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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**

Real GDP in Greece has increased by around 3½% in 2005, bringing GDP per capita in PPS to above 83% of the EU25 average. Growth has mainly been driven by domestic demand. HICP inflation in 2005 was recorded at 3.5%. The general government deficit attained 4.3% of GDP in 2005 which compares with 2.8% of GDP initially targeted in the 2005 Budget Law. The difference mainly reflects carry-over effects of the statistical revisions of 2002-2004 deficit outcomes that took place in March and September 2005 and lower-than projected growth. Government debt remained close to 108% of GDP.

Greece submitted its fifth update of the stability programme covering the period 2005-2008 on 21 December 2005. The macro-economic scenario underlying the programme foresees robust real GDP growth, at an average level of 3.9% on an annual basis. The growth momentum of the Greek economy is supported by a series of structural reforms aimed at enhancing productivity and employment. Inflation is expected to decelerate gradually, from 3.2% in 2006 to 2.7% in 2008. The update's budgetary strategy aims at reducing the deficit below the 3% of GDP threshold by 2006, in accordance with the Council notice under Article 104(9), and at pursuing fiscal consolidation towards a balanced budget thereafter. The projected adjustment is achieved through both higher tax revenues and lower expenditures.

In its Opinion on the updated stability programme of 14 March 2006, the Council noted that it was in line with the Council recommendations in accordance with Article 104(9). However, the Council also noted that this correction of the excessive deficit would be based on one-off revenues worth 0.6% of GDP. Moreover, there were risks associated with the favourable macroeconomic scenario, while the settlement of pending statistical issues might lead to an upward revision of deficit figures, with possible carry-over effects in 2006 and beyond. The Council invited Greece to implement the necessary permanent measures leading to the correction of the excessive deficit by 2006, while pursuing fiscal consolidation toward the medium-term objective afterwards, and implement reforms to ensure the long-term sustainability of public finances.

#### **1.1.2. Spain**

Spain's real GDP is estimated to have grown by 3.4% in 2005, bringing GDP per capita in PPS close to the EU average. HICP inflation in 2005 was recorded at around 3 ½ %. The general government surplus for 2005 is estimated to attain 1.1 % of GDP, representing an improvement of around 1 percentage point of GDP from the 2005 target, and around 1 ¼ % of GDP better than the 2004 outcome. This improvement is mainly a result of higher-than-expected revenues, while expenditures would have been met as planned. The debt-to-GDP ratio was 43% in 2005.

Spain submitted the seventh update of its stability programme, covering the period 2005-2008, on 30 December 2005. The update foresees stable GDP growth at around 3 ¼ % until the end of the programme period, exclusively sustained by domestic demand, especially by private consumption and residential construction. External trade is expected to continue weighing on growth and external net borrowing is projected to widen further to above 8 % of GDP by 2008. Inflation is forecast to fall from 3 ½ % in 2005 to 2 ¼ % in 2008. The budgetary strategy outlined in the update aims at (i) maintaining budgetary stability over the economic cycle, (ii) prioritising productive government expenditure and policies aimed at improving the quality of public finances and (iii) ensuring the long-term sustainability of public finances as a necessary means of guaranteeing the sufficiency and sustainability of social spending. The general government surplus is planned to decline from 1% of GDP in 2005 to about ½ % in 2008.

In its Opinion on the update of 14 March 2006, the Council noted that, overall, the budgetary position of Spain is sound and the budgetary strategy provides a good example of fiscal policies conducted in compliance with the Pact. Maintaining a strong budgetary position is important in the light of rising external imbalances. The Council invited Spain to implement the already envisaged measures to address the long-term budgetary implications of ageing populations.

### **1.1.3. Portugal**

In 2005, GDP grew by ¼% in real terms, which reveals the persistence of the weak economic situation observed since the beginning of the decade. Therefore, divergence with the rest of the EU has continued with GDP per capita in PPS being now estimated at some 75% of the EU average. HICP inflation fell to an annual 2.1%. The 2005 government deficit was almost 5¾% of GDP, against a planned deficit of some 6% of GDP, which led to the excessive deficit procedure being initiated for Portugal in mid-2005. The sharp deterioration from previous years was largely due to the non-implementation of sizeable deficit-reducing one-off operations and a significant increase in expenditure. The government debt ratio rose to more than 65% of GDP, up from 59% in 2004.

The most recent update of the Portuguese stability programme, covering the period 2005-2009, was submitted on 15 December 2005. It projects real GDP growth to pick up over the programme period to 1.1% in 2006, 1.8% in 2007 and to eventually 3% by 2009. Growth is assumed to be driven by domestic demand and exports, although the external contribution is expected to be close to neutral over the programme period. The programme targets a decline of the general government deficit ratio to 4.6% of GDP in 2006, 3.7% in 2007, 2.6% in 2008 and to 1.5% in 2009. It envisages the fiscal adjustment to take place on the back of structural measures on both the revenue and the expenditure side: while in the short term, it relies mainly on additional revenues, a primary expenditure retrenchment is expected to support the deficit reduction in a progressive manner, in particular from 2007 onwards.

In its Opinion on the updated stability programme of 14 March 2006, the Council considered the macroeconomic scenario to be based on favourable growth assumptions, especially in the outer years of the programme, and highlighted risks coming also from the fact that important elements of the strategy to contain

expenditure still have to be put into place. Overall, the Council noted the programme to be broadly consistent with a correction of the excessive deficit by 2008 on condition that the announced measures are fully implemented and that further measures still necessary to underpin the fiscal strategy are adopted. The Council invited Portugal to adopt and implement with rigour the structural measures envisaged in the programme; control expenditure and improve the budgetary process; improve long-term sustainability; and bring the debt ratio onto a firm downward path.

#### **1.1.4. Cyprus**

Real GDP in Cyprus is estimated to have grown by more than 4% in 2005, bringing GDP per capita in PPS to slightly above 82% of the EU25 average, the highest of the ten recently acceded Member States. HICP inflation in 2005 was recorded marginally above 2%. The general government deficit for 2005 is estimated to attain 2½% of GDP, representing an improvement of almost ½ of a percentage point of GDP from the 2005 target in the Budget Law. The better-than-targeted deficit outcome is attributed to higher-than-expected growth (especially private consumption), leading to higher indirect tax revenues. In addition, the tax amnesty enacted over 2004-2005 provided more receipts than initially planned. The debt-to-GDP ratio was estimated at 70½% in 2005.

Cyprus submitted the second update of its convergence programme, covering the period 2005-2009, on 14 December 2005. The update envisages GDP growth of around 4¼% over the programme period. Building on the reduction in the deficit to 2½% of GDP in 2005, the budgetary strategy aims at further consolidation of public finances with the objective of attaining a structural deficit of ½% of GDP by the end of the programme's period.

In its Opinion on the updated convergence programme of 14 March 2006, the Council noted that based on the estimated outturn for 2005 and taking account of the balance of risks to the budgetary targets, the budgetary stance in the programme seemed consistent with a correction of the excessive deficit by 2005 and that it seemed to provide a sufficient safety margin against breaching the 3% of GDP deficit threshold with normal macroeconomic fluctuations from 2008. The Council invited Cyprus to ensure consolidation towards the medium-term objective and to control public pension expenditure while improving the long-term sustainability of the public finances.

#### **1.1.5. Czech Republic**

Real GDP growth has been accelerating, reaching 6% in 2005. Economic activity was driven mainly by net exports and the trade balance reached a surplus for the first time since 1991. GDP per capita in PPS is estimated to have reached almost 72% of the EU average. Despite strong growth, inflation in 2005 was low, standing at 1.6%. Developments in public finances were better than expected. The general government deficit is estimated at 3.2% of GDP, far below the target of 4.7%. This was partly a result of stronger growth, but also the budgetary rules contributed by allowing rolling over unspent funds. Government debt is estimated at 36.2% of GDP in 2005.

The Czech Republic submitted the second update of its convergence programme, covering the period 2005-2008, on 24 November 2005. The baseline macroeconomic scenario presented in the programme expects real GDP growth to be 4.8% in 2005 and 4.4% in 2006, followed by a slight decrease to 4¼% in 2007-2008. The programme aims at reducing the deficit to below the 3% of GDP reference value in 2008. The reduction in the general government deficit should be achieved mainly by a cut in the expenditure ratio while revenues are planned to remain broadly unchanged as a percent of GDP.

In its Opinion on the updated convergence programme of 24 January 2006, the Council considered the overall macroeconomic scenario as plausible, tilted to favourable in 2008. The risks to the budgetary projections were assessed as broadly balanced. On the one hand, the track record of cautious budgetary planning indicates that outcomes could be better than targeted (as was the case in 2004 and 2005). On the other hand, the programme refers to several (proposed) measures in the area of social spending. Moreover, if the expenditure carryovers (about 1½% of GDP in 2005) were spent in addition to all budgeted expenditures, budgetary outcomes could be worse than targeted, in particular in the election year 2006. In view of the above assessment, the Council invited the Czech Republic to strengthen the structural adjustment effort, to enhance the quality of budgetary planning and to improve the long-term sustainability of the public finances.

#### **1.1.6. Estonia**

Real GDP growth accelerated in 2005 to an estimated 9.6% year-on-year. GDP per capita in PPS as compared with the EU average increased to around 55% , with buoyant growth further accelerating the rapid catching-up process. Estonia posted a higher-than-projected general government surplus of an estimated 1.8% of GDP in 2005, more than one percentage point above the original budget target. The deviation occurred due to stronger-than-budgeted real growth coupled with strict nominal expenditure ceilings and increasingly strong tax collection. Government debt was around 5% of GDP at the end of 2005, which is the lowest in the EU-25.

The updated convergence programme of Estonia for the period 2005-2009 was submitted on 1 December 2005. The programme projects output growth to accelerate from 6.5% in 2005 to 6.6% in 2006 and to level out at around 6.3% p.a. until 2009, implying an annual average growth of 6.4% over the entire programme period. The programme aims at achieving a budgetary surplus of 0.3% of GDP in 2005 (which was outperformed by 1.5 percentage points, see above), 0.1% in 2006 and balanced budgets throughout the rest of the programme period. Both expenditure and revenue ratios are projected to decline gradually.

On 14 February 2006 the Council examined the programme. The Council stated that the macro-economic scenario is based on markedly cautious assumptions and that the risks to the budgetary projections appear on the upside. Overall, the budgetary position is sound and Estonia's budgetary strategy provides a good example of fiscal policy conducted in compliance with the Pact. Nevertheless, in view of a budgetary outturn in 2005 significantly better than estimated in the programme, it would be appropriate for Estonia to aim for a higher budgetary surplus in 2006 as well as in the subsequent years, in order to continue supporting the correction of the external imbalance.

### 1.1.7. Hungary

After the acceleration to 4.6% in 2004, real GDP growth is expected to have somewhat slowed down to around 4%, bringing GDP per capita in PPS to around 62% of the EU average. The main driver behind GDP growth was the strong performance in gross fixed capital formation and net exports. The 2005 budget deficit is likely to have been above 6% of GDP compared to a target of 3.6% of GDP, thereby significantly missing the budget target for the fourth year in a row. The main reasons for this strong deviation are statistical reclassifications of public-private-partnership motorway projects, revenue shortfalls based on overly optimistic budget assumptions, and expenditure overruns.

The 2005 update of the Hungarian convergence programme was submitted on 1 December. The period covered by the programme is from 2005 to 2008, and the target year set by the Hungarian authorities for correcting the excessive deficit is 2008. The macroeconomic scenario presented in the update envisages that real GDP growth remains stable at about 4%, driven by investment and exports. The deficit is foreseen to fall from 6.1% in 2005 to 1.9% of GDP in 2008<sup>1</sup>. The decline in the revenue ratio by some 3½ percentage points of GDP (mainly the result of the newly introduced five-year tax cut strategy) is projected to be more than offset by a sharp reduction of the expenditure ratio by some 7½ percentage points of GDP between 2005 and 2008.

In its Opinion of 24 January 2006 on the update of the convergence programme, the Council considered the macroeconomic scenario to be based on plausible growth assumptions, although favourable in the outer year. However, meeting the budgetary targets in the update was seen to be subject to a substantial risk since the tightening of expenditure was not based on clearly defined and quantified measures. The Council invited Hungary to present by 1 September 2006 at the latest a revised convergence programme update which identifies concrete and structural measures that are fully consistent with its medium-term adjustment path.

### 1.1.8. Latvia

In 2005 real GDP growth exceeded 10%. GDP per capita in PPS reached around 46% of the EU average. Investment and private consumption were the driving factors for this remarkably strong growth performance. Buoyant export growth outpaced import growth for the first time since 2000 though the external deficit remained close to 13% of GDP. HICP inflation remained high, averaging 6.9% for the year mainly due to a sharp rise in oil and food prices. The general government deficit is estimated to have been around 1% of GDP, considerably lower than the original budget target of 1.5%. The deviation resulted mainly from higher-than-expected tax revenues and slower-than-anticipated implementation of EU funds related projects. The debt-to-GDP ratio was very low (12.6% of GDP).

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<sup>1</sup> These budgetary projections exclude the impact of the Eurostat decision of 2 March 2004 on the classification of funded pension schemes, which needs to be implemented by the time of the spring 2007 notification. Including this impact, the deficit figures would be 7.4% of GDP in 2005 and 3.4% in 2008.

On 30 November 2005 Latvia submitted its updated convergence programme covering the period 2005-2008. The programme update projects real GDP growth to ease to 7.5% in 2006, followed by a further slight deceleration to 7.0% in both 2007 and 2008. Private consumption and investment are expected to remain the main driving forces of growth, while net exports contributions are expected to turn modestly positive. The update aims at a modest reduction of the general government deficit, from 1.5% of GDP in 2006 to 1.3% in 2008. The starting position is nevertheless likely to prove to have been much better than foreseen in the programme where the 2005 deficit seems to have been overestimated. The possible structural deterioration in 2006, implied by maintaining the 2006 target given the much better 2005 outcome, would correspond to significant fiscal easing in a context of continuing very high demand pressures and apparent macroeconomic imbalances.

In its Opinion on the update on 14 February 2006, the Council considered that the budgetary outcome could be worse than projected in the programme. Accordingly, the Council concluded that it would be appropriate for Latvia, also in the light of the need to ensure sustainable convergence, including by reducing the external imbalance and containing inflation, to pursue more ambitious budgetary positions than currently planned, including for 2006, notably by bringing forward the attainment of the medium-term objective set in the programme, maintaining it during the programme period and avoiding pro-cyclical fiscal policies in “good times”.

#### **1.1.9. Lithuania**

Economic activity remained strong in 2005. Both GDP growth and the general government deficit performed better than estimated in the Commission services' autumn 2005 forecast. GDP growth is preliminary estimated to have reached 7.5% in 2005, led by robust domestic demand. GDP per capita in PPS increased further to some 51% of the EU average. Government deficit is estimated to have been about 1% of GDP (against a target of 2.1% of GDP), stemming from higher-than-planned revenues while expenditure plans were broadly achieved.

The second update of the Lithuanian convergence programme, covering the period 2005-2008, was submitted on 1 December 2005. The macroeconomic scenario presented in the programme expects real GDP growth to average 6.3% in 2005-2008. The programme's main goal is to reduce the general government deficit in structural terms to or below 1% of GDP. Overall, the programme relies on a favourable economic outlook that would create good conditions for fiscal retrenchment. The consolidation foreseen in the programme is expenditure-driven.

In its Opinion issued on 14 March 2004, the Council considered that the convergence programme envisages to progress towards the medium-term objective. However, the budgetary strategy outlined in the programme may not be sufficient to ensure that the programme's MTO will be reached in 2008, as planned in the update. The Council invited Lithuania to strengthen the structural adjustment effort and to aim for a more demanding deficit target in 2006.

#### **1.1.10. Malta**

Malta's real GDP is estimated to have grown by 0.8% in 2005, bringing GDP per capita in PPS to slightly less than 70% of the EU average. HICP inflation in 2005

was recorded at around 3%. The general government deficit for 2005 is estimated to attain 4.2% of GDP, representing a deterioration of around ¼ of a percentage point of GDP from the 2005 target in the 2004 Budget Law. This reflects higher-than-expected expenditure (especially on subsidies and social transfers) which is not fully compensated by higher tax revenues. The debt-to-GDP ratio was 77¼% of GDP in 2005.

Malta submitted the second update of its convergence programme, covering the period 2005-2008, on 6 January 2006. The update foresees a gradual pick-up in economic activity until the end of the programme period. From 0.9% in 2005, GDP growth is forecast to strengthen to just above 1% in both 2006 and 2007. The update projects a further acceleration of growth to 2.0% in 2008. The budgetary strategy outlined in the update aims at reducing the deficit to below the 3% of GDP reference value in 2006 and at pursuing fiscal consolidation to reach a deficit of 1¼% by the end of the programme period.

In its Opinion on the updated convergence programme of 14 March 2006, the Council noted that although the budgetary outcomes could turn out worse than targeted in the update, Malta seemed on track to correct the excessive deficit by 2006 provided that the budget is fully implemented and the macroeconomic risks are duly addressed. Thereafter, the adjustment towards the medium-term objective (to be reached in 2008) is in line with the Pact. The Council invited Malta to ensure that the excessive deficit will be corrected in 2006 and that the subsequent budgetary consolidation towards the programme's medium-term objective will be sustainable, in order to obtain a satisfactory decline in the debt ratio from 2006 and improve the long-term sustainability of public finances.

#### **1.1.11. Poland**

Real GDP in Poland has increased by 3.2% in 2005. GDP per capita in PPS was slightly below 48% of the EU average and was the second lowest in the EU. Poland pursued a successful policy of disinflation in the recent years, resulting in HICP inflation of around 2% in 2005. The 2005 general government deficit is estimated at 2.9% of GDP in the January 2006 update of the convergence programme compared to a target of 3.9% of GDP. The better-than-expected outcome was mainly determined by the budgetary performance of the central government, in particular the state budget, which recorded (on a cash basis) higher-than-planned direct tax revenues and an under-execution of expenditures, reducing the deficit by about 0.7 percentage points compared to the budget plan for 2005.

Poland submitted its updated convergence programme, covering the period 2005-2008, on 19 January 2006. The programme's macroeconomic scenario expects economic growth to gradually strengthen from 4.3% in 2006 to 5.0% in 2008. The programme aims to gradually reduce the general government deficit so as to bring it below the 3% of GDP Treaty reference value by 2009, as opposed to a deadline of 2007 set in the July 2004 Council recommendation under article 104(7). However, no explicit deficit target is set for the year 2009, which is beyond the programme

horizon, and the target for 2007 is unchanged at 2.2% of GDP<sup>2</sup>, with all expenditure reforms postponed until 2007 and 2008.

