1. Basic information
1.1. Desiree number: PL01.06.02.02
1.2. Title: Industrial Depot District Chelm
1.3. Sector:
1.4. Project location: Poland, Lubelskie voivodship, Chelm

2. Objectives
2.1 Wider Objectives:
To enhance the economic and social cohesion of Lubelskie voivodship by the provision of technical infrastructure.

2.2 Immediate Objectives:
The industrialisation and the attractiveness enhancement of the north-eastern part of Chelm, reduction of unemployment rate, and increase of vehicular traffic.

2.3 Accession Partnership and NPAA priority:
The project responds to the medium term priority identified in the AP: developing national policy for economic and social cohesion and preparing for the implementation of regional development programmes as well as Community Initiatives. It also corresponds with the NPAA priority "Regional and cohesion policy".

2.4 Contribution to the Preliminary National Development Plan:
The PNDP has a priority “Strengthening development potential of regions and counteracting marginalisation of certain areas”. This will be implemented by means of several measures, including the development of infrastructure with sub-regional importance. Within the framework of the project, actions to provide technical infrastructure will be taken.

2.5 Cross Border Impact: not applicable.

3. Description
3.1 Background and justification:
The Industrial/Depot suburb, covering a total area of 176Ha, is an area destined for the location of industries such as construction, trade and services, communications, warehousing and production. There is also an area designated for industrialisation by objects linked with the international road and railway border crossing at Dorohusk in accordance with a project for a functional land area called “PASMO” and referring to the Warsaw-Lublin-Chelm-Dorohusk-Kiev international route. At present the enterprises located in the area are the result of either the bankruptcy or liquidation of previously state owned enterprises which emerged before the year 1990, as well as municipal enterprises and other smaller production, marketing and service-orientated enterprises. An Enterprise Incubator “No Walls” has also been located in the district, thanks to an agreement between the President of Chelm, the poviat prefect, the Enterprise Centre in the town and the Poviat Employment Department. Its aim is to assist the unemployed in starting up in economic activity. At present 10 unemployed persons started their own activity. The lack of indispensable technical facilities makes this area little attractive for future investors. Municipal infrastructure i.e. water supply, sewerage and storm water drainage is present in only about 50% of the total area. The greater part of the district is currently being served by around 70 local septic tanks. Communication system consists of local roads and bypasses. Existing system is in a very bad condition, the roads are devastated and deformed. Part of the roads should be rebuilt. Current communication system is not good enough for transport services in Industrial/Depot District where about 300 enterprises are located. The further development of the area depends on the creation of technical conditions, which are vital to the development of new entities among the previously mentioned industries and depots. It should be stressed that unemployment in Chelm poviat has risen by 7% since 1999. The development of technical infrastructure is necessary for creation of new enterprises and new workplaces. The population in the project area is currently only 290 inhabitants, so the project foresees to rehouse these people to another district and the removal of urban settlements and housing to allow for the construction of new industrial development. About 3000 jobs exist in the designated industrial area. Within 5 years of the completion of the project, the number of jobs will reach about 5000 and the expected number of new enterprises will reach 150. The area covered by the project includes a 6ha plot of land which is to be developed as the wholesale centre of cross-border importance. The town authorities have the complete technical documentation of the whole undertaking and several letters of
intent from interested entrepreneurs. About 10 small and medium size companies are expected in this plot of land yearly. Another significant factor which influences the creation of new jobs is the activity of a new business incubator in the area. During the last 3 months 40 unemployed who have started their own businesses due to the incubator services, have applied for hiring premises. The advantageous location of the project area, next to the Polish-Ukrainian border, is the additional important factor which attracts international undertakings. The modernisation and development of additional municipal technical infrastructure in the Industrial/Depot district is an important factor in the primary phase of industrialisation in this part of the town. A separate issue, which reaches beyond the boundaries of the project, is the creation of a functional transportation system in the district. The town of Chelm will develop in a near future projects connected with improving transport infrastructure as well as regarding preferential local tax policy (land tax abatement for the entrepreneurs creating new jobs as well as land tax exemption for the unemployed starting their own activity). The investors are interested in this area (to build chain of service and trade buildings, small and medium manufacturing plants, realise joint heating investments), nevertheless they expect the developed areas with technical infrastructure compatible with European qualitative and quantitative standards. It is important that existing and newly arisen enterprises will participate in costs of the area development because the connection with the water supply network and sanitary sewer system will be funded by them. The capacity of the modern sewage treatment plant in Chelm allows to increase the quantity of sewage. The sewage treatment plant was designed according to Council Directive 91/271/EEC of 21 May 1991 concerning urban waste-water treatment.

