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**REPORT FROM THE COMMISSION**

**ANNUAL REPORT OF THE COHESION FUND (2004)**

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## REPORT FROM THE COMMISSION

### ANNUAL REPORT ON THE COHESION FUND (2004)

This report is presented in conformity with Article 14.1 of Regulation (EC) n°1164/1994 establishing a Cohesion Fund. It covers the activities of the Cohesion Fund during 2004.

#### 1. BUDGET EXECUTION

Cohesion Fund resources available for commitment in 2004 amounted to € 2 723 606 000 (1999 prices) for the 3 Member States of EUR 15 (Portugal, Spain, Greece), and € 2 897 000 000 in 1999 prices for the 10 new Member States. As a result of its growth in GNI per head, Ireland is no longer eligible under the Cohesion Fund with effect from 1 January 2004. These amounts include technical assistance credits (€ 1 001 118 for the 3 “old” Member States, and € 1 500 000 for the 10 new Member States).

The commitment appropriations were almost entirely used (99,96%) with only 2 084 326 € of the total being carried over to 2005.

#### Implementation of commitments in 2004 (in euro)

<b>Commitment appropriations</b>	<b>Initial</b>	<b>Movements</b>	<b>Final resources</b>	<b>Outturn</b>	<b>Cancelled</b>	<b>Carryovers 2005</b>
2004 budget	2 784 500 000	2 835 258 341	5 619 758 341	5 619 403 018	355 322	2 084 326
Appropriations carried over from 2003	3 377 996	0	3 377 996	3 377 996	0	0
Appropriations made available again	7 413 307	0	7 413 307	7 413 307	0	0
Repayments	0	0	0	0	0	0
<b>Totals</b>	<b>2 795 291 303</b>	<b>2 835 258 341</b>	<b>5 630 549 644</b>	<b>5 630 194 321</b>	<b>355 322</b>	<b>2 084 326</b>

A total of €134.8 million of payment appropriations was transferred to the Cohesion Fund. Taking account of this transfer, some 95.16 % of the payment appropriations were implemented in 2004.

**Implementation of payments in 2004 (in euro)**

<b>Payment appropriations</b>	<b>Initial</b>	<b>Movements</b>	<b>Final resources</b>	<b>Outturn</b>	<b>Cancelled</b>	<b>Carryovers 2005</b>
2004 budget	2 641 600 000	134 811 585	2 776 411 585	2 642 101 718	134 309 867	0
Appropriations carried over from 2003	0	0	0	0	0	0
Appropriations made available again	0	0	0	0	0	0
Repayments	0	0	0	0	0	0
<b>Totals</b>	<b>2 641 600 000</b>	<b>134 811 585</b>	<b>2 776 411 585</b>	<b>2 642 101 718</b>	<b>134 309 867</b>	<b>0</b>

**Budget implementation of appropriations in 2004 by Member State**

**Commitment appropriations 2004 (in euro)**

<b>Member State</b>	<b>Environment</b>		<b>Transport</b>		<b>Mixed</b>	<b>Total</b>	
	<b>Amount</b>	<b>% Envir</b>	<b>Amount</b>	<b>% Transp.</b>	<b>Amount</b>	<b>Amount</b>	<b>%</b>
<b>España</b>	724 068 354	42.6	977 541 835	57.4	1 101 600	1 702 711 789	30,3%
<b>Ellada</b>	296 658 028	55.4	239 009 533	44.6	-	535 667 561	9,5%
<b>Portugal</b>	261 887 832	54.6	217 955 247	45.4	-	479 843 079	8,5%
<b>Kypros</b>	-	0	18 257 000	100	-	18 257 000	0,3%
<b>Ceska Republika</b>	171 710 713	54.2	144 816 038	45.8	371 280	316 898 031	5,6%
<b>Eesti</b>	65 595 930	62.1	31 561 105	37.9	8 539 200	105 696 235	1,9%
<b>Magyarország</b>	188 216 500	50.0	188 216 500	50.0	-	376 433 000	6,7%
<b>Latvija</b>	80 196 588	42.2	102 876 822	57.8	6 892 365	189 965 775	3,4%
<b>Lietuva</b>	45 991 729	21.9	148 920 771	78.1	14 659 500	209 572 000	3,7%
<b>Malta</b>	7 418 000	100	-	0	-	7 418 000	0,1%
<b>Polska</b>	698 528 072	49.4	707 162 832	50.6	8 947 500	1 414 368 404	25,2%

