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Operations Evaluation • Operations Evaluation • Operations Evaluation • Operations Evaluation • Operations Evaluation

# Operations Evaluation

Evaluation of EIB investment loans for  
economic and social cohesion in France,  
Portugal and the United Kingdom

## Synthesis Report

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## **EVALUATION REPORT**

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### **NOTICE**

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## GLOSSARY OF TERMS AND ABBREVIATIONS

Absorption capacity	The ability to use approved funds in the timescale and manner envisaged
ACP	African, Caribbean and Pacific (countries)
Acquis-communautaire	The total body of EU law
Borrower	The legal persona with whom the Bank signs a Loan Agreement.
bp	basis points (one hundredth of one percent interest)
CA	EIB's Board (q.v.) The EIB Board of Directors, which has sole power to take decisions in respect of loans, guarantees and borrowings.
CD	EIB's Management Committee (q.v.)
CEE	Central and Eastern Europe
COP	Corporate Operational Plan
DAC	Development Assistance Committee (of the OECD)
EBRD	European Bank for Reconstruction and Development
ECG	Evaluation Cooperation Group (of multi-lateral development banks)
ECOFIN	EU Economic and Financial Affairs Council
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
EU	European Union
EU10	Countries joining the EU on 1 May 2004
EU12	EU10 plus Bulgaria and Romania
EV	EIB Operations Evaluation (Ex-Post)
FIRR	Financial Internal Rate of Return
FVA	Financial Value Added
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
ISPA	EU grant instrument (Instrument for Structural Policies for Pre-Accession)
	Management Committee Internal EIB committee, comprising the Bank's President and Vice-Presidents
NMS	New Member States (EU12)
Ops-A	EIB Directorate for Lending Operations – EU Members, Acceding, Accession and Candidate States
OCT	Overseas Countries and Territories
OECD	Organisation for Economic Cooperation and Development
PCR	Project completion report
PHARE	EU grant instrument (Poland and Hungary: Assistance for Restructuring their Economies)
PJ	EIB ProJects Directorate – Responsible for ex-ante project techno-economic analyses, the preparation of the Technical Description, and the physical monitoring of implementation and completion.
PPP	Public Private Partnership
Project	A clearly defined investment, typically in physical assets, e.g. a specific section of road, a bridge, etc.
Project Pipeline	Those projects which have been signalled to the Bank, but have either not yet been approved by the Management Committee, or have been approved but not yet signed. These include projects under active appraisal and those in the process of contract negotiation prior to signature.
Promoter	Normally the persona responsible for identifying and developing a project. The promoter may also be responsible for operating and/or implementing the project.
RM	EIB Risk Management Directorate, responsible for credit appraisal and portfolio management
RSFF	Joint EIB/Commission Risk Sharing Finance Facility
SAPARD	Special Accession Programme for Agriculture and Rural Development
SFF	EIB Structured Finance Facility
SME	Small or medium sized Enterprise. A company with less than 250 employees.
SPV	Special Purpose Vehicle – A company, with its own legal persona, set up for a limited set of specific purposes, e.g. to borrow for the construction of a project.
TA	Technical Assistance
Technical-description	Project definition - the basis of the Loan Agreement; prepared by PJ.
VA	Value Added

## EXECUTIVE SUMMARY

The evaluation deals with EIB lending in support of economic and social cohesion since 2000, one of the Bank's main lending objectives during the period. It follows on from a similar exercise carried out in 2007<sup>1</sup> but in this case concentrates on three different member states: France, Portugal and United Kingdom. The evaluation is primarily intended to assist the EIB's governing bodies in the formulation of Bank policy and strategies and, secondly, as a learning exercise to provide assistance to the Bank's operational departments, with a view to increasing the Bank's value added in future operations. Outside the EIB, the evaluation may also be of interest to other stakeholders, including the general public, public authorities and private sector promoters.

### The importance of the EIB contribution to economic and social cohesion in the EU

Since its foundation, the EIB has had a major role to play in the community construction and consolidation. It has always considered lending for "projects for developing less-developed regions" a key priority, and it is generally presented as the Bank's first lending priority. Formally translated into a Regional Development / Cohesion / Convergence COP lending priorities, its importance has recently been further accentuated by the financial crisis, when convergence lending has been stepped up to alleviate the negative impact of the crisis throughout Europe, in particular in disadvantaged regions of the cohesion countries.

The role of the Bank in supporting EU economic and social cohesion policy and regional development is grounded in several parts of the current consolidated version of the Treaty on European Union<sup>23</sup>. According to these fundamental texts, the Bank has a commitment to contribute to the balanced and steady development of the internal market, granting loans to facilitate the financing of projects for developing less-developed regions and devoting the majority of its resources to the promotion of economic, social and territorial cohesion.

### The portfolio and sample

Between 2000 and 2009 the EIB signed a total of EUR 475.7bn loans from its own resources in all EU Member States. During the same period, total signatures in France, Portugal and the UK combined totalled EUR 99.3bn, or 20.9% of the total. Operations under the Bank's economic and social cohesion priorities represented 40.4% of total loans signed in these three member states over the period (EUR 40.1bn out of 99.3bn). After Germany and Spain, examined by EV in 2007 along with Ireland, the UK and Portugal represent two of the next four biggest recipients of EIB loans under economic and social cohesion. Whilst France and the UK are in a relatively comparable situation with regards to the evolution of total EIB loans signed, cohesion lending in France has consistently been a lower proportion than in the UK. In Portugal, overall lending has been lower, but with a much higher proportion of cohesion loans.

Excluding global loans, framework loans, mid-cap loans and loans for SMEs, the portfolio under examination includes 116 individual investment loans signed for a total amount of EUR 19.45bn. The evaluation team selected a sample of 23 operations to be evaluated in-depth. The sample was built up to be as representative as possible of the whole 116 projects portfolio both in terms of sector and country distribution. Where a choice was available, preference was given to projects co-financed by the European Regional Development Fund (ERDF) or the Cohesion Fund (CF).

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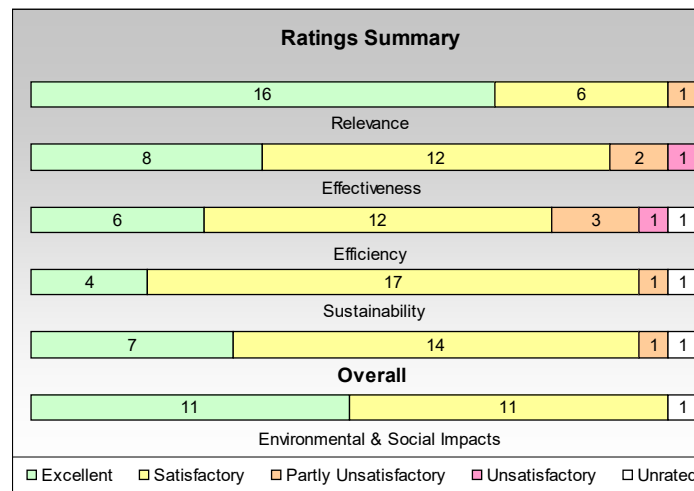
<sup>1</sup> EIB Financing of operations in Objective 1 and Objective 2 areas in Germany, Ireland and Spain, EV October 2007

<sup>2</sup> The article 3 of the current consolidated Treaty states that the EU "shall promote economic, social and territorial cohesion, and solidarity among Member States" and Article 309 (ex Article 267 of the Treaty) recalls more specifically that: "The task of the European Investment Bank shall be **to contribute to the balanced and steady development of the internal market** in the interest of the Union. For this purpose the Bank shall grant loans and give guarantees which facilitate the financing of (...) projects for developing less-developed regions. In carrying out its task, the Bank shall facilitate the financing of investment programmes in conjunction with assistance from the Structural Funds and other Union Financial Instruments".