3.2 Linked activities: Activities are not linked with any other projects.

3.3 Results:
The creation of suitable conditions for the development of new enterprises due to the development of technical infrastructure covering an area of 90 ha; 90 ha out of 176 ha investment areas (51%) will be connected to new sanitary sewer and water supply network; 26 existing enterprises with access to the new infrastructure; development of new enterprises in the district (30 SMEs and 300 new jobs just after the project); improvement of environmental conditions (70 septic tanks liquidated, increase of the amount of purified sewage from 14000 m$^3$/day to 15500 m$^3$/day after the project execution); better utilisation of existing waste water treatment plant (increase of the current capacity by 15%); separation of storm water to the storm water drainage system.

3.4 Outputs:
Creation of technical infrastructure covering 90 ha; an assured water supply to existing and planned objects in the area from the urban water mains supply system, 9km in length, of new water supply network; 1,1 km of modernised road which links Industrial/Depot District with national route to international border crossing with Ukraine; 7 km in length of new sanitary sewerage system; 6 km in length of new storm water drainage system.

3.5 Inputs:
Planned activities concern:
1) the construction of 9 km of water supply network.
2) the construction of 7 km of sanitary sewer system with pumping station.
3) the construction of 6 km of a storm water drainage system.
4) modernisation and rebuilding 1,1 km long Chemiczna Street.

4. Institutional Framework
The Beneficiary of the project is the urban Gmina of Chelm as represented by the Town Board. The Employer will be the urban Gmina of Chelm. Supervising engineer will be appointed with tender procedure. The investment owner after project realisation will be Gmina of Chelm. The investment will be conducted in compliance with the Decentralised Implementation System regulations – “Practical Guide to Phare, Ispa & Sapard contract procedures”. The project implementation will not result in any changes in the institutional framework described above.

5. Detailed Budget value in MEuro

<table>
<thead>
<tr>
<th>Phare Support</th>
<th>Investment</th>
<th>IB</th>
<th>Total Phare</th>
<th>National Co-financing</th>
<th>IFIs</th>
<th>Total</th>
</tr>
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<td>Project</td>
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<td>2.706</td>
<td>0.946</td>
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<td>Total</td>
<td>2.706</td>
<td>0</td>
<td>2.706</td>
<td>0.946</td>
<td>0</td>
<td>3.652</td>
</tr>
</tbody>
</table>

Polish co-financing will be available.

6. Implementation arrangements
6.1 Implementing Agency:
6.2 Twinning: Not applicable.
6.3 Non-standard aspects: Not applicable, DIS regulations will be closely followed.
6.4 Contracts:

7. Implementation schedule
7.1 Start of tendering: 1st quarter 2002
7.2 Start of project activity: 2nd quarter 2002
7.3 Project Completion: 4th quarter 2003.

8. Equal Opportunity
During the implementation of the project the rules on equal opportunities and the equal participation of women and men in a project will be respected.

9. Environment
The EIA has been done in respect of Council Directive 85/337/EEC and is available at the beneficiary’s office. The main conclusions are as follows: No negative influence on the environment; The project is consistent with Council Directive 91/271/EEC of 21 May 1991 concerning urban waste-water treatment and Council Directive 98/83/EC of 3 November 1998 on the quality of water intended for human consumption; The investments are consistent with Polish environmental protection law and Council Directives; The planned investments will improve the sanitary situation in the district; The investment will minimise the hazardous influence of local wastewaters on groundwater reserves; Rebuilding of the traffic system execution will decrease noise, gas and dust emissions from road transport; Apart from bringing rational economic revival to the district, project execution will solve the local problem of wastewater treatment (70 local septic tanks will be eliminated).

10. Rates of return
A primary assumption of the Investment Feasibility Study (available at the beneficiary’s office) shows:
   - FNPV  - 456 282.67 EURO (at a discount rate of 9.71%)
   - FRR     1.28 %
   - ERR     52.39 %
   - ENPV  2 809 822.51 EURO

11. Investment criteria
11.1 Catalytic effect:
The Phare support will be conducive to the achievement of economic and social cohesion goals in the Lubelskie voivodship, goals, which could not otherwise be attained except after a much more extended period of time and on a more modest and less efficient scale.
11.2 Co-financing:
The project is co-financed by the Polish partners
11.3 Additionality:
The Phare project is not displacing other financing sources, especially from the private sector and IFI system, it is co-financing identified priorities and not taking the place of national resources.
11.4 Project readiness and size:
The project will be ready for contracting and disbursement by the start of project implementation. The full documentation needed for the tendering procedure will be ready by the end of the 2nd quarter of 2001. Following documents were prepared: Environmental Impact Assessment, The Feasibility Study, A detailed plan for the local industrialisation of the Industrial/Depot district, A study of conditions and directives regarding the Chelm industrialisation area, A water and wastewater plan for the town of Chelm, An inventory of the existing technical infrastructure, and The town of Chelm development strategy for the years 2000-2010.
11.5 Sustainability:
The project will contribute to the long-term sustainable development of the region, as described in the Lubelskie voivodship Operational Programme. After implementation, all maintenance costs related to investments will be covered by the beneficiary.