Member State	Environment		Transport		Mixed	Total	
	Amount	% Envir.	Amount	% Transp.	Amount	Amount	%
<b>Slovensko</b>	125 556 724	65.1	67 417 276	34.9	-	192 974 000	3,4%
<b>Slovenija</b>	19 295 525	29.7	45 605 942	69.3	45 000	64 946 467	1,2%
<b>Technical Assistance</b>	-	-	-	-	4 381 678	4 381 678	0,1%
<b>Total</b>	<b>2.685.123.995</b>	<b>48.2*</b>	<b>2.889.340.901</b>	<b>51.8*</b>	<b>44.938.123</b>	<b>5.619.403.018</b>	<b>100%</b>

\* mixed amounts no taken into account

### Payment appropriations 2004 (in euro)

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). The second table below shows payments effected in 2004 in relation to ISPA projects adopted before accession.

Member State	Environment		Transport		Mixed	Total	
	Amount	% Env ir.	Amount	% Transp.	Amount	Amount	%
<b>España</b>	1 052 792 007	54.3	886 931 978	45.7	3 084	1 939 727 070	73,4%
<b>Ellada</b>	85 219 745	24.3	265 538 804	75.7	1100	350 759 649	13,3%
<b>Ireland</b>	8 179 679	31.6	17 669 517	68.4	0	25 849 196	1,0%
<b>Portugal</b>	123 130 259	38.9	193 354 445	61.1	0	316 484 704	12,0%
<b>Kypros</b>	0	-	0	-	0	0	-
<b>Ceska Republika</b>	0	-	0	-	0	0	-
<b>Eesti</b>	0	-	0	-	0	0	-
<b>Magyarország</b>	0	-	0	-	0	0	-
<b>Latvija</b>	0	-	0	-	0	0	-
<b>Lietuva</b>	0	-	3 719 306	100	0	3 719 306	0,1%
<b>Malta</b>	0	-	0	-	0	0	-
<b>Polska</b>	0	-	2 486 700	100	0	2 486 700	0,1%
<b>Slovensko</b>	244 720	15.5	1 335 490	84.5	0	1 580 210	0,1%
<b>Slovenija</b>	0	-	0	-	0	0	-
<b>Technical Assistance</b>	0	-	0	-	1 494 883	1 494 883	0,1%
<b>Total</b>	<b>1 269 566 410</b>	<b>48.1*</b>	<b>1 371 036 240</b>	<b>51.9*</b>	<b>1 499 067</b>	<b>2 642 101 718</b>	<b>100%</b>

\* mixed amount not taken into account

For the third year running, there was tendency in favour of projects in the transport sector, although in a less marked manner than in the two previous years.

New Member States – Payments made in 2004 related to former ISPA projects

Member State	Environment		Transport		Total
	Amount	% Envir.	Amount	% Transp.	Amount
<b>Ceska Republika</b>	17 801 156	26.5	49 355 929	73.5	67 157 085
<b>Eesti</b>	10 196 374	42.7	13 675 285	57.3	23 871 659
<b>Latvija</b>	9 844 972	42.2	13 490 711	57.8	23 335 683
<b>Lietuva</b>	3 948 533	27.5	10 395 195	72.4	14 343 728
<b>Magyarország</b>	25 960 588	71.9	10 122 098	28.1	36 082 686
<b>Polska</b>	80 792 048	36.6	139 872 597	63.4	220 664 645
<b>Slovenija</b>	6 024 627	78.9	1 611 175	21.1	7 635 802
<b>Slovensko</b>	17 390 376	46.6	19 933 084	53.4	37 323 460
<b>Technical assistance</b>					68 076
<b>TOTAL</b>	171 958 668	40.0	258 456 071	60.0	430 482 824

The major effort to clear outstanding appropriations on actions begun before 2000 was continued : a total of 50 projects were closed in 2004. Some 33,4 % of the outstanding appropriations existing at the beginning of the year were paid or subject to decommitment in 2004. By the end of 2004, outstanding appropriations had fallen to just 15 % of the annual budget of the Cohesion Fund (against over half at the end of 2002 and 39% at the end of 2003). This effort to reduce outstanding appropriations shall be maintained in 2005 in partnership with the national authorities who are responsible for project implementation and the related payment claims.