In its Opinion issued on 14 March 2006, the Council noted that the projected budgetary outcomes could turn out worse despite a good track record in achieving the 2004 and 2005 targets. The Council noted that the convergence programme envisages some progress, but not the effective correction of the excessive deficit in 2007, and that the Commission intends to recommend further steps under the excessive deficit procedure as required by the Stability and Growth Pact. In the meantime, Poland should strengthen the adjustment (in particular in 2006), enhance the institutional framework of public finances and safeguard the results of the pension reform.

#### **1.1.12. Slovakia**

Real GDP growth was around 6% in 2005, driven by domestic demand, particularly by investment and private consumption. The 2005 level of GDP per capita in PPS was estimated at some 55% of the EU-25 average. HICP inflation was just below 3%. The general government deficit for 2005 is estimated at 3.1% of GDP (net of the pension reform costs) but compared to the 2005 budget it includes a cancellation of some developing countries' debt amounting to about 0.8% of GDP. Without the debt cancellation the deficit is estimated at around 2.3% of GDP which is far below the 2005 general government deficit target of 3.4% of GDP.

Slovakia submitted its updated convergence programme on 1 December 2005. It covers the period 2005 to 2008 and, in addition, provides indicative projections until 2010. The programme projects real GDP growth at an average rate of 5.6% over the programme period and, starting with a negative output gap in 2005, implies a marked swing in cyclical conditions. The programme aims at reducing the deficit to below the 3% of GDP reference value in 2007 (including the costs of the pension reform), in line with the Council recommendation under Article 104(7) of 5 July 2004. The planned fiscal consolidation is back-loaded, mainly concentrated in 2007, and is primarily expenditure based.

The Council examined the updated convergence programme of Slovakia on 24 January 2006. It concluded that the programme's macroeconomic scenario appeared to be based on plausible growth assumptions and that the risks to the budgetary projections seemed broadly balanced. The budgetary stance in the programme was deemed consistent with a correction of the excessive deficit by 2007 as recommended by the Council. However, it was considered as potentially insufficient to ensure that the programme's medium-term objective was achieved in 2010, as envisaged in the programme. The Council invited Slovakia to strengthen the structural adjustment effort (to speed up the attainment of the MTO) and to reinforce the expenditure framework.

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<sup>2</sup> This figure is calculated not yet excluding the second pillar pension scheme. By the time of the spring 2007 notification the Eurostat decision of 2 March 2004 on the classification of funded pension schemes will have to be implemented, and this will result in a general government deficit of 4.1% of GDP.

### 1.1.13. Slovenia

The economy maintained robust growth at close to 4% in 2005, as the net export contribution turned positive while domestic demand withered. GDP per capita in PPS reached 80% of the EU average. Inflation was more volatile but continued to decline on average, dropping to 2.5% as the pressures linked to the oil price hike and higher excise duties on tobacco were well contained. In 2005, fiscal consolidation was on track with the general government deficit estimated at around 1.5% of GDP (against a target of 2.1% of GDP) and the gross debt accounting for 29% of GDP.

The second update of the convergence programme, covering the period 2005-2008, was submitted on 8 December 2005. The macro-economic scenario underlying the programme foresees real GDP to grow close to 4% while inflation settles at around 2.5%. Slovenia's budgetary strategy over the medium-term aims at achieving a structural deficit of 1% of GDP. Most of the fiscal adjustment is postponed until the last year of the programme due to the additional efforts to cope with the phasing out of the payroll tax and reform of the direct tax regime.

In its Opinion on the update of the Slovene convergence programme, adopted on 14 February 2006, 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. Furthermore, the medium-term objective (MTO) was judged to be consistent with the revised Stability and Growth Pact. The Council invited Slovenia to make more rapid progress towards the MTO and to improve the long-term sustainability of public finances.

## 1.2. Conditionality

The Council Regulation on the Cohesion Fund<sup>3</sup> attaches macro-economic conditions to the use of the Fund. It 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." This reflects the role of the Cohesion Fund as an instrument of budgetary support at national level helping Member States to maintain macro-economic rigour.

Five recently acceded Member States were confirmed as having an excessive deficit in 2004 – the Czech Republic, Cyprus, Malta, Poland and Slovakia. No further action was deemed necessary by budgetary developments in 2005, after the Commission concluded in December 2004 that all of the Member States concerned had taken effective action in response to the Council recommendations. An abrogation of the excessive deficit procedure has yet to take place. Cyprus was able to correct its excessive deficit by 2005, while the convergence programmes of the other countries (except for Poland) are in line with the Council recommendations, with target dates for the correction of the excessive deficit, respectively in 2006 for Malta, in 2007 for Slovakia, and in 2008 for the Czech Republic. The 2005 update of the Polish

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<sup>3</sup> Based on Article 6 of Council Regulation (EC) No 1164/94, as in the codified version presented by the Commission.

convergence programme proposes to reduce general government deficit below 3% by 2009, as opposed to the 2007 deadline in the July 2004 Council recommendation. In the opinion of the Council, this does not constitute an effective correction of the excessive deficit by 2007, and the Commission intends to recommend further steps under the excessive deficit procedure as required by the Stability and Growth Pact.

In 2005, three Member States covered by the Cohesion Fund (Greece, Hungary and Portugal) were involved in additional steps in the excessive deficit procedure.

For Portugal, the excessive deficit procedure was restarted after the 2004 abrogation of the previous procedure initiated in 2002. After the deficit outturn of 2.9% in 2004, the Council reopened the excessive deficit procedure in reaction to the foreseen 6.2% deficit for 2005, and recommended a correction of the situation by the end of 2008 at latest. The Council, in its Opinion on the 2005 update of the Portuguese stability programme, noted that the programme was consistent with the correction of the excessive deficit by 2008.

The Council decided in January 2005 that Greece and Hungary had not taken effective action in response to the Council recommendations in July 2004. In the case of Greece, however, the Commission concluded in April 2005 that effective action was being taken to bring its budget deficit below 3% in 2006 in response to the Council notice of February 2005. The Council notice extended the deadline for the correction of the excessive deficit to 2006, and this is mirrored in the deadline set by the 2005 update of the Greek stability programme for remedying the situation.

As regards Hungary, the Council issued in March 2005 a new recommendation requesting the country to introduce additional budgetary measures by July 2005 and to correct its excessive deficit by 2008. In July 2005, the Commission issued a communication to the Council stating that the Hungarian authorities have taken effective action for the 2005 budget deficit, but further action may be required and important and decisive adjustments are needed to reach the 2006 deficit target. In October 2005, the Commission re-assessed the budgetary situation of Hungary and recommended to the Council to decide for the second time in 2005 that Hungary has failed to take effective action to correct its deficit. The re-assessment concluded that budgetary targets for 2005 and 2006 would be missed by a large margin, calling into question the previously established 2008 deadline for the correction of the excessive deficit. On the basis of this situation, in November 2005 the Council issued a second Article 104(8) decision for Hungary. The 2005 update of the Hungarian convergence programme was submitted in December 2005, with a plan to bring down the excessive deficit by 2008. This was considered to be subject to substantial risk by the Council in its opinion, as the tightening of the expenditure was not based on clearly defined and quantified measures. Hence, the Council invited Hungary to present, by 1 September 2006, a revised update of its convergence programme. In the meantime, Hungary is advised to carry on implementing the measures to reach its budgetary objectives for 2006 and beyond.

Conditionality provisions will continue to apply after 2007: the proposed new regulation on the Cohesion Fund for the next programming period<sup>4</sup> further clarifies the application of the conditionality clause. In particular, the Council will decide on the suspension of either the totality or part of the financial assistance from the Fund for the Member State concerned with effect from 1<sup>st</sup> January of the year following the decision. The suspension will concern new commitments.

## **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 contributed 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 on the management of natural resources, waste management and in relation to investments that seek to limit impacts on climatic changes.

During 2005, the Cohesion Fund continued to contribute to 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 with territorial dimension such as nature preservation, solid waste and waste-water management and the environmental impact assessment (EIA).

The new Member States have set water and solid waste management as important priorities for expenditures. Investments and infrastructure needs remain high in the majority of cases in order to meet the conditions of the key directives 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

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<sup>4</sup> Article 4, Proposal for a Council Regulation establishing the Cohesion Fund, COM(2004) 494 final, 2004/0166(CNS).

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

#### Drinking water

The Commission services took into account the provisions of Directive 2000/60/EC – Water framework Directive – in the appraisal of the co-financing applications.

#### Waste water

With regard to the urban waste water, the projects concerning waste-water treatment may be financed only at the suitable level (primary, secondary or tertiary according to the designation of the areas, respectively less sensitive, normal or sensitive), in accordance with Directive 91/271/EEC, modified by Directive 98/15/CE.

The Commission, in the appraisal of co-financing applications, also took account of the inclusion of the projects in integrated functional systems and of their integration into basin plans.

#### Environmental impact assessment

The requirement of the EIA procedure for the projects covered by Directive 85/337/EEC amended by Directive 97/11/EC, and the evaluation under Article 6 of Directive 92/43/EC "Habitats" made it possible to ensure a high environmental requirement compliance, the consultation of competent environmental authorities and the participation of the public. In some cases, minimization and compensation measures were implemented.

#### Waste

In the field of urban waste processing, the Commission evaluated 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 dumping sites and the guidelines on waste hierarchy as well as the thematic strategy on prevention and recycling of solid waste.

The implementation of the national strategic Plans for the reduction of biodegradable urban waste in the dumping grounds made it possible to co-finance investments contributing substantially to the reduction in the methane emissions coming from the dumping grounds and contributing to the processing of waste, for example composting.

#### Climatic change

The examination of the environmental policy 2004 stresses that to help fight against the climatic change one must continue promoting the integration of the environmental aspects in the other policies, in particular in transport.

With its Communication on "the examination of the Strategy of the European Union for sustainable development for 2005: first assessment and future guidelines" (COM(2005)37 final), the Commission observes that despite the targeted decoupling of transport and GDP growth, the volume of transports continued to increase faster

that GDP and that this evolution has consequences in many areas, notably traffic congestion, health problems due to atmospheric pollutants, as well as higher CO2 emissions which influence EU objectives concerning climatic change. To limit the negative effects of this trend in transport growth, the Commission encourages the shift from road transport to more environment-friendly transport modes like clean buses, inland waterways or rail.

#### Polluter pays principle

The projects financed under the Cohesion Fund made it possible to implement the polluter pays principle by the application of various aid levels. The application of the polluter pays principle will be strengthened by the application of Directive 2000/60/EC (Water Framework Directive). This Directive has been in force since 23 December 2003.

#### Partnership

The environmental monitoring of projects is also carried out by Member States. The competent authorities in the field of environment are associated to the project assessment by the means of 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).

The Community guidelines for the development of TEN-T were established by Decision n°1692/96/EC as amended by Decision n°884/2004/EC. The Decision specified 30 priority projects of European interest, out of which 14 are the revised Essen projects. The Decision calls on Member States to give priority to these projects.

In agreement with Article 3 of Regulation (EC) 1164/94 as amended by Decision 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 on TEN-T.

### **2.1.4. Public procurement**

Article 8 of Regulation (EC) 1164/94 provides that projects financed by the Fund shall be in conformity with inter alia the rules on the award of public contracts. In order to guarantee successful completion of the projects financed by the Fund, Member States must verify, on a regular basis, that operations financed by the Community have been properly carried out, prevent irregularities and recover any amount lost as a result of an irregularity. Contract notices sent for publication in the Official Journal of the European Union shall also specify those projects for which Community assistance has been applied for or granted.

To ensure that contract award procedures comply with the Community rules, the Commission encourages the national authorities to adopt various preventive measures, such as appropriate training for staff involved in awarding contracts and issuing procedural guidelines.

The Commission will ensure that national rules concerning Public Procurement are in conformity with Community law by checking the transposition of the Public Procurement Directives and request the correction of irregularities in the application of Community law, especially when Community funding is concerned.

No later than 31 January 2006, Member States must bring into force the legal measures necessary to comply with the next Public Procurement Directives 2004/17/EC and 2004/18/EC<sup>5</sup>.

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

### **2.2.1. Environment**

#### **Greece**

The Strategic Reference Framework (SRF) for environment projects is described in a separate chapter of the Operational Program “Environment” of the Greek Community Support Framework 2000-2006. This Operational Program was approved by the Commission on 24 July 2001 (Decision E (2001) 1357). The SRF is a reference tool for interventions which aim at enhancing the compliance of the country with its obligations arising from the EU environmental legislation and at contributing to sustainable development.

The financial contribution of the Cohesion Fund focuses on some of the major needs of Greece in the field of drinking water, the treatment of urban waste water and the disposal of solid waste.

In relation to solid waste management, the overall action plan is based on the 2003 Revised National Solid Waste Management Plan which in turn is linked to Regional Management Schemes which have been subject to revision as well. The overall objective is the correct management of all categories of solid waste and, where necessary, the restoration of environmental conditions which have been polluted or otherwise degraded by waste. A planning has also been made for the treatment of urban waste water, in accordance with the requirements of Directive 91/271/EEC.

In 2005, the implementation of the SRF for environmental projects encompassed investments in the sectors of waste water treatment and the rehabilitation of one environmentally important lake. In co-operation with the national authorities, efforts need to be concentrated on the realisation and completion of investments in the field

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<sup>5</sup> Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors and Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts.

of solid waste and waste water, so as to meet the requirements of the Community legislation.

## **Spain**

The priority sectors for interventions to be financed through the Cohesion Fund for the Programming period 2000 – 2006 are:

- Water Supply
- Sewerage 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. A coordinated approach is ensured with the interventions within the same sectors financed through the Structural Funds. The contents of each of the sectoral strategic frameworks were already described in the Annual Report 2000 for the Cohesion Fund.

## **Portugal**

The environment strategic reference framework for Portugal for 2000-2006 provides the coordination tool between Cohesion Fund and the Structural Funds. When the reference framework was adopted, it defined as its main objectives to further develop and complete the basic environment infrastructure, to ensure conditions for sustainable development, environmental protection and management of natural resources. The Cohesion Fund projects approved in 2005 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).

Priorities of both Cohesion Fund and OPI are to finance projects leading to the achievement of the standards laid down in the environmental legislation of EU.

The Cohesion Fund provided in 2005 in Czech Republic support to the large-scale environmental protection projects in the fields of drinking water, waste sewerage and waste water treatment. During the year, the Commission adopted 10 decisions with a total CF grant of € 122.18 million.

### **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 the priority areas the development of waste water, drinking water and solid waste facilities, as well as the protection of resources by remediation measures.

By the end of 2005 the total of the CF financial envelope has been allocated mainly to projects in the area of waste water and solid waste (23 projects), with one project aiming at the improvement of drinking water quality.

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

### **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.

### **Lithuania**

The Lithuanian authorities presented their National reference framework document for the period 2004-2006 in 2004. The document presents the main priority investments into the environmental sector using the Cohesion fund assistance.

The priority sectors for assistance to be financed through the Cohesion Fund for the 2004-06 programming period are: water supply and sewerage collection; sewerage and waste-water treatment; municipal, and hazardous waste management; air protection in relation to the environmental protection measures at Large Combustion Plants; technical assistance for project preparation.

Coherence between Structural Fund programmes and the Cohesion Fund priorities is relatively easy to ensure because of the concentration of Cohesion Fund assistance on a the heaviest investments while the Structural funds will mainly deal with the soft investments.

Lithuanian authorities introduced the new basin based water management approach while the whole territory of Lithuania is covered by 5 investment river basins containing 10 to 14 municipalities each. This forms the basis for further strengthening of water sector management in Lithuania. Since 2000 Lithuanian authorities introduced the new regional waste management approach, which is under implementation through ISPA and CF assistance. The regional system is based on the reduction of the number of the landfills in the regions to one regional landfill complying to relevant EU requirements and also on establishment of unified waste collection, transportation and accounting system. Lithuania plans to have 10 such systems- one in each region.

### **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 and disposal of solid, urban, industrial and hazardous waste, 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. In 2005, the

Commission approved 21 environmental Cohesion Fund projects, fulfilling total annual allocation for Poland.

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.

In 2005, the Slovene authorities introduced some minor changes to the list of priority investment projects by postponing 1 waste management project, splitting 2 waste water projects into two phases and adding one additional integrated waste water and water supply project for 2005. The modification had no impact on Slovenia's existing sector specific strategies nor on the 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.

## 2.2.2. Transport

### Greece

The strategic reference framework (SRF) for transport projects in Greece had been approved in the context of the Operational Programs "Road axes, Ports, Urban development" and "Railways, Airports, Urban transport" in March and April 2001 respectively, and was updated in the context of the 2005 mid-term review of these programs. The SRF covers interventions by the Cohesion Fund and the ERDF, which mainly aim at:

- a) the completion of 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) the completion of the modernisation of the PATHE railway axis, also part of the TEN, including its electrification and signalling systems and the construction of a freight railway line from the Ikonio port to the railway freight centre of Thriassio,
- c) The modernisation of infrastructure of the ports at Igoumenitsa and Heraklion, as well as the construction of new port infrastructure at Lavrio, and
- d) the modernisation of the air traffic control system in Greece.

In 2005 no new projects were approved under the Transport sector.

### Spain

The interventions of the Cohesion Fund in 2005 continued being carried out in accordance with the guidelines established within the strategic reference framework presented in 2000 by the Spanish authorities. At sectoral level, interventions continued concentrating in particular in the high speed train sector (52 %) and in ports (48 %). In these two sectors, coordination with the Structural Funds continued in 2005. For instance, in the case of the railway line Madrid - Barcelona – French Border, an intervention from the ERDF was approved in 2005 concerning access to Barcelona. Interventions in ports should also be pointed out, where ERDF and Cohesion Fund combined to provide financial support for various ports in the Cantabrian cornice as well as on the Mediterranean coast.

Although it is not envisaged in the short term to introduce changes in the strategy of the reference framework in Spain, the development of the new strategic infrastructure and transport plan by the Spanish government could require an update.

### Portugal

In 2005 the main activity of the Cohesion Fund in Portugal was the implementation of projects adopted in previous years, as 2005 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, airports. However, the scarcity of funds available has made it necessary to focus for the Transport sector on one road construction project.

### **Czech Republic**

As regards transport, support from the Cohesion Fund is oriented to the modernisation and the development of the Trans-European Networks (TEN-T).

In the year 2005, the Commission adopted one railway project, regarding the optimization of “Plsen-Stribro” railway section of a total CF grant of € 79.42 million.