11.6 Compliance with state aid provisions:
All aspects of the project will be developed with respect to the state aid provisions of the Europe Agreement.

11.7 Contribution to Preliminary National Development Plan:
The project is in line with the Preliminary National Development Plan and as such will contribute to increased economic and social cohesion of the country and region.

12. Conditionality and sequencing
Co-funding of specific activities will be conditional on:
• co-financing of project by the beneficiary;
• maintaining timetable set in the programme;
• appropriate environmental impact assessments and feasibility studies conducted and accepted by the start of project implementation;
• completion of land acquisition before the start of tendering;
• obtaining building permission before the start of tendering;
• all tendering, contracting, reporting and monitoring conditions met;
• selecting contractor enable for proper realisation of works.

Benchmarks:
• Financing memorandum signed by end of 2001
• Construction designs prepared by 1st quarter of 2001
• Preparation of tender documentation by 2nd quarter 2002
• Resources earmarked for Phare co-financing of programme reach National Fund in January 2002
• Beneficiary contracts project activities by 2nd quarter of 2002
### Annex 1: Logframe planning matrix for project

**End Contracting:** 15/12/2003 - **End Disbursement:** 15/12/2004

<table>
<thead>
<tr>
<th>Wider objective</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>To enhance the economic and social cohesion of Lubelskie voivodship by the provision of technical infrastructure</td>
<td>Increase in the GDP per capita in the voivodship Decrease of unemployment rate</td>
<td>GUS (Central Statistical Office)</td>
<td>an increase in economic activity and revival of the employment market resulting from the shift of the EU boundary eastwards greater access to regional development resources weaker crossborder co-operation due to tighter border crossing restrictions once Poland joins the EU lack of investor interest in eastern Poland</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Immediate Objectives</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>the industrialisation and the attractiveness enhancement of the north-eastern part of Chelm region</td>
<td>2000 new jobs and 150 enterprises created after 5 years decrease of unemployment rate by 2.7% within 2 years 20 % increase the number of vehicles using the road after 1 year</td>
<td>Statistical reports Reports from the municipal authorities of Biala Podlaska Special reports Experts reports Voivodship Statistical Office Evaluation Reports</td>
<td>an increase in economic activity in the town and in the region inadequate funding on the part of entrepreneurs to finance the connections with the urban system</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results/Outputs</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>the creation of suitable conditions for the development of new enterprises; development of new enterprises in the district; creation of new jobs; improved conditions for existing enterprises; improvement of environmental conditions; better utilisation of existing waste water treatment plant; creation of new infrastructure supporting SME development; improved quality of road infrastructure</td>
<td>96 ha of the area of created investment site equipped with basic technical infrastructure; 100 % of the whole investment area connected to the sewage and water supply systems; 30 SME created after realisation of the project; 300 new jobs; 26 existing enterprises get the connection to the created network the elimination of over 70 septic tanks and bacterial residue the reduced rate of consumers of inadequate water by 94%; 1500m³/day of sewage purified in waste water treatment plant increased the current capacity of the water purification plant by 15%; extended length of the water supply by 9 km, sewerage by 7 km, storm water drainage systems by 6km and roads by 1,1 km; enhancement of load capacity to 80 kN per axis</td>
<td>Information from municipal authorities Statistical reports Project documentation Evaluation and progress reports of project</td>
<td>the creation of conditions which will allow for sustainable development through the modernisation and the building of an environmental protection infrastructure SME development backed an increase in economic activity in the town and in the region inadequate funding on the part of entrepreneurs to finance the connections with the urban system little interest in the project area on the investor side</td>
</tr>
</tbody>
</table>

| Activities / Inputs | |
|---------------------|-----------------|-----------------|-----------------|-----------------|
| the construction of a water supply network; the construction of a sanitary sewerage system along with a pumping station; the construction of a storm water drainage system; modernisation and rebuilding 1,1 km long Chemiczna Street; The drafting of an attractive investment offer for potential entrepreneurs / Town budget resources available for promotion | |

**Date of drafting:** December 2000

**Planning period:** 2001 – 2003

**Budget:** Total: 3.652 MEURO Ph: 2.706 MEURO
## Annex 2-4: Cumulative implementation, contracting and disbursement schedule

<table>
<thead>
<tr>
<th>Implementation schedule</th>
<th>PLANNED</th>
<th>Contracting schedule*</th>
<th>Disbursement schedule</th>
<th>Cost estimate (Phare in MEURO)</th>
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Legend: D = design of sub-project / C = tendering and contracting / I = contact implementation and payment