Settlement in 2004 of commitments for the period 1993-99 (in euro)

Member State	Initial amount to be settled	Decommitments	Payments	Final amount to be settled
<b>España</b>	650 933 534	4 952 169	268 409 585	377 571 780
<b>Ellada</b>	424 708 187	86 288 597	29 744 454	308 675 136
<b>Ireland</b>	51 096 704	0	4 037 714	47 058 990
<b>Portugal</b>	139 854 914	5 852 657	23 728 888	110 273 369
<b>Total</b>	<b>1 266 593 339</b>	<b>97 093 423</b>	<b>325 920 642</b>	<b>843 579 275</b>

## 2. ECONOMIC ENVIRONMENT AND CONDITIONNALITY

The Council Regulation on the Cohesion Fund<sup>1</sup> sets conditions for financing by the Fund in relation to macro-economic management. No new projects or, in the event of large projects, no new project stages can be financed if the Council finds that a Member State has not implemented its stability or convergence programme in such a way as to avoid an excessive deficit.

In 2004, seven recipient Member States under the Cohesion Fund, including six new Member States, were considered to have an excessive deficit.

For the six new Member States concerned (the Czech Republic, Cyprus, Hungary, Malta, Poland and Slovakia), the Council decided on 5 July 2004 that they were in excessive deficit and recommended that this be corrected by 2005 (Cyprus), 2006 (Malta), 2007 (Poland and Slovakia) and 2008 (Czech Republic and Hungary). On 22 December 2004, the Commission concluded that all except Hungary had taken effective action in response to the Council recommendations, so that no further steps under the EDP were necessary at the time. In January 2005, the Council concluded along the same lines. As regards Hungary, the Council established on 18 January 2005 that Hungary had not taken effective action in response to the Council recommendations and adopted on 8 March a new Council recommendation, requesting Hungary to take effective action by 8 July 2005 regarding additional measures to achieve the 2005 deficit target.

The Council decided on 5 July 2004 that an excessive deficit existed in Greece and recommended that this be corrected by 2005. The Council decided on 18 January 2005 that Greece had taken no effective action in response to this recommendation and on 17 February adopted a decision giving notice to Greece to take measures to remedy this situation. It recommended a rigorous implementation of the budget for 2005 as well as an additional adjustment of at least 0.6% of GDP in 2006, with a new update of the Greek stability programme to be submitted in 21 March 2005 and a deadline for taking the requested additional measures of 21 March. The Council reassessed the situation in Greece on 12 April 2005 on the basis of the Commission Communication of 12 April. It concluded that the Greek government is taking effective action in response to the Council notice.

## 3. THE ACCESSION OF THE TEN CANDIDATE COUNTRIES

On accession on 1 May 2004, all 8 new Member States formerly benefiting from ISPA, together with Cyprus and Malta, met the criteria for eligibility under the Cohesion Fund.

Projects previously adopted under the ISPA financial instrument were automatically transformed into Cohesion Fund projects, and are since then governed by Cohesion Fund rules.

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<sup>1</sup> Article 6 of Council Regulation (EC) No 1164/94 as amended by Council Regulation (EC) No 1264/99.

For 2004-06, €24 billion (current prices) was earmarked for structural assistance in the 10 new Member States acceding to the EU, of which over one third (€8.5 billion) has been allocated to the Cohesion Fund.

**Table:** *Cohesion Fund allocations for the acceding countries 2004-06:*

Country	Mid-range allocations (€ million - 2004 prices)
Kypros	53.94*
Ceska Republika	936.05
Eesti	309.03
Magyarország	1 112.67
Latvija	515.43
Lietuva	608.17
Malta	21.94
Polska	4 178.60
Slovensko	570.50
Slovenija	188.71
<b>Total</b>	<b>8 495.04</b>

\* Including the Financial Instrument for Fisheries Guidance (FIFG)

#### 4. COORDINATION WITH TRANSPORT AND ENVIRONMENTAL POLICIES

##### 4.1. Transport

In 2004, the transport sector accounted for marginally over half (51.8 %) of total Cohesion Fund commitments. As in the past, the Commission asked the Member States to give particular preference to railway projects. The projects adopted in 2004 by Member State are set out in the Annex.

