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**REPORT FROM THE COMMISSION**  
**ANNUAL REPORT ON THE COHESION FUND (2006)**

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## ANNUAL REPORT ON THE COHESION FUND (2006)

This report is presented in conformity with Article 14.1 of Regulation (EC) n°1164/1994 establishing a Cohesion Fund. It covers the activities of the Cohesion Fund during 2006.

### 1. BUDGET EXECUTION

Cohesion Fund resources available for commitments in 2006 amounted to € 6 032 082 110 (current prices) for the 13 beneficiary Member States. This amount includes technical assistance credits (€ 8 100 000). It should be noted that Ireland, as a result of economic growth is no longer eligible under the Cohesion Fund since 1 January 2004. As from 1 January 2007, Romania and Bulgaria acceded to the European Union and are since then eligible under the Cohesion Fund (but are not covered by this report for the year 2006).

The commitment appropriations were entirely used and no appropriations were carried over to 2007.

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

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

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

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

The implementation rate of payments in the first nine months of the year progressed favourably in the sense that by end-September 2006 they reached a level comparable to end-November 2005. However, the remaining appropriations could not be executed with the necessary scrutiny as regards sound financial management, and a

transfer of a total € 500 million of payment appropriations was made from the Cohesion Fund to ERDF (as part of the global transfer procedure with other Structural Funds). This transfer meant that some 99.8 % of the payment appropriations were executed in 2006. Implementation of the appropriations by country is shown in the following tables (Tables 3, 4 and 5, refer).

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

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

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	%	Amount	%	Amount	Amount	% MS on Total
Spain	1 045 081 820	57.6 %	769 323 551	42.4 %	315 453	1 814 720 824	30.0 %
Greece	191 616 437	38.8 %	298 556 462	60.4 %	4 026 467	494 199 366	8.4 %
Portugal	273 923 751	55.4 %	218 291 973	44.2 %	1 983 642	494 199 366	8.2 %
Cyprus	15 599 762	75.5 %	5 058 456	24.5 %	-	20 658 218	0.3 %
Czech Republic	169 425 877	46.6 %	192 728 948	53.0 %	1 343 504	363 498 329	6.0 %
Estonia	51 641 255	45.3 %	59 936 657	52.5 %	2 505 460	114 083 372	1.9 %
Hungary	210 331 313	49.3 %	209 390 382	49.1 %	6 910 457	426 632 152	7.1 %
Latvia	84 648 355	50.3 %	75 472 277	44.9 %	8 112 593	168 233 225	2.8%
Lithuania	121 403 548	53.7 %	99 888 363	44.2 %	4 807 152	226 099 063	3.7 %
Malta	4 305 250	51.0 %	4 075 480	48.3 %	65 171	8 445 901	0.1 %
Poland	751 359 517	46.9 %	828 944 996	51.7 %	21 905 810	1 602 210 323	26.5 %
Slovakia	79 712 721	36.4 %	138 255 724	63.2 %	826 055	218 794 500	3.6 %
Slovenia	27 925 173	38.6 %	44 270 658	61.2 %	165 000	72 360 831	1.2 %
<b>TOTAL</b>	<b>3 026 974 779</b>	<b>50.1 %</b>	<b>2 944 193 927</b>	<b>48.9 %</b>	<b>52 966 764</b>	<b>6 024 135 470</b>	<b>100 %</b>
Administrative Technical Assistance	-	-	-	-	4 218 779	4 218 779	-

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

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

Member State	Environment		Transport		Technical Assistance	TOTAL	
	Amount	%	Amount	%	Amount	Amount	% MS on Total
Spain	558 740 071	43.6 %	723 413 784	56.4 %	819 183	1 282 973 038	47.0 %
Greece	194 069 922	40.2 %	289 132 091	59.8 %	-	483 202 013	17.7 %
Ireland	27 991 936	70.8 %	11 521 393	29.2 %	-	39 513 329	1.4 %
Portugal	148 750 484	73.1 %	53 874 121	26.5 %	899 853	203 524 458	7.5 %
Cyprus	-	0.0 %	6 001 512	100.0 %	-	6 001 512	0.2 %
Czech Republic	32 982 124	26.2 %	92 544 105	73.6 %	278 460	125 804 689	4.6 %
Estonia	6 769 474	17.0 %	32 972 870	82.9 %	23 322	39 765 666	1.5 %
Hungary	82 157 579	70.9 %	33 767 249	29.1 %	-	115 924 828	4.2 %
Latvia	14 060 182	23.4 %	42 930 570	71.5 %	3 075 450	60 066 202	2.2 %
Lithuania	17 587 842	36.0 %	31 243 260	64.0 %	-	48 831 102	1.8 %
Malta	-	0.0 %	2 591 637	100.0 %	-	2 591 637	0.1 %
Poland	15 601 766	6.1 %	239 697 120	93.7 %	589 292	255 888 178	9.4 %
Slovakia	18 811 566	58.7 %	13 218 768	41.3 %	-	32 030 334	1.2 %
Slovenia	7 502 018	24.1 %	23 651 860	75.9 %	-	31 153 878	1.1 %
Undefined	-	0.0 %	-	0.0 %	965 686	965 686	0.0 %
<b>TOTAL</b>	<b>1 125 024 964</b>	<b>41.2 %</b>	<b>1 596 560 340</b>	<b>58.5 %</b>	<b>6 651 246</b>	<b>2 728 236 550</b>	<b>100 %</b>
Administrative Technical Assistance	-	-	-	-	1 625 128	1 625 128	-