<table>
<thead>
<tr>
<th>Implementation schedule</th>
<th>PLANNED</th>
<th>Contracting schedule*</th>
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<tr>
<td>Implementation schedule</td>
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<td>C</td>
<td>I</td>
<td>I</td>
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<tr>
<td>Contracting schedule*</td>
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<td>2.342</td>
<td>2.706</td>
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</table>

Legend: D = design of sub-project / C = tendering and contracting / I = contact implementation and payment
Annex 5 Summary of Feasibility Study

Feasibility Study is a supplement to the application for Phare 2001 funds and contains economic and financial analysis including social aspects found in the project „The development of technical infrastructure in the Industrial/Depot District in the town of Chelm”. The financial and economical analysis were based on “Guide to Cost-Benefit Analysis of Major Projects”.

For the purpose of financial analysis and financial evaluation of the investment, the following items have been elaborated upon:

- Projected Income Statement
- Projected Balance Sheet
- Projected Cash Flow
- Ratios:
  - FRR (financial internal rate of return)
  - MFRR (modified financial rate of return)
  - FNPV (financial net present value)
  - expected period of return
  - ERR (economic internal rate of return)

The project comes forward with facilitating the area in question with a road of 1.1 km in length and arterial system comprising:

- a water supply system of 9 km in length
- a sewage system of 7 km in length
- a drainage system of 6 km in length

The Project is going to adjust social and economic activities to protection of natural environment, which will give rise to a compact economic and ecological system. In a broader view, the project is to contribute to extension and modernisation of the infrastructure serving the purpose of stimulating and reinforcing competitiveness of the region.

This investment will bring measurable economic and social benefits including:

- 150 more companies in the region
- decrease in unemployment – 2 000 new job vacancies (now the number of people in employment is approx. 3 000)
- effective use of the area and buildings (development of land reserves)

The Project is indispensable from the point of view of environmental protection since it is going to order water and sewage management in all of the companies and premises in the Quarter, it will namely make it possible to get rid of 70 outletless septic tanks. Should untreated sewage continue to flow into waters, subterranean waters are going to be threatened severely.

Financial analysis aims at projecting measurable values of costs and revenue as well as the cash flow of the investment. The financial analysis takes into account the following items. First of all time horizon of the investment has been determined in such a way as to match economic life of the investment. It has been determined long enough to present and expound on the related long-range influence. Secondly, actual year-on-year revenue and costs have been computed to arise after completion of the investment. Thirdly, social and economic...
revenue has been analysed and presented in measurable values. Finally, financial rate of return (FRR) and economic rate of return (ERR) of the project have been estimated.

The ratios presented in the financial analysis indicate that the cash flow generated by the project ranks the investment of constructing the road and providing water supply, sewage, and drainage system as an average one as far as such types of projects financed with the European Union funds are concerned.

Financial rate of return (FRR) at 1.28% while the discount rate is 9.71% means that the internal rate of return of the project is lower than the applied discount rate and at the same time it is above zero. This means that in the case of economic investments (commercial ones), such projects would be qualified for implementation. Economic rate of return (ERR) is essential when reviewing the project. In the case of this project, it is estimated to be at 52.39% (higher than the average rate for projects financed by the EU), which is much higher than the discount rate.

For the purpose of a broader view, modified financial rate of return (MFRR) has been estimated. In the case of this investment it stands at 5.82% and it is, alike FRR, lower than the applied discount rate and should be interpreted likewise.

From the point of view of financial aspect, the project is ranked higher than the average rate for big financial projects refinanced with the European Union funds and the ratios presented in the financial analysis indicate feasibility of the project offering advantages for the beneficiary and the local community at the same time.
Annex 6 Summary of Environmental Impact Assessment

Prepared study named „Environmental Impact Assessment of project named “The development of technical infrastructure in the Industrial/Depot District in the town of Chelm”” proves that planned investments will be realized according to Polish law in the field of environmental protection and also will comply with Council Directive 98/83 on drinking water and Directive 91/271 on urban waste-water treatment.

The study includes the opinion of influence of the investments on:
- area and soils
- subsoil and ground water
- landscape
- biocoenosis
- air
- noise
- health of the inhabitants.

It is proved that planned investments are not situated in the register of harmful investments for environment and health of the inhabitants.

The project provides for:
- the construction of 9 km long water supply network,
- the construction of 7 km long sanitary sewer system,
- the construction of 6 km long storm water drainage system,
- the construction of 1,1 km long Chemiczna Street.

All investments will be realized in the Industrial/Depot District of Chelm which is located in industrial zone of the town.

Negative influence of the project on environment has not been proved.

Positive influence will be observed in:
- improvement of sanitary condition in the district
- improvement of water economy
- change of transport system
- decrease of noise, pollution and vibrations.