The Cohesion Fund provides funds specifically for transport infrastructure networks relating to trans-European networks. Good coordination between the Structural Funds and the Cohesion Fund is important in order to ensure consistency between the central regions of the Community and those regions which are structurally handicapped by their insular, landlocked or peripheral status.

The revised Decision on Community Guidelines for the development of the trans-European transport network was adopted by the European Parliament and the Council on 29 April 2004. The decision specified 30 priority projects of European interest with a cost of around € 225 billion. The Decision calls on Member States to give priority to these projects. It asks the Member States concerned to pay particular

attention to these projects under the Cohesion Fund and more generally under the Structural Funds.

Following the accession of the new Member States on 1 May 2004 the Commission examined the infrastructure situation in the trans-European network, in particular the cost of the 30 priority projects and projects such as ERTMS and SESAME<sup>2</sup>, and their financing. In the financial perspectives for the period 2007-2013, the Commission proposed an increase in the maximum co-financing rate, following publication in July 2004 ((COM) 475 – 2004) of its in-depth review of the TEN financial framework.

## **4.2. Environment**

The year 2004 was important for the environmental projects which accounted for just under half (48.2 %) of total Cohesion Fund commitments. The priorities in this sector remained the supply of drinking water and the treatment of waste water and solid waste. The Cohesion Fund contributes to Community objectives in relation to sustainable development, especially on the management of natural resources, waste and climatic changes. The projects and operations adopted in 2004 by Member State are set out in the Annex.

The Cohesion Fund contributed to developing the implementation of environmental legislation, not only through the direct financing of infrastructures, but also by providing incentives encouraging the application of directives as part of the preconditions to the granting of support. This concerns thematic interventions such as solid waste and waste-water management and the environment impact assessment (EIA).

The new Member States have set water and solid waste management as important priorities for expenditure. Investments and infrastructure needs remain high in the majority of cases in fields such as solid waste and water (in particular urban waste-water treatment), but also in the fields of air quality and the effort to reduce industrial pollution. Support for environmental infrastructure under the Cohesion Fund is therefore important for the new Member States.

## **5. INSPECTIONS AND CONCLUSIONS**

In Ireland, Spain, Greece and Portugal, 10 project audit missions and 6 audit missions of management and control systems were carried out.

At project level, the main deficiencies observed concerned the procedures for the award of public contracts, although the situation is different between the Member States concerned. With regard to the systems set up by Member States to fulfill the requirements of Commission Regulation (EC) n°1386/2002 on the management and control systems, progress was achieved in 2004, although some difficulties were identified in 2003 in Greece, Spain and Portugal and communicated to the national authorities in the framework of the partnerships.

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<sup>2</sup> ERTMS : European Rail Traffic Management System. SESAME : Single European Sky Air Traffic Management Modernisation Programme.

All ten new Member States transmitted the description of their management and control systems to the Commission which found that they were in conformity with the standards required by Community legislation. These favorable opinions suggest that a good start has been made in putting in place the right implementation systems, which will be subject to further checks by the Commission in the coming years. Thus in 2005, in accordance with the audit strategy of the Directorate-General for Regional Policy, there will be on-the-spot checks, and conformity tests made randomly on a selected sample of projects. The tests will be made in all ten new Member States.

Ten project audit missions were carried out in Latvia, Hungary, Estonia, Poland, Czech Republic, Slovakia and Slovenia. These audits covered primarily the examination of the financial flows of the projects and compliance with the rules on eligibility of expenditure.

## **6. IRREGULARITIES AND SUSPENSION OF AID**

Under Article 3 of Commission Regulation (EC) n°1831/94<sup>3</sup> (on irregularities and the recovery of the amounts unduly paid by the Cohesion Fund and the organization of information systems), the beneficiary Member States must inform the Commission on any cases of irregularities which have been the subject of initial administrative or judicial findings of fact.

For 2004<sup>4</sup>, three of the four old Member States, namely Greece, Spain and Portugal, communicated to the Commission a total of 275 cases of irregularities (262, 1 and 12 respectively). Ireland informed the Commission, under the above-mentioned Regulation, that it had not registered any irregularities during 2004. The cases communicated by the Greek authorities involved € 126 058 589 in Community contribution. The majority of cases concerned irregularities in the form of a failure to respect fully the rules on public procurement and the remainder concerned the presentation of non-eligible expenditure. The case communicated by the Spanish authorities involved € 384 407 and the 12 cases communicated by the Portuguese authorities involved € 22 234 344 of Community contribution. Furthermore, two of the new Member States, namely Poland and Latvia, communicated to the Commission a total of six cases of irregularities (5 and 1 respectively). The cases communicated by the Polish authorities involved € 802 426 in Community contribution and the case communicated by the Latvia authorities involved € 1 273. The type of irregularities detected is of the same kind as mentioned above.

