



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 15.12.1998
COM(1998) 758 final

FOURTH ANNUAL REPORT FROM THE COMMISSION
TO THE COUNCIL, THE EUROPEAN PARLIAMENT,
THE ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS

**THE EUROPEAN ECONOMIC AREA
FINANCIAL MECHANISM**

I. The Financial Mechanism

With the objective of stimulating economic cohesion and development between the European Economic Area (EEA) regions, a Financial Mechanism to support development projects in Greece, Ireland, Northern Ireland, Portugal and parts of Spain (the objective 1 regions as defined in 1988) was established on 1st January 1994 (article 115-116 of the EEA Agreement and Protocol 38).

Over the five-year period ending 31 December 1998, the Financial Mechanism will allocate funds to the beneficiary regions of ECU 500 million in grant aid and interest rebates of 2 percentage points per annum on ECU 1.5 billion in loans, from the European Investment Bank (EIB).

Priority should be given to projects which place particular emphasis on the environment (including urban development), on transport (including transport infrastructure) or on education and training. Among projects submitted by private undertakings, special consideration is given to small and medium-sized enterprises.

The Mechanism is **administered by the EIB**. The EIB appraises each project according to financial, economic and technical criteria as well as its compatibility with the EU objectives, sectorial policies and environmental regulations and standards.

The EIB then submits proposals to the Financial Mechanism Committee, appointed by the participating EFTA States and the Commission, which decides on the allocation of the financial resources available under the Mechanism.

The Mechanism was **initially funded** by the participating EFTA States. The role of the Commission was to give an opinion on the basis of the proposals before the approval of the EFTA Financial Mechanism Committee.

From 1 January 1995, following the accession of the Republic of Austria, the Republic of Finland and the Kingdom of Sweden to the European Union, Articles 83, 111 and 136 of the act concerning the conditions of this accession and the modification to the treaties on which the European Union is founded provide that the obligations of the three acceding countries for financing the Mechanism as laid down in article 116 of the EEA Agreement are financed out of the general budget of the European Communities.

In consequence, the Commission has become co-responsible for the Mechanism in line with Art. 205 of the Treaty whereby the Commission shall implement the budget. The Communication by the Commission, adopted on the 30 March 1995 (C(95) 753), established the operational aspects for dealing with the Financial Mechanism within the Commission.

Following entry into force of the EEA Agreement for the Principality of Liechtenstein on 1 May 1995, the Principality now fully participates in the Mechanism.

II. The fourth annual report

A first annual report was presented by the Commission to the Council in June 1995, concerning the activity of the Mechanism during the period from 01.01.94 to 31.05.1995.

The second annual report presented the activity concerning the Mechanism during the period from 01.01.95 to 30.06.96 and the third from 01.7.96 to 30.06.97.

This fourth annual report presents the activity from 01.07.97 to 30.06.98.

1. The activity of the Mechanism up to 30.06.98

Since the creation of the Mechanism up to 30.06.98, the Financial Mechanism Committee has approved:

- grant applications to a total of ECU 386.928 million corresponding to 77% of the total grant facility;
- interest rebates on a total loan portfolio of ECU 1330.60 million corresponding to 89% of the total EIB loan portfolio for which the interest rebate facility has been made available.

In order to ensure full utilisation of funds by 31 December 1998, which is the deadline for new commitments, a letter was sent on 23 February 1998 to all beneficiary government reminding them of the deadline and informing them (i) of the possibility to decommit surplus funds by 31 July 1998 for recommitment in connection with new projects and (ii) of the deadline of 30 september 1998 for submission of new applications or modifications.

1.1. The progress of the grant activity up to 30.06.98

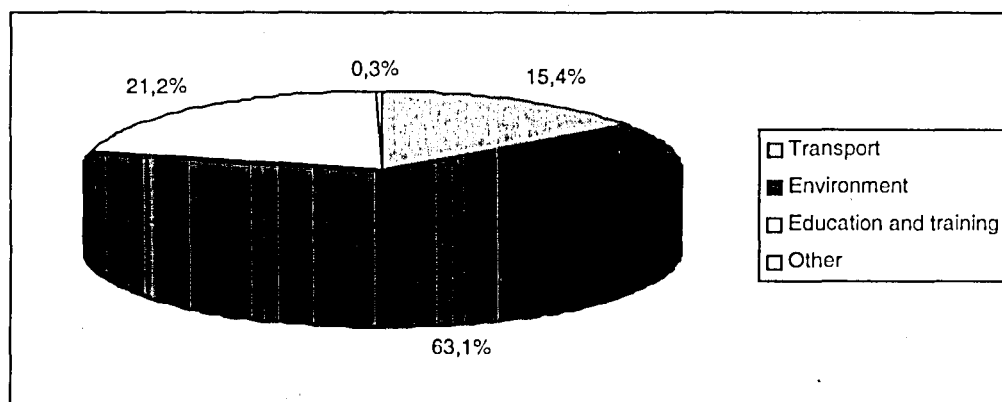
The distribution by beneficiary country of the grants approved by the Financial Committee up to 30.06.98 and their sectorial distribution are shown below:

