



EUROPEAN COMMISSION

Regional Policy

Improving Public Expenditure Management for Large- Scale Government Projects: the case of major projects financed in the framework of the EU cohesion policy

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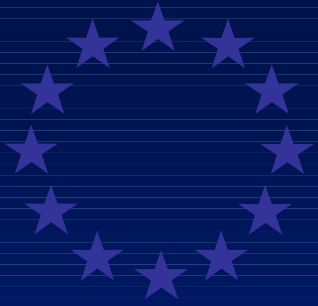


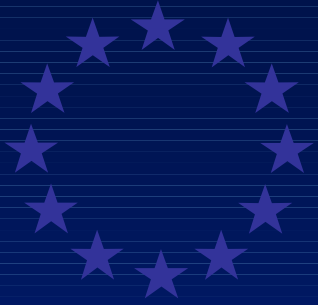
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1. The Cohesion policy of the European Union



1. The Cohesion policy of the European Union

Legal framework in the EU for major projects

The EU system for financing major projects is included in the general framework for cohesion (regional development) policy.

Key words

- Cohesion / catching up / convergence / competitiveness
- Multiannual programming
- Decentralization of project decisions
- Evaluation and control

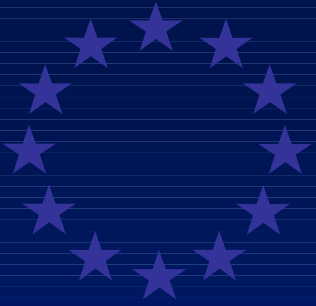


Overall funding of the cohesion policy 2007-2013

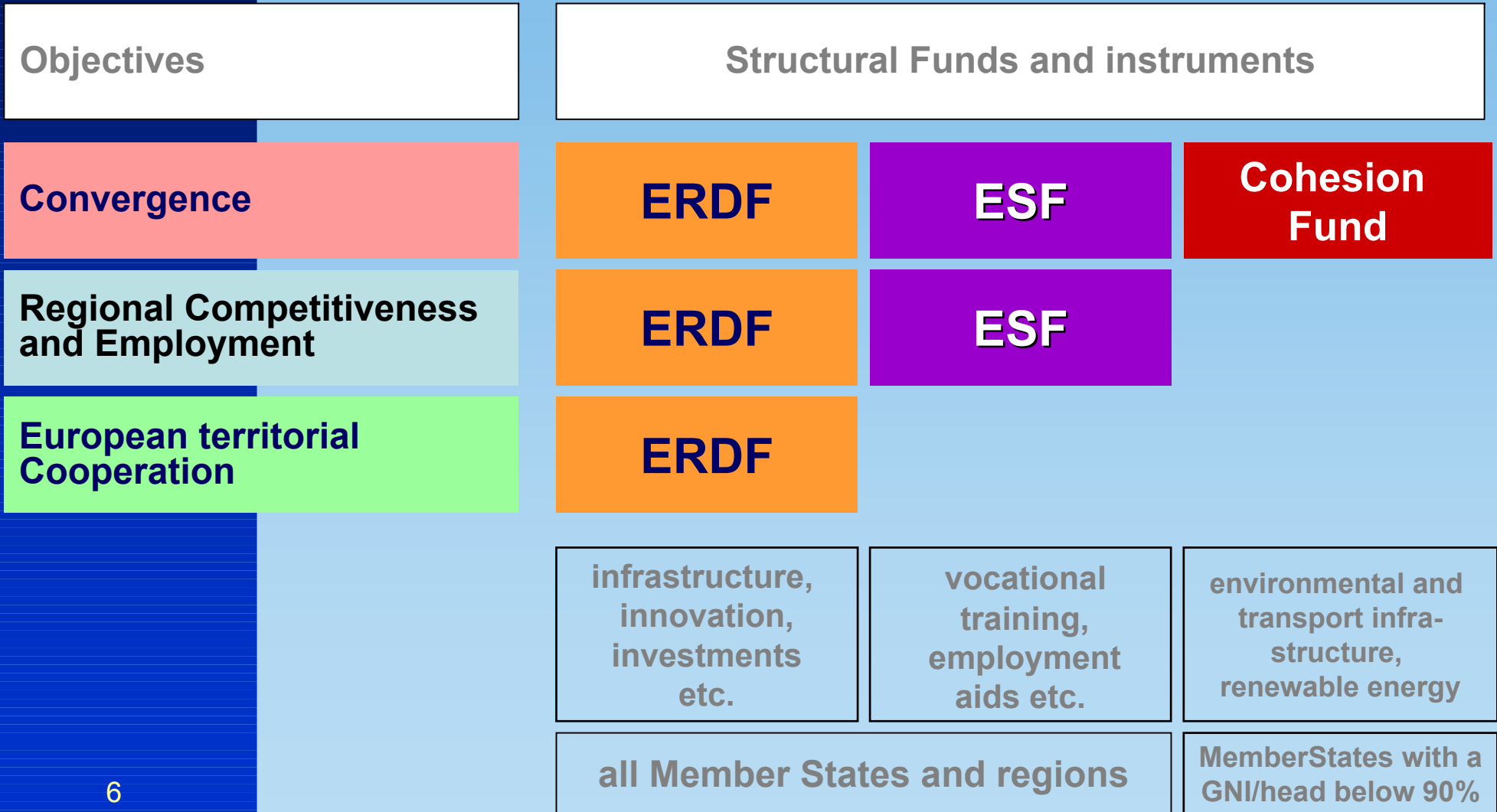
Objective	%	in billion Euro
Convergence	81.7 %	251.3
Regional Competitiveness and Employment	15.8 %	48.8
European Territorial Cooperation	2.44 %	7.5
Total		307.6