## **7. EVALUATION**

In late 2004 DG Regional Policy launched a dialogue with all Cohesion Fund beneficiary Member States on "quality assurance capability" (QAC). The Commission provided a description, closely based on the requirements of the Regulation, of the functions that should be performed before an application reaches

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<sup>3</sup> OJ L 191 of 27.7.1994, p.9.

<sup>4</sup> Situation to 14.03.05; these figures do not contain yet the communications under the 4th quarter of 2004.

the Commission. The Member States were invited to undertake a self-assessment of the performance of the existing mechanisms throughout their administration with the aim of identifying any potential obstacle to the preparation of projects. In the light of such a self assessment, relevant technical assistance proposals could be proposed for co-financing before the end of the 2000-2006 period.

In accordance with the provisions of Article 13 of Regulation (EC) n°1164/94, the Commission and Member States must ensure the effectiveness of Community aid when implementing the projects co-financed under the Cohesion Fund. This implies the use of monitoring and evaluation techniques. The Commission and Member States can carry out an appraisal and an evaluation of projects where necessary in cooperation with the European Investment Bank.

At a methodological level, each project application is consequently accompanied by a cost-benefit analysis (CBA). The CBA should show that the socio-economic benefits identified in the medium term are commensurate with the financial support provided. It is for the Commission to examine this evaluation with the help of the cost-benefit analysis guide published in 2003<sup>5</sup> which is a common reference used both by the project sponsors and by the Commission itself.

In January 2004, DG REGIO launched an ex-post evaluation of a sample of 200 projects co-financed by the Cohesion Fund (1993-2002) in Greece, Spain, Ireland and Portugal. The synthesis report and the four country studies were finalised in January 2005, following close cooperation with the services of the Commission directly concerned. The main findings are presented in the Annex (point 5.4.).

## **8. INFORMATION AND PUBLICITY**

Two information meetings bringing together all 25 Member States were held in Brussels, on 24 June and 24 November 2004. At the November 2003 meeting, several delegations expressed the wish to see the Commission Decision n° 96/455/EEC of 25 June 1996 concerning information and publicity measures for CF reviewed by the Commission services. Indeed, they claimed that certain measures had proved too complex to implement and some provisions proved to be inconsistent with the Regulation n°1164/94 as revised in 1999. A Commission Regulation was then adopted in April 2004<sup>6</sup>, replacing the 1996 Commission Decision.

With a view to facilitating implementation of this new regulation, an explanatory fact sheet was published on the Inforegio website [http://europa.eu.int/comm/regional\\_policy/sources/docoffic/official/regulation/regpub\\_fr.htm](http://europa.eu.int/comm/regional_policy/sources/docoffic/official/regulation/regpub_fr.htm) under the supervision of the Directorate-General for Regional Policy. For the same purpose, the Regulation was also presented in DG Regio's magazine, Inforegio Panorama (N.14-September 2004), where a full set of articles were dedicated to the Cohesion Fund.

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<sup>5</sup> [http://europa.eu.int/comm/regional\\_policy/sources/docgener/guides/cost/guide02\\_fr.pdf](http://europa.eu.int/comm/regional_policy/sources/docgener/guides/cost/guide02_fr.pdf)

<sup>6</sup> Commission Regulation (CE) n°621/2004 « laying down rules for implementing Council Regulation (EC) n°1164/94 as regards information and publicity measures concerning the activities of the Cohesion Fund », 1 April 2004

Additionally, in order to provide basic information on the Cohesion Fund for the general public, the Regional Policy DG updated the Cohesion Fund reference website ([http://europa.eu.int/comm/regional\\_policy/funds/procf/cf\\_en.htm](http://europa.eu.int/comm/regional_policy/funds/procf/cf_en.htm)). In place since spring 2005, the site now provides links to legal documents, financial data, maps and project examples in 19 Community languages plus Bulgarian and Romanian.