitoring committee meetings were held in Lithuania on 25-26 April and 11-12 October. The Committee examined the progress reports submitted by the national authorities and discussed the implementation progress of all ex-ISPA and new Cohesion Fund projects. Also, the Committee discussed the ways for further acceleration of the projects implementation.

##### *4.1.9.2. Monitoring missions*

Four Cohesion Fund monitoring missions were carried out respectively in February, March, May and September with aim to identify the projects' pipeline and to discuss problems related to closure of projects in 2006. During the meetings with national authorities issues on problematic projects, on the management and control systems as well as on information and publicity measures were discussed.

#### **4.1.10. Malta**

##### *4.1.10.1. Monitoring Committees*

The Monitoring Committees for both the Environment and Transport in Malta are held contemporarily due to the fact that only 3 projects will be financed throughout the 2004-2006 period.

The Commission representatives attended two monitoring Committees during the year, on May 18th and October 18th.

Information on the main differences between the management and implementation methods of the Cohesion Fund and the Structural Fund are discussed on the basis of a defined monitoring tool adopted by the Monitoring Committee.

##### *4.1.10.2. Monitoring missions*

No Cohesion Fund monitoring missions were carried out.

#### **4.1.11. Poland**

##### *4.1.11.1. Monitoring Committees*

Four separate Cohesion Fund Monitoring Committees were held in 2006, two for the Environment sector (on 23-24 May and 22-23 November) and two for the Transport sector (on 16-17 May and 30 November). The meetings were attended by representatives of the managing authority, the paying authority, the intermediate bodies, the implementing agencies, social and economic partners and the final beneficiaries responsible for all projects approved since 2000 and not yet wrapped-up.

The meetings were dedicated to a review of the progress of the projects. In addition, several horizontal issues were discussed, namely: payment rate and financial forecasts, commitment availability, modifications of projects in terms of scope and timeline, the use of funds generated through the signing of contracts whose value was below estimated budget, unblocking of projects through the completion of the EIA requirements, delays in implementation, compliance with the 'n+2' rule. The monitoring committee also noted progress in fulfilment of the EIA conditionalities for 2004 projects. Numerous projects indicate substantial cost overruns. All of the projects are progressing, but the speed of implementation shall be increased substantially in the following years in order to avoid net loss for Poland in terms of under spending and incomplete projects after 31/12/2010. The national authorities have been urged to take all necessary steps to eliminate any existing delays with the view of completing the projects before the ultimate deadline for the completion of works (31 December 2010).

##### *4.1.11.2. Monitoring missions*

No Cohesion Fund specific monitoring missions were carried out. A number of Cohesion Fund projects have been visited during the regional missions for Structural Funds.

#### **4.1.12. Slovakia**

##### *4.1.12.1. Monitoring Committees*

Two monitoring committees were held in 2006 in Bratislava, in March and in October. The Commission proposed to have a discussion on strategic and horizontal questions concerning the current and the forthcoming programming period (strategy for transport and environment sectors, quality of monitoring sheets, unit costs for construction of highways, expressways and first class roads, introduction to the new Commission initiative JASPERS, financial matters, cost-savings and cost-overruns). In addition, the monitoring committee reviewed the state of progress of current ISPA and Cohesion Fund projects.

##### *4.1.12.2. Monitoring missions*

The Commission was invited to the opening ceremony of the first completed transport project co-funded by the Cohesion Fund, "Construction of D61 Motorway section Vienna Road-River port Bridge in Bratislava".

#### **4.1.13. Slovenia**

##### *4.1.13.1. Monitoring Committees*

In 2006 one Cohesion Fund Monitoring Committee meeting was held in Slovenia.

The meeting took place on 12 May 2006 and focused on the ongoing implementation of projects and possible delays, the approval of new project applications in 2006, decisions regarding a reallocation of funds (cost-saving decisions), questions on the automatic cancellation of assistance (M+24 rule) and questions on potential Major Projects for the new programming period 2007-2013. The meeting included a detailed review of all ongoing environment and transport projects (both ISPA and CF), a discussion on financial data including payments and payment forecasts, final commitments for 2006 and possible de-commitments. The Commission in particular referred to the imminent M+24 risk for two projects (1 transport, 1 environment) and highlighted the necessity to further accelerate the implementation of projects.

##### *4.1.13.2. Monitoring missions*

No Cohesion Fund monitoring missions were carried out.