1. The Cohesion policy of the European Union

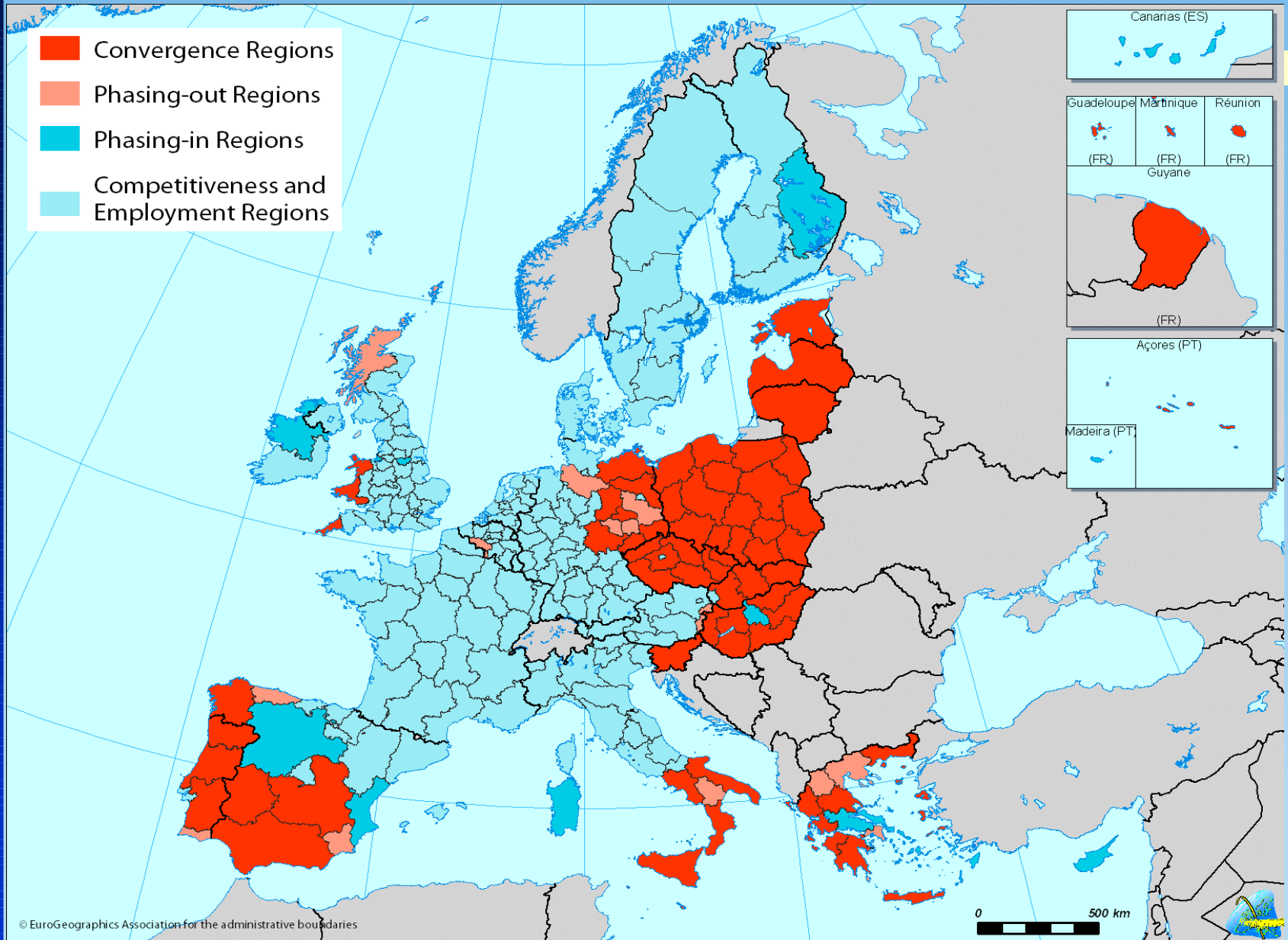
2007 - 2013



The Cohesion policy of the European Union: structure



1. The Cohesion policy of the European Union





2. The framework in the EU for financing major projects and the role/decisions of the Commission



2. The framework in the EU for financing major projects

Major projects (art. 40 Reg. 1083/2006) in the framework of EU cohesion policy : definition

A major project is “an operation comprising a series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature, which has clearly identified goals and whose total cost exceeds:

- €25m in the case of environmental projects
- €50m in other fields (e.g. road/rail transport but also productive investments)



2. The framework in the EU for financing major projects

Major projects: the role of the Commission

- Projects are implemented according to a decentralized system.
- The European Commission is not responsible for implementing projects but its overarching role is to :
 - assess the quality of proposals
 - provide finance
 - monitor progress and
 - evaluate results



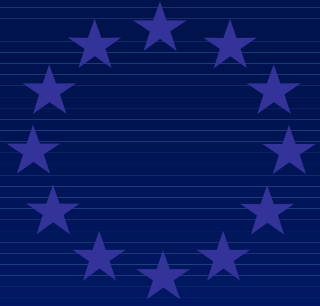
2. The framework in the EU for financing major projects

Major projects: the decision of the Commission