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

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

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

**Table 6. Implementation of commitments 2000-2006 by Member State (in Euro) - including technical assistance**

Member State	Allocation 2000-2006	2000	2001	2002	2003	2004	2005	2006	TOTAL
Spain	12 067 110 566	1 601 305 968	1 676 893 850	1 973 389 704	1 543 094 747	1 702 761 789	1 806 465 241	1 814 720 824	12 118 632 123
Greece	3 307 420 974	435 532 521	467 400 382	335 157 938	529 459 151	535 843 689	438 083 755	494 199 366	3 235 676 802
Ireland	584 614 000	169 624 664	115 000 000	182 661 340	117 322 580				584 608 584
Portugal	3 308 065 713	450 770 587	455 699 130	296 780 734	648 181 282	479 843 079	491 649 967	494 199 366	3 317 124 145
EUR 4	19 267 211 253	2 657 233 740	2 714 993 362	2 787 989 716	2 838 057 760	2 718 448 557	2 736 198 963	2 803 119 556	19 256 041 654
Cyprus	54 065 989					18 257 000	15 099 477	20 658 218	54 014 695
Czech Republic	937 882 036					316 898 031	256 811 441	363 498 329	937 207 801
Estonia	308 576 628					105 696 235	89 794 099	114 083 372	309 573 706
Hungary	1 115 106 832					376 433 000	310 982 360	426 632 152	1 114 047 512
Latvia	518 407 608					189 965 775	157 667 664	168 233 225	515 866 664
Lithuania	609 432 251					209 572 000	173 199 790	226 099 063	608 870 853
Malta	21 938 260					7 418 000	6 102 388	8 445 901	21 966 289
Poland	4 186 767 157					1 414 638 404	1 166 908 584	1 602 210 323	4 183 757 311
Slovakia	571 744 353					192 974 000	159 432 592	218 794 500	571 201 092
Slovenia	188 021 130					64 946 467	51 835 729	72 360 831	189 143 027
EUR 10	8 511 942 244					2 896 798 912	2 387 834 124	3 221 015 914	8 505 648 950
TOTAL	27 779 153 497	2 657 233 740	2 714 993 362	2 787 989 716	2 838 057 760	5 615 247 469	5 124 033 087	6 024 135 470	27 761 690 604

## **Overview of the 2000-2006 period (including RAL)**

At the end of 2006, the outstanding commitments corresponding to the 2000-2006 period amounted to € 15 682 million (€ 13 206 million for CF and € 2 476 million for ex-ISPA projects). This relatively large stock of outstanding commitments corresponds to approximately three years of commitments, which among others is explained by the time required to realise often complex and large infrastructure projects, and to a lesser extent by the fact that the rule of automatic decommitment ('N+2 rule') which applies to the Structural Funds does not apply to the Cohesion Fund.

**Table 7.1. Cohesion Fund accepted amounts in 2000-2006 (including RAL)<sup>1</sup>**

<b>Country</b>	<b>Net Committed</b>	<b>Paid</b>	<b>RAL</b>
<b>Greece</b>	2 815 806 760	1 236 273 691	1 579 533 069
<b>Ireland</b>	575 411 134	517 830 136	57 580 998
<b>Portugal</b>	3 128 862 926	1 467 756 462	1 661 106 465
<b>Spain</b>	11 773 161 809	7 383 381 713	4 389 780 096
<b>TOTAL EU-4</b>	<b>18.293.242.629</b>	<b>10.605.242.001</b>	<b>7.688.000.628</b>
<b>Cyprus</b>	54 014 695	11 059 968	42 954 727
<b>Czech Republic</b>	748 976 735	141 131 405	607 845 330
<b>Estonia</b>	242 449 651	39 765 666	202 683 985
<b>Hungary</b>	812 924 360	185 512 701	627 411 659
<b>Latvia</b>	376 863 199	79 841 253	297 021 946
<b>Lithuania</b>	517 642 688	97 697 349	419 945 339
<b>Malta</b>	21 966 289	2 591 637	19 374 652
<b>Poland</b>	3 191 270 327	255 730 261	2 935 540 066
<b>Slovakia</b>	264 254 882	32030 334	232 224 548
<b>Slovenia</b>	172 654 702	39 651 472	133 003 230
<b>TOTAL EU-10</b>	<b>6 403 017 528</b>	<b>885 012 045</b>	<b>5 518 005 483</b>
<b>TOTAL</b>	<b>24 696 260 157</b>	<b>11 490 254 046</b>	<b>13 206 006 111</b>