<sup>3</sup> The protocol n°28 of the Treaty reaffirms on its side that "**the European Investment Bank should continue to devote the majority of its resources to the promotion of economic, social and territorial cohesion**" (emphasis added)

## Performance of the project sample (23 operations)

The overall ratings confirm that the majority of projects which the Bank financed in the framework of the cohesion/convergence objectives in France, Portugal and the United Kingdom between 2000 and 2009 performed well under difficult operating conditions. The evaluation evidences a very positive overall assessment of the project sample regarding EIB contribution. The EIB's presence was found to have created a significant catalytic effect for other investors, as well as a noticeable impact on stakeholder's perception of the quality of the projects and the access to EU funds. For the vast majority of the evaluated projects, the presence of the EIB provided confidence to the sponsors in the soundness of the projects, as well as sending a strong message to the markets that the EIB was supporting the development of projects in the sector/region. The overall EIB performance on project cycle management can also be regarded satisfactory, though the evaluation reveals some areas where further improvements are needed.



Although the projects evaluated were remarkably robust in relation to the recent financial crisis, in the wake of the crisis greater consideration should be given to the impact and risks associated with the wider political, sectoral and economic context of projects, in particular in relation to infrastructures indirectly subsidised from the public purse, where the project can become vulnerable to changes in user charges in the longer term. Cuts to subsidies may then result in cost saving measures or increases in fares, tolls or other infrastructure charges, which then further impact on the project by reducing user numbers and consequently the anticipated benefits generated by the project.

## Relevance of Bank lending to economic and social cohesion

Many operations were classified under two or more of the Bank's priority lending objectives. This multi-eligibility of an operation was generally regarded by the appraisal team as a positive feature, but entails a lack of focus and consequently a significant risk to the achievement of the objectives pursued. The more systematic use of measurable and meaningful targets ex ante would ensure that the aims of the project are clearly expressed and progress can be properly monitored. More recently, the Bank has addressed this issue to some extent by limiting the number of eligibility criteria to a maximum of three, and then only for the cases where the convergence priority has been identified.

It was clear from the sample of projects evaluated in depth that eligibility under the Bank's economic and social cohesion lending priority was considered to be largely a question of geographic location and in few of the 23 cases were any more concrete objectives or targets relating to cohesion fixed ex ante. Many direct and indirect social effects were generated by the projects which were not generally considered by the Bank at appraisal. A more sophisticated approach to economic and social cohesion can therefore be envisaged which does not entail a large amount of additional analysis at appraisal, since much of the information is already collected for other purposes. This would allow better differentiation between cohesion projects, allowing the Bank to focus on those with greater impact. Additional factors which could be taken into consideration might for example be the number of direct and indirect jobs created, the existence of a support programme alongside the project itself, the degree of social corporate responsibility of the promoter, the cost of project as a proportion of the local economy, the degree of consistency with EU funds Operational Programmes, etc. These types of activities appear to be important in fostering local ownership and appropriation of the project, which may then have more chance to generate social benefits. This could also be a way for the Bank to promote good practice and to account more reliably for its value added with regards to economic and social cohesion.



## **Co-funding and cooperation with the Commission**

A specific coordination issue has to be underlined with regards to the cooperation with European Commission services, and particularly DG REGIO. In general there was no evidence of close coordination and cooperation between the EIB and the EC, although the EIB was occasionally aware of the promoter's efforts to apply for subsidies, in no case was the Bank aware of the outcome. Particularly for projects classified under the cohesion/convergence lending priority, the Bank should seek to incorporate the provision of grant status as part of an extended Article 19 process, placing an obligation on the Commission to inform the Bank at key stages of the application process. There would seem to be a need for closer cooperation between the two institutions from appraisal onwards in order to make better use of potential synergies and avoid unnecessary duplication. There are many difficulties to be overcome in forging closer cooperation but there should be an ongoing process of discussion in relation to areas of common interest such as the monitoring of identified co-financed projects, the use of a common numerical codification to identify and monitor co-financed projects, through more institutionalised procedures. A good start could be made by the use of identified project contact persons.

## **Treatment of Cohesion during the Project Cycle**

The assessment of the environmental and social evaluation criterion has been uniformly positive, with around half the projects rated as excellent for environmental and social aspects. However, this positive result masks a more subtle underlying distinction. The in depth evaluation of the project sample illustrated that the projects' impacts on socio-economic cohesion were not prominent during project appraisal, which was concerned mostly with other eligibilities. Thus the "cohesion dimension" seems to have been considered as a secondary dimension that represents an additional asset to a project. This lack of focus on "cohesion" at appraisal is also reflected in the limited detail provided by most appraisal reports, which were otherwise found to have good detail on the technical, financial, and environmental aspects related to the design, construction and management of the operations.

Most of the cohesion related impacts found during the evaluation were not really expected, or even considered, ex ante, illustrating that the question of what economic and social cohesion really means at the level of each single project was not fully considered at appraisal stage. The contrast is striking between the rigorousness of, for example, the environmental compliance check undertaken by the Bank and the rather partial consideration of economic and social cohesion issues, where creating an economically productive project in a convergence or cohesion area was considered enough to contribute to European economic and social cohesion objectives.

## **Sector Reform**

Whilst the Bank took a significant involvement in sector reform in some cases, a very good example being project 21, it seems that the Bank did not engage in wider sector reform in all cases where it could have played a significant role in sector development (for instance, in the framework of projects 8, 9, 10 and 19). The timing of EIB involvement has been a key factor in this respect. Where the EIB became involved from an early stage in the planning process, the Bank had more potential leverage to influence the project plans and even in sector development. In a number of projects it has also been argued that the EIB could have played a stronger role providing technical and expert advice with the view to get a more robust approach to the assessment of the project's viability, profitability and sustainability at the early stages of the project.

## **Monitoring**

Overall, the evaluation has found that the project physical monitoring carried out was weak. Most projects have had less monitoring by the EIB than expected, given the risks and given the monitoring categories assigned to them at appraisal. In some cases where little or no monitoring was carried out, it seems that the EIB's requirements laid down in the finance contracts regarding annual and regular reporting were not very specific. Whilst it is acknowledged that the focus on monitoring has improved more recently in the Bank, one specific example illustrates that there is still room for improvement. A maximum contribution of 90% EU assistance for each project is stipulated by EU regulations. However there does not appear to be any coordination between the Commission and the Bank to monitor compliance with this requirement.