1. Art 41: “The Commission shall appraise the major project... its consistency with the priorities of the operational programme, its contribution to achieving the goals of those priorities and its consistency with other Community policies”.
2. That decision shall define the physical object and the amount of funding.
3. The Commission may refuse to make a financial contribution from the Funds to a major project.

In short, the Commission assesses/decides :

- whether the project is **worth** co-financing
 - Economic desirability
 - Contribution to EU regional policy goals
- whether the project **needs** co-financing
 - “Funding-gap“
- and the **amount** of the resources
 - Amount to which co-financing rate is applied (normally a part of the funding gap)



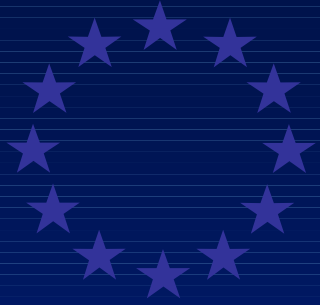
Financing: Differentiation of co-financing rates

2. The framework in the EU for financing major projects

Criteria	Member States, regions	ERDF, ESF	Cohesion Fund
(1) Member States whose average per capita/ GDP below 85% between 2001-03	CZ, EE, GR, CY, LV, LT, HU, MT, PL, PT, SI, SK, BG, RO	85%	85%
(2) Member States other than those under (1) eligible to the Cohesion Fund	ES	80%/50%*	85%
(3) Member States other than those under (1) and (2)	AT, BE, DK, DE, FR, IR, IT, LU, NL, SE, SF, UK	75%/50%*	-
(4) Outermost regions referred to in Article 299 (2) of the Treaty	regions in ES, FR, PT	85%	85%**