### **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**

In 2003 the Hungarian Authorities presented the Strategic Reference Framework for the transport sector for the period 2004 to 2006, which is the basis for assistance under the Cohesion Fund to all individual projects in the rail, road and air traffic sector. 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 regional airports. In the rail sector the main priority of the Cohesion Fund is to modernize the infrastructure along the Corridors V and VI. In the aviation sector the funding strategy is focusing 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 are spending significant efforts in preparing the strategies for the next Cohesion Fund period. In spring 2004 the Hungarian Authorities started elaborating on a business strategy for the railway sector including infrastructure, rail traffic management (ERTMS - ETCS and GSM-R) and operation. In parallel also the drafting process of regional public transportation strategies has been launched, as in the next programming period this sector will be open to support from the Cohesion Fund.

### **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.

### **Lithuania**

The main investment from the Cohesion Fund will be 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. 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). The projects supported under the operational programme "Basic Infrastructure" of the Structural Funds will make it possible to develop regional access to large corridors of the TEN.

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 Čadca 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 roles will be played by the port of Koper, and by logistics 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**

#### **2.3.1. Budget available**

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 2005 amounted to € 5 131 932 989 (current prices) for the 13 beneficiary Member States. 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 2005 is as follows:

Member State	Allocation 2005 € million, current prices
Spain	1 772 273 178
Greece	481 640 523
Portugal	482 285 262
Cyprus	15 099 477
Czech Republic	261 358 960
Estonia	85 246 581
Hungary	310 982 360
Latvia	157 667 664
Lithuania	173 199 790
Malta	6 102 388
Poland	1 166 908 585
Slovakia	159 432 592
Slovenia	51 635 629
Technical Assistance	8 100 000
<b>TOTAL</b>	<b>5 131 932 989</b>

### 2.3.2. Implementation of the budget

Budget implementation in 2005, with indexation of the appropriations carried over, was as follows:

**Table 1. Implementation of commitments in 2005 (in Euro)**

Commitment appropriations	Initial	Movements	Final resources	Outturn	Cancelled	Carryovers 2006
2005 budget	<u>5 131 932 989</u>	<u>0</u>	<u>5 131 932 989</u>	<u>5 131 394 095</u>	<u>0</u>	<u>0</u>
Appropriations carried over from 2004	<u>2 084 326</u>	<u>0</u>	<u>2 084 326</u>	<u>2 084 326</u>	<u>0</u>	<u>0</u>
Appropriations made available again	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Repayments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Totals</b>	<u>5 134 017 315</u>	<u>0</u>	<u>5 134 017 315</u>	<u>5 133 478 421</u>	<u>0</u>	<u>0</u>

**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 2005, the commitment appropriations were virtually entirely used (99.99 %) and no appropriations were carried over to 2006.**

Table 2. Implementation of payments in 2005 (in Euro)

Payment appropriations	<u>Initial</u>	<u>Movements</u>	<u>Final resources</u>	<u>Outturn</u>	<u>Cancelled</u>	<u>Carryovers 2006</u>
2005 budget	<u>3 005 500 000</u>	<u>- 905 667 578</u>	<u>2 099 832 422</u>	<u>2 095 501 859</u>	<u>4 330 562</u>	<u>0</u>
Appropriations carried over from 2004	<u>133 138 854</u>	<u>0</u>	<u>133 138 854</u>	<u>133 138 854</u>	<u>0</u>	<u>0</u>
Appropriations made available again	<u>7 413 307</u>	<u>0</u>	<u>7 413 307</u>	<u>7 352 531</u>	<u>0</u>	<u>60 775</u>
Repayments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Totals</b>	<u>3 146 052 161</u>	<u>- 905 667 578</u>	<u>2 240 384 583</u>	<u>2 235 993 244</u>	<u>4 330 562</u>	<u>60 775</u>

**Due to a relatively slow rate of implementation of payments in the first nine months of the year, a total of € 905.6 million of payment appropriations was transferred from the Cohesion Fund to the ERDF as part of the global transfer procedure with other Structural Funds. This transfer meant that some 99.8 % of the payment appropriations were implemented in 2005. Implementation of the appropriations by country is shown in the following tables:**

Budget implementation of appropriations in 2005 by Member State

Table 3. Commitment appropriations 2005 (in Euro) (including technical assistance)

Member State	<u>Environment</u>		<u>Transport</u>		<u>Technical assistance</u>	<u>Total</u>	
	<u>Amount</u>	<u>% Envir.</u>	<u>Amount</u>	<u>% Transp</u>	<u>Amount</u>	<u>Amount</u>	<u>% MS on total</u>
Spain	<u>852 915 773</u>	<u>47.2</u>	<u>955 633 794</u>	<u>52.8</u>	=	<u>1 808 549 567</u>	<u>35.2</u>
Greece	<u>108 808 087</u>	<u>25.3</u>	<u>321 689 418</u>	<u>74.7</u>	=	<u>430 497 505</u>	<u>8.5</u>
Portugal	<u>289 926 872</u>	<u>59.2</u>	<u>199 774 911</u>	<u>40.8</u>	=	<u>489 701 783</u>	<u>9.5</u>
Cyprus	<u>13 122 653</u>	<u>86.9</u>	<u>1 976 824</u>	<u>13.1</u>	=	<u>15 099 477</u>	<u>0.3</u>
Czech Republic	<u>125 984 675</u>	<u>49.1</u>	<u>130 826 766</u>	<u>50.9</u>	=	<u>256 811 441</u>	<u>5.0</u>
Estonia	<u>33 779 915</u>	<u>38.5</u>	<u>53 970 504</u>	<u>61.5</u>	=	<u>87 750 419</u>	<u>1.8</u>
Hungary	<u>157 491 180</u>	<u>50.7</u>	<u>153 050 527</u>	<u>49.3</u>	=	<u>310 541 707</u>	<u>6.0</u>
Latvia	<u>78 180 693</u>	<u>50.6</u>	<u>76 219 129</u>	<u>49.4</u>	=	<u>154 399 822</u>	<u>3.0</u>
Lithuania	<u>117 185 363</u>	<u>68.3</u>	<u>54 376 851</u>	<u>31.7</u>	=	<u>171 562 214</u>	<u>3.3</u>

Malta	<u>0</u>	<u>0</u>	<u>5 347 620</u>	<u>100</u>	=	<u>5 347 620</u>	<u>0.1</u>	
Poland	<u>673 535 292</u>	<u>57.8</u>	<u>491 996 252</u>	<u>42.2</u>	=	<u>1 165 531 544</u>	<u>22.7</u>	
Slovakia	<u>79 538 582</u>	<u>51.0</u>	<u>76 448 510</u>	<u>49.0</u>	=	<u>155 987 092</u>	<u>3.0</u>	
Slovenia	<u>47 140 815</u>	<u>90.9</u>	<u>4 694 914</u>	<u>9.1</u>	=	<u>51 835 729</u>	<u>1.0</u>	
Technical Assistance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>29 862 501</u>	<u>0.6</u>	
<b>Total</b>	<u>2 577 609 900</u>	<u>50.2</u>	<u>2 526 006 020</u>	<u>49.8</u>		<u>29 862 501</u>	<u>5 133 478 421</u>	<u>100 %</u>

Table 4. Payment appropriations 2005 (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). Table No 5 below shows the payments effected in 2005 in relation to ISPA projects adopted before accession in 2004.**

Member State	Environment		Transport		Technical assistance	Total	
	Amount	% Envir.	Amount	% Transp.		Amount	Amount
Spain	<u>654 401 989</u>	<u>47.2</u>	<u>732 303 612</u>	<u>52.8</u>	=	<u>1 386 705 601</u>	<u>62.0</u>
Greece	<u>156 508 198</u>	<u>49.9</u>	<u>157 306 438</u>	<u>50.1</u>	=	<u>313 814 636</u>	<u>14.0</u>
Ireland	<u>12 004 179</u>	<u>73.2</u>	<u>4 391 663</u>	<u>26.8</u>	=	<u>16 395 842</u>	<u>0.7</u>
Portugal	<u>124 050 708</u>	<u>45.1</u>	<u>150 776 339</u>	<u>54.9</u>	=	<u>274 827 047</u>	<u>12.3</u>
Cyprus	<u>0</u>	<u>0</u>	<u>5 058 456</u>	<u>100</u>	=	<u>5 058 456</u>	<u>0.3</u>
Czech Republic	<u>0</u>	<u>0</u>	<u>15 326 716</u>	<u>100</u>	=	<u>15 326 716</u>	<u>0.7</u>
Estonia	<u>2 543 159</u>	<u>66.8</u>	<u>1 264 006</u>	<u>33.2</u>	=	<u>3 807 166</u>	<u>0.2</u>
Hungary	<u>3 190 375</u>	<u>4.0</u>	<u>74 988 467</u>	<u>96.0</u>	=	<u>78 178 843</u>	<u>3.5</u>
Latvia	<u>0</u>	<u>0</u>	<u>20 441 701</u>	<u>100</u>	=	<u>20 441 701</u>	<u>0.9</u>
Lithuania	<u>0</u>	<u>0</u>	<u>48 866 247</u>	<u>100</u>	=	<u>48 866 247</u>	<u>2.2</u>
Malta	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	=	<u>0</u>	<u>0</u>
Poland	<u>0</u>	<u>0</u>	<u>17 411 326</u>	<u>100</u>	=	<u>17 411 326</u>	<u>0.8</u>
Slovakia	<u>2 664 822</u>	<u>61.3</u>	<u>40 784 213</u>	<u>38.7</u>	=	<u>43 449 035</u>	<u>1.9</u>
Slovenia	<u>0</u>	<u>0</u>	<u>8 542 556</u>	<u>100</u>	=	<u>8 542 556</u>	<u>0.4</u>

<b>Technical Assistance</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3 168 067</u>	<u>3 168 067</u>	<u>0.1</u>
<b>Total</b>	<u>955 363 431</u>	<u>42.8</u>	<u>1 277 461 745</u>	<u>57.2</u>	<u>3 168 067</u>	<u>2 235 993 244</u>	<u>100 %</u>

**For the fourth year running, there was tendency for payments in favour of projects in the transport sector, although the distribution between transport and environment varies considerably among Member States.**

Table 5. New Member States – Payments made in 2005 related to former ISPA projects

Member State	Environment		Transport		Total	
	Amount	% Envir.	Amount	% Transport	Amount	%
Czech Republic	37.842.669,97	64,2%	21.083.316,98	35,8%	<b>58.925.986,95</b>	<b>11,4%</b>
Estonia	16.146.155,41	56,6%	12.363.826,57	43,4%	<b>28.509.981,98</b>	<b>5,5%</b>
Hungary	28.224.506,00	39,8%	42.706.981,30	60,2%	<b>70.931.487,30</b>	<b>13,7%</b>
Latvia	24.905.962,19	41,6%	34.943.875,20	58,4%	<b>59.849.837,39</b>	<b>11,5%</b>
Lithuania	12.859.292,90	38,6%	20.464.144,41	61,4%	<b>33.323.437,31</b>	<b>6,4%</b>
Poland	85.207.452,51	40,3%	26.464.614,43	59,7%	<b>211.672.066,94</b>	<b>40,8%</b>
Slovakia	20.033.296,36	43,4%	26.147.266,92	56,6%	<b>46.180.563,28</b>	<b>8,9%</b>
Slovenia	1.009.431,70	11,0%	8.137.626,12	89,0%	<b>9.147.057,82</b>	<b>1,8%</b>
<b>Total</b>	<b>226.228.767,04</b>	<b>41,9%</b>	<b>292.311.651,93</b>	<b>58,1%</b>	<b>518.540.418,97</b>	<b>100,0%</b>

The following table shows total implementation in 2000-05 in each country (excluding technical assistance):

Table 6. Implementation 2000-2005 by Member State (in Euro)

Member State	<u>Allocation 2000-05</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Spain	<u>10 247 877 176</u>	<u>1 490 119 316</u>	<u>1 672 929 540</u>	<u>1 973 389 704</u>	<u>1 543 094 747</u>	<u>1 699 525 863</u>	<u>1 806 465 241</u>	<u>10 185 524 411</u>
Greece	<u>2 811 994 523</u>	<u>206 359 009</u>	<u>467 400 382</u>	<u>335 157 938</u>	<u>529 459 151</u>	<u>535 667 561</u>	<u>438 083 755</u>	<u>2 512 127 796</u>
Ireland	<u>584 614 000</u>	<u>169 624 664</u>	<u>115 000 000</u>	<u>182 661 340</u>	<u>117 322 580</u>			<u>584 608 584</u>
Portugal	<u>2 812 639 262</u>	<u>377 583 992</u>	<u>455 699 130</u>	<u>296 780 734</u>	<u>643 939 552</u>	<u>479 843 079</u>	<u>491 649 967</u>	<u>2 745 496 454</u>
EUR 4	<u>16 457 124 961</u>	<u>2 243 686 981</u>	<u>2 711 029 052</u>	<u>2 787 989 716</u>	<u>2 833 816 030</u>	<u>2 715 036 503</u>	<u>2 736 198 963</u>	<u>16 027 757 245</u>
Cyprus	<u>33 356 477</u>					<u>18 257 000</u>	<u>15 099 477</u>	<u>33 356 477</u>
Czech Republic	<u>578 039 960</u>					<u>316 526 751</u>	<u>256 811 441</u>	<u>573 338 192</u>
Estonia	<u>189 811 581</u>					<u>97 157 035</u>	<u>89 794 099</u>	<u>186 951 134</u>
Hungary	<u>687 415 360</u>					<u>376 118 570</u>	<u>310 982 360</u>	<u>687 100 930</u>
Latvia	<u>349 756 664</u>					<u>183 073 410</u>	<u>157 667 664</u>	<u>340 741 074</u>
Lithuania	<u>382 771 790</u>					<u>194 912 500</u>	<u>173 199 790</u>	<u>368 112 290</u>
Malta	<u>13 516 388</u>					<u>7 418 000</u>	<u>6 102 388</u>	<u>13 520 388</u>
Poland	<u>2 580 578 585</u>					<u>1 405 690 904</u>	<u>1 166 908 584</u>	<u>2 572 599 488</u>
Slovakia	<u>352 406 592</u>					<u>192 974 000</u>	<u>159 432 592</u>	<u>352 406 592</u>

<b>Slovenia</b>	<u>115 480 629</u>					<u>64 901 467</u>	<u>51 835 729</u>	<u>116 737 196</u>
<b>EUR 10</b>	<u>5 283 134 026</u>					<u>2 857 029 637</u>	<u>2 387 834 124</u>	<u>5 244 863 761</u>
<b>TOTAL</b>	<u>21 740 258 987</u>	<u>2 243 686 981</u>	<u>2 711 029 052</u>	<u>2 787 989 716</u>	<u>2 833 816 030</u>	<u>5 572 066 140</u>	<u>5 124 033 087</u>	<u>21 272 621 006</u>

### 2.3.3. Implementation of the budget for the previous period (1993-99)

**Changes in 2005 in appropriations to be settled for 1993-99 were as follows:**

Table 7. Settlement in 2005 of commitments for the period 1993-99 (in Euro)

Member State	Initial amount to be settled	Decommitments	Payments	Final amount to be settled
Spain	305 739 244	30 456 151	70 983 944	204 299 149
Greece	171 283 818	59 732 167	29 386 156	82 165 494
Ireland	33 705 504		4 067 959	29 637 545
Portugal	31 638 853		2 124 257	29 514 596
Total	<b>542 367 419</b>	<b>90 188 318</b>	<b>106 562 316</b>	<b>345 616 784</b>

**NB: The initial amounts to be settled in 2005 do not correspond to the final amounts presented in the annual report for 2004, due to inaccuracies in the table for the year 2004.**

**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 begun in 2000 was continued. Some 36.2 % of the outstanding appropriations existing at the beginning of the year were either paid or subject to decommitment in 2005. By the end of 2005, outstanding appropriations had fallen to just 6.7 % of the annual budget of the Cohesion Fund (compared to some 50 % at the end of 2002 and 39 % at the end of 2003). This effort to reduce outstanding appropriations will be maintained in 2006 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 2005 the Commission approved new Cohesion Fund grants for a total of 47.6 M€, with the same amount being committed on the budget of 2005. More specifically, three new Environment projects and one Technical Assistance project have been approved. No new projects were approved under the Transport sector.**

Taking into account 390 M€ in commitments for decisions adopted in previous years, the total amount of Cohesion Fund commitments for Greece in 2005 reached around 438 M€.

The following table shows the Cohesion Fund assistance approved in 2005 as well as the total amount committed:

	Total eligible cost (M€)	Total CF assistance (M€)	Commitments 2005* (M€)
<b>Environment</b>	63 527 600	47 645 700	116 394 337
<b>Transport</b>	0	0	321 689 418
<b>Total CF</b>	63 527 600	47 645 700	438 083 755
<b>% Environment</b>	100%	100%	27%
<b>% Transport</b>	0%	0%	73%

\* including commitments based on the decisions taken in 2005 and in previous years

### 3.1.1.1 Environment

In the budget year 2005, the Cohesion Fund co-financed investments in the sector of waste water treatment and the rehabilitation of the Koronia Lake. 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 2005:

<b>ENVIRONMENT</b>				
<b>PROJECTS APPROVED IN 2005</b>				
<b>CF Code</b>	<b>Project title</b>	<b>Total cost</b>	<b>CF grant</b>	<b>Committed</b>
2005GR16CPE001	Construction of a secondary waste water sewage network in Salamina	16 385 000	12 288 750	12 288 750
2005GR16CPE004	Sewage – Installation of biological treatment plant Vatheos Samos	10 117 600	7 588 200	7 588 200
2005GR16CPE006	Rehabilitation of lake Koronia S. Thessalonica	26 910 000	20 182 500	20 182 500
2005GR16CPA001	Technical Assistance within the framework of Cohesion Fund (2000-2006)	10 115 000	7 586 250	7 586 250
	<b>SUB-TOTAL</b>	<b>63 527 600</b>	<b>47 645 700</b>	<b>47 645 700</b>

<b>Modified decisions With grant reduction</b>				
1994GR16CPE068 94/09/61/004	Biological treatment in Psytalia (2nd phase)	30 521 496	22 891 124	0
2001GR16CPE005	Waste water and rainfall water sewage of Preveza remaining zones	1 971 460	1 478 595	0
2001GR16CPE006	Water supply and sewage of Igoumenitsa	2 112 986	1 584 740	0
2001GR16CPE007	Sewage network and station of waste water treatment of Grevena	2 182 748	1 637 061	0
2001GR16CPE013	Construction and improvement of water supply network, waste water and rainwater sewage - extension of biological treatment plant in Karditsa	2 338 590	1 753 942	0
2001GR16CPE019	Water supply and drainage for sewage and rainwater of Komotini, and telecontrol - remote command	3 235 200	2 426 400	0
	<b>SUB-TOTAL</b>	<b>42 362 480</b>	<b>31 771 862</b>	<b>0</b>

Four new projects totalling 47.6 M€ of Cohesion Fund assistance were approved in 2005. The whole amount was committed from the 2005 budget. In addition, the Commission issued six modification decision, which resulted to a decrease of the Cohesion Fund grant by a total of 31.7 M€.