## TABLE OF RECOMMENDATIONS

	Observations & Recommendations	Response of the Operational Services
1	<p><b>Observations :</b> See sections § 4.1.2, § 4.1.3, § 4.2.1 § 4.2.3, § 4.4.2, § 6.1, § 7.2 and § 7.5</p> <p><b>Recommendation: Convergence projects</b></p> <p>The Bank should in future adopt a more sophisticated approach to cohesion/convergence and embed it throughout the EIB project cycle by appropriate training and guidance. A revised approach should initially be prepared in the framework of a working group comprising the directorates concerned with the aim of better distinguishing between cohesion/convergence projects.</p> <p>Ultimately it would be for the working group to recommend an approach, but the following aspects should be included:</p> <p>1.1) To adopt certain minimum criteria to classify projects under the cohesion/convergence priority.</p> <p>1.2) To define clear cohesion/convergence objectives and indicators at appraisal – possibly linked to the Value Added process - which can be used to distinguish between projects and can be tracked and monitored throughout the project cycle. It is recognised that EIB experience with the use of social cohesion indicators has been mixed, none the less the sophistication of the Bank's treatment of technical, economic and environmental issues could be compared unfavourably with the current treatment of social cohesion issues.</p> <p>1.3) To enhance communication and cooperation with the services of the Commission, particularly after the appraisal stage (during implementation), with a view to maximising the EU value added, enhancing mutual learning and reliance and making the most efficient use possible of synergies between the services of the two institutions.</p>	<p>The services will discuss with the Centre of Expertise for Convergence and Enlargement how best to address the recommendations made.</p> <p>It is to be noted, that specific value added indicators for Economic and social Cohesion were introduced in 2004 and applied for several years. In the context of the modification of the Bank's value added framework and in view of further streamlining, the Bank's management decided to discontinue their application. However, the recommendation will also be reviewed in the CoE in the context of the COP (objectives) as well as the review of the Value Added methodology.</p> <p>Communication and co-operation with the Commission is currently executed through the Art. 19 procedure.</p> <p>Procedures for the Commission's opinion on EIB operations are in place and specify the information requirements pertaining to "Regional Policy".</p>
2	<p><b>Observations:</b> See sections § 3.2, § 4.1, § 4.4.2, § 7.2, and § 7.4</p> <p><b>Recommendation: Clarity of project objectives</b></p> <p>The initial objectives of each operation should be systematically and precisely identified, quantified and then monitored. Specific, measurable and meaningful targets ex ante would ensure that the aims of the projects are clearly expressed and progress can be properly assessed.</p>	<p>Such indicators make parts of the new reference framework for OpsB but the VA methodology is a more streamlined approach within the EU. The cost and benefit of extending such an approach to cover also OPSA need further study before this recommendation can be supported.</p>

	Observations & Recommendations	Response of the Operational Services
3	<p><b>Observations</b></p> <p>See section § 4.3.2</p> <p><b>Recommendation: Risk Identification</b></p> <p><b>Systemic</b></p> <p>More consideration should be given at appraisal to the risks connected with the wider sectoral, political, social and environmental climate and longer term institutional framework of the project. Identified risks should then be accompanied by appropriate monitoring provisions which can be followed also for subsequent operations. This would require an evolution of current practices to include more sector/country risk and institutional/systemic risks analysis on a multidisciplinary basis which brings together consideration of adverse correlations of both credit and operational and systemic risk for an evolving group of related Bank projects.</p> <p><b>Project</b></p> <p>Although project risks were mentioned at appraisal in most cases, in general a more transparent and comprehensive treatment of project risks is required at appraisal stage as well as a more consistent follow up of particular risk factors identified.</p>	<p>Consideration is already being given by the Bank's services.</p> <p>Risks and mitigants are already taken into account in the Bank's existing appraisal process, including financial, economic and project related facets of the operation. Additional training needs will be assessed by the services to ensure a more consistent approach.</p>
4	<p><b>Observations</b></p> <p>See sections § 4.1.2, § 4.1.4 and § 7.4</p> <p><b>Recommendation: Monitoring</b></p> <p>In general, more consistent quality of information is required in Project Completion Reports in order to improve self learning. EIB's PCR needs to be more detailed in order to identify and pick up lessons learnt that can be of benefit for other similar projects. In this respect, the focus on lessons learnt in the PCR should be improved.</p> <p>A more flexible and proactive approach to monitoring, based on evidence gathered, should be pursued, which allows for an increase when projects are delayed or information is not forthcoming, as well as a decrease when projects are progressing well.</p> <p>More stringent monitoring of the Bank's operational thresholds is recommended (for example 50% loan threshold - maximum 90% EU assistance rule etc) throughout the project cycle.</p>	<p>Agreed.</p> <p>A thorough review of the physical monitoring, both in terms of scope and organisation is ongoing.</p>

## 1. INTRODUCTION

This evaluation is being undertaken following the latest update of the Operations Evaluation (EV) Strategy and the subsequent revision of the EV Programme for 2011 as validated by the EIB Board of Directors.

The evaluation deals with EIB lending since 2000 categorised under the “regional development”, “cohesion” or “convergence” objective, one of the Bank’s main lending objectives during the period<sup>4</sup>. It follows on from a similar exercise carried out in 2007<sup>5</sup> but in this case concentrates on three different member states (France, Portugal and United Kingdom).

The focus of the evaluation is on the relevance and performance of the projects, as well as EIB’s contribution and performance in these projects. Whilst all of the Bank’s priorities are considered, a particular assessment was made of the contribution of the EIB to economic and social cohesion, as set in the articles 174 & 175 of the Treaty on the Functioning of the European Union<sup>6</sup> and extent to which the Bank cooperated with the European Commission or co-financed projects with EU structural funds.

The evaluation is primarily intended to assist the EIB’s governing bodies in the formulation of Bank policy and strategies and, secondly, as a learning exercise to provide assistance to the Bank’s operational departments, with a view to increasing the Bank’s value added in future operations. Outside the EIB, the evaluation may also be of interest to other stakeholders, including the general public, public authorities and private sector promoters.

### 1.1 Approach and methodology

In accordance with EV’s Terms of Reference and internationally adopted evaluation criteria (OECD Development Assistance Committee (DAC) and Evaluation Cooperation Group (ECG)), the general objective of the evaluation is to provide, on the basis of the analysis of a sample of projects financed by the Bank and other relevant sources of information, an assessment of the relevance of EIB operations (the first pillar of value added), the project performance (second pillar) and the EIB contribution (third pillar) as well as the strategies and procedures that relate to them.

The comparison of ex-post results with the expectations and objectives at appraisal is the main basis for the evaluation of the operations. Along with the Bank’s evaluation procedures, individual projects were rated according to four categories: “Excellent”, “Satisfactory”, “Partly Unsatisfactory” and “Unsatisfactory”<sup>7</sup>.