#### **4.2. Inspections**

For the four original beneficiary Member States, a total of seven audit missions were carried out in Spain, Portugal and Greece to verify the implementation of action plans and perform follow-up for CF projects audited in 2004-2005. The year 2006 also involved verifying the work of the winding up bodies for closure of Cohesion Fund projects.

In addition, procedures were put in place in the Directorate General for Regional Policy in 2006 for the closure of Cohesion Fund projects to ensure that adequate information is obtained from the Managing Authority and the winding-up body in the closure process so as to provide assurance on the legality and regularity of the final expenditure claim, failing which financial corrections would be applied.

For the Member States which acceded in 2004, the audit work carried out in 2006 focused mainly on follow-up audits to verify the effective implementation of recommendations made from the systems audits performed in 2005 and further audits to test project expenditure. Special emphasis was also given to reviewing the work of the national audit bodies including checking the quality of system audits, sample checks and other issues in relation to the work of the preparation of the audit certificate. A total of thirteen audit missions were carried out, including missions combined with the audit of the ERDF (European Regional Development Fund).

Given the high risks identified concerning tendering and contracting, a specific thematic enquiry was launched in 2005 focusing on contracts awarded after accession in the new Member States with both a preventive objective and a corrective objective. During 2006, recommendations made based on these audits were followed up in subsequent audits.



In the Directorate General's Annual Activity Report for 2006, for the functioning of the management and control systems, an unqualified opinion was given for the systems in 5 Member States (Cyprus, Estonia, Greece, Malta and Slovenia).

For the remaining Member States the opinion was qualified as a result of material deficiencies affecting key elements of the system (Czech Republic, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Slovakia and Spain). None of the Member States was given an adverse opinion.

#### **4.2.1. Greece**

One closure audit took place in November 2006. During this audit EDEL (Fiscal Control Committee - Winding up body) was audited, as well as four projects that were closed.

The 3 audit missions that took place in 2005 were being followed up. The Commission proposed a financial correction resulting from non-compliance with the public procurement rules. EDEL in 2006 performed audit work including system and project audits at each one of these 3 main final beneficiaries and will continue in 2007.

#### **4.2.2. Spain**

Six systems audit missions, including compliance tests on selected projects, and seven project missions were carried out together with one closure audit in 2005. This work revealed important deficiencies with regard to the lack of first level management verification checks (pursuant to Article 4 of Regulation (EC) 1386/2002), the quality of the systems audits, the audit steps surrounding the preparation of the winding-up declaration and non-compliance with public procurement rules.

In 2006 an audit on the reliance of the winding-up bodies was carried out. Furthermore, the DG followed up with several audit missions during October and November 2006 to assess the implementation of the action plan. The conclusions from the audit work performed were that serious efforts have been made by the Managing Authority to strengthen control procedures to ensure the legality and regularity of expenditure certified. In most of the intermediate bodies examined at central and regional level significant improvements were confirmed on the first level management checks. Further follow-up will be done in 2007 as well as addressing certain weaknesses in the winding up declarations through the closure process.

#### **4.2.3. Portugal**

Six audits were performed in Portugal in 2005: two audits of management and control systems, one audit of the reliability of procedures employed by the body responsible for issuing of winding up declarations and three project audits. The main findings related to non-compliance with public procurement rules and, to a lesser extent, to ineligible expenditure.

An action plan was agreed with the Portuguese authorities in April 2005 and accordingly they had to verify compliance of a representative sample of contracts



with public procurement rules for the period 2000-2004. Following a quality review audit performed in June 2006, the Commission considers that, in general, it has reasonable assurance that the action plan had been satisfactorily completed, except for some aspects related to financial corrections to be applied to some projects, for which the contradictory procedure is ongoing. Furthermore, in 2006 one audit on the reliance of the winding-up body was carried out. In relation to the expenditure declared from 01/01/05 onwards, the Commission is analyzing the enquiry carried out in the first trimester of 2007 which still discloses weaknesses in the control procedures used by the national authorities.

#### **4.2.4. Cyprus**

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

DG Regional Policy did not carry out any audits for the Cohesion Fund in 2006. In 2006 there was a system audit by the Internal Audit Service of Cyprus of the management and control system at the intermediate body for the transport sector. The audit revealed no material findings. The sample checks carried out by the paying authority are satisfactory.

#### **4.2.5. Czech Republic**

The findings of the Cohesion Fund system audits and public procurement audit carried out in the Czech Republic in 2005 revealed weaknesses in the control system and in the area of public procurement. These findings were followed up, but at the end of 2006, some weaknesses continued to exist: first level management verifications could still be improved in the areas of eligibility and public procurement; the Paying Authority was requested to carry out complete checks at the Intermediate Bodies so as to guarantee the correctness of the certifications of declarations of expenditure.