Furthermore, on account of decisions taken in the previous years, an amount of 68.7 M€ was committed from the 2005 budget.

Finally, the Commission issued 5 modification decisions without any increase in the Cohesion Fund grant.

### *3.1.1.2 Transport*

In 2005 the European Commission did not approved any new projects in the Transport sector. On the other hand, the Commission issued two modification decisions, which resulted to a decrease of the Cohesion Fund grant by a total of 18.7 M€.

The following table shows the projects modified in 2005 entailing a grant reduction:

<b>TRANSPORT</b>				
<b>PROJECTS MODIFIED IN 2005</b>				
<b>With grant reduction</b>				
<b>CF Code</b>	<b>Project title</b>	<b>Total cost (€)</b>	<b>CF grant (€)</b>	<b>Commitments</b>
2000GR16CPT007	PATHE section: Deviation Agiou Konstantinou, Deviation Kamena Vourla	13 555 982	7 465 009	0
2001GR16CPT003	Egnatia, section: Nymfopetra-Rentina- Asprovalta	20 580 675	11 333 366	0
	<b>TOTAL</b>	<b>34 136 657</b>	<b>18 798 375</b>	<b>0</b>

Based on decisions taken in the previous years, an amount of 321.6 M€ has been committed in the 2005 budget for the transport sector.

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

### 3.1.2. Spain

The Commission adopted 33 new decisions granting a CF aid of € 1.525 million. € 1.806 million were committed in 2005. These commitments exceeded by € 34.2 million the allocation attributed to Spain this year, in order to avoid the loss of budgetary resources not used by Greece. These commitments, of which 47.2% were made in the environment sector and 52.8% to the transport sector, correspond to new decisions adopted in 2005, as well as to project modifications, instalments concerning decisions adopted previously, and to the balances of project to be closed.

A total of 52 modifying decisions were adopted, including 10 implying an increase in total cost.

The following table indicates the amount corresponding to each sector.

	<b>Total eligible cost* (M€)</b>	<b>Total CF assistance* (M€)</b>	<b>Commitments 2005* (M€)</b>
<b>Environment</b>	1 223	911	853
<b>Transport</b>	894	614	953
<b>Total CF</b>	2 117	1 525	1 806
<b>% Environment</b>	57.8 %	59.7 %	47.2 %
<b>% Transport</b>	42.2 %	40.3 %	52.8 %

\* rounded figures

During 2005, € 1.386 million were scheduled in payment appropriations and 36 projects were closed.

### 3.1.2.1 Environment

The Cohesion Fund continued to concentrate its financial support on the three priority sectors, water supply, waste water treatment, and solid urban, industrial and dangerous waste management. A preparatory study necessary for the implementation of a project in the waste sector was also financed.

The CF contribution by sectors shows that water supply received the highest amount of resources in the field of the environment, followed by the sector of waste water treatment.

A total of 31 decisions for new projects were adopted, which represent a CF contribution of € 911 million including € 853 million committed in 2005. A total of 52 project modifications have also been adopted.

Sector	Total eligible cost (M€)	CF contribution (M€)	% of contribution	Commitments 2005 (M€)
Water supply	875.54	626.51	68.79%	517.05
Waste water treatment	130.98	107.53	11.80%	167.53
Solid waste	211.81	172.77	18.97%	136.13
Technical assistance / Studies	4.71	4.00	0.44 %	3.20
<b>Total</b>	<b>1 223.04</b>	<b>910.81</b>	<b>100</b>	<b>823.91*</b>

\* €29 million must be added representing final balances of projects to be closed.

#### Water supply

In 2005 the Community aid for water supply projects totalled € 626 million, which represents 68.8% of the total amount allocated to the environmental sector. Sixteen new decisions were adopted as well as two decision modifications with increase in CF contribution, including the water supply project of the Melonares dam in Seville.

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. Five desalination stations were financed including that of Barcelona, the largest one, with a capacity of 60 Hm<sup>3</sup> per annum.

<b>WATER SUPPLY</b>			
<b>Projects adopted in 2005</b>			
<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€)</b>	<b>CF assistance (€)</b>
2004-ES-16-C-PE-021	ETAP del sistema Aramo-Quirós del abastecimiento de agua a Oviedo;T.M. Ribera de Arriba (Asturias)	21 231 706	13 163 658
2004-ES-16-C-PE-034	Renovación y mejora de redes de abastecimiento de agua potable de Elda- Alicante	2 167 621	1 734 097
2005-ES-16-C-PE-002	Tramos I, II y IV de la primera fase del 2º anillo de Distribución de agua potable a Madrid	124 189 374	74 513 624
2005-ES-16-C-PE-009	Interconexión de redes de abastecimiento del Maresme Norte y Atil	39 984 000	33 986 400
2005-ES-16-C-PE-011	Refuerzo del abastecimiento de la Costa Brava centro	48 539 137	41 258 266
2002-ES-16-C-PE-016	Abastecimiento de agua a Zaragoza. 2ª fase-Ramales del Jalón y Huerva-1	18 234 709	15 499 503
2005-ES-16-C-PE-019	Ampliación y mejora del tratamiento de la potabilizadora de Abrera	56 454 207	47 986 076
2005-ES-16-C-PE-021	Abastecimiento de agua a los municipios del campo de Montiel	28 469 224	22 775 379
2005-ES-16-C-PE-031	Desaladora de agua marina de Ciutadella ( Menorca)	13 714 733	7 268 809
2005-ES-16-C-PE-032	Desaladora de agua marina de Santa Eulalia (Ibiza)	14 387 793	7 913 286
2005-ES-16-C-PE-033	Desaladora de agua marina de Andratx (Mallorca)	16 448 270	8 882 066
2005-ES-16-C-PE-034	Desaladora de agua marina de la bahía de Alcudia (Mallorca)	21 835 519	12 882 956
2005-ES-16-C-PE-039	Desaladora del Area metropolitana de Barcelona	199 860 620	149 895 465
2005-ES-16-C-PE-040	Complementación de la conexión entre las ETAP de Abrera y Cardedeu. Tramo Fonsana-Trinitat	131 112 686	74 734 231
2005-ES-16-C-PE-042	Prolongación de la conducción Abrera-Fonsanta hasta el Prat del Llobregat	27 178 967	23 102 122
2005-ES-16-C-PE-044	Ampliación y mejora del Abastecimiento a los municipios de la Sagra Este	80 000 000	64 000 000

## Waste water treatment

The aid allocated to this sector in 2005 amounts to € 107 million, i.e. 12% of CF interventions in the environment sector. Efforts were centred, once again, in the achievement of Directive 91/271/EEC and in the setting up of the national and regional Cleansing and Purification Plans.

Seven decisions were adopted for projects and groups of projects carried out in the agglomerations located in the main river basins, as well as two modifying decisions. These projects concern the improvement of the water treatment networks, construction of collectors in several regions and construction of the sewage treatment plants, in some cases with tertiary treatment.

<b>Waste water treatment</b>			
<b>Projects adopted in 2005</b>			
<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€)</b>	<b>CF assistance (€)</b>
2005-ES-16-C-PE-005	Mejora de las infraestructuras y depuración de aguas residuales en la barriada de Benzú	1 903 721	1 522 977
2005-ES-16-C-PE-007	Colectores laterales junto a la canalización del río Seco de Castellón y su cubrimiento	8 692 322	6 953 857
2005-ES-16-C-PE-014	Incremento de los sistemas de saneamiento para mejora ambiental y de calidad de las aguas en la cuenca del Llobregat	27 000 000	22 950 000
2005-ES-16-C-PE-015	Programa de saneamiento de aguas residuales urbanas en las Cuencas internas de Cataluña	10 272 024	8 731 220
2005-ES-16-C-PE-024	Saneamiento y depuración de aguas residuales urbanas en Argamasilla de Alba y Tomelloso	20 362 759	14 253 931
2005-ES-16-C-PE-030	Saneamiento y depuración Ciudad Autónoma de Ceuta. EDAR de Santa Catalina	22 290 000	18 946 500
2005-ES-16-C-PE-035	Tratamiento de las aguas residuales de las EDAR de Tarragona, Reus y Vilaseca/Salou	36 016 272	30 613 831

## Solid waste

For the implementation of the national Waste Plan approved in 2000 and of the regional Plans approved for each autonomous Community, the Spanish authorities submitted several projects in this sector.

Seven new decisions were adopted concerning waste management as well as four modifying decisions. The total CF assistance for this sector amounts to € 173 million. Priority was given to the urban solid waste projects, inter alia to the closure of dumping sites; projects concerning sites for selective sorting, composting factories

and waste treatment plants. An important project also concerned the extraction of the fuel from the Prestige.

<b>SOLID WASTE</b>			
<b>Projects adopted in 2005</b>			
<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€)</b>	<b>CF assistance (€)</b>
2003-ES-16-C-PE-020	Planta de recuperación y compostaje de Jaén sierra Sur y Vertederos controlados de apoyo	18 840 043	15 056 034
2004-ES-16-C-PE-006	Extracción del fuel del Prestige por medio de lanzaderas	66 828 000	56 803 800
2004-ES-16-C-PE-026	Gestión de residuos en la Comunidad de Madrid	12 896 602	10 317 281
2004-ES-16-C-PE-033	Ampliación de las instalaciones de valorización de residuos sólidos urbanos en Parque Tecnológico de Valdemingómez	43 721 438	34 977 150
2005-ES-16-C-PE-001	Ampliación de proceso y capacidad de la planta de compostaje del Vallés Oriental-Granollers	15 148 972	12 119 181
2005-ES-16-C-PE-003	Complejo para el tratamiento de residuos urbanos de Zaragoza	38 076 237	30 460 990
2005-ES-16-C-PE-013	Adecuación vertedero de Ca Na Putxa (Ibiza) y Planta de transferencia de residuos urbanos (Formentera)	8 909 989	7 127 991

#### **Technical assistance and studies**

In 2005, one decision concerning technical, economic and environmental surveys necessary for the implementation of a solid waste project was adopted, as well as a decision modification for the drafting of a water supply project in the autonomous Community of Madrid.

<b>Technical assistance – Preliminary studies</b>			
<b>Projects adopted in 2005</b>			
<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€)</b>	<b>CF assistance (€)</b>
2005-ES-16-C-PE-006	A.T. para la redacción del proyecto para eliminación de la contaminación química del embalse del Flix	3 771 174	3 205 498

### 3.1.2.2 Transport

In 2005, the Commission adopted one railway project and one port project, as well as a modifying decision concerning the port of Barcelona. The commitments corresponding to 2005 reached an amount of € 953 million and correspond to new decisions adopted this year (431 M€), to the amendment of the decision concerning the port of Barcelona (75 M€), and to the annual instalments and balances of the decisions adopted previously (447 M€).

The distribution by mode of transport is shown in the following table.

Sector	Total eligible cost (M€)	Total CF assistance (M€)	% of assistance	Commitments 2005 (M€)
Railways	389.8	281.6	52.2%	225.3
Ports	362.7	257.5	47.8%	206.0
<b>TOTAL*</b>	<b>752.5</b>	<b>539.1</b>	<b>100%</b>	<b>431.3</b>

\* The amount corresponding to the amendment of the decision concerning the port of Barcelona adopted previously must be added.

#### Railways

In 2005, the Cohesion Fund continued to ensuring substantial financial support for investments in the development of the high speed rail network in Spain. One decision was approved for this sector, concerning access to the town of Barcelona, part of the Madrid - Barcelona - French border line, supplementing thus one of the most important operational sections.

For the remainder, in accordance with the information received in the various monitoring Committees, the works relating to the projects approved in previous years progressed normally. However, some revisions of the finalisation timetable had to be carried out.

Railway projects adopted in 2005			
Project number	Project name	Total eligible cost (M€)	CF assistance (M€)
2005-ES-16-C-PT-002	TGV Madrid – Barcelona. Acceso a Barcelona. Subtramo San Joan Despí - San Boi de Llobregat-Hospitalet-La Torrassa- Sants	389.8	281.6

## Ports

As regards the sector of seaports, the Cohesion Fund continued in 2005 to give a significant financial support to the expansion and improvement of the ports, thus meeting the Community guidelines for the development of Trans-European Transport Networks (TEN-T). The Cohesion Fund granted assistance for the construction of new harbour facilities in Langosteira including the extension of the port of La Coruña in order to increase current harbour space. A modification with cost increase was adopted for the enlargement project of the port of Barcelona.

Ports projects adopted in 2005			
Project number	Project name	Total eligible cost (M€)	CF assistance (M€)
2005-ES-16-C-PT-001	Puerto exterior en Punta Langosteria	362.7	257.5

## Other modes of transport

In 2005, no new decisions concerning other modes of transport were adopted.

### 3.1.3. Portugal

The level of commitment execution in 2005 continued at the satisfactory pace already seen in previous years, leading to a full use of the financial funds available.

In 2005, the Commission approved 13 decisions in the environment sector corresponding to the same number of projects or groups of projects; as for the transport sector, 2 new decisions were approved.

Further to the above, increases in the values of the assistance provided by the Cohesion Fund were approved in respect of 3 Solid Urban Waste projects. These were justified by the need to enter new components, or to adapt components already in place, in order to comply with new legal requirements arising from Community Directives translated into the national legislation after the projects were approved.

Moreover, a decision corresponding to a Technical Assistance (TA) project (second phase of the TA to the Cohesion Fund – 2004/PT/16/C/PA/001) was approved.

All in all, the 19 projects or groups of projects cited above concern eligible investments of € 479.4 million, for which Cohesion Fund assistance of € 311.3 million was granted; a total of € 240.5 million was committed under the 2005 budget.

It is to be noted that the value of funds committed in 2005 for financing environment projects was far higher than for transport, which is in sharp contrast with the pattern seen throughout the first half of the 2000-2006 period. Consequently, the value of funds committed for transport and environment projects has been somewhat levelled.

The values of total commitments for projects adopted in 2005 – including 3 projects benefiting from financial reinforcements in 2005 – are presented in the table below,

followed by a table containing values of total commitments for 2005 arising from projects approved in previous years.

<b>Projects adopted in 2005</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>Environment</b>	426.5	269.8	207.3
<b>Transport</b>	50	39.1	31.3
<b>Technical assistance</b>	2.9	2.4	1.9
<b>Total CF</b>	<b>479.4</b>	<b>311.3</b>	<b>240.5</b>
<b>% Environment</b>	89	86.7	86.2
<b>% Transport</b>	10.4	12.5	13
<b>% Technical assistance</b>	0.6	0.8	0.8

<b>Projects adopted in previous years</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>Environment and Technical Assistance</b>	1 986.5	1 326.5	82.6
<b>Transport</b>	2 072.4	1 601.5	168.5
<b>Total</b>	<b>4 058.9</b>	<b>2 928</b>	<b>251.1</b>

### *3.1.3.1. Environment*

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

In 2005 the Commission adopted 13 new environmental projects, with the following distribution per type of intervention: 4 concerned integrated projects in waste-water and water supply, 7 related to Solid Urban Waste treatment and 2 concerned waste-water treatment.

Moreover, increases in the values of the assistance provided by the Cohesion Fund were authorised in respect of 3 Solid Urban Waste projects approved in previous years.

The breakdown for the commitment appropriations approved in 2005 in respect of these interventions is provided in the table below:

Sector	Total eligible cost (€ million)	CF assistance (€ million)	% of assistance	2005 commitments (€ million)
<b>Integrated projects (waste and water supply)</b>	220.9	139.3	51.6	102.3
<b>Solid Waste</b>	115.7	72	26.7	58.2
<b>Waste-Water treatment</b>	89.9	58.5	21.7	46.8
<b>Total</b>	<b>426.5</b>	<b>269.8</b>	<b>100%</b>	<b>207.3</b>

### Waste-Water and Water Supply

All the projects adopted integrate waste-water treatment and water supply on a basin level, which shows that the 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 3 out of the 4 approvals correspond to further phases of groups of projects adopted in earlier years.

### Solid Urban Waste

During 2005, no new applications for co-financing of projects in this field were submitted. Therefore, the respective (7) Commission Decisions approved in 2005 relate to applications submitted by the last quarter of 2004 and that could not be approved that year as there were no commitment appropriations available. These projects will help Portugal to comply with Directive 1999/31/CE, which is aimed at reducing the use of landfills, and are consistent with the national strategy of recovery of biodegradable organic waste.

### List of projects

Environmental projects adopted in 2005, as well as earlier projects in respect of which financial increases in the assistance provided by the Cohesion Fund were authorised, are shown in the following table:

No of project	Project name	Total eligible cost (€ million)	CF assistance (€ million)
<b>INTEGRATED PROJECTS (Waste-Water and Water Supply)</b>			
2005/PT/16/C/PE/006	Sistema de Águas, Baixo Montego e Bairrada	62.3	33
2005/PT/16/C/PE/001	Águas do Alto Zêzere e Côa, 3rd phase	42.5	28
2005/PT/16/C/PE/005	Sistema de Águas, Vale do Ave, 2nd phase	63.8	33.8

2005/PT/16/C/PE/004	Águas de Trás-os-montes e Alto Douro, 4th phase	52.3	44.5
<b>SOLID WASTE</b>			
2004/PT/16/C/PE/013	Urban Waste Compost of Suldouro	9	6
2004/PT/16/C/PE/016	Urban Waste Compost of Nordeste	6.4	2.9
2004/PT/16/C/PE/019	Urban Waste Compost, Resitejo	18.9	5.9
2004/PT/16/C/PE/020	Urban Waste Compost, Vale do Sousa	8.5	6
2004/PT/16/C/PE/014	Urban Waste Compost, Braval	8.3	5.8
2004/PT/16/C/PE/018	Urban Waste Compost, Valorlis	9.8	7.1
2004/PT/16/C/PE/011	Urban Waste Compost, C. da Beira/Valnor	8.8	6.5
<b>SOLID WASTE – Financial reinforcement</b>			
1998/PT/16/C/PE/001	Solid Urban Waste, Azores	4.7	4
2000/PT/16/C/PE/013	Solid Urban Waste, Norte Alentejano	1.7	1.4
2002/PT/16/C/PE/012	Incinerator of Madeira	39.6	26.4
<b>WASTE-WATER TREATMENT</b>			
2004/PT/16/C/PE/021	Despoluição, Douro-Feira	16.9	11.1
2005/PT/16/C/PE/002	Waste Water, Península de Setúbal	73	47.4

### 3.1.3.2. Transport

Of the two projects approved, the building of a maritime passenger terminal in Azores is worth mentioning, taking into account the important role of this kind of infrastructures in the development of this outermost region.