The evaluation was carried out by internal EV staff with the assistance of consultants, and the relevant operational departments (OPS-A, PJ, TMR and RM) were consulted at the various stages of the evaluation. The four following methodological steps have been key elements for this evaluation:

- 1) A general review of EU, member State and EIB policies in relation to economic and social cohesion, with a particular focus on EIB’s strategy and management in relation to lending from own resources for economic and social cohesion.
- 2) Determining the scope of the portfolio (description of the sorting and sampling process adopted)

The evaluation focuses on lending in three Member States:

- The Portuguese Republic (Portugal), a member of the EU since 1986.
- The United Kingdom of Great Britain and Northern Ireland (the UK), a member of the EU since 1973 whose four territorial entities are England, Wales, Scotland and Northern Ireland.

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<sup>4</sup> The current Corporate Operational Plan 2011-2013 of the Bank stresses that « The EIB’s overriding priority strategic objectives for lending in the EU and Pre-Accession Countries reflect EU policy objectives. The Bank shall continue to pursue these priority objectives giving due consideration to country specific needs and circumstances. The priority objectives focus on six specific areas: [the first one being mentioned being] Economic and Social Cohesion and Convergence (...).

<sup>5</sup> EIB Financing of operations in Objective 1 and Objective 2 areas in Germany, Ireland and Spain, EV October 2007

<sup>6</sup> See Appendix 1 for full mention of the text.

<sup>7</sup> “High”, “Significant”, “Moderate” and “Low” for EIB contribution.

- The French Republic (France), a founder member of the EU - including the part of its territory located overseas (Martinique, Guadeloupe, Reunion and Guyana).

These three countries were chosen as they have not recently been covered by an evaluation of economic and social cohesion and account for over EUR 40 bn of lending during the evaluation period. After Germany and Spain, which were examined in 2007, the UK and Portugal represent two of the next four biggest recipients of EIB loans under economic and social cohesion. They also illustrate some interesting challenges:

- Since joining the EU in 1986, Portugal remains one of the less developed countries within Europe<sup>8</sup>;
- The UK geographic eligibility for assistance under economic and social cohesion has declined substantially over the period, but still has some areas categorized as “Convergence” for the 2007-2013 programming period (Cornwall and Isles of Scilly, West Wales and the Valleys).

By way of contrast, and using a similar approach to that adopted in 2007<sup>9</sup>, the evaluation will also examine one of the smaller recipients of EIB loans under economic and social cohesion. Given their similar geographic and economic importance, a comparison between France and the UK will be worthwhile and, in addition, French overseas territories<sup>10</sup> are one of the poorer parts of the EU27 in terms of GDP per capita (61% of EU27 average), having interesting parallels with the Portuguese autonomous regions<sup>11</sup> in terms of economic and social cohesion.

The three countries also provide a contrast in the type of assistance provided under economic and social cohesion. During the period of the evaluation, Portugal was classified as an Objective 1 region (one whose development was ‘lagging behind’ the EU average) whereas assistance for France and the UK, although containing some smaller Objective 1 regions, was mainly focused on areas of post industrial decline (Objective 2)<sup>12</sup>.

- 3) A comprehensive portfolio review of 116 projects signed and completed between 2000 and 2009 under the cohesion priority was made, analysing EIB financing trends, type and size of operation, and sector distributions in the three countries, giving a general picture of the relevance and quality of the portfolio.

#### 4) The in-depth evaluation of individual operations

The project sample (23 operations) was built up to be as representative as possible of the whole 116 projects portfolio both in terms of sector and country distribution. The sample was the random outcome of a structured process where these selection criteria, decided in advance, were applied to the portfolio. In many cases the application of these selection criteria determined the sample choice automatically, but where a choice was available, preference was then given to projects co-financed by the European Regional Development Fund (ERDF) or the Cohesion Fund (CF).

Individual evaluations involved meetings with the organisations responsible for project implementation, operation and policy. Site visits included meetings with responsible promoter managers, representatives from national, local and regional authorities. The evaluation has also been prepared and discussed with the EIB operational staff associated with the project, and the main elements were provided to project promoters for their comments. The information contained in these reports is of a confidential nature and availability is restricted to the EIB.

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<sup>8</sup> In terms of GDP per capita, in 2009 Portugal was 78% of the EU 27 average - comparable to the Czech Republic (81%), Slovakia (72%), and the three Baltic States, and below Slovenia (91%).

<sup>9</sup> Economic and Social Cohesion - EIB financing of operations in Objective 1 and Objective 2 areas in Germany, Ireland and Spain, EV, October 2007.

<sup>10</sup> Départements d’Outre Mer - DOM in French, Outermost regions in EU terminology

<sup>11</sup> Regiões Autónomas de Portugal

<sup>12</sup> For a more comprehensive overview of cohesion policy, see Appendix 2.

The following table summarises the main features of the selected 23 projects which taken together represent around 20% of the number of projects signed during the period in the 3 member states:

	COUNTRY CODE	SECTOR	Type of operation	Total Project Investment Cost (EUR M)
1	FR	Environment / Waste incinerator	Investment loan	176.00
2	FR	Transport / Motorway	Investment loan	396.00
3	FR	Manufacturing / Automotive industry	Investment loan	824.00
4	FR	Transport / Motorway	Investment loan	220.72
5	FR	Transport / Urban transport	Investment loan	262.00
6	UK	Manufacturing / Automotive industry	Corporate loan	1 104.60
7	UK	Energy / Fossil energy power generation	Investment loan	1 033.05
8	UK	Energy / Fossil energy power generation	Investment loan	323.79
9	UK	Energy / Renewable energy power generation	Investment loan	205.29
10	UK	Environment / Water treatment	Investment loan	227.49
11	UK	Transport / Motorway	Investment loan	312.20
12	UK	Transport / Airport	Investment loan	145.57
13	UK	Education / Secondary schools	Investment loan	429.11
14	UK	Health / Hospital	Investment loan	194.55
15	PT	Transport / Motorway	Investment loan	120.05
16	PT	Energy / Fossil energy power generation and distribution	Investment loan	335.00
17	PT	Transport / Rail	Investment loan	572.00
18	PT	Transport / Motorway	Investment loan	985.30
19	PT	Energy / Renewable energy power generation	Investment loan	460.60
20	PT	Environment / Waste treatment and disposal	Investment loan	91.70
21	PT	Environment / Water treatment and distribution	Investment loan	790.30
22	PT	Several sectors / Transport, Environment, Education, Health	Framework loan	1 187.00
23	PT	Transport / Urban transport	Investment loan	628.00
				<b>11 024.34</b>

Of the selected sample, 9 projects out of 23 were identified as having been co-financed with EU funds or signalled at approval as intending to be co-financed. These potential co-financed projects together represent a 42% share of the sample (in terms of total loan amount). Nine projects were classified as Public Private Partnerships according to the Bank's current definition<sup>13</sup>.

## 5) Synthesis and dissemination

This evaluation report is a synthesis of the analyses, comments, findings and recommendations of the 23 individual evaluations, together with consultation with operational staff and reference to other relevant documents and publicly available data. After presentation to the Bank's Board of Directors, the synthesis report is posted on the Bank's website and enters the public domain.