A public procurement audit covering CF projects was carried out in 2006.

#### **4.2.6. Estonia**

A follow up system audit was carried out in May 2006. The audit also included testing compliance with public procurement rules. The auditors without qualifying their opinion drew attention to the following issues a) minor improvement needed in relation to the first level checks and b) the functional independence of the paying authority must be ensured.

#### **4.2.7. Hungary**

A systems audit was carried out in June 2006 which was complemented by a public procurement audit focusing on the transport sector.

The audit revealed similar material deficiencies as the audits of 2005, in the area of first level operational checks to be carried out by the Managing Authority affecting projects in both the transport and environment sectors. Therefore, a qualified audit

opinion was issued. The findings and recommended actions will be followed up in 2007.

#### **4.2.8. Latvia**

Two audit missions were carried out in June 2006, concerning the follow-up of the missions of 2005.

While some improvement has been made the situation has not been considered satisfactory because important deficiencies remained, namely inappropriate guidance by the managing authority and the paying authority and irregular practices in public procurement. Therefore specific actions have been proposed by DG Regional Policy to be implemented by the Latvian authorities. These actions will be followed up in 2007.

#### **4.2.9. Lithuania**

A follow-up of the system audit was carried out in March 2006 whereas a public procurement audit was performed in October 2006. It was found again that the managing authority did not perform an adequate verification of the operational checks performed by the Intermediate bodies, and in the environment sector the management checks performed by the intermediate bodies are considered insufficient. In addition, the IT monitoring system is not yet fully operational and there is a lack of adequate staffing in the two internal audit units.

#### **4.2.10. Malta**

After the system audit that took place in June 2005 no new audit missions were carried out in Malta.

The outstanding issues that were communicated by DG Regional Policy after the system audit of June 2005 have in the meantime been dealt with satisfactorily by the Maltese authorities.

#### **4.2.11. Poland**

A follow-up systems audit was carried out in March and a public procurement systems audit was carried out in June 2006 for the transport sector.

The follow-up systems audit revealed the following material deficiencies affecting key elements of the systems: technical evaluation of the applications for assistance, quality and reliability of first level management checks and certification checks by the paying authority, lack of an operational monitoring information system. The public procurement audit identified the following material deficiencies affecting key elements of the public procurement systems: limited scope of ex-ante public procurement checks, discriminatory selection criteria, direct awarding of additional management and supervision services, limitation to subcontracting.

#### **4.2.12 Slovakia**

Two audit missions were carried out in 2006, one concerned a follow up of the systems audit carried out in April 2005, the other one included public procurement procedures and was combined with ERDF programmes.

The audit work revealed deficiencies in the implementation of some of the key elements of the management and control system as required by Regulation (EC) 1386/2002:

The Managing Authority does not perform sufficient quality review of the first level management checks performed by the Intermediate bodies. In addition, the checks performed in the transport sector are limited. In the context of the certification of expenditure, the procedure to ensure the accuracy and legality of the expenditure submitted to the Commission is regarded as insufficient. The payment system is complicated and not efficient.

The audits of selected contracts revealed that the EU Directives on public procurement and the national law that implements these Directives have not always been applied correctly such as the mixing up of selection and award criteria and insufficient transparency in decisions made by the tender evaluation committees.

#### **4.2.13 Slovenia**

Two missions to Slovenia have been carried out in 2006: a public procurement audit in March and a follow up of systems audit in October.

The audit work revealed certain areas for improvement in public procurement procedures, i.e. contract modifications concerning additional works and/or deadline extensions without an adequate justification and incomplete ex ante verifications executed by the Intermediate Bodies prior to the contract signature. In the transport sector, the procurement guidance needed to be completed. Minor finding has been made on the assurance by the Managing Authority whether the Intermediate Bodies carry out their tasks (mainly ex-ante controls) properly.

### **4.3. Irregularities**

During 2006, the European Anti-Fraud Office (OLAF) opened three cases in relation to the information received concerning Cohesion Fund. Among these, one case led to the opening of a "monitoring case"<sup>5</sup> and the two other cases have been transferred to the year 2007 waiting for an evaluation. No control mission linked to Regulation (EC) n°2186/966 has been realised.