Grants distribution by country

	MECU
	APPROVED GRANTS
Greece	61.1
Ireland	35.5
Northern Ireland	11.0
Portugal	52.3
Spain	227.0
TOTAL	386.9

Sectorial distribution

	ECU	Total
Transport	59 600 000	15.4%
Environment	244 162 200	63.1%
Education	82 045 000	21.2%
Other	1 071 000	0.3%



The grant allocations for Ireland, Northern Ireland and Spain have been fully committed.

Portugal has submitted project proposals which have been subject to preconsultation with a positive result. Commitments are likely to be given for the remaining balance before the end of the year.

Also Greece has produced proposals that would exhaust the available funds, provided that the Committee deems them eligible for granting commitments. However, uncertainties prevail in connection with several cases, and for that reason, the Committee has impressed on the Ministry of National Economy to process a sufficient number of proposals in order to ensure that the facility will be fully exhausted by end of 1998.

As of 30 June 1998, the grant disbursement amounted to ECU 141.54 million (excluding the EIB's fee of 0.5%) corresponding to 28% of the total facility.

1.2. The progress of the interest rebate activity up to 30.06.98

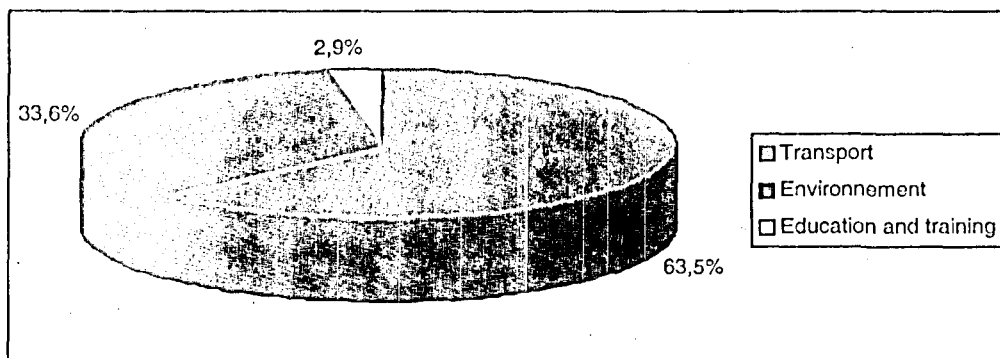
The distribution by beneficiary country of the EIB loans benefiting from interest rebates approved by the Financial Committee up to 30.06.98 and their sectorial distribution are shown below:

Loans distribution by country

	MECU
	APPROVED LOANS
Greece	299.8
Ireland	106.5
Northern Ireland	0.0
Portugal	260.6
Spain	663.7
TOTAL	1330.6

Sectorial distribution

	ECU	Total
Transport	844 460 000	63.5%
Environment	447 140 000	33.6%
Education	39 000 000	2.9%



Ireland has already fully absorbed the allotted interest rebates. It is expected that eligible projects in EIB's portfolio will absorb the remaining allotments in the other countries. In Northern Ireland, indications are that the interest rebates will be requested in support of EIB global loans.

As of 30 June 1998, the EIB loans disbursement benefiting from interest rebates amounted to ECU 986.058 million, corresponding to 66% of the total facility.

2. The approval of grants and interest rebates from 01.07.97 to 30.06.98

The following **grant applications**, amounting to ECU 77.7102 million, were approved:

Greece

The Corfu Old Town Centre Renovation project

ECU 4.13 million for renovation and development of the technical infrastructure in the old town including water distribution and sewage, telecommunication and electricity transmission and street pavement restoration. The area concerned comprises some 80% of the historical heritage of the city of Corfu. The project will allow the municipality to fully exploit its architectural and heritage assets.

The Rehabilitation of Mount Athos Monasteries

- ECU 1.1502 million for rehabilitation and construction works at the Simonos Petras Monastery to supplement assistance already granted by the Financial Mechanism
- ECU 4.3 million for the reconstruction of important buildings in the monasteries of Aghiou Pavlou, Profitou Ilia and Xenophondos and for the Ormylia Convent for the further development of the Diagnostic Centre, safety and security measures for the ikons under survey or restauration as well as a pilot training programme for ikons researches and conservators.

The realisation of the rehabilitations projects will contribute to the preservation of a unique cultural monument and will enable the development of the region's tourism potential and its diversification towards up-marked cultural tourism.