## **2. BACKGROUND**

### **2.1 THE ORIGINS OF EU POLICY ON ECONOMIC AND SOCIAL COHESION**

Although instruments to address regional disparities within the European Union had been in place from the earliest stages of the European integration (the European Social Fund exists for instance since 1958), the pivotal date in the European cohesion policy's history is indisputably 1986 when Cohesion policy as we still perceive it today was conceived as the third pillar of the Single European Act - complementing the Single Market and the Single Currency programmes in the context of the accession of Greece, Spain and Portugal. Its main purpose was –and still is– to offset the burden of market opening for the less-favoured territories of the Community, to accelerate their economic convergence and thus to allow them to take advantage as soon as possible of the benefits of this opening.

In June 1988, the Council adopted the first regulation integrating the Structural and Cohesion Funds under the umbrella of Cohesion Policy. This landmark reform introduced key principles such as focussing on the poorest and most backward regions, multi-annual programming, strategic orientation of investments, and the involvement of regional and local partners. These provisions were strengthened in the 1993 regulations with a stronger involvement of the European Parliament, the adoption of partnership principles, as well as the enforcement of stringent evaluation rules. Another radical shift occurred with the fourth programming period 2007-2013 requiring an “earmarking” of expenditures in compliance with Lisbon priorities where a majority of resources should be allocated to projects classified under these priorities.

### **2.2 EIB LENDING FOR ECONOMIC AND SOCIAL COHESION**

#### **2.2.1 The overall EIB contribution for economic and social cohesion since 2000**

Since its foundation, the EIB has had a major role to play in the community construction and consolidation. It has always considered lending for "projects for developing less-developed regions" a key priority, and it is generally presented as the Bank's first lending priority. Formally translated into a Regional Development / Cohesion / Convergence COP objectives, its importance has recently been further accentuated by the financial crisis, when convergence lending has been stepped up to alleviate the negative impact of the crisis throughout Europe, in particular in disadvantaged regions of the cohesion countries.

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<sup>13</sup> The definition of PPP used in the table is the one commonly agreed within the Bank, and as formulated in the Project Directorate's Procedures Manual as well as EIB Wiki : “Public-private partnerships (PPPs) cover a broad spectrum of projects in which the private sector may be required to build, operate and finance assets providing public services. PPPs are characterized by long term complex contractual arrangements for risk transfer between the public and private sectors. PPP structures include classical Spanish and French public service concessions and the UK Private Finance Initiative (PFI) model. A common PPP structure is Design, Build, Finance and Operate (DBFO) for infrastructure projects, such as roads, schools, sewage treatment plants, and hospitals. “

The role of the Bank in supporting EU economic and social cohesion policy and regional development is grounded in several parts of the EU Treaties, both in the current consolidated version of the Treaty on European Union<sup>14,15</sup>. According to these fundamental texts, the Bank has a commitment to contribute to the balanced and steady development of the internal market, granting loans to facilitate the financing of projects for developing less-developed regions and devoting the majority of its resources to the promotion of economic, social and territorial cohesion.

As illustrated in the following table, the Bank targets a significant proportion of its lending to support economic and social cohesion. The nature of cohesion policy changed in 2007, and the Bank responded by modifying the way in which operations supporting economic and social cohesion are classified. From 2007, only lending in the new Convergence regions was recorded separately, with cohesion lending outside these regions subsumed into other objectives (such as for example i2i).

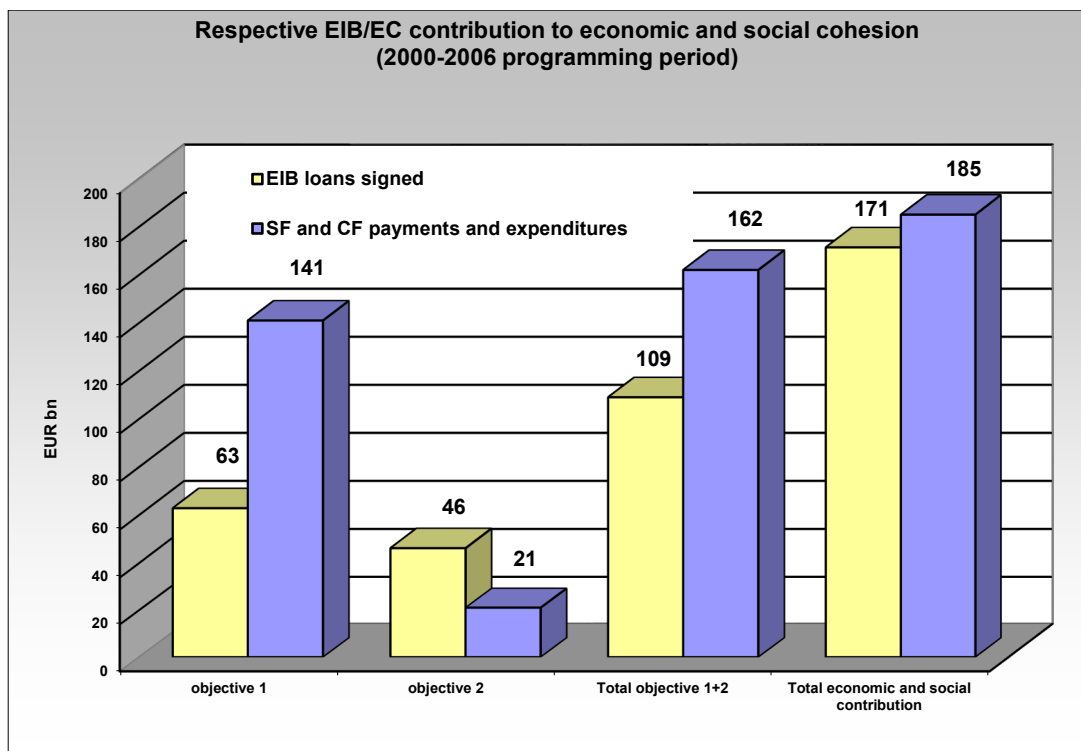
<i>Loans signed in EUR bn</i>											
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>EIB operations in EU27</b>	27.77	30.64	31.18	33.44	34.19	39.66	42.28	39.85	41.43	53.19	70.51
<b>EIB operations in support of regional development</b>	18	19.71	19.84	19.75	22.77	28.45	33.99	26.92			
<b>EIB operations in support of convergence</b>									13.81	21.02	28.95
	63%	64%	64%	59%	67%	72%	80%	68%	33%	40%	41%

The importance of the Bank's contribution to EU economic and social cohesion policy can be illustrated by comparing the volume of Bank lending during the 2000-2006 programming period with the volume of grants paid by the Commission.