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.

Sector	Total eligible cost (€ million)	CF assistance (€ million)	% of assistance	2005 commitments (€ million)
<b>Port</b>	32.2	24.1	61.8%	19.3
<b>Road</b>	17.8	15	38.2%	12
<b>Total</b>	<b>50</b>	<b>39.1</b>	<b>100%</b>	<b>31.3</b>

Transport projects adopted in 2005 are shown in the following table:

No of project	Project name	Total eligible cost (€ million)	CF assistance (€ million)
<b>PORT PROJECTS</b>			
2005/PT/16/C/PT/001	Porto de Ponta Delgada Açores	32.2	24.1
<b>ROAD PROJECTS</b>			
2005/PT/16/C/PT/002	Estrada IC3 Tomar/IP6	17.8	14.9

### 3.1.4. Cyprus

In the pre-accession phase Cyprus was not eligible for support under the ISPA fund. The budget available for Cyprus within the programming period after accession is 54 million €. In 2005 the European Commission approved the second Cypriot Cohesion Fund project, which allows Cyprus to take up all available funds.

It can be expected that the final sector balance will be slightly in favour of environment.

#### 3.1.4.1. Environment

In 2005 the European Commission decided on one environmental project dealing with the waste treatment and disposal installations for Larnakas-Ammochostos regions:

Project number	Project title	Total eligible cost (€ million)	Total CF assistance (€ million)	2005 commitment (€ million)
2004/CY/16/C/PE/001	New sanitary landfill site and transfer stations for the municipal solid waste management of Larnaka and Ammochostos regions	43.5	28.7	13.1

#### 3.1.4.2. Transport

The project adopted in 2004 aims to finalise the Limassol motorway ring, which is a bottleneck of strategic importance, as the motorway links the island with the Limassol port, which is on a TEN corridor:

<b>Project number</b>	<b>Project name</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitment (€ million)</b>
<b>2004/CY/16/C/PT/001</b>	Upgrading of the Limassol bypass Germasogeia and Ay. Athanasios Roundabouts	40.8	25.3	1.98

### 3.1.5. Czech Republic

In 2005, the Commission approved 11 projects under the Cohesion Fund in Czech Republic. 10 of these projects are concerning the environmental sector (in the field of drinking water, waste sewerage and waste water treatment) and 1 project is concerning the transport sector (railways).

	<b>Total eligible cost (€ million)</b>	<b>Total CF financing (€ million)</b>
<b>Environment</b>	117.2	122.2
<b>Transport</b>	130.2	79.5
<b>Total FC</b>	<b>247.4</b>	<b>201.7</b>
<b>% Environment</b>	47.4%	60.5%
<b>% Transport</b>	52.6%	39.5%

#### 3.1.5.1. Environment

During the year, the Commission adopted 10 projects in the environment sector with a total CF grant of € 122.18 million.

<b>Project n°</b>	<b>Name of the project</b>	<b>Total eligible cost (€ million)</b>	<b>CF financing (€ million)</b>
2005/CZ/16/C/PE/001	Stredni Pomoravi : Waste water	23.963	17.732
2005/CZ/16/C/PE/002	Slapanicko-Cista Ricka : Wastewater	20.078	15.862
2005/CZ/16/C/PE/004	Kravare : WWTP and sewerage	14.972	11.977
2005/CZ/16/C/PE/006	Labe-Loucna : WWTP and sewerage finalisation	20.180	12.511
2005/CZ/16/C/PE/008	Trebicko : Drinking water	13.998	9.659

2005/CZ/16/C/PE/010	Mladoboleslavsko : WWTP and sewerage	19.226	12.304
2005/CZ/16/C/PE/014	Vyskov : Wastewater infrastructure	19.424	12.820
2005/CZ/16/C/PE/016	Improvement of water quality at Morava and Becva river junction	12.373	7.547
2005/CZ/16/C/PE/020	Clean river - Upa	16.359	10.633
2005/CZ/16/C/PE/021	Cidlina	16.620	11.136

### 3.1.5.2. Transport

Only one project, in the railway sector, has been adopted by the Commission in 2005:

Project number	Project name	Total eligible cost (€ million)	Total CF assistance (€ million)
2005/CZ/16/C/PT/001	Optimization of Plsen-Stribro railway section	130.207	79.426

### 3.1.6. Estonia

In 2005, the Commission adopted 5 new decisions granting assistance from the Cohesion Fund totalling € 113.16 million, of which 75.9 €million was committed in 2005. Three amending decisions were approved with only one having an increase of assistance by € 1,62 million, which was committed in 2005.

The following table shows the Cohesion Fund assistance approved in 2005 and the total amount committed.

	Total eligible cost (€ million)	Total CF assistance (€ million)	2005 commitments (€ million)
<b>Environment</b>	73.28	59,35	25,97
<b>Transport</b>	84.58	67.46	53.97
<b>Technical Assistance</b>	0.065	0.055	0.044
<b>Total CF</b>	157,93	126,87	79,98
<b>Environment from previous years (ISPA)</b>	59.5	47,9	9,81

<b>Transport from previous years (ISPA)</b>	0.00	0.00	0.0
<b>% Environment</b>	61,1	61,37	39.8
<b>% Transport</b>	38,9	38,63	60.2
<b>Total</b>	217,43275.7	174,77	89.79

### 3.1.6.1. Environment

One environmental project has been approved in 2005 in the waste water and water sector. It presented a group of three subprojects located in the same sub-river basin. Two Commission Decisions were modified.

No of project	Name of project	Total eligible costs (€ million)	CF assistance (€ million)	2005 commitments (€ million)
2004EE16CPE007	Emajõgi and Võhandu catchment area water management	53.7	45.64	21.93
<b>Modified decision with grant increase</b>				
2001EE16PPE007	Expansion and rehabilitation of Tartu water and sewerage network	19.58	13.71	4.04
<b>Total</b>		<b>73.28</b>	<b>59.35</b>	<b>25.97</b>

### 3.1.6.2. Transport

In 2005 the Commission adopted three projects in the transport sector. Two of them concerned air transport projects and the third a road (TEN-T) section. One Commission Decision was modified with no cost increases (2002EE16PPA008).

No of project	Name of project	Total eligible costs (€ million)	CF assistance (€ million)	2005 commitments (€ million)
2005EE16CPT001	Rehabilitation of Tallinn Airport Airside Area	24.15	20.52	16.42
2005EE16CPT002	Upgrading of passenger terminal of Tallinn Airport	32.7	24.2	19.36

2005EE16CPT003	Reconstruction of Tallinn-Tartu-Võru-Luhamaa road, Vaida-Aruvalla section and Puurmani junction	27.73	22.74	18.19
<b>Total</b>		<b>84.58</b>	<b>67.46</b>	<b>53.97</b>

### 3.1.7. Hungary

In 2005, a total of 4 Cohesion Fund projects were adopted by the Commission, 2 of them in the environment sector and 2 in the transport sector (out of which 1 was a technical assistance project). Following the adoption of these projects, the total 2004-2006 Cohesion Fund financial envelope has been allocated and no new projects are expected to be adopted in 2006.

The following table details the projects in the environment and transport sectors approved in 2005: the total eligible costs of all 4 projects adopted in 2005 amount to € 105,5 million. The total Cohesion Fund contribution in favour of these projects adds up to € 71 million, out of which € 33,3 million were committed in 2005.

	<b>Total eligible costs (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>Environment</b>	61.4	47.1	17.4
<b>Transport (incl. TA)</b>	44.1	23.9	15.9
<b>Total CF</b>	<b>105.5</b>	<b>71.0</b>	<b>33.3</b>
<b>% Environment</b>	58.2 %	66.3 %	52.3 %
<b>% Transport</b>	41.8 %	33.7 %	47.7 %

The table below shows the situation for both the environment and transport sectors for the whole period 2000-2005. The total amount committed in 2005 (for both the ongoing and newly adopted projects) equals € 310.98 million, which represents the mid point of range target of the 2005 Cohesion Fund allocation for Hungary.

	<b>Total eligible costs (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>Environment (incl. TA)</b>	1 167.3	743.2	157.49
<b>Transport (incl. TA)</b>	1 148.6	739.6	153.49
<b>Total CF</b>	<b>2 315.9</b>	<b>1 482.8</b>	<b>310.98</b>

<b>% Environment</b>	50.4 %	50.1 %	50.6 %
<b>% Transport</b>	49.6 %	49.9 %	49.4 %

### 3.1.7.1. Environment

In the period 2000-2005 the Cohesion Fund has financed projects in the area of solid waste (14), waste water (9) and drinking water (1), as well as 6 technical assistance projects.

<b>Sector</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>% co-financing</b>	<b>2005 commitments (€ million)</b>
<b>Waste water</b>	796.1	498.7	59.1 %	109.9
<b>Solid water</b>	333.9	216.4	63.4 %	32.3
<b>Drinking water</b>	25.6	19.2	75.0 %	15.4
<b>Technical assistance - TA</b>	11.8	8.9	79.2 %	0
<b>Total Environment</b>	<b>1 167.4</b>	<b>743.2</b>	<b>69.2 %</b>	<b>157.6</b>
<b>% Waste water</b>	68.2 %	67.1 %		
<b>% Solid waste</b>	28.6 %	29.1 %		
<b>% Drinking water</b>	2.2 %	2.6 %		
<b>% TA</b>	1.0 %	1.2 %		

Two environmental projects were adopted by the Commission in December 2005. Both projects are located in the North Great Plain region in Hungary - one in the area of the municipal solid waste management sector in the Szabolcs-Szatmár-Bereg county, the other one aiming at the improvement of the drinking water quality across the whole area of the North Great Plain region.

Due to limited budget availability in the 2004-2006 period, the municipal solid waste management project in the Szabolcs-Szatmár-Bereg County is split into two phases and only the Phase I of this project representing approximately  $\frac{1}{3}$  of the total project costs is financed under the current budgetary period. The project aims to establish an integrated selective waste collection system for a total of 240 settlements, affecting more than 595 thousands inhabitants.

The North Great Plain drinking water improvement project aims at decreasing concentrations of drinking water contaminants such as arsenic, ammonia, iron and manganese. The project affects 41 settlements with a total of 108 767 inhabitants.

The following table provides further information on these projects: total eligible cost, total CF assistance and amount committed in favour of these projects in 2005.

<b>Project number</b>	<b>Project title</b>	<b>Total eligible costs (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>2004/HU/16/C/PE/004</b>	Municipal Solid Waste Management System in Szabolcs-Szatmár-Bereg County – Phase I	35.8	27.9	2.0
<b>2004/HU/16/C/PE/005</b>	Improvement of Drinking Water Quality in North-Great Plain Region	25.6	19.2	15.4

10 project were modified in the course of 2005. While 7 modifications concerned the extension of the two-year deadline for start of works by additional 6 months, for two projects the deadline for the eligibility of expenditure incurred within the projects had to be extended. In the case of the North East Pest county regional waste management project a substantial modification was adopted, taking into account changes in the project scope and organisational set-up.

### 3.1.7.2. Transport

The average assistance rate for transport projects decided before accession (ISPA) was 50.6 %. The average contribution rate for the three transport projects decided after accession in 2004 and 2005 is 81 %.

The following table shows the distribution of CF funding (2000-2005) between the rail sector, the road sector, the air sector and the use of CF for Technical Assistance:

<b>Sector</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>% co-financing</b>	<b>2005 commitments (€ million)</b>
<b>Rail</b>	613.6	351.2	57.2 %	42.9
<b>Road</b>	483.2	358.8	74.3 %	94.7
<b>Air</b>	38.8	19.4	50.0 %	15.5
<b>Technical assistance - TA</b>	12.9	10.2	79.1 %	2.4
<b>Total Transport</b>	<b>1 135.6</b>	<b>729.4</b>	<b>64.2 %</b>	<b>155.5</b>
<b>% Rail</b>	54.0 %	48.1 %		
<b>% Road</b>	42.6 %	49.02 %		
<b>% Air</b>	0.03 %	0.03 %		

<b>% TA</b>	1.1 %	1.4 %		
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### Rail

The CF support is focussing mainly on the TEN-Corridor IV running from Praha in two branches to Budapest and continuing in various branches to Constanta at the Black Sea, Istanbul and Thessaloniki. One branch enters Hungary coming from Austria at Hegyeshalom and continues via Budapest to the Romanian border at Lökösháza. 267,5 Mio € of the 351.2 Mio. € allocated to the railway sector will be spent on this sector of corridor IV. The CF contribution to this corridor is divided into 4 projects, which were decided in the years 2000 to 2004. One project aims to improve the railway line between Boba and Zalalövö which is a part of a branch of EN Corridor V arriving from Slovenia and continuing to Ukraine.

The following table shows the distribution of CF funds allocated between 2000 and 2005 to the railway sector according to TEN-corridors:

	<b>No. of projects</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>
<b>Corridor IV</b>	4	446.2	267.5
<b>Corridor V</b>	1	167.4	83.7

### Road

Till 2004 the CF contribution to the road sector was focussing on the rehabilitation of National Roads, strengthening the superstructure in order to achieve 11.5 ton load bearing capacity. Only in 2004 one motorway project has been decided contributing to the 0-Ring around Budapest.

The following table shows the distribution of CF funds allocated between 2000 and 2005 to the road sector distinguishing between motorways and national roads:

	<b>No. of projects</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>
<b>National Roads</b>	2	148.3	74.1
<b>Motorways</b>	1	334.9	284.7

### Air

In 2005 the first project for the air sector has been decided. The scope of the project is to replace the primary and secondary radar system of two en-route radar stations, to replace the surface movement radar for Budapest Ferihegy Airport and to upgrade the MATIAS software system in use to provide full Mode S functionality:

<b>Project number</b>	<b>Project title</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitment (€ million)</b>

<b>2004/HU/16/C/PT/003</b>	Radar Development for HungaroControl Air Navigation Services	38.8	19.4	15.5
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### Technical Assistance

Out of the 6 technical assistance project decided for the transport sector between 2000 and 2004, four have already been closed.

In 2005 a technical assistance project for the rail sector has been decided in order to support the Hungarian Authorities in preparing strategies and projects for the next Cohesion Fund programming period:

<b>Project number</b>	<b>Project title</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitment (€ million)</b>
<b>2005/HU/16/C/PA/001</b>	Preparation of projects in the railway sector financed by Cohesion Fund between 2007-2013	5.3	4.5	0.4

### 3.1.8. Latvia

The Commission received 9 applications for assistance from the Cohesion Fund, of which 4 were for the environment, 3 for transport investment measures and 2 for technical assistance measures – one transport related and one horizontal TA project.

The Commission adopted 8 new decisions granting assistance from the Cohesion Fund amounting to € 125.58 million, of which € 103.99 million was committed in 2005. The total eligible cost of these projects is € 153.86 million. Three newly adopted decisions relate to the environment, four to the transport sector (including one technical assistance project) and one of the adopted decisions is horizontal technical assistance project.

	<b>Total eligible costs (€ million)</b>	<b>CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>Environment</b>	96.10	81.28	67.95
<b>Transport</b>	54.23	41.33	33.07
<b>Technical Assistance</b>	3.53	2.97	2.97
<b>TOTAL</b>	<b>153.86</b>	<b>125.58</b>	<b>103.99</b>

For projects adopted in the 2000-2003 period, commitments in the form of annual instalments were made for a total amount of € 53.68 million. The total commitments for Latvia in 2005 amounted to € 157.67 million.

The transport sector accounted for 48.53 % of the total commitments made in 2005 for the assistance granted under the decisions approved by the Commission, the environment sector accounted for 49.59% and horizontal technical assistance – for 1.88%.

The horizontal technical assistance aims at improving the efficiency of the management of the Cohesion Fund in Latvia through better management, monitoring and control systems, enhanced capacities of the management authority and intermediate bodies, and increased public knowledge about the assistance provided to Latvia through the Cohesion Fund.

During 2005, the Commission authorised payments amounting to € 80.29 million. A total of 3 corrigendum decisions were adopted in 2005 and several modifications of the decisions initiated.

### 3.1.8.1. Environment

The applications for assistance submitted to the Commission in 2005 were predominantly focused on the waste management sector though the water services sector was also addressed. In total 3 decisions in the water and waste water sector will provide assistance worth € 81.28 million, of which € 67.95 million was committed in 2005.

The following table shows the projects adopted in 2005:

CCI Number	Title of Measure	Total Eligible Cost (€ million)	Total CF Assistance (€ million)	Committed in 2005 (€ million)
<b>Water Service Development project:</b>				
2005LV16CPE003	Development of water services in Riga, Stage III	69.22	58.84	45.51
<b>Waste Management projects:</b>				
2005LV16CPE002	Hazardous Waste Management System in Latvia, Stage I	8.12	6.49	6.49
2005LV16CPE004	Solid Waste Management in the Piejūra Region	18.77	15.95	15.95
<b>TOTAL</b>		<b>96.11</b>	<b>81.28</b>	<b>67.95</b>

## **Hazardous waste management system**

The project's overall objective is to contribute to the establishment of a national Hazardous Waste Management System (HWMS) in Latvia that will consist of three interrelated subsystems: waste disposal, waste collection and waste recycling and treatment. The specific objective of this first stage project is to safely contain hazardous waste in compliance with EU and Latvian legislation and with a minimum adverse impact on the environment. To this end a hazardous waste landfill will be constructed in a specially arranged area. It is designed to be incorporated in the national Hazardous Waste Management System of which the other subsystems will be addressed in a second stage. The landfill will allow the disposal of various types of domestic and industrial hazardous waste, including end products of hazardous waste incineration.

## **Solid waste management**

At overall level the project aims at establishing an environmentally and economically sustainable solid waste management system in the Piejūra Region that fully complies with the current national legal requirements and EU regulations. At specific level the project will introduce an upgraded solid waste management system including infrastructure, mitigate the harmful environmental impact of non-compliant dumping sites, introduce the "polluters pays" principle, and increase the proportion of areas served with simultaneous awareness rising activities. Investments and activities funded by the project include the development of a new regional landfill, the establishment of two composting facilities, a waste transfer station and three waste transfer-sorting stations, the introduction of points for separated waste collection in locations with 200 or more inhabitants, the closure and re-cultivation of 40 dump sites, and a public information / awareness campaign.