Ireland

The Technical Education project (second phase)

ECU 13 million for investments in 13 educational institutions at tertiary level in cofinancing with the European Regional Development Fund (ERDF). The project covers the construction of new buildings and extensions to provide teaching, training and general facilities at three national Universities and ten Technical Colleges. The project will help reinforce links between Colleges and industry through applied research and will meet industry and service demand for skilled staff and qualified professionals.

Northern Ireland

The Calgach Hotel Derry project

ECU 3 million for construction of a 108 rooms three-star hotel in the central part of Derry. The promoter is a non-profit organisation. The project will complete a comprehensive reconstruction and revitalisation programme in Derry in the framework of the process of peace and reconciliation.

Spain

The Urban Renewal in Toledo

ECU 22.94 million for renovation and urban rehabilitation works in the historic centre, pedestrianisation and construction of car parks. The project aims to contribute to the recovery of the historic centre for economic and social activities and draw back a part of the population that moved out of the area.

The Via de la Plata (Extremadura) project

ECU 15.7 million for the restoration of historical buildings and urban environment and construction of tourist facilities on several locations along the historical Via de la Plata. The project will contribute to protection and preservation of the region's valuable historical heritage.

The Urban Renewal in Granada

ECU 6.69 million for restoration or rehabilitation of roofs and facades in Albaicin in the old Moorish settlement, pedestrianisation and construction of an underground car park. The project aims to create a better urban environment, more conducive to the establishment of small artisan workshop and commerce and to develop tourism in the lower Albaicin and lower Alhambra areas of Granada.

The Espacios Industriales (Las Palmas) project

ECU 6.8 million for the rehabilitation of five small industrial areas within the city of Las Palmas. The project forms part of a larger programme for urban renewal, investment promotion and employment generation.

The following **interest rebate applications**, amounting to a total loan amount of ECU 488.5 million were approved:

Greece

The South Pathe Motorway project

Interest rebate on a loan of ECU 100.4 million for upgrading to motorway standard of the principal trunk road of the stretches connecting Yliki-Aghios Konstantinos and Raches-Aghii Theodori.

Ireland

The Irish Infrastructure Framework project

Interest rebate on a loan of ECU 66.5 million for infrastructure improvements including road works, sewerage works and used water treatment facilities. The project forms part of the priority Trans European Network (TEN) infrastructure and receives cofinancing from the European Regional Development Fund (ERDF) and from the Cohesion Fund.

Spain

The BCL Environmental Global Loan II

Interest rebate on a loan of ECU 18 million for the Banco de Credito Local (BCL) for financing of small and medium-scale environmental investments undertaken by private and public entities. This new global loan to BCL will contribute to the protection of the environment in objective 1 areas in Spain.

The Technical Education project in Valencia

Interest rebate on a loan of ECU 15 million for the extension of facilities and provision of new equipment for the University of Valencia. The project aims at meeting university based training needs and enhancing professional qualifications in various technical and business administration fields at the University.

The Leon-Burgos Motorway project

Interest rebate on a loan of ECU 24.3 million for the construction of a stretch motorway connecting Onzonilla-Santas Martas and Sahagun-San Marnes de Campos of the Leon-Burgos Motorway.

The Regional Road Network project in Asturias

Interest rebate on a loan of ECU 15 million for repair and upgrading of several road schemes in Asturias.

The Reconstruction of Infrastructure in Andalucia

Interest rebate on a loan of ECU 18 million for urgent restoration works located throughout the region following severe winter flooding. The project responds to an emergency situation and intends to repair existing roads, urban and environmental infrastructure.

The Improvement to Education Infrastructure in Galicia

Interest rebate on a loan of ECU 24 million for the construction and rehabilitation of mainly secondary and vocational school blocks at different locations in Galicia. These investments will bring Galicia's educational infrastructure up to the minimum Spanish legal requirements for educational institutions.

The Extension of the Port of Valencia

Interest rebate on a loan of ECU 12 million for the construction of a breakwater in the new area of the port, the construction of quays for container traffic, the landfilling and re-organisation of the road/rail network within the port. The project will provide additional capacity to one of the major Spanish and mediterranean ports which is also an important node in the Transeuropean Network.

3. The funding of the Financial Mechanism

The Act of Accession (Articles 83, 111, 136) specifies that the shares of the new Member States in the Mechanism are to be met from the general budget of the Communities. On a proposal from the Commission (COM(94) 398), the financial perspective has already been reworked accordingly by adding a new heading under "Structural Activities". The budget adopted for 1998 contains a heading with the relevant comments (B2-401). The amount forecast for each year is ECU 108 million.

As far as the actual payments are concerned, taking over the shares of the new Member States means complying with the terms of Article 4A of the Cooperation Agreement between the EFTA countries and the EIB dated 30 June 1992, as amended by the amending protocol of 18 June 1993.