<sup>14</sup> Article 3 of the current consolidated Treaty states that the EU "shall promote economic, social and territorial cohesion, and solidarity among Member States" and Article 309 (ex Article 267 of the Treaty) recalls more specifically that: "The task of the European Investment Bank shall be **to contribute to the balanced and steady development of the internal market** in the interest of the Union. For this purpose the Bank shall grant loans and give guarantees which facilitate the financing of (...) projects for developing less-developed regions. In carrying out its task, the Bank shall facilitate the financing of investment programmes in conjunction with assistance from the Structural Funds and other Union Financial Instruments";

<sup>15</sup> Protocol n°28 of the Treaty reaffirms that "**the European Investment Bank should continue to devote the majority of its resources to the promotion of economic, social and territorial cohesion**" (emphasis added)





The Bank lent a total of EUR 171 bn during the period, 109 bn of which was separately identifiable as either Objective 1 or Objective 2<sup>16</sup>. The remainder was a mixture of Objective 1 and 2 which was not separately identifiable. By comparison, the total intervention of the Commission during the same period was EUR 185 bn of which EUR 162 bn related to Objective 1 and 2 areas (the remainder relating to Objective 3). In terms of volume of funds, the Bank's support for economic and social cohesion was therefore as significant as that of the structural funds.

## 2.2.2 EIB approach in terms of eligibility for economic and social cohesion

During the 2000-2006 programming period, EU regional policy established a clear distinction between "Objective 1" and "Objective 2" regions in terms of level of grant support. Objective 1 regions were considered to be 'lagging behind' the EU average in terms of development, whereas Objective 2 regions were areas of post industrial decline. For the EIB both types of zones were considered as fully eligible, and this was summed up by the "assisted areas" terminology which followed the "eligibility map" derived from EU regional policy guidelines. Consequently, all geographic areas considered as Objective 1 or 2 regions on the Structural Funds map<sup>17</sup> were considered eligible under the Bank's economic and social cohesion lending priority.

The EU approach to economic and social cohesion changed under the current 2007-2013 programming period. Regions whose economic development is 'lagging behind' the EU average are now referred to as Convergence regions. The geographical scope of the new 'convergence' objective is limited to only 113 EU regions<sup>18</sup> (as well as some "phasing out" and "phasing in" regions). Outside these Convergence regions, EU support for economic and social cohesion is provided under 'regional competitiveness and employment' and 'territorial cooperation' objectives, which do not have a specific geographic component.

In response to this new EU framework, the Bank altered its lending priorities, introducing a "Convergence" lending priority reflecting solely the geographic coverage of the revised EU policy. The Bank's lending in support of economic and social cohesion is thus now broken down into two components: 1) a geographic component, focused solely on the Convergence regions and, 2) a thematic component, focused on the regional competitiveness and employment objective outside the convergence regions, considered to be covered by the Bank's other lending priorities such as i2i and Environment.

<sup>16</sup> For and explanation of Objective 1, 2 and 3, refer to Appendix 2

<sup>17</sup> See Appendix 2

<sup>18</sup> See Appendix 2

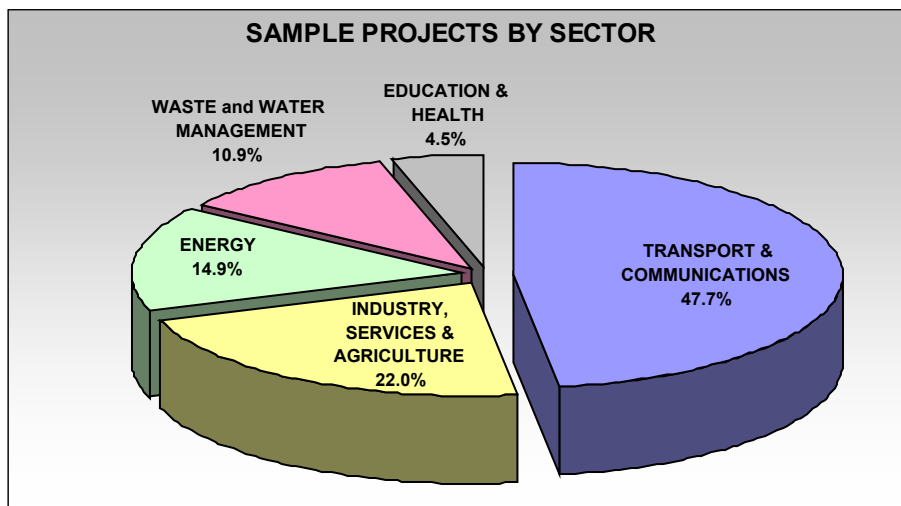
The current EIB “convergence lending target” is intended to amount to between 40% and 45% of total lending within EU-27, with no differentiation between individual and global loans. The reduced level is intended to reflect the fact that some lending in support of economic and social cohesion is now subsumed under other lending priorities and is therefore no longer separately identifiable.

Throughout this report, reference to the Bank’s lending in support of economic and social cohesion (sometimes also referred to as ‘cohesion lending’ is taken to include all of the Bank’s evolving lending priorities under this general heading, including the former ‘regional development’ (Objectives 1 and 2) priority under which most of the projects in the sample were approved, up to and including the current ‘convergence’ priority.

## 2.3 PORTFOLIO REVIEW

Between 2000 and 2009 the EIB signed a total of EUR 475.7bn loans from its own resources in all EU Member States. During the same period, total signatures in France, Portugal and the UK combined totalled EUR 99.3bn, or 20.9% of the total.

Operations under the Bank’s economic and social cohesion priorities represented 40.4% of total loans signed in these three member states over the period (EUR 40.1bn out of 99.3bn). After Germany and Spain, examined by EV in 2007 along with Ireland, the UK and Portugal represent two of the next four biggest recipients of EIB loans under economic and social cohesion. Excluding global loans, framework loans, mid-cap loans and loans for SMEs, the portfolio under examination reduces to 116 individual investment loans signed for a total amount of EUR 19.45bn, with a geographical distribution of Portugal (43%), followed by the UK (34%) and France (23%).