## **Development of Water Services**

The project aims at extending water and waste water services to respectively 97% (from 92%) and 87% (from 82%) of Riga's population. This should enable providing wholesome and safe drinking water. In addition, water losses in the distribution network and infiltration into sewers will be reduced. Ensuring services in emergency situations and avoiding shock loads to waste water treatment plants are other issues addressed by the project. Cohesion fund assistance will be provided to the extension and renewal of water supply and sewerage networks, the installation of equipment facilitating the formation of district metering and water quality areas, the construction of waste water collectors, the separation of storm and foul water sewerage systems and the installation of diesel generated pumping stations.

### *3.1.8.2. Transport*

In 2005, the European Commission adopted 4 decisions to co-finance projects in the transport sector with a total eligible cost of € 54.23 million and a total contribution from the Cohesion Fund of € 41.33 million.

The following table shows the projects adopted in 2005:

No of project	Name of project	Total Eligible Cost (€ million)	CF Assistance (€ million)	Committed in 2005 (€ million)
<b>Port access and Airport projects:</b>				
2005LV16CPT001	Reconstruction of access roads to Ventspils port terminals	22.88	15.90	12.72
2005LV16CPT002	Riga Airport: runway extension and lighting system re-construction	19.49	16.56	13.25
2005LV16CPT003	Reconstruction of access roads to Liepāja port	11.42	8.50	6.79
<b>TA project:</b>				
2005LV16CPA002	Facility for Technical assistance to the Ministry of Transport	0.44	0.37	0.30
<b>TOTAL</b>		<b>54.23</b>	<b>41.33</b>	<b>33.06</b>

### Port access

Contributing to increased competitiveness of one of Latvia's main ports, the projects are consistent with the country's overall transport strategy that aims at an efficient safe, balanced and competitive transport system. The project improving access to the port of Ventspils envisages to increase cargo and passenger turn-over through improved access, to improve traffic safety, to allow increased traffic and smooth traffic flows, to optimize the use of port areas, and to reduce maintenance costs of roads and bridges. The project includes the construction of a new ferry terminal and access road, the reconstruction of a connected berth, the reconstruction of an older bridge and two existing access roads to the port, and the construction of a new bridge.

The specific objectives of the project improving accessibility to the port of Liepāja are to increase throughput capacity of railways, to improve traffic flows, to create a road access to the port adapted for heavy transport, and to allow more effective use of the port facilities at the Karosta Canal. The project includes the construction of a new railway connecting existing tracks in different parts of the port, the construction of a new access road to the port, and the reconstruction of the turn-able bridge at the entrance of the Karosta Canal.

### Airport

Overall the project will increase safety and effectiveness of traffic at the Riga International Airport in accordance with the National Programme for Transport Development. As a result of the project heavy aircrafts will be able to serve the airport and possibilities for landing and take off under poor meteorological

conditions will improve. In this manner, the project will improve the capacity and competitiveness of the Riga International Airport while at the same time enhancing safety of air traffic in the region, in particular in emergency situations. The project includes the extension of the runway and taxiways, the reconstruction of the lightning system, and the reconstruction and extension of the surface water collection and water drainage systems.

### Technical Assistance

The project “Facility for Technical Assistance to the Ministry of Transport in Latvia” is a group of projects which consists of two TA projects:

Project Number 1: Pre-feasibility Study for the modernisation of Regional Airports. The project will enable the ministry to evaluate the impact and cost of investments for upgrading the regional airports in Liepaja and Ventspils.

Project Number 2: Expertise on planning and execution of Cohesion Fund projects. The project will provide experts to assist with the preparation and assessment of project applications, tender documents and contracts and with tendering and implementation processes for large scale transport projects, in particular in the railway sector.

### 3.1.9. Lithuania

In 2005, the Commission approved new Cohesion Fund grants totalling €224.9 million, of which €70 million were committed from that year’s budget. Including the commitments of €103 million made as a result of decisions taken in previous years, the total amount of Cohesion Fund commitments for Lithuania in 2005 was €173 million. The following table shows the Cohesion Fund assistance approved in 2005 and the total amount committed.

	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>Environment</b>	169	132	118
<b>Transport</b>	109	92	55
<b>Total CF</b>	<b>278</b>	<b>224</b>	<b>173</b>
<b>% Environment</b>	61	59	68
<b>% Transport</b>	39	41	32

In order to strengthen the administrative capacity of Cohesion Fund management in Lithuania, to increase the quality of projects and project applications and to enhance project implementation; to increase public awareness in the Cohesion Fund intervention area Technical Assistance project 100% financed by Cohesion Fund was approved in 2005 with the total value of €1.4 million.

### 3.1.9.1. Environment

In 2005 the Cohesion Fund concentrated its financial support on the three priority sectors: water supplies, waste-water disposal and treatment and management of solid domestic waste. The main aim of these projects is to help municipalities and regions improve drinking water supplies, waste-water networks and treatment, and collection and treatment of waste.

The contribution of the Cohesion Fund by sectors shows that waste-water disposal and treatment continued to receive the bulk of resources for the environment, followed by water supplies.

A total of 6 decisions on new projects were adopted, providing assistance of € 132 million, of which € 106 million were committed in 2005.

As Lithuanian environmental sector benefited from the assistance from ISPA during 2000-2003 some of the commitments of € 1.1 million of former ISPA projects from this period were carried out in 2005. The following table shows the projects adopted in 2005:

No of Project	Name of Project	Total CF grant	Committed 2005
<b>Water and waste water</b>			
2004/LT/16/C/PE/004	Nemunas Lowland River Basin- 1 <sup>st</sup> package	30 304 000	24 243 200
2004/LT/16/C/PE/005	Klaipeda Water project	13 694 940	10 955 952
2005/LT/16/C/PE/002	Nemunas Upland River Basin- 1 <sup>st</sup> package, 1 <sup>st</sup> stage	27 592 720	22 074 176
2005/LT/16/C/PE/001	Neris river Basin- 1 <sup>st</sup> package, 1 <sup>st</sup> stage (8 municipalities)	30 060 800	24 048 640
<b>Solid waste</b>			
2004/LT/16/C/PE/001	Kaunas Regional waste management system development	13 824 000	11 059 200
2005/LT/16/C/PE/003	Panevezys Regional waste management system development	16 563 950	13 251 160

### 3.1.9.2. Transport

In 2005, the European Commission approved two new transport projects with a total of €92.8 million in Community assistance, of which €42.6 million was committed from the 2005 budget. The breakdown by sector is given below.

## Roads

One project was approved in 2005. Project concerns construction of the missing link on the IXB Transport Corridor. Total Community assistance for this project is €41.4 million.

## Rail

The Commission approved one new grant decision, concerning modernization of the Lithuanian Railway communication system with GSM-R. Total Community assistance for this project is €51.4 million.

The following table shows the project adopted in 2005:

No of Project	Name of Project	Total CF grant	Committed 2005
<b>Roads</b>			
2004/LT/16/C/PT/008	Construction of the Missing Link for the IXB Transport Corridor – Vilnius Southern Bypass	41 397 210	33 117 768
<b>Rail</b>			
2005/LT/16/C/PT/001	Modernization of the Lithuanian Railway Communication System with GSM-R	51 439 450	9 540 951

### 3.1.10. Malta

In 2005, the Commission approved two projects totalling €12,050,634 million, of which €10,243,039 is grant aided by the Cohesion Fund. Malta's 2005 commitment of €6,102,388 million was entirely committed to these projects.

The following table shows the Cohesion Fund assistance approved in 2005 and the total amount committed.

	Total eligible costs (€ million)	Total assistance (€ million)	% assistance	2005 Commitments
<b>Environment / TA</b>	964.634	819,939	<b>85</b>	754,768
<b>Transport</b>	11,086,000	9,423,100	<b>85</b>	5,347,620
<b>CF Total</b>	<b>12,050,634</b>	<b>10,243,039</b>	<b>85</b>	<b>6,102,388</b>

### 3.1.10.1.Environment

The project concerns the co-financing of pre-feasibility studies for the preparation of a project pipeline in the environment sector focusing on: (1) the setting-up of a Mechanical Biological Treatment Plant; and (2) Preparatory studies to formulate a stormwater master plan towards the sustainable management of stormwater.

### 3.1.10.2.Transport

The object of this decision is to co-finance the upgrading and restoration of sections of the TEN-T Network throughout the Islands of Malta and Gozo. Three projects are being presented which are found along the Arterial Road 1, which forms part of the North-South corridor linking the international sea ports and the international airport with the main centres of Malta and Gozo. The route has been identified as Trans-European Network in the TINA study (2002) as one of strategic importance both economically and socially.

### 3.1.11. Poland

In 2005, the Commission registered 18 new applications for assistance from the Cohesion Fund, of which 15 were for the environment, two for transport investment measures and one for technical assistance. In addition, 13 applications, not approved in 2004 due to the budgetary reasons, were transferred for the 2005 co-financing.

The Commission adopted 23 new decisions granting assistance from the Cohesion Fund amounting to € 1 279.1 million, of which € 609.5 million were committed in 2005. The split of commitments between the environment and transport sectors is approximately 53:47. The total eligible cost of these measures is € 1 696.9 million.

<b>New projects adopted in 2005</b>			
	<b>Total eligible costs (€ million)</b>	<b>CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>Environment</b>	<b>1 220.5</b>	<b>879.0</b>	<b>515.0</b>
<b>Transport</b>	<b>475.5</b>	<b>399.4</b>	<b>93.9</b>
<b>Technical Assistance</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>
<b>TOTAL</b>	<b>1 696.9</b>	<b>1 279.1</b>	<b>609.5</b>

For measures adopted in the 2000-2004 period, commitments totalling to € 557.4 million were made, taking into account amendments made:

<b>Measures adopted in the 2000-2004 period</b>			
	<b>Total eligible costs (€ million)</b>	<b>CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>Environment</b>	3 052.5	1 959.0	158.6
<b>Transport</b>	2 927.6	2 284.8	398.0
<b>Technical Assistance</b>	65.2	50.1	0.9
<b>TOTAL</b>	6 045.3	4 293.9	557.4

During 2005, the Commission authorised payments amounting to € 229.1 million. A total of 11 amending decisions were adopted.

### *3.1.11.1.Environment*

The applications for assistance submitted to the Commission were predominantly focused on the water sector though the solid waste sector was also addressed. In addition, one project aimed at improving the air quality through the reduction of emissions from district heating sources was approved in 2005. In general, the decisions adopted in 2005 covered waste-water treatment, waste-water collection, drinking water production and supply. The majority of these projects addressed at least two or more of the above fields of the water cycle.

The below table shows projects adopted in 2005:

<b>CCI Number</b>	<b>Project name</b>	<b>Total Eligible Cost (€ million)</b>	<b>Total CF Assistance (€ million)</b>	<b>Committed in 2005 (€ million)</b>
2004PL16CPE002	Bochnia, infrastructure complex	12.192	9.778	7.822
2004PL16CPE006	Krakow, district heating system	75.513	54.369	32.621
2004PL16CPE009	Kielce WW	27.838	15.589	12.471
2004PL16CPE012	Nysa, sewerage system	18.105	15.389	12.311
2004PL16CPE023	Torun, Waste management	15.264	10.837	8.670
2004PL16CPE028	Zgierz, water and wastewater management	17.615	11.978	9.583
2004PL16CPE034	Pabianice, sewerage system	18.341	11.683	9.347
2004PL16CPE035	Leszno, waste and sewage	24.540	18.601	14.881

	management			
2005PL16CPE001	Gdansk WW	121.410	91.057	54.635
2005PL16CPE002	Zyrardów and Jaktorów WW	23.306	18.319	14.655
2005PL16CPE003	Warsaw WW (phase III)	396.903	248.064	101.458
2005PL16CPE004	Zawiercie WW	23.436	18.866	13.167
2005PL16CPE005	Wolomin-Kobylka WW	34.074	27.600	22.080
2005PL16CPE006	Piekary Slaskie WW	27.299	16.297	13.038
2005PL16CPE007	Wisloka River Municipalities WW	47.770	40.127	32.101
2005PL16CPE008	Swiebodzin WW	18.144	13.608	10.886
2005PL16CPE009	Krakow WW	36.405	21.479	17.184
2005PL16CPE011	Ostroleka WW	26.612	19.027	15.222
2005PL16CPE013	Karkonosze WW	58.117	49.399	39.520
2005PL16CPE014	Czarna Staszowska River WW	20.663	16.427	13.142
2005PL16CPE015	Parseta River WW	177.015	150.463	60.185

In 2005 no strict EIA-conditionalities were used any more in the projects approved through Commission Decisions.

For projects adopted in 2000-2004 commitments of € 158.6 million were made. The Commission adopted 8 amending decisions.

### *3.1.11.2. Transport*

In 2005, the European Commission adopted one decision to co-finance project in the transport sector with a total eligible costs of € 475.5 million and total contribution from the Cohesion Fund of € 399.4 million. The total commitments in transport sector (including technical assistance for studies in transport sector) in 2005 amount to € 492.8 million of which € 93.9 million were committed for new projects and € 398.9 million for the Cohesion Fund projects adopted in 2004 and under the Instrument for Structural Policies for pre-accession (ISPA).

The transport sector accounted for 31.2 % of the total assistance granted under the decisions approved by the Commission in 2005 and 42.2 % of the commitments

made. This unbalance between transport and environment sectors should be compensated in 2006 in order to arrive at a 50/50 split.

### **Roads**

In 2005, no Cohesion Fund assistance to road projects was granted.

### **Rail**

The only project adopted in 2005 related to the “Modernization of E-65 railway line, section Warszawa – Gdynia, Stage II”. It follows the preparatory stage I approved for the Cohesion fund financing in 2004. The project mainly aims at: the development of the Corridor No VI of the Trans-European rail transport network, the implementation of one of the European transport priority projects (project No 23) in accordance with the Decision No 884/2004 of the European Parliament and the Council of 29 April 2004, the preparation of the railway line to fulfil the requirements of Council Directive No 2001/16/EC of 19 March 2001 on the interoperability of the trans-European conventional rail systems and to enhance the operational performances of the line.

### **Technical assistance**

In 2005, no Cohesion Fund grant was awarded to technical assistance projects in the transport sector.

#### *3.1.11.3 Technical Assistance*

One project approved in 2005 will provide a technical assistance to the Managing Authority and the Intermediate Bodies responsible for implementation of the Cohesion Fund projects in the transport and environment sectors. The objective of the project is to strengthen information and publicity measures on the Cohesion Fund in Poland as well as to improve effective management and monitoring of the projects carried out under the Cohesion Fund.

#### **3.1.12. Slovakia**

Slovakia absorbed the entirety of its 2005 commitments allocation (159.432.592 €) thanks to the complementary budgetary commitments for the ISPA projects decided in 2000-2003, the Cohesion Fund projects adopted in 2004 and the adoption of 2 new projects under the Cohesion Fund (environmental projects) in 2005.

At the end of 2005, 99.8% of the ISPA and Cohesion Fund allocation available for Slovakia for the period 2000-2006 had been allocated to projects (environment, transport, technical assistance): 39 projects were adopted for an eligible total cost of 1.165 Mio € and a Community contribution of 765,4 Mio €.

Cohesion Fund assistance approved in 2005 and committed amounts:

	<b>Total eligible cost (€)</b>	<b>CF assistance (€)</b>	<b>Commitments 2005* (€)</b>
<b>Environment</b>	50 728 147	43 118 925	82 084 082
<b>Transport</b>	0	0	77 348 510
<b>TOTAL</b>	50 728 147	43 118 925	159 432 592
<b>% environment</b>	100	100	51
<b>% transport</b>	0	0	49

\* including the commitments based on the decisions taken in 2005 and the previous years.

N.B: in addition to the new decisions referred to in the above table, three *modifying* decisions for environmental projects (waste water) and one for transport project (railway project) were taken in 2005.

### 3.1.12.1. Environment

In 2005 the Cohesion Fund concentrated its support to one water management project and to the first project in the field of flood protection.

<b>Project n°</b>	<b>Project name</b>	<b>Total eligible cost (€)</b>	<b>CF assistance (€)</b>	<b>Commitments 2005 (€)</b>
2004SK16CPE006	Water supply and sewerage of the Orava Region, Stage 1	19 489 399	16 565 989	9 195 191
2004SK16CPE007	Bratislava- Flood Protection	31 238 748	26 552 936	21 242 349

In addition three modifying decisions were adopted for projects: Extension of Wastewater Treatment Plant for Urban Agglomeration of Nitra, Wastewater Disposal System in Banska Bystrica and Reconstruction and Extension of the Wastewater Treatment Plant in the City of Zvolen and one modifying decision was launched for project Komarno Municipality Wastewater Project.

### 3.1.12.2. Transport

The Commission did not adopt any new decision on transport projects in 2005 but one modifying decision for the railway project “Modernisation of rail track Bratislava Rača-Trnava (section Bratislava-Rača-Senkvice)” was taken to postpone the completion date by half a year.

### 3.1.13. Slovenia

In 2005, the Commission approved 4 new environment projects and 1 transport project equalling a total eligible investment of € 119 million. The granted assistance

from the Cohesion fund for the 5 new projects totals € 82.3 million of which € 49.9 million were committed in 2005.

Four modifying decisions were approved in 2005 of which two led to a decrease of the Cohesion Fund assistance granted in the environmental sector whereas the other two had no impact on the forecasted financial allocations.

The following table indicates the approved Cohesion Fund assistance and the total amount committed in 2005.

<b>Projects adopted in 2005</b>	<b>Total eligible cost (€ million)</b>	<b>Total CF assistance (€ million)</b>	<b>2005 commitments (€ million)</b>
<b>Environment</b>	90.7	58.8	47.1
<b>Transport</b>	28.3	23.5	2.8
<b>Total CF</b>	<b>119</b>	<b>82.3</b>	<b>49.9</b>
<b>% Environment</b>	76.2	71.5	94.4
<b>% Transport</b>	23.8	28.5	5.6

The high level of commitments for the environmental sector in 2005 helped to improve the required sector balance in favour of the environment which at the end of year accounted for roughly 52% of the total commitments for Cohesion Fund and former ISPA projects in Slovenia.

### *3.1.13.1.Environment*

In line with the SRF the main aim for assistance from the Cohesion Fund in 2005 was to assist municipalities and regions in improving drinking water supplies, waste water networks and treatment and waste management.