* The first rate concerns regions eligible under the "Convergence"; the second one those under the "Regional Competitiveness and Employment" objective

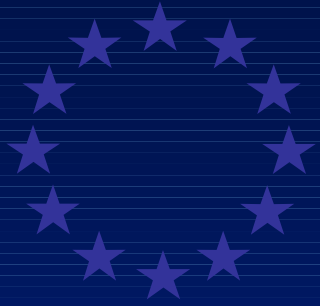
** If applicable



2. The framework in the EU for financing major projects

Information needed in the application

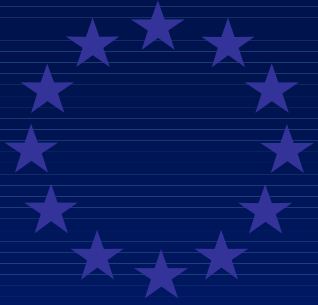
- information on the body to be responsible for implementation;
- information on the nature of the investment and a description
- of it, its financial volume and location;
- the results of the feasibility studies;
- a timetable for implementing the project
- a cost-benefit analysis, including a risk assessment and the foreseeable impact on the sector concerned and on the socio-economic situation of the Member State/region;
- an analysis of the environmental impact;
- a justification for the public contribution;
- the financing plan



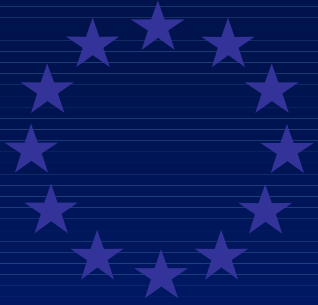
2. The framework in the EU for financing major projects

Other Projects (handling in general)

- Smaller projects are not communicated directly to the Commission but are handled in a decentralized manner by the Member State.
- In general, all infrastructure projects co-financed by the EU cohesion and structural funds are subject to the same type of rules regardless of size – feasibility / CBA / risk- / impact assessments etc...



3. The feasibility study elements in the major projects financed by the EU.



OPTION AND FEASIBILITY ANALYSIS: how is it done in the EU context?

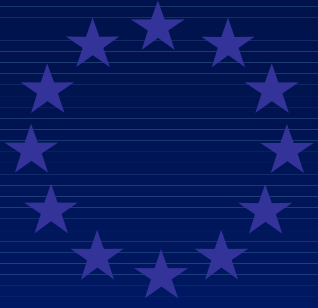
3. The feasibility study elements in the major projects

- Step 1. Macroeconomic and Sector Context**
- Step 2. Option Identification**
- Step 3. Feasibility Analysis**
- Step 4. Option Selection**



Step 1. MACROECONOMIC AND SECTOR CONTEXT

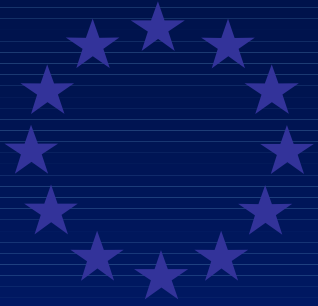
- It aims at **identifying the context** within which the project is going to be implemented (e.g. GDP growth, demographic developments, etc.)
- In particular, this analysis is aimed at collecting the information needed to forecast **the demand for the project goods/ services**



3. The
feasibility
study
elements in
the major
projects

Demand Analysis identifies the need for an investment by assessing

- **Current Demand** (by using models and actual data)
- **Forecasted Demand** (from macroeconomic and sector forecasts and elasticity estimates of demand to relevant prices and income)
- **Induced Demand** (depends on the option chosen)

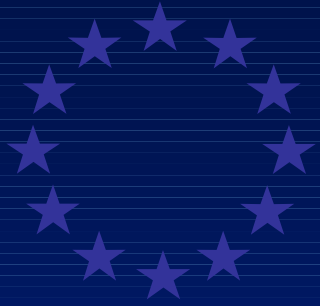


Step 2. OPTION IDENTIFICATION

It aims at **identifying investment alternatives** along with their key features. A crucial information of this identification is the **demand induced** by each alternative

At least two out of these three options should always be considered:

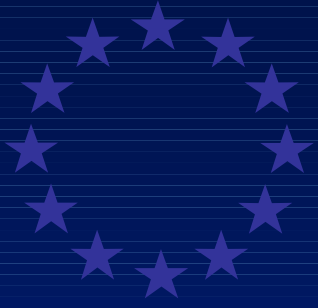
- **Do Nothing**
- **Do Minimum Option**
- **Do Something Option**



3. The feasibility study elements in the major projects

Note that CBA is carried out on an *incremental* basis, i.e. on the difference between

- a scenario *with* the project (do something or do minimum)
- and a scenario *without* the project (do nothing or, in some cases, do minimum).



3. The
feasibility
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Step 3. FEASIBILITY ANALYSIS

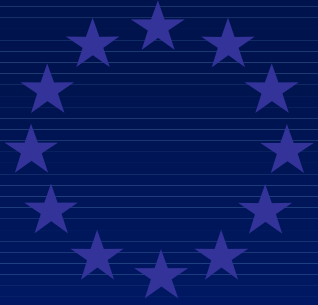
It identifies the options, potential constraints and related solutions with respect to the following aspects:

- **technical** (e.g. technology, size, location)
- **economic** (e.g. capital, labour)
- **regulatory** (e.g. Natura 2000 sites)
- **managerial** (e.g. PPP, timing)



Step 4. OPTION SELECTION

- Two/three feasible options should be short-listed based on the results of the feasibility analysis
- The most suitable feasible option should then be chosen with a view to maximising the project socio-economic impact as gauged by the results of the economic analysis (complemented by the risk analysis results)



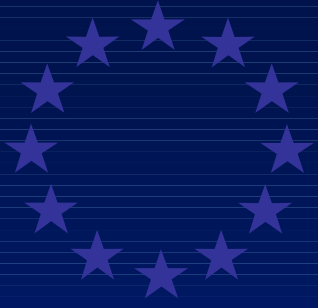
4. Estonia as a new EU Member and general considerations for financing projects.



4. Case of Estonia – Tallinn airport

FEASIBILITY STUDY ESTONIA: UPGRADING OF TALLINN AIRPORT PASSENGERS' TERMINAL

- Data collection – forecasts 2020 (context/demand analysis)
- Construction programme: extension of aircraft contact position (option id, feasibility and technical analyses).
- Proposed solutions
 1. Solution 1: “T” shape (preferred solution based on criteria below – points system)
 2. Solution 2 “L” shape
 3. Solution 3 chamfered “L” shape
- Criteria for evaluation of solutions:
 - Distance to be covered by a departing passenger from the land side kerb to the most distant aircraft in contact position.
 - Apron capacity in terms of aircraft parking positions
 - Fluency of the aircraft movement on the apron
 - Conditions of air terminal operations during the construction time
 - Construction cost
 - Environmental impact



4(b) general considerations for financing projects.

Feasibility study as an integral part of the major project CBA...

THE STRUCTURE OF CBA

1. Option and Feasibility Analysis:

How can an objective be achieved? Are the selected options feasible?

2. Financial Analysis:

How much money is necessary to implement the option selected?

3. Economic Analysis:

What is the impact on the area where the project is going to be implemented?