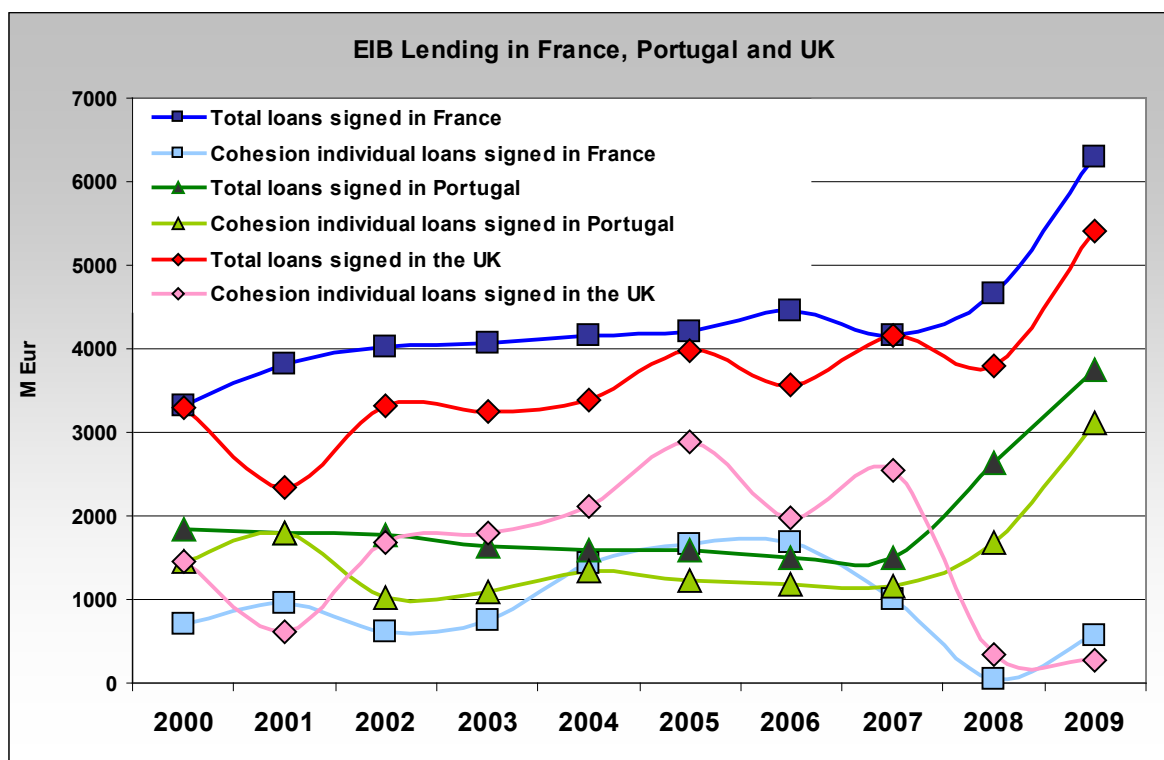


The sector distribution of these 116 projects is illustrated below showing a majority of transport and communications projects.

The annual evolution of EIB lending in France, Portugal and the UK for economic and social cohesion during the evaluation period is shown on the accompanying figure below.

Whilst France and the UK are in a relatively comparable situation with regards to the evolution of total EIB loans signed, cohesion lending in France has consistently been a lower proportion than in the UK. In Portugal, overall lending has been lower, but with a much higher proportion of cohesion loans.

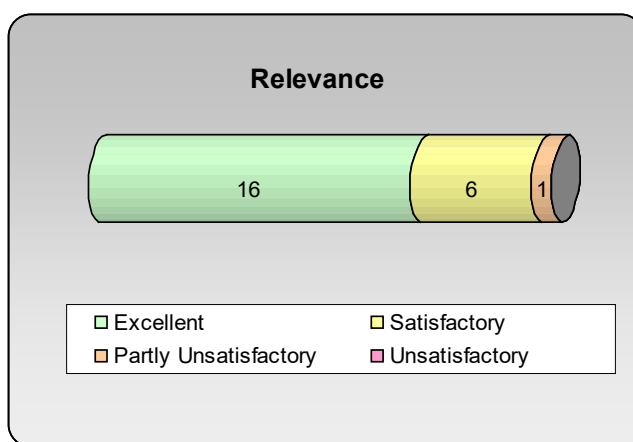
All three countries show a sharp increase in lending after 2008 associated with the Bank’s response to the financial crisis. However, cohesion lending in France and UK fell to negligible levels as they were not covered by the new Convergence lending priority to the same extent as Portugal.



### 3. POLICIES & STRATEGIES – RELEVANCE

**RELEVANCE** is the extent to which the project objectives are consistent with EU policies, the decisions of the EIB Governors, as well as the country policies. This chapter examines the key elements of these in turn before outlining the performance of the project sample.

This section represents a summary of the findings of the evaluation in terms of the relevance criterion for the 23 projects in the sample and is based on the more detailed considerations set out in the following sections.



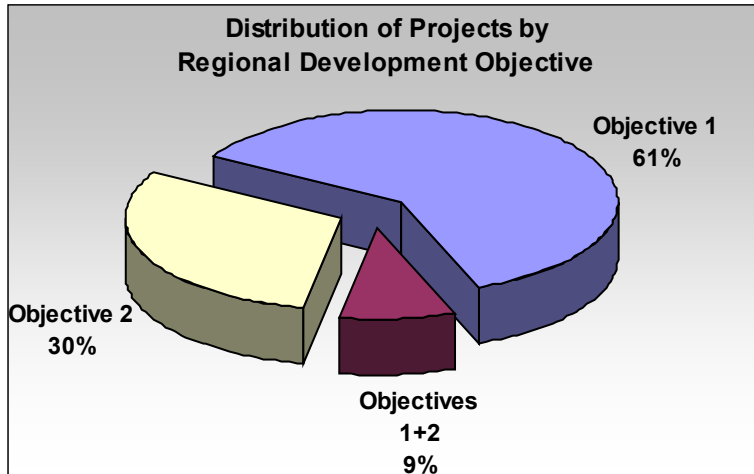
The overall relevance of the projects evaluated in depth could be regarded as very satisfactory with regard to EU, national and regional objectives. No operations were rated unsatisfactory with regards to relevance, one has been rated partly unsatisfactory, while 6 have been rated satisfactory and 16 have been judged excellent against relevance. The project rated as only partly unsatisfactory (project 7) had in fact only a quarter of its components contributing to cohesion and, in addition, was only partly coherent with national objectives. In general, projects responding to multiple EIB lending priorities were considered excellent in relevance terms.

However, the positive overall picture is partly related to the widespread use of multiple objectives for most projects. The relevance in relation to solely economic and social cohesion was more mixed, and it was clear that eligibility under economic and social cohesion was considered by the Bank to be largely a question of geographic location. In only a few of the 23 cases was any more concrete objectives or targets relating to cohesion fixed ex ante.

Many operations were classified under two or more of the Bank's priority lending objectives. This multi-eligibility of an operation was generally regarded by the appraisal team as a positive feature, but entails

a lack of focus and consequently a significant risk to the achievement of the objectives pursued. More recently, the Bank has addressed this issue to some extent by limiting the number of stated lending priorities to a maximum of three, and only for the cases where a convergence priority has been included. This represents a positive evolution in terms of the focus of projects, but it is less clear whether this will be sufficient to change the apparent perception of the cohesion/convergence dimension as simply a secondary objective or add-on compared to the main sectoral dimension of the operation.

### 3.1 RELEVANCE TO EU /EIB POLICIES AND OBJECTIVES



All projects were considered eligible under the Bank's economic and social cohesion lending priorities (see accompanying figure) which at the time of approval referred to 'regional development' in Objective 1 and Objective 2 areas. Only 4% had been classified solely under the regional development lending priority. A large majority (70%) had at least two eligibility criteria, and around a quarter of the sample was considered eligible under three or four priority lending criteria (26%).

The 'regional development' priority was often used at appraisal stage as an additional dimension, rather than the primary reason for financing. In only two cases (projects 2 and 22) was it the first named priority. The main eligibility came from the former article 267c) of the EU Treaty<sup>19</sup> and was systematically quoted as a key feature of the analysed projects, with the Bank using an extensive interpretation of the article. A very diverse list of purposes were quoted, ranging from environmental protection, energy, urban regeneration, education, quality of life, i2i, RDI, to health or Trans-European Networks.