The Commission adopted 4 new decisions in the field of environment of which 2 concerned integrated projects which included both waste-water treatment and water supply, 1 project targeted solely waste water collection and treatment while 1 project focused on waste management.

The breakdown for the commitment appropriations between waste water and waste management is shown below:

<b>Sector</b>	<b>Total eligible cost (€ million)</b>	<b>CF assistance (€ million)</b>	<b>% of assistance</b>	<b>2005 commitments (€ million)</b>
<b>Integrated waste water treatment and water supply</b>	49.2	31	63 %	24.8
<b>Waste water collection treatment and water supply</b>	12.5	7.5	60 %	6.0

<b>Waste management</b>	29.0	20.3	70%	16.3
<b>Total</b>	<b>90.7</b>	<b>58.8</b>		<b>47.1</b>

### Waste Water and Water Supply

The Cohesion Fund assistance will support the municipality of Tržič and the municipality of Ptuj in their respective efforts to upgrade wastewater collection systems, construct new wastewater treatment facilities and extend and re-construct their water supply systems. The third project will provide assistance to the municipalities of Trbovlje and Hrastnik in order to significantly diminish the pollution on a river basin level by constructing waste water treatment plants with tertiary treatment and adequate sewerage infrastructures.

### Waste Management

The approved project covers stage II of the Regional Waste Management Centre Celje which, once completed, will cater for 31 municipalities with a population of approximately 249.000 inhabitants. The project will contribute to solving the problem of communal waste management and thus reduce the quantity of landfill waste in the targeted waste collection region by 62%.

<b>ENVIRONMENTAL PROJECTS</b>			
<b>No of project</b>	<b>Project name</b>	<b>Total eligible cost (€ million)</b>	<b>CF assistance (€ million)</b>
<b>Integrated projects (Waste-Water and Water Supply)</b>			
2005/SI/16/C/PE/002	Waste Water Collection, Treatment and Water Supply for the Municipality of Tržič	18.8	11.3
2005/SI/16/C/PE/003	Integral Protection of groundwater of Ptujsko Polje – Phase I	30.4	19.7
<b>Waste water collection and treatment</b>			
2005/SI/16/C/PE/004	Wastewater Treatment Plants and Sewerage infrastructures of the central Sava River basin - projects Trbovlje and Hrastnik	12.5	7.5
<b>Waste management</b>			
2005/SI/16/C/PE/001	Regional Waste Management Centre Celje – Stage II – Mechanical Biological and Thermal	29.0	20.3

	Treatment of Municipal Waste		
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### 3.1.13.2. Transport

The project *Remote Control of Fixed Installations for Electric Traction on the Slovenian Railway Network* concerns the upgrading of existing railway network infrastructure in Slovenia through the installation of remote control of traction substations and catenary switches, a telecommunication system, modification of the return current circuit on the Divača-Koper line and modernisation of the railway catenaries on the Pivka-Gornje Ležeče-Sežana line.

Part of this network is included in the Pan-European Transport Corridors V and X.

The implementation of this project will bring increased safety, technical compliance with European standards, and reduction in operating costs and more efficient use of the railway lines.

Sector	Total eligible cost (€ million)	CF assistance (€ million)	% of assistance	2005 commitments (€ million)
Railway	28.3	23.5	83%	2.8
<b>Total</b>	<b>28.3</b>	<b>23.5</b>	<b>83%</b>	<b>2.8</b>

Transport project adopted in 2005:

TRANSPORT PROJECTS			
No of project	Project name	Total eligible cost (€ million)	CF assistance (€ million)
<b>Railway</b>			
2005/SI/16/C/PT/002	Remote Control of Fixed Installations for Electric Traction on the Slovenian Railway Network	28.3	23.5

## 3.2. TECHNICAL ASSISTANCE AND STUDIES

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

In Portugal, the study carried out in 2004 on evaluation of the various investments made in the framework of the Alqueva dam was finalised in March 2005. After its approval by the Commission, the study was presented and discussed with the Member State in July 2005.

One assignment has been agreed upon in Hungary. The purpose was the assessment of the Hungarian project implementation structure in the environmental sector.

At the end of 2005, two assignments were also signed concerning Latvia. One to perform quality appraisal and verification of financial data and financial gap calculations for the project application “Development of the district heating system of Ventspils city”; the second one to perform ex post assessment of financial data and financial gap calculations for the projects in the water sector. Both assignments will be finalised in 2006.

For Poland, the Commission initiated five assignments. The scope of the studies varied according to the assignments. The analysis mainly examined robustness of the feasibility and technical studies in particular as regards the choice of the most cost-effective technical solution and overall readiness of the project for implementation as well as safeguard of the public in cases where private partners are involved.

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

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

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

###### *4.1.1.1 Monitoring Committees*

The 2<sup>nd</sup> Cohesion Fund Monitoring Committee was held on 12 July 2005. The Committee assessed and reflected on the implementation of the Cohesion Fund projects and discussed ways for further accelerating the implementation of projects. The day before, in a technical meeting all Cohesion Fund projects were discussed in detail. In addition, the commitment target for 2005 including the adoption of new projects was also elaborated.

On 14 November 2005, the 1<sup>st</sup> Monitoring Committee relating to the Thriassio waste water project was convened. It examined the role and functioning of this Committee as well as the progress made in implementing the said project.

Besides, the Cohesion Fund environment and transport projects were reviewed and discussed in the context of the monitoring committees of the regional operational programmes, the Operational Program “Environment”, the Operational Program “Road axes” and the Operational Programs “Railways” in the course of November-December 2005.

In addition, the following technical meetings took place:

On 15 & 16 March 2005, the Commission services met with the Cohesion Fund services of the Ministry of Finance and Economics for a technical meeting to review progress in tackling issues related to the Cohesion Fund. In particular the review meetings took place between the Central Cohesion Fund Service of the Ministry of Finance and the managing Authorities concerned including the final beneficiaries. An action plan to accelerate project implementation was agreed and put in place.

On 25 October 2005, the Commission services and representatives of the Cohesion Fund Special Service of the Ministry of Finance met in Brussels. The progress made in implementing the action plan agreed on March 2005 was in depth assessed. Besides, the commitment target for 2005 was considered. In addition, project proposals subject to co financing in 2005 were presented and analysed.

#### *4.1.1.2. Monitoring missions*

No Cohesion Fund monitoring missions were carried out.

### **4.1.2. Spain**

#### *4.1.2.1. Monitoring Committees*

One meeting of the monitoring Committee was held in Madrid from 20 to 22 April 2004. The Managing Authority and the Commission selected the 161 projects to be followed-up during this Committee.

The meetings of the Committee were organised in 7 specific sessions: one for the projects of the Transport sector and six for the projects of the Environment sector. The latter were distributed in the following way:

Four sessions concerning projects managed by the various regional and local administrations; one for the projects managed by the "hydrographical Confederations" linked to the Ministry of environment and another gathering projects co-financed by public/private partnerships, projects managed by the central Administration and technical assistance projects.

#### *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:

From 9 to 12 February: Project "Actions for the management of the urban waste in the autonomous Community of Murcia".

17 March: Participation in the annual meeting of coordination of controls. This meeting was chaired by the IGAE (Intervención General de la Administración del Estado) (independent Organisation responsible for the ex post control of the Structural Funds and of the Cohesion Fund in Spain).

7 And 8 April: Project "Enlargement of the Port of Barcelona"

23 and 24 May: Project: "Ampliación del Aeropuerto de Madrid-barajas, construcción del sistema Apm-automated people mover". Control was carried out at the headquarters of the Spanish public-sector company AENA (Aeropuertos españoles y Navegación Aérea) and on-the-spot visit to the project.

23 And 24 May: Meeting with the persons responsible for the "Autoridad Portuaria of Coruña" accompanied by an official of the EIB in order to analyse and specify

certain details of the request for assistance concerning the project "Puerto exterior en Punta Langosteira" in La Coruña.

7 June: "Presa de Melonares" (Melonares Dam) in Seville. Visit of the project and technical meeting with the authorities also with DG ENV to check the respect of the environmental conditions.

13 to 15 July: Control mission in Galicia concerning the projects "Actuaciones avoided the gestión of residuos in Galicia" and "Saneamiento in CH Norte-Galicia".

28 July: Technical meeting with the persons responsible for the monitoring of the Cohesion Fund in Spain to analyse the situation and the budgetary resources available for 2005 and 2006 according to the currently programmed priority projects.

25 October: "Ampliación del puerto de Gijón" in Asturias. The aim of this project is to solve the traffic increase of bulk and liquid products. Works have started.

25 November: Control mission in Castilla - La Mancha (Toledo) concerning the projects "Abastecimiento has the Comarca of Talavera de la Reina, 1a fase" and "Gestión of residuos in the Comunidad of Castilla-la Mancha, 2002".

### **4.1.3. Portugal**

#### *4.1.3.1. Monitoring Committees*

According to the Cohesion Fund Regulation, Monitoring Committee meetings are held twice a year. Alike in previous year, in 2005 meetings lasted for two days due to the numerous projects discussed. Both 2005 Monitoring Committee meetings were held in Lisbon, the first took place on 8-9 June 2005, the second on 10-11 November 2005.

The June Monitoring Committee meeting reviewed all the ongoing projects and projects on the way of closure, as well as outlined the programming for the rest of the year. The Portuguese Authorities engaged themselves to present the commitment requests for projects approved before 2005 and all the new applications which cover the rest of the 2000-2006 envelopes as soon as possible. The problem of controlling application of public procurement rules was also mentioned and in this respect Portuguese Authorities prepared an action plan until the end of October 2005. Other topics discussed were the closure of the project Funchal airport and the open infringement procedure for the Alqueva dam.

The November Monitoring Committee meeting focused mainly on three topics as follows: solid urban waste, transport and water-treatment. Each project was considered individually on the meeting, whereas general questions were also discussed such as evaluation exercise, action plan on public procurement, level of budgetary execution, preparation and selection of projects for the future programming period. During the meeting an information campaign on Cohesion Fund in Portugal was presented, which has the aim of raising public interest towards Cohesion Fund with respect to a decision of Commission in this regard.

Furthermore in March 2005 a Coordination meeting on Cohesion Fund was also organised in Lisbon with the participation of the Portuguese Authorities and the

Commission. The main issues covered on the meeting were the forecast of decisions to be adopted, the forecast of commitments for 2005, information on presentation of new projects for 2005, closure of projects started before 2000 and situation of reprogramming.

#### *4.1.3.2. Monitoring missions*

Besides the two regular Monitoring Committee meetings mentioned above several monitoring missions took place in 2005 with the objective of visiting the project in question and monitoring the implementation and progress of these projects.

In March 2005 a monitoring mission took place in Funchal – Madeira and to visit the Valorsul project. In June 2005 a visit was organised to the project SIMLIS in Leiria. At the same date a technical meeting took place in Lisbon to discuss the questions concerning the application of project SIMARSUL. In the framework of investments financed by Cohesion Fund and which also receive loan from the European Investment Bank a meeting took place in June to monitor the implementation investments. In July three projects were visited such as the Alqueva dam, the port of Setúbal and the metro of Lisbon. Finally in October 2005 a monitoring mission was made to the island of Terceira to visit the project of Port of Praia da Vitória.

#### **4.1.4. Cyprus**

##### *4.1.4.1. Monitoring Committees*

A Cohesion Fund Monitoring Committee was held on 27 of June 2005. It was reported, that for the transport project, the first works contract had been signed.

##### *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 2005, two meetings of the monitoring committee took place. The first was held on 13 and 14 June 2005 and the second on 19 and 20 December.

The Commission underlined the urgency to establish an efficient monitoring system taking into account the importance of the EU financial resources, which will be allocated to the Czech Republic in the next programming period (2007-13), as well as the need for simplification of current complex financial flows in order to increase the absorption capacity.

Moreover, it was stressed 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. 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.

On the top of the two monitoring committees indicated above, three other ad-hoc technical meetings were organised during 2005.

Finally, Commissioner Danuta Hübner visited Czech Republic on 11 November 2005 and mainly explained the state of progress on the negotiations on the financial perspectives for 2007-2013, the content of the new Regulations, the Strategic Community Guidelines and the new instruments Jaspers and Jeremie.

#### *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 second (13-14<sup>th</sup> of April, Tallinn – Narva) and the third (5-6<sup>th</sup> October, Tallinn – Parnu) Cohesion Fund Monitoring Committees were attended. Kick-off and round-up meetings were organised always the previous and following days, as a standard procedure. Site visits were conducted in the construction sites of Narva wastewater treatment plant (2<sup>nd</sup> Monitoring committee) and the new landfill of Parnu (3<sup>rd</sup> Monitoring Committee). All Cohesion Fund Monitoring Committees are divided into three separate parts dealing with the environment and the transport sector as well as other horizontal issues.

#### *4.1.6.2. Monitoring missions*

Two monitoring missions were organised in February and June 2005. The first (7-10<sup>th</sup> February) was organised for the examination of the 2005 project pipeline in the transport and environment sectors. Desk monitoring of certain projects was coupled with site visits at two approved projects (Kukruse-Jõhvi and Maardu-Valgejõe sections). Site visits were also conducted at the areas where two transport applications were to be proposed for co-financing.

The second mission involved participation at the seminar organised by DG ENV on EIA issues (30-31 May). It was coupled with the assessment of on-going projects and the 2005 applications pipeline.

### **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 28-29 April 2005 and on 24-27 October 2005 respectively. All the adopted projects receiving assistance from the Cohesion Fund were reviewed and overall presentations were provided for each sector. The October Monitoring Committee meeting was preceded by technical discussions on a project-by-project basis, giving sufficient time to each Final Beneficiary to present the progress of the project, followed by comments from the side of the Commission.

In general, the project implementation is lagging behind the original timetable, however, the situation has significantly improved during 2005 in comparison to

2004. Especially in the second half of the year the contracting and tendering performance ameliorated, with a number of new contracts signed in the last quarter of 2005. The payment situation has considerably improved and the amount of payments made in 2005 was more than four times bigger than in 2004.

#### *4.1.7.2. Monitoring missions*

Several monitoring missions were carried out throughout the year with the aim to both assess the implementation of the ongoing projects adopted in the previous years and to pre-appraise projects foreseen for Cohesion Fund co-financing in the new programming period 2007-2013.

### **4.1.8. Latvia**

#### *4.1.8.1. Monitoring Committees*

In 2005, two Cohesion Fund Monitoring Committees for Latvia took place: The 2<sup>nd</sup> Cohesion Fund Monitoring Committee meeting in Latvia held in Ventspils on 14 April 2005; The 3<sup>rd</sup> Cohesion Fund Monitoring Committee meeting in Latvia held in Jūrmala on 20 October 2005.

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 first part of the meetings dealt with horizontal issues: financial execution of on-going projects, the Cohesion Fund project pipeline, modifications of decisions, 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.

#### *4.1.8.2. Monitoring missions*

During its visit to Latvia from 13 to 15 April 2005 the Commission visited two ex-ISPA/ Cohesion fund environment projects which are in the final phase of their implementation: “Solid Waste Management in Liepāja region”, and “Development of water services in Ventspils”.

The Commission also visited several Cohesion Fund projects submitted for financing in 2005: “Reconstruction of access roads to Liepāja Port”, “Reconstruction of access roads to Ventspils port terminals”, “Ventspils heating system development”.

During the same mission a site visit was also conducted related to the “Clean-up of Karosta canal in the port of Liepāja”, a project that will possibly be financed during the programming period 2007 – 2013.

During its visit to Latvia from 20 to 21 October 2005 the Commission visited the on-going ex-ISPA/ Cohesion fund project “Development of Water services in Riga” and

observed the presentation of the pipe TV inspection and the irrigation systems in a framework of the project “Technical assistance for environment sector in Latvia”. The Commission also visited the site of Inčukalns sulphuric acid tar waste ponds that is planned to be included in the project “Sanitation of polluted places in Latvia” for the programming period 2007 – 2013.

#### **4.1.9. Lithuania**

##### *4.1.9.1 Monitoring Committees*

In 2005, two monitoring committee meetings were held in Lithuania on 21-23 May and 19-21 September. The Committee examined written progress reports on all the ex-ISPA and new Cohesion fund projects. The Committee assessed and reflected on the implementation of the Cohesion Fund projects and discussed ways for further accelerating the implementation of projects.

##### *4.1.9.2. Monitoring missions*

Three Cohesion Fund monitoring missions were carried out respectively in February, June and October which aimed to identify in more detailed the problems related to the relatively slow implementation of Cohesion fund projects especially in environmental sector, discuss with responsible Authorities the possible steps for improvements and enhance the closer dialog between the Member State and the Commission.

#### **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.

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 2005, two for the Environment sector (on 20-21 April and 8-9 December) and two for the Transport sector (on 27 April and 15-16 December). The meetings was attended by representatives of the managing authority, the paying authority, the intermediate bodies, the implementing agencies and the final beneficiaries responsible for all projects approved since 2000 and not yet wrapped-up.

The major part of each meeting was dedicated to a review of the progress of the projects. Additionally, several horizontal issues were discussed, namely: payments and financial forecasts, project pipeline and commitment availability, modifications of projects in terms of scope and timeline, the use of savings generated through the signing of contracts, unblocking of projects through the completion of the EIA requirements, delays in implementation due to legislative bottlenecks (especially the public procurement law) and the resulting threat from the 'n+2' rule, co-ordination issues within the Polish administration. All of the projects (with the exception of those approved in 2004, which are blocked as a result of incomplete EIA procedures) are progressing, but the speed of implementation could be improved. The national authorities have been urged to take all necessary steps to eliminate any existing delays.

#### *4.1.11.2. Monitoring missions*

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

### **4.1.12. Slovakia**

#### *4.1.12.1. Monitoring Committees*

Two monitoring committees took place in 2005:

- In April 2005 a monitoring committee meeting was held in Kosice. The Commission proposed to have a discussion on strategic and horizontal questions in view of current and forthcoming programming period (strategy for transport and environment sectors, quality of monitoring sheets, introduction to Commission guidance documents). In addition, the monitoring committee reviewed the state of progress of current ISPA and Cohesion Fund projects.
- In October 2005 the second meeting took place in Bratislava. The Committee discussed again strategic/horizontal issues (realization of the 2004-2006 strategy, selection criteria of projects for 2007-2013, financial matters, quality of monitoring sheets, cost-savings and cost-overruns) as well as the progress of implementation of the projects while focusing on the main difficulties encountered.

#### *4.1.12.2. Monitoring missions*

Some missions were carried out in 2005, in particular to assess a request for modification of a current environmental project. Staff of the responsible geographical unit also took part in an audit mission in 2005. Meeting on privatisation of operation companies in water sector and assets in air sector also took place in 2005.