<sup>1</sup> Commitment is lower than allocation (Table 6, refers) due to decommitment of unused amounts and closure.

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

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

**Implementation of the budget for the 1993-99 period**

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

**Table 8. Settlement in 2006 of commitments for the period 1993-99 (in Euro)**

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

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

In order to increase the level of payments made on past commitments, a particular effort to clear outstanding appropriations – on actions that begun before 2000 – was continued. Some 40 % of the outstanding appropriations existing at the beginning of the year were either paid or subject to decommitment in 2006. By the end of 2006, outstanding appropriations had fallen to just 2.7 % of the annual budget of the Cohesion Fund (compared to some 50 % at the end of 2002, 39 % at the end of 2003,



15 % at the end of 2004 and 6.7 % at the end of 2005). The effort to reduce outstanding appropriations has been carried through into 2007 in partnership with the national authorities who are responsible for project implementation and the related payment claims.

Details on the projects adopted in 2006 for each Member State are presented in the Annex to this report.

## **2. ECONOMIC ENVIRONMENT AND CONDITIONALITY**

The Council Regulation of the Cohesion Fund<sup>2</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.

Four recipient Member States under the Cohesion Fund (Cyprus, Hungary, Poland and Portugal) were involved in additional steps of the excessive deficit procedure. For none of these countries did the steps require the matter of suspending the financing by the Fund to be considered.

The Council decided in June 2006 to abrogate the procedure for Cyprus, as it corrected its excessive deficit in 2005. In the case of Portugal, the Commission issued a communication in June 2006 stating that the country is on track to correct its excessive deficit.

It has already been established on two occasions since the start of the excessive deficit procedure in 2004 that Hungary has not taken effective action in response to Council recommendations, first in January 2005 and then in November 2005. However, on none of these occasions did the Commission recommend a suspension of Cohesion Fund commitments to the Council. As Hungary is not a member of the Euro area, it has a specific derogation from the application of further steps of the excessive deficit procedure. Thus, after the September 2006 submission of the revised 2006 convergence programme update, the Council could address further recommendations to Hungary only on the basis of a new Article 104(7)<sup>3</sup> decision. Should the country fail to comply with this recommendation, the provisions of Article 104(8) will apply which include the possibility to suspend Cohesion Fund commitments.

In November 2006, Poland was issued an Article 104(8) decision by the Council, establishing that its actions taken to correct its excessive deficit in line with the 2004 Council recommendations were proving to be inadequate. This decision was issued still on the basis of targets set in the 2005 update of the convergence programme and

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<sup>2</sup> Based on Article 6 of Council Regulation (EC) n°1164/94, as in the codified version presented by the Commission

<sup>3</sup> Treaty establishing the European Community, Article 104 on the excessive government deficits

in the Spring 2006 fiscal notification. However, according to the recent 2006 update of the convergence programme, Poland will correct its excessive deficit by 2007, partly because it qualifies for the provision of the reformed Stability and Growth Pact which allows a part of the pension reform cost to be deducted.

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

The regulation on the Cohesion Funds for the period 2007-2013<sup>4</sup> has cleared several uncertainties that surrounded the application of Cohesion Fund conditionality in the past. It foresees that an Article 104(8) decision provides an opportunity for the Commission to propose the suspension of Cohesion Fund support. In turn, the Council may decide to suspend the totality or parts of commitments, with effect from 1st January of the year following the decision. If later on the Council finds in the context of the EDP that the Member State has taken the necessary corrective action, this automatically implies a decision to lift the suspension of Cohesion Fund commitments. Rules for re-budgeting the suspended commitments were created.

### **3. COORDINATION WITH TRANSPORT AND ENVIRONMENTAL POLICIES**

#### **3.1. Transport**

In 2006, the transport sector accounted for a little less than half (49.2 %) of total Cohesion Fund commitments. As in the past, the Commission asked the Member States to give particular preference to railway projects. The projects adopted in 2006 by Member States are set out in the Annex to this report.