Several projects (projects 1, 2, 8, 10, 19, 20) stressed their consistency with EU policies such as the "Lisbon Strategy", the "Amsterdam Resolution on Growth and Employment" or the "Amsterdam Special Action Projects". Documentation also systematically emphasised their compliance with regards to important pieces of EU regulation and directives. The most often quoted directives were the EU Directives on waste management, energy environmental impact and water. Some projects also refer to the application of the 'polluter pays' principle.

Consistency with Bank and EU initiatives was sometimes claimed but not substantiated. For the "Accelerated Finance Initiative (AFI)", which was in place during the 2002-2006 period and allowed EIB financing up to 75% of capital expenditure, in two cases examined (projects 8 and 20) the appraisal report did not provide clear justification regarding the eligibility of the project under the AFI. In another case (project 1), higher loan volumes were justified by application of the Amsterdam Resolution on Growth and Employment, whereas it is uncertain ex post whether the employment aspect was highlighted simply as a justification for increasing the proportion of funding above the normal limit of 50%.

In most of the cases examined, the cohesion dimension was been treated as a largely geographical criterion, and this was reflected in the wording commonly used in the appraisal documentation that a project will be "undertaken in an area designated as Objective 2 for allocations from the Community's Structural Funds during the programming period 2000-2006" (project 13) or that "at the time of the project appraisal the location of the project was an Objective 1 area under the EU regional development policy" (project 20).

<sup>19</sup> Article 267 c) "The Bank shall (...) facilitate the financing of projects in all sectors of the economy (...) of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States", currently article 309c).

In few cases nevertheless (projects 10, 14 and 21), the justification took a more sophisticated approach, ranging from “increasing the availability of public services and the accessibility of the population of the region to these services” (project 10) to the willingness to enhance “the attractiveness of the involved regions by guaranteeing proper public services” (project 21), or with a view to “contributing to a positive impact on the quality of life, to creating employment, and to assisting in the economic development of the region” (project 4). Such a diversity of interpretation illustrates the complex character of cohesion itself, and demonstrates the need for the Bank to take a more consistent and sophisticated approach to cohesion matters.

In following EU policy on cohesion, it might be expected that the consistency of projects with structural and cohesion fund Operational Programmes<sup>20</sup> would be checked ex ante, but this check was only done for three projects out of the 23 (projects 17, 21 and 22), mostly in the Portuguese context.

Ex post, in two cases even the geographic relevance of the project to EU cohesion policy appears to be debatable. In one case (project 7), the full project has been categorised under cohesion whereas only 27% of its costs were actually related to investments located in cohesion areas. This was also the situation of an offshore project (project 9), which was theoretically outside the geographical remit of an assisted area by definition. However, in terms of the rating for relevance, these aspects can be obscured by the multi-eligibility of the project.

### **3.2 NATIONAL/REGIONAL/LOCAL OBJECTIVES**

At national level, the objectives mentioned in the documentation are mainly macro-economic and sector-oriented: willingness to accelerate the modernisation of an industry, a sector or a market by contributing to its reorganisation or to the maximisation of its functioning by diversifying the number and type of players, or by withdrawing some artificial protections and barriers. The idea was in some cases to improve the delivery and management of public services. Sometimes, the purpose was to boost exports to improve the country's balance-of-payments by promoting new fields and sectors to gain technological, economic or environmental expertise.

At regional and inter-regional level, the goals of the projects evaluated in depth were more often formulated in social and territorial development terms. The idea was in general to catalyse local/regional development by reinforcing attractiveness for local investors or business. More or less directly, the purpose was also to create jobs and to fight regional unemployment. There were sometimes more specific regional needs to be fulfilled by the projects: decay of social infrastructures, lack of local resources, to compensate economic and social decline, or to respond to a critical need for investment in local solutions.

The diversity of the objectives pursued at national, regional and local level is particularly large among the 23 projects in the sample. In many cases, the articulation with national or regional strategies was ensured through a physical or strategic planning document which guaranteed the consistency of the project with regards to national or regional priorities. Most of the time this planning document concerned a sector - for example taking the form of a Waste Management Strategy, a national Strategic Plan for Water Supply and Wastewater Treatment, a PPP national programme, or a Regional Development Plan.

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<sup>20</sup> The Operational Programmes are strategic planning documents, agreed in advance between Member States and the European Commission, which translate cohesion policy into a series of actions on a regional or thematic basis and through which individual grant awards are assessed.

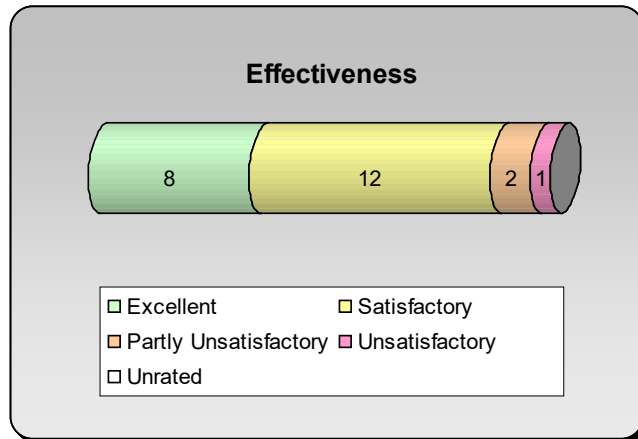
## 4 PROJECT PERFORMANCE

Project performance, relating to EIB's second pillar, is assessed using three core evaluation criteria, namely effectiveness, efficiency and sustainability, which are all rated individually. The environmental, socioeconomic performance of the projects is reflected in these core evaluation criteria, but is also extracted and rated separately for emphasis considering its particular importance in the framework of this economic and social cohesion evaluation.

### 4.1 EFFECTIVENESS

Effectiveness relates to the extent to which the objectives of the project have been achieved, or are expected to be achieved, taking into account their relative importance, while recognising any change introduced in the project since loan approval.

This section represents a summary of the findings of the evaluation in terms of the effectiveness criterion for the 23 projects in the sample and is based on the more detailed considerations set out in the following sections.



The effectiveness of the project sample overall is considered as very satisfactory in terms of fulfilment of the technical specifications within the planned schedule and costs. However, most of the evaluated project sample did not have quantified objectives other than basic technical outcomes, and in some cases some demand related outputs, and therefore the ex post assessment was confined largely to the achievement of planned project scope, cost and timescale. The more systematic use of measurable and meaningful targets ex ante would ensure that the aims of the project are clearly expressed and progress can be properly monitored.

A comparison of ratings with different sectors and client types indicates that public companies performed well whereas the picture with public authorities and private companies was more mixed.

**Correlation of Rating (Effectiveness)  
by Sector, Type of Operation & Type of Client (Borrower)**

	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT
1. Public Authority			20	1 5	22			
2. Public Company	8 9		12 17 21					
3. Private Company		2 3 14 18 10	4 15 6	13 11 19		23	7	
	EXCELLENT		SATISFACTORY		PARTLY UNSATISFACTORY		UNSATISFACTORY	

Type of Operation	
Investment Loan	