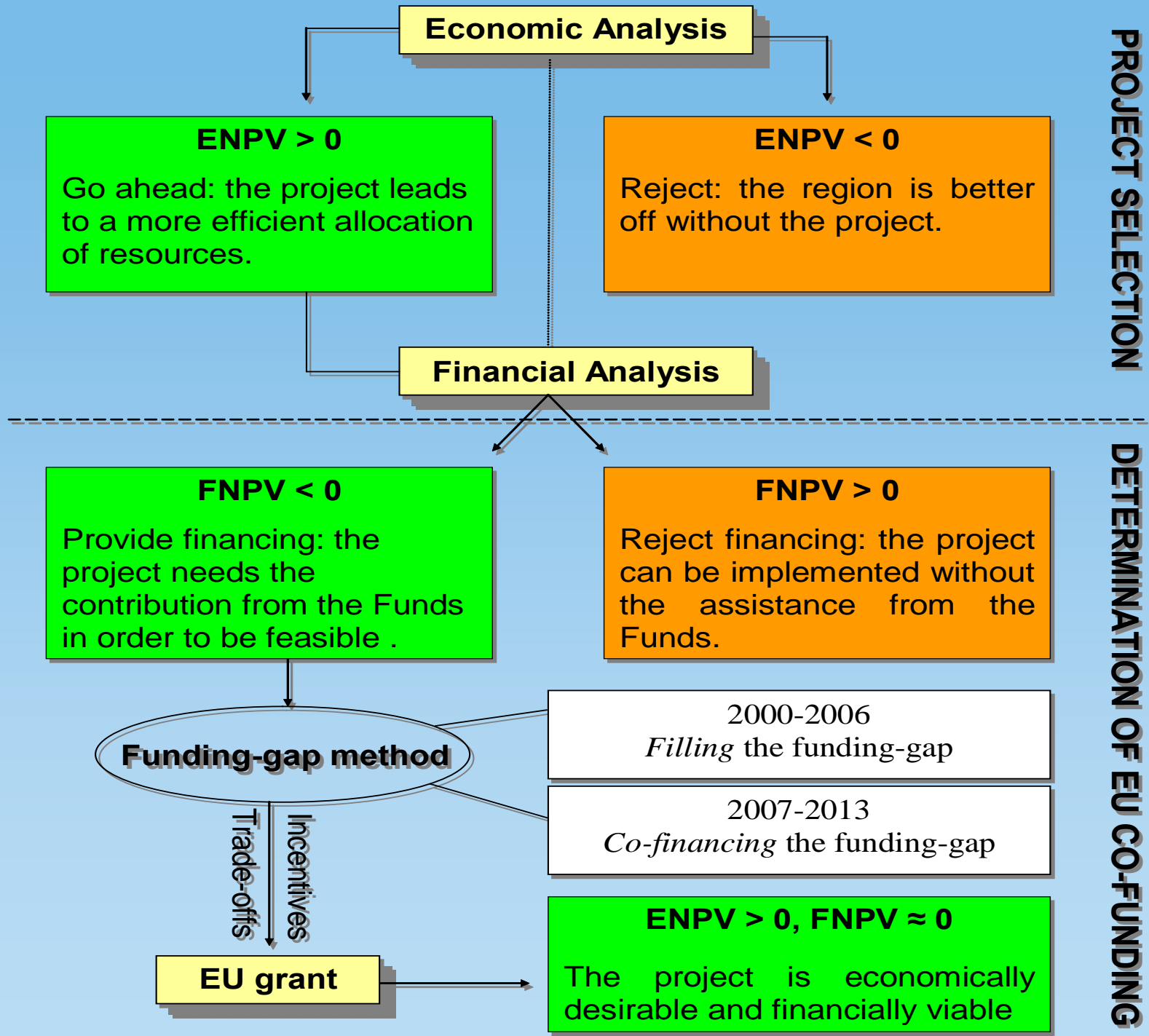
4. Risk Analysis:

Which are the most likely financial and economic results?



4(b) general considerations for financing projects.

WHEN DOES THE EU ACCEPT TO FINANCE?



PROJECT SELECTION

DETERMINATION OF EU CO-FUNDING



4(b) general considerations for financing projects.

Determining the grant in 3 steps

Find $R = \text{Max } EE/DIC$ where

- R is the *funding gap rate*
- Max EE is the *maximum eligible expenditure* = discounted investment cost (DIC) less discounted net revenue (DNR)

Find $DA = EC * R$ where

- DA is the *decision amount*, i.e. “the amount to which the co-financing rate for the priority axis applies” (Art. 41.2 – Major Projects)
- EC is the *eligible cost*

Find $EU \text{ grant} = DA * \text{Max } CR_{pa}$ where

- Max CR_{pa} is the maximum co-funding rate fixed for the priority axis in the Commission's decision adopting the operational programme



5. Conclusion

Conclusion: the feasibility study is of key importance to the EU funding system to identify :

- *the best feasible alternative*
- *the financial resources needed to carry out the project*
- *the project impact on the area where it will be implemented*
- *project risks and its financial and economic implications*

... Indeed, without it, no EU funding will be given...