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

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

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<sup>4</sup> Council Regulation (EC) No. 1084/2006 of 11 July 2006, establishing a Cohesion Fund and repealing Regulation (EC) No. 1164/1994.

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

### **3.2. Environment**

In 2006, the environment sector accounted for just over half (50.8 %) of total Cohesion Fund commitments. In general, the projects supported by the Cohesion Fund contribute to the global objectives of environmental policy in relation to sustainable development, in particular to the achievement of the priority areas of the Sixth Action Programme, notably for the management of natural resources, waste management and in relation to investments that seek to limit the impacts from climate change. The seven Thematic Strategies adopted in 2005 and 2006 in the fields of air, resources, waste and recycling, urban environment, soil, marine and pesticides are relevant to the Cohesion Fund co-financed operations. The projects adopted in 2006 by Member States are set out in the Annex to this report.

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

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

## **4. INSPECTIONS**

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

In addition, procedures were put in place in the Directorate General for Regional Policy in 2006 for the closure of Cohesion Fund projects to ensure that adequate information is obtained from the Managing Authority and the winding-up body in the

closure process so as to provide assurance on the legality and regularity of the final expenditure claim, failing which financial corrections would be applied.

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

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

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

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

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

According to Article 3 of Regulation (EC) n°1831/94<sup>5</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 228 irregularity cases involving € 186 604 797 of Community contribution. These cases have been subject of initial administrative or judicial findings of fact.

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

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<sup>5</sup> OJ n°L 191, 27 July 1994, p.9, as last amended by Regulation (EC) n°2168/2005, OJ n°L 345, 28 December 2005, p.15

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

The other beneficiary Member States have informed the Commission that no irregularities have been observed during 2006. A certain number of cases detected during national and/or Community audit missions remain to be notified in accordance with the relevant regulation.

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

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

During 2006, the European Anti-Fraud Office (OLAF) opened three cases in relation to the information received concerning Cohesion Fund. Among these, one case led to the opening of a "monitoring case"<sup>6</sup> and the two other cases have been transferred to the year 2007 waiting for an evaluation. No control mission linked to Regulation (EC) n°2185/96<sup>7</sup> has been realised.

## 6. EVALUATION

Article 13 of the revised Regulation (CE) n°1164/94 requires the Commission and the Member States to ensure that the implementation of Cohesion Fund projects is effectively monitored and evaluated. This implies recourse to project appraisal, monitoring and evaluation measures on the basis of which projects are adjusted, if necessary.

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

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

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<sup>6</sup> Monitoring cases are cases for which another body or Member State authority performs its own external investigation although OLAF would also be competent to do so.

<sup>7</sup> OJ n°L 292, 15 November 1996, p.2

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

On this basis, the Commission provided during 2006 important internal methodological support and assisted Member States through actions of capacity building aiming to improve the consistency of the ex-ante financial and economic analysis of the projects. In October 2006 the Commission adopted a guidance document on the methodology to be used in carrying out CBA<sup>9</sup>. The working document presents some general principles of CBA along with a set of working rules and encourages the Member States to develop their own CBA guidelines.

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

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

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

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

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

All Regulations applicable to the 2007-2013 period are available on the INFOREGIO internet site at the following address:  
[http://ec.europa.eu/regional\\_policy/sources/docoffic/official/regulation/newregl0713\\_en.htm](http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/newregl0713_en.htm)

## **8. INFORMATION AND PUBLICITY**

Two information meetings with the 25 Member States were held in Brussels, on 22 June and 20 December. At the first meeting, the Commission presented the 2006 final allocations for each Member State. As 2006 is the last year of the programming period, it was stressed that all commitment credits still available will have to be used

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

before 31 December. No transfer of credits from other budget lines was foreseen. Also, a presentation of the Joint Assistance in Supporting Projects in European Regions (JASPERS initiative) was made. This initiative, set up in cooperation between the Commission and the EIB, is meant to assist Member States in appraising technically future major projects to be submitted to the Commission. JASPERS will be in place as from 2007. At the December meeting, the Commission presented the draft guidelines on the closure of Cohesion Fund projects. The Commission insisted on bearing in mind that: (i) in dealing with closure, the projects on the ground must be in line with the relevant Decisions; (ii) the final date of eligibility for projects of the 2000-2006 period remains the 31 December 2010; (iii) the one modification rule applies. Finally, the Commission recalled that this information meeting was the last one in the framework of Regulation (EC) n°1164/94. The issues concerning the Cohesion Fund will, as from 1 January 2007, be dealt within the Coordination Committee of the Funds, according to the new Regulation (EC) n°1083/2006.

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