In line with these procedures, the contribution for 1998 and the shares between the participating EFTA countries and the Commission were decided respectively by the Financial Mechanism Committee on 16 December 1997. These contributions were calculated in accordance with the gross national product at market prices using data for the last three calendar years and assuming a total annual contribution of ECU 135 million.

3.1. A total contribution of ECU 135 million for 1998

At the creation of the Financial Mechanism a first estimate was made corresponding to an annual instalment of ECU 130 million. However, during the years 1994-1996, initial funding and replenishment of ECU 110 million of the Financial Mechanism took place as shown in the table below together with the aggregated contributions during the same period.

Article 4 of the Cooperation Agreement states that the participating EFTA States and the Community budget shall deposit the amounts necessary to meet the commitment schedules, the consequent disbursements and the associated administrative costs of the interest payments and the grants. The Bank and the Committee shall review the amount of grants and the interest subsidies disbursed in order to determine the amounts of the subsequent instalments to be deposited by the participating EFTA States and the Commission. Any amount outstanding at the time of termination of operations shall be repaid to the participating EFTA States and the Community budget.

On 17 December 1996 and on 16 December 1997, the Financial Mechanism Committee decided that the contributions from the donors would have to rise accordingly in order to meet the final obligations. Even though all the contributions have not been used it is important to keep a reasonable contribution to the Mechanism account each year in order to be able to match reasonably the future final obligations in terms of commitments at the end of 1998. An increase from ECU 110 mill. to ECU 130 mill. in the replenishment for 1997 and a replenishment of ECU 135 million for 1998 have been decided.

3.2. The share between the Commission and the participating EFTA countries

The cost sharing of the initial funding and replenishment of the Financial Mechanism calculated in accordance with the gross national product at market prices using data for the last three calendar years is the following:

ECU million

	Iceland	Norway	Liechtenstein	Austria	Finland	Sweden	Total
				Community budget from 1995			
1994	1.078 (0.98 %)	18.436 (16.76 %)	0.187 (0.17 %)	29.348 (26.68 %)	20.526 (18.66 %)	40.425 (36.75 %)	110
				Total: (82.09 %)			
1995	1.111 (1.01 %)	19.063 (17.33 %)	0.198 (0.18 %)	89.628 ¹ (81.48 %)			110
1996	1.122 (1.02 %)	21.604 (19.64 %)	0.198 (0.18 %)	87.076 (79.16 %)			110
1997	1.300 (1.00 %)	25.935 (19.95 %)	0.247 (0.19 %)	102.518 (78.86 %)			130
1998	1.296 (0.96 %)	27.916 (20.16 %)	0.2565 (0.19 %)	106.2315 (78.69 %)			135
Total	4.907	112.254	1.0865	475.7525			595

In consequence, the Commission approved on 19 February 1998 the Community budget contribution for 1998 of ECU 106 231 500.

¹ The Commission did not request a transfer of Liechtenstein's reimbursement in August 1995. Accordingly, this amount was deducted from the third instalment in 1996.

4. The Mechanism account at the EIB

As of 31 December 1997, the balance of the Financial Mechanism account was ECU 281 003 164.01. In summary, the account transactions during the second semester of year 1997 were as follows:

		ECU
<i>Balance as of 30 June 1997</i>		337 377 385.34
<i>Crediting</i>		
Accrued interest	6 491 813.77	
<i>Debiting</i>		
Interest subsidies	- 23 888 846.55	
Grant disbursements	- 38 750 500.55	
Liaison Officer function cost	- 226 688.00	
<i>Balance as of 31 December 1997</i>		281 003 164.01

As of 30 June 1998, the balance of the Financial Mechanism account was ECU 399 184 268.33. In summary, the account transactions up to 30.06.98 have been the following:

		ECU
<i>Balance as of 31 December 1997</i>		281 003 164.01
<i>Crediting</i>		
Fifth instalment in 1998	135 000 000.00	
Accrued interest up to 30.06.98	7 223 206.51	
<i>Debiting</i>		
Interest subsidies	- 7 433 788.14	
Grant disbursements	- 16 608 314.05	
<i>Balance as of 30 June 1998</i>		399 184 268.33

5. Coordination and complementarity with other financial instruments of the European Union

The Commission ensures, within the framework of the partnership, coordination and consistency between the projects carried out under the Financial Mechanism and measures undertaken by the Structural Funds, the Cohesion Fund, the European Investment Bank and the other financial instruments of the European Union.

In that respect, operating rules concerning the combination and overlapping of the Financial Mechanism aid with other Community assistance, have been clearly defined in the "Operational arrangements" concluded between the Commission and the European Investment Bank, on 9 March 1994.