### **4.1.13. Slovenia**

#### *4.1.13.1. Monitoring Committees*

In accordance with the legal provisions, two Monitoring Committee meetings were held in Slovenia during 2005.

The first meeting took place on 21 April 2005 and focused on the ongoing implementation of projects and possible delays, changes in the management structure, new project applications to be submitted in 2005 and questions on M+24 and publicity measures.

The second Monitoring Committee meeting was held on 09 November 2005 in Ljubljana. 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, future Cohesion Fund applications and related commitments for 2006 and possible de-commitments. The Commission clarified some questions on the M+24 and M+12 rules and highlighted the necessity to further accelerate the implementation of projects. In conclusion, a Public Procurement seminar was suggested to the Slovene authorities in order to clarify outstanding questions and prevent any insufficient compliance with the legal provisions.

With a view to improve the quality of submitted projects and to ensure compliance with existing regulations a Cohesion Fund programming meeting as well as workshops on environment and cost-benefit-analysis were carried out in February.

#### *4.1.13.2. Monitoring missions*

The assessment of project implementation and site visits took place in connection with the two Monitoring Committee meetings. The visits included the motorway project Smednik-Krška vas and 2 waste water projects, namely “Waste water treatment Mislinja River Basin – Slovenj Gradec” and “Waste Water Treatment and Upgrading of Sustainable Water Supply System of the Paka River Basin”.

## **4.2. Inspections**

The audit work of the EU 4 (Greece, Ireland, Portugal, Spain) in 2005 continued to focus on following up outstanding issues in the effective operation of management and control systems in three Member States. The action plans agreed with the Member States (Greece, Portugal and Spain at central level) continued to be monitored so that the necessary adaptations could be made.

The audit scope included both compliance tests for the systems as a whole and substantive testing of project expenditure focusing on the effective implementation of verification checks at management level, compliance with the requirements for public procurement, eligible expenditure and publicity to seek assurance on the legality and regularity of payment requests. In addition, a separate audit enquiry started in 2005 for projects that had been formally closed in order to examine the audit work carried out by the winding up bodies before providing an audit opinion. One mission was carried out in Spain and in Portugal in the transport sector.

Twenty Cohesion Fund projects were audited in depth in 2005, the large majority in Spain and Portugal while the audit effort for Greece concentrated on compliance tests.

At systems level, the shortcomings noted regarded insufficient ex-ante controls (management or operational verifications) and the unsatisfactory fulfillment of the Article 9 of Commission Regulation (EC) n°1386/2002 on sample checks. At

projects level, the main deficiencies observed concerned the procedures for the award of public contracts. The irregularities which were observed are subject to contradictory procedures with the Member States concerned, and to determine whether, and to what extent, there will be recourse to the application of possible financial corrections.

With regard to the systems set up by the ten new Member States to fulfill the requirements of Commission Regulation (EC) n°1386/2002, desk reviews were completed in the period January-March 2005 enabling the Commission to gain assurance on the set-up of the systems. Systems audits began in 2005 to check that the systems in place correspond to the description and function effectively. In addition, a separate enquiry was launched during 2005 with the objective of verifying the correct application of public procurement procedures based on a sample of contracts concluded after accession.

#### **4.2.1. Greece**

In 2005 three system audits were carried out. The first mission took place in April 2005 at EDEL (Fiscal Control Committee (EDEL)). In May 2005 and October 2005, two other missions were carried out in Central and Regional Managing authorities.

Regarding EDEL, the auditors did not obtain the assurance that the sample checks are representative and that the opinion given by EDEL in the article 12 report that the management and control system is functioning adequately does not seem justified. Concerning the second and the third missions, significant deficiencies still surfaced from the EC audit review in public procurement procedures.

#### **4.2.2. Spain**

Seven projects audit missions and six systems audit, including compliance tests on selected projects, were carried out together with one closure audit.

With respect to systems audits at autonomous Community level, the main weaknesses are identical to the ones noted in the past and concern mainly the insufficiency of ex-ante checks. As to the Central Administration, the Action Plan set up as a result of the audit on management and control system had been insufficiently acted upon. Important deficiencies persist with regard to ex-ante checks, systems audits and the audit steps surrounding the preparation of the winding-up declaration.

With regard to the projects audits, fourteen decisions were examined. The main anomalies observed are similar to what had been discovered in previous years: they concern the inobservance of regulation on the public procurement and the inclusion of ineligible expenditure. These audits have revealed weaknesses which corroborate the results of the system's audits and a symptomatic of lack of Article 4 checks at the levels of the Intermediate bodies.

#### **4.2.3. Portugal**

Six audits were performed in Portugal: 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.

The action plan was agreed with the Portuguese authorities in April 2005 and accordingly they verified compliance of a representative sample of contracts with public procurement rules, to determine the error rate and extrapolate the results. The report was submitted to the Commission in January 2006. The audit is planned for 2006 with the aim to verify the correctness and reliability of the verifications performed by the Portuguese 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.

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

A systems audit was carried out in April 2005 and a public procurement audit was performed in October 2005.

The audit work revealed weaknesses in the area of the management and control systems and in the area of public procurement. Neither the Managing nor the Paying Authority seeks assurance about whether the Intermediate Bodies carry out the ex-ante controls properly. In the transport and the environment sector, confusion has been noted between selection and award criteria since experience has been used as an award criterion for all services contracts awarded.

#### **4.2.6. Estonia**

A system audit was carried out in April 2005. The systems audit disclosed weaknesses in the implementation of ex-ante checks. The Managing Authority was advised to provide written guidance to all relevant bodies and play an active role in assessing whether its delegated tasks to the Intermediate bodies have been executed successfully. Finally, the necessary separation of functions between the implementation function and the operational checks should be ensured.

#### **4.2.7. Hungary**

A systems audit was carried out in April 2005 and a public procurement systems audit was carried out in September 2005 in the environment sector only.

The auditors had a general concern at both Managing Authority and Intermediate body levels regarding operational checks of eligibility of expenditure.

#### **4.2.8. Latvia**

Two audit missions were carried out. One system audit was carried out in March 2005 and a public procurement system audit was carried out in October 2005 in the transport and environment sectors.

The Managing Authority is not providing sufficient written guidance to all relevant bodies and does not play an active role in assessing whether its 'delegated tasks' to the Intermediate bodies, such as operational checks, have been executed successfully. There is a lack of eligibility of expenditure checks in the environment sector.

#### **4.2.9. Lithuania**

A systems audit was carried out in April 2005 whereas a procurement audit was performed in November 2005.

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 done by the intermediate bodies of the public procurement are not sufficient. Specific eligibility checks were not carried out at the time when expenditure is declared to the Commission.

#### **4.2.10. Malta**

A system audit took place in June 2005. A favourable opinion was issued on the systems set up.

The main outstanding issue related to a lack of an adequate database to record and to monitor irregularities and recoveries.

#### **4.2.11. Poland**

A system audit was carried out in June 2005 and a public procurement systems audit was carried out in September 2005 in the environment sector.

Deficiencies affecting key elements of the systems were noted in relation to compliance with key articles of Regulation 1386/02. Regarding ex-ante checks, the Commission expressed a general concern at both Managing Authority and Intermediate body about the adequacy of the management checks of eligibility of expenditure and public procurement procedures.

#### **4.2.12. Slovakia**

The audit missions which took place in 2005 concerned a systems review and a public procurement examination.

The audit work revealed a number of deficiencies in the implementation of key elements concerning the compliance with the relevant articles of Regulation 1386/2002. The Managing Authority does not perform sufficient quality review of the 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.

#### **4.2.13. Slovenia**

A system audit was carried out in July 2005. No particular irregularities were identified that could endanger the Commission's assurance on the systems of the MS.

### 4.3. Irregularities and suspension of aid

During 2005, the European Anti-Fraud Office (OLAF) opened five cases in relation to the information received concerning Cohesion Fund. Among these, two cases led to external enquiries and one case has been closed as a “non case”. The two remaining cases have been transferred to the year 2006 waiting for an evaluation. No control missions linked to Reg. (CE) n°2185/96<sup>6</sup> have been realised.

According to Article 3 of Reg. (CE) n° 1831/94<sup>7</sup> concerning irregularities and the recovery of amounts unduly paid, as well as the organisation of an information system in this area, some eight of the beneficiary Member States have communicated 204 irregularity cases involving € 129 250 528 of Community contribution. These cases have been the subject of initial administrative or judicial findings of fact.

It is worth noting that the majority of these cases (192) have been communicated by the four original beneficiary Member States, with a predominance of Greek cases (152), involving a total of € 91 653 202 in Community contribution, of which € 24 872 456 remain to be recovered. The cases communicated by the Irish authorities (18) involved a total of € 21 714 607 deducted before the presentation of the final payment to the Commission. On the contrary, for the 16 cases communicated by the Portuguese authorities involving € 6 205 143 in Community contribution, and for the 6 cases communicated by the Spanish authorities involving € 8 668 985, amounts of respectively € 4 131 494 and € 8 378 744 remain to be recovered.

Among the new Member States, only the Czech Republic, Estonia, Hungary and Lithuania have notified cases (respectively 6, 2, 1 and 3 cases), involving less important amounts than those cited above. For almost all cases, the amounts involved have been deducted before presentation of the payment requests to the Commission.

The other new Member States have informed the Commission, that no irregularities have been observed during 2005. 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 a notification according 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 2005 Regulation (CE) n° 1831/94 was modified by Regulation (CE) n° 2168/2005<sup>8</sup>. The amendments concern: the definition of irregularity as stated in Article 1.2 of Regulation (CE) n° 2988/95 of the Council; the definition of suspicion of fraud; the clarification of the moment when a case must be notified; the definition of “bankruptcy” and the exclusion of the obligation to notify cases of bankruptcy, except some cases, namely when there is a suspicion of fraud; the electronic transmission of irregularity cases; the increase of the notification threshold from € 4 000 to € 10 000; the redefinition of the objectives, stressing on risk analysis.

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<sup>6</sup> OJ n°L 292, 15.11.1996, p.2

<sup>7</sup> OJ n°L 191, 29.07.1994, p.1

<sup>8</sup> OJ n°L 345, 21.12.2005, p.15

## **5. APPRAISAL AND EVALUATION**

### **5.1. General**

In accordance with the provisions of Article 13 of the revised Regulation (CE) n°1164/94 of 16 May 1994, the Commission and Member States have to ensure the effectiveness of Community aid when implementing projects co-financed under the Cohesion Fund. This implies recourse to monitoring and evaluation measures likely to allow adaptation of the projects according to the results of the monitoring and of the evaluation.

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

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.

At methodological level, 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 with the financial resources mobilised. The Commission examines this evaluation on the basis of the principles set out in the guide for cost-benefit analysis published in 2003<sup>9</sup> which is used both by project sponsors and by the Commission itself.

On this basis, the Commission provided during 2005 important internal methodological 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. Thus, dedicated software (called CBA Software), was developed which, after a test phase, is now fully operational. Its aim is to give to the Commission and possibly to the benefiting Member States thereafter, a tool likely to help both geographic Units and Member States to carry out the cost-benefit analysis for major projects financed by the Cohesion Fund.

In addition, the ex post evaluation of a sample of 200 projects co-financed by the Cohesion Fund during the period 1993-2002, carried out in 2004 gave in 2005 important follow-up work: an ad hoc working group was set up to proceed to the prioritisation and to the reformulation of the recommendations of this report (cf. 5.4).

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

In the published reports, an important accent was put on the manner of directing the project promoters towards more solid evaluations in the various fields of the socio-economic analysis when considered unsatisfactory.

The financial analysis of several investment projects was the occasion to refine their cost-benefit analysis and led in some cases the Commission to suggest that project promoters reduce the amount of Community contribution.

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<sup>9</sup> [http://europa.eu.int/comm/regional\\_policy/sources/docgener/guides/cost/guide02\\_en.pdf](http://europa.eu.int/comm/regional_policy/sources/docgener/guides/cost/guide02_en.pdf)

This question is crucial if one wishes to optimise the impact of the resources allocated to the Community structural policies, since it is likely to allow the co-financing of a higher number of projects. It remains however that, in the absence of a sufficient number of projects or because of their insufficient maturity, the managing authorities can be inclined to accept intervention rates close to the ceiling level, in particular in the case of the new Member States.

Moreover, many project files do not include any risk analysis, which can lead to an insufficient control in the future implementation of projects. On this point, the Commission strongly recommended the project promoters to use more elaborate techniques not only to raise the probability of success for projects and their financial solidity, but also in order to improve their impact on regional development.

### **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 is consulted on the basis of a framework contract which was agreed with the Commission in 2000 and will be in place until the end of 2006.

During 2005, 11 Cohesion Fund projects were examined by the EIB. It is worth noting that for 9 of them only a “first reaction” analysis was received; a “detailed analysis”, entailing also on-site visits, was instead carried out for 2 projects. The projects breakdown by country and by category of investment is as follows:

By country: Portugal: 4 files (36% of the total); Spain: 3 files (27 %); Slovenia: 3 files (27%); Czech Republic: 1 file (9%).

By project's category: Environment: 7 projects (64% of the total); Transport: 4 projects (16%).

It should be noted that EIB analyses concentrated mainly on a small number of Member States (Portugal and Spain accounting for more than 2/3 of the files). Several Member States were not subject to analysis by the EIB in 2005. Also, the number of Cohesion Fund projects for which the analysis of the EIB was requested has more than halved compared to 2004 (when 25 projects were assessed by the Bank).

### **5.4. Follow up of the *ex-post* evaluation of 200 projects**

The *ex-post* evaluation of projects co-financed by the Cohesion Fund was required according to regulation 1164/94. Beyond this regulatory requirement, the objective of the *ex-post* evaluation was to learn from the experiences gained through the Cohesion Fund. This objective is particularly important as preparations are underway for the next programming period including negotiations with the Member States, especially the ten new MS highly concerned by the Cohesion Fund. The evaluation was carried out between February and September 2004 by an evaluation consortium consisting of four country evaluation teams and an evaluation coordinator.

The Commission launched, in January 2004, an *ex post* evaluation of the Cohesion Fund covering 200 projects adopted between 1993 and 2002.

The published report on the INFOREGIO internet site concluded with a number of recommendations which were carefully followed-up within the Directorate General for Regional Policy.

Co-operation with the Member States concerned has been led in particular during the biannual information meetings of the Cohesion Fund.

All these elements enabled to draw up an action and follow-up plan, which main elements based on the 5 main recommendations are as follows:

1) Increase the quality of the projects, in particular through:

- the full application of the environmental Directives (SEA and EIA) which were the subject of a presentation at a specific meeting;
- the presentation of good practices by various Member States;
- the modification of the application form for major projects;
- the introduction of quality assurance techniques.

2) Increase the administrative capacity of the managing authorities concerned, which will lead to:

- The promotion of more efficient and transparent implementation systems;
- The use of a limited number of key-indicators which should be included in the Decision itself (a working paper on this matter is being finalised on the more general question of indicators);
- The intensification of the guidance work both internally in DG REGIO and externally towards Member States (in particular through the Evaluation Network managed)

3) Accelerate project implementation, through:

The creation of a pipeline of well prepared projects at the level of Member States.

4) continue the reflection on public-private partnerships (PPPs):

Giving priority to an enhanced cooperation with the EIB. In this respect, the adoption of three joint initiatives DG REGIO/EIB (JASPERS, JEREMIE and JESSICA<sup>10</sup>) will enable to develop this cooperation.

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<sup>10</sup> 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.

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

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

On 9 March, the Commission sent a set of guidance documents to the Member States. These documents had the objective of recalling certain provisions of Regulation 1164/94 and set rules to ensure the respect of the principle of sound financial management. They explained certain detailed implementing arrangements that are applied by the Commission: The arrangements for the payment of the 20% payment on account; the procedure for implementing the repayment, in whole or in part, of the payment on account (“M+12 rule”); the procedure to be applied under Art.C5 of Annex II of Reg. 1164/94 (“M+24 rule”); the guidelines for the amendments of decisions on Cohesion Fund projects; the transition arrangements from ISPA to Cohesion Fund for the Member States concerned.

Two information meetings with the 25 Member States were held in Brussels, on 20 April and 15 December.

At the first meeting, the Commission presented the 2005 final allocations for each Member State. In addition, the Commission presented a follow up of the ex-post evaluation of 200 Cohesion Fund projects, whose conclusions were discussed during the previous meeting, in November 2004. The discussion that took place on this subject concentrated on the lessons learned and if the recommendations tied in the Member States’ experience. The European Investment Bank (EIB) was also present at the meeting and presented the way the EIB works in relation to the Cohesion Fund projects.

At the December meeting, the Commission presented the budget execution situation for 2005. Also, a presentation of the 2004 Cohesion Fund Annual Report was made. Moreover, an exchange of good practice on the Environmental Impact Assessment (EIA) compliance took place. A representative from Directorate General for Environment presented the key elements of the Environmental Impact Assessment Directive as well as the Strategic Environmental Assessment Directive. The main issues raised were the following: main recent amendments of the EIA Directive, the recurring problems in Cohesion Fund applications i.e. the scope and screening of projects, categories of projects. In particular, DG Environment recalled that although individual EIAs may be done on different phases of a global scheme or network, the cumulated impact of the global project or network must also be taken into account in the individual EIAs.

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

Following adoption of Commission regulation (CE) number 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" on 1 April the Directorate general published a fact sheet on the Info regio website and an update to the Cohesion Fund reference website dating from April 1 2005.

In the spirit of treating publicity and information on the Cohesion Fund and on the Structural Funds in the same way, meetings of the Structural Fund Information Team, SFIT (the co-ordination group which disseminates best practice on the

implementation of the Publicity and Information regulations in the Member States), have always dealt with the Cohesion Fund and the ERDF equally. One such meeting was held on 30 June 2005 and another on 12 December. The Information and Communication platform ([europa.eu.int/comm/regional-policy/country/commu/index\\_en.htm](http://europa.eu.int/comm/regional-policy/country/commu/index_en.htm)) which is a site specially made for Member State examples, contains several relating to Cohesion Fund measures.

In the run up to the new programming period (2007-2013) work has been proceeding on the new regulations for the Structural Funds. It has been decided that there will be just one covering the ERDF, the ESF and the Cohesion Fund, and that it should contain much the same provisions as now. This means for example that the Commission is proposing to retain the requirement to prepare a Communication plan. The draft regulation also contains specific reference to the establishment of a network of Member State Publicity and Information representatives, giving SFIT a statutory basis.