According to Article 3 of Regulation (EC) n°1831/947 concerning irregularities and the recovery of amounts unduly paid, as well as the organisation of an information

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<sup>5</sup> Monitoring cases are cases for which another body or Member State authority performs its own external investigation although OLAF would also be competent to do so.

<sup>6</sup> OJ n°L 292, 15 November 1996, p.2

<sup>7</sup> OJ n°L 191, 27 July 1994, p.9, as last amended by Regulation (EC) n°2168/2005, OJ n°L 345, 28 December 2005, p.15

system in this area, some eight of the beneficiary Member States have communicated 228 irregularity cases involving € 186 604 797 of Community contribution. These cases have been subject of initial administrative or judicial findings of fact.

It is worth noting that the majority of these cases (183) have been communicated by the four original Member States, with a predominance of Greek cases (103), involving a total of € 117 856 924 in Community contribution, of which only € 12 698 144 still to be recovered, the remaining part having been deducted from requests of final payment made to the Commission. During the year there has been progress in the application of the above-mentioned regulation in Spain, where 82 cases were communicated, involving € 44 472 847 in Community contribution, of which €30 179 534 remain to be recovered. Of the 18 cases communicated by the Portuguese authorities involving € 23 747 904 in Community contribution, some € 14 850 306 remain to be recovered.

Only five new Member States, Poland, Czech Republic, Hungary, Latvia and Lithuania, have notified cases to the Commission (respectively 10, 6, 6, 2 and 1 cases) involving less important amounts than those cited above. Part of the amounts involved has been deducted before presentation of the payment requests to the Commission.

The other beneficiary Member States have informed the Commission that no irregularities have been observed during 2006. However, the attention of Member States must be drawn to the fact that a certain number of cases detected during national and/or Community audit missions have not led to notification according to the relevant regulation.

In most notified cases, irregularities relate to the application of public procurement rules, and for the remaining cases, the presentation of ineligible expenditure.

During the year 2006 Regulation (EC) n°1828/2006 entered into force for the new programming period 2007-2013. Section 4 of this regulation on "Irregularities" now governs the notification of irregularities and applies also to the Cohesion Fund for projects adopted within the new programming period. Regulation (EC) n°1831/94 continues to apply to decisions adopted under Regulation (EC) n°1164/94.

Lastly, in its follow up of the discharge 2005, the Council invited the Commission to present a general report on recoveries for the financial years 2000-2006, including amounts recovered by the Member States as well as the Commission and amounts of open entitlements by the end of each year. This report should be sent to the Council before the end of September 2007.

## **5. APPRAISAL AND EVALUATION**

### **5.1. General**

Article 13 of the revised Regulation (CE) n°1164/94 requires the Commission and the Member States to ensure that the implementation of Cohesion Fund projects is effectively monitored and evaluated. This implies recourse to project appraisal,

monitoring and evaluation measures on the basis of which projects are adjusted, if necessary.

The Commission and the Member States carry out, if necessary in cooperation with the European Investment Bank, appraisal and evaluation of all co-financed projects.

The projects to be financed by the Fund are adopted by the Commission in agreement with the beneficiary Member State. As regards project appraisal, each request for assistance is accompanied by a cost-benefit analysis (CBA) of the project. The CBA has to demonstrate that the socio-economic benefits in the medium term are proportional to the financial resources mobilised. The Commission examines this evaluation on the basis of the principles set out in the guide for cost-benefit analysis.<sup>8</sup> The guide, published in 2003, is now in the process of being updated.

On this basis, the Commission provided during 2006 important internal methodological support and assisted Member States through actions of capacity building aiming to improve the consistency of the ex-ante financial and economic analysis of the projects. In October 2006 the Commission adopted a guidance document on the methodology to be used in carrying out CBA.<sup>9</sup> The working document presents some general principles of CBA along with a set of working rules and encourages the Member States to develop their own CBA guidelines. The objective is twofold: on the one hand, national guidelines should give the national promoters practical indications for preparing the projects applications. On the other hand, these documents will provide the Commission services with a useful reference against which projects submitted for assistance can be assessed. This approach should in turn ensure a consistent evaluation framework across projects and speed up the process for Community funding.

During the implementation of projects and after their completion, the Commission and Member States monitor the realisation of the projects, the respect of their objectives and the impact of their implementation.

In addition, the Commission carries out ex-post evaluation on samples of projects co-financed by the Cohesion Fund. The most recent evaluation was published in 2005 and looked at a sample of 200 projects implemented over the 1993-2002 period. The next ex-post evaluation is foreseen to be performed in 2009.

## **5.2. Examination and ex-ante appraisal of projects**

When an application for assistance is submitted by a beneficiary Member State, the Commission carries out an appraisal of the project, if necessary in cooperation with the EIB. Particularly, the project CBA is assessed in order to verify the following elements.

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<sup>8</sup> [http://ec.europa.eu/regional\\_policy/sources/docgener/guides/cost/guide02\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/guides/cost/guide02_en.pdf)

<sup>9</sup> European Commission, DG for Regional Policy, 'Guidance on the methodology for carrying out cost-benefit analysis', 2007-2013 - Evaluation Unit Working Document n. 4, available at [http://ec.europa.eu/regional\\_policy/sources/docoffic/working/sf2000\\_en.htm](http://ec.europa.eu/regional_policy/sources/docoffic/working/sf2000_en.htm)

- The suitability of the project option which is selected amongst different alternatives, its contribution to the cohesion policy objectives and its compatibility with Community policies.
- The project's financial analysis, which plays an important role in the determination of the most suitable financial structure. The Community co-financing rate was adjusted in some cases to take into account the estimated revenue generated by projects and the application of the polluter-pays principle. This is crucial for optimising the impact of the resources allocated to Community cohesion policies. Adjusting the Cohesion Fund contribution on the basis of the project's expected profitability is likely to allow the co-financing of a higher number of projects. At the same time, this provides an incentive to benefiting Member States to maximise the leverage of the Cohesion Fund resources, therefore encouraging greater use of private sources of funding. However, it should be noted that, in the absence of a sufficient number of projects or because of their insufficient maturity, the managing authorities occasionally tended to seek intervention rates close to the ceiling level (i.e. 85%), in particular in the case of the recently acceded Member States.
- The economic analysis, which presents the expected impact and desirability of the project from an economic point of view. The Commission appraisals sometimes identified the need for more robust methodologies for the economic analyses of environmental projects, particularly regarding the monetisation of the external impacts.
- The risk and sensitivity analysis, which sheds lights on how possible changes in the project variables can influence the expected project impacts. On this point, the Commission strongly recommended the project promoters to use more thorough risk-assessment techniques in order to improve the understanding and in turn the management of project risks, therefore enhancing the impact on regional development.
- In addition, other important elements are taken into account during the appraisal, namely direct and indirect effects on employment, the assessment of the environmental impact and information on public procurement procedures.

### **5.3. Cooperation with the EIB when a project is considered**

Under the provisions laid down in Article 13(2) of Regulation (EC) n°1164/94, the EIB can be consulted during the appraisal process. The Bank was consulted on the basis of a framework contract which was agreed with the Commission in 2000 and was in place until the end of 2006.

During 2006, 3 Cohesion Fund projects were examined by the EIB. Two were Portuguese projects (a port and a water treatment plant) and one was Slovene (waste management). It should be noted that the limited number of projects appraised by the EIB compared to the previous years partly reflects the reduced number of applications for assistance received by the Commission in 2006.

On the other hand, it is worth recalling that as from 2007 the enhanced cooperation with the EIB through the adoption of three joint initiatives DG REGIO/EIB/EBRD (JASPERS, JEREMIE and JESSICA<sup>10</sup>) is fully operational.

#### **5.4. Ex-post evaluation**

The ex-post evaluation of projects co-financed by the Cohesion Fund is performed according to regulation 1164/94. Besides the regulatory requirement for accountability, the objective of the ex-post evaluation is to learn from the experience gained through the Cohesion Fund projects. The most recent evaluation was published in January 2005<sup>11</sup>. Its results and its follow-up measures were presented in the 2005 annual report.

The Commission intends to carry out the next ex-post evaluation of Cohesion Fund projects during 2009.

### **6. NEW REGULATORY FRAMEWORK FOR THE 2007-2013 PERIOD**

Cohesion Fund Regulation (EC) n°1164/94 sets the rules for the implementation of the Fund until 31 December 2006. In view of the start of the next programming period (2007-2013), the Commission has drafted a new set of Regulations for the implementation of the Cohesion Fund, as well as the European Regional Development Fund and the European Social Fund.

These Regulations were adopted in the course of 2006. The new Regulations concerning Cohesion Fund implementation are the following:

- Council Regulation (EC) n°1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) n°1260/1999;
- Council Regulation (EC) n°1084/2006 of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) n°1164/94;
- Commission implementing Regulation (EC) n°1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) n°1083/2006.

All Regulations applicable to the 2007-2013 period are available on the INFOREGIO internet site at the following address:

[http://ec.europa.eu/regional\\_policy/sources/docoffic/official/regulation/newregl0713\\_en.htm](http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/newregl0713_en.htm)

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10 JASPERS: Joint Assistance in Supporting Projects in European Regions; JEREMIE: Joint European Resources for Micro to Medium Enterprises; JESSICA: Joint European Support for Sustainable Investment in City Areas. See [http://ec.europa.eu/regional\\_policy/funds/2007/jjj/index\\_en.htm](http://ec.europa.eu/regional_policy/funds/2007/jjj/index_en.htm) for more information.

<sup>11</sup> [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/cohesion\\_project.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/cohesion_project.pdf)



## **7. INTER-INSTITUTIONAL DIALOGUE, INFORMATION AND PUBLICITY**

### **7.1. Information to/from the Member States**

Two information meetings with the 25 Member States were held in Brussels, on 22 June and 20 December.

At the first meeting, the Commission presented the 2006 final allocations for each Member State. As 2006 is the last year of the programming period, it was stressed that all commitment credits still available will have to be used before 31 December. No transfer of credits from other budget lines was foreseen. Furthermore, the 50/50 ratio between environment and transport needed to be carefully monitored towards the end of the year. The Commission also recalled that the current Regulation (EC) n°1164/94 will be repealed as from 1 January 2007. Lastly, a presentation of the Joint Assistance in Supporting Projects in European Regions (JASPERS initiative) was made. This initiative, set up in cooperation between the Commission and the EIB, is meant to assist Member States in appraising technically future major projects to be submitted to the Commission. JASPERS will be in place as from 2007.

At the December meeting, the Commission presented the budget execution situation for 2006 and for the whole 2000-2006 period. The execution shows that 100 % of commitments available in 2006 will be executed as well as 99.8 % of payments, which means that no credit will be lost. The level of outstanding commitments reaches approximately € 15 billion at the end of the year, which corresponds to three years of CF commitments. At this meeting the Commission also presented the draft guidelines on the closure of Cohesion Fund projects. The purpose of this document is not to include additional requirements compared to the existing regulation, but to enable a smooth closure procedure, and to present the situation when things go wrong in the closure process. The Commission insisted on bearing in mind that: (i) in dealing with closure, the projects on the ground must be in line with the relevant Decisions; (ii) the final date of eligibility for projects of the 2000-2006 period remains the 31 December 2010; (iii) the one modification rule applies. At the meeting the 2005 annual report on the Cohesion Fund was also presented. Finally, the Commission recalled that this information meeting was the last one in the framework of Regulation (EC) n°1164/94. The issues concerning the Cohesion Fund will, as from 1 January 2007, be dealt within the Coordination Committee of the Funds, according to the new Regulation (EC) n°1083/2006.

### **7.2. Commission measures on publicity and information**

On 8 December Commission Regulation (EC) n°1828/2006<sup>12</sup> was adopted. In Chapter II it includes the implementing measures for Article 69 of Regulation (EC) n°1083/2006 on information and publicity requirements, which in the 2007-2013 period are common to the ERDF, the Cohesion Fund and the ESF.

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<sup>12</sup> "Regulation setting out rules for the implementation of Council Regulation (EC) n° 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) n°1080/2006 of the European Parliament and of the Council on the European Regional Development Fund"



The new provisions provide for the preparation of a communication plan for every Operational programme or group of programmes. The plan will be sent to the Commission to verify its compliance with the regulation. It should among other things describe how the programme will meet the minimum information requirements, such as a major information activity at the launch of the programme, annual major information activities presenting the achievements of the programme, the publication of lists of beneficiaries of the funds, together with the name of the operation and the amount of the public contribution.

Beneficiaries are required to put up billboards during the construction of the infrastructure project where the total public contribution exceeds € 500 000. The billboards shall be replaced by commemorative plaques within six months after the completion of the operation. Both on the billboards and the plaques 25 % of the space needs to be devoted to the EU logo, the name of the fund involved and a slogan. In comparison with the previous Commission Regulation (EC) n° 621/2004 covering the Cohesion Fund, there are fewer specific requirements and the financial threshold has been significantly lowered.

The Commission organised two meetings in 2006 for communication officers from both the ERDF and the Cohesion Fund. These took place on 15 June and 5 December. Various communication topics were discussed, the implementation of the new regulations was explained and a number of case studies and sample products were presented. These meetings for information officers will continue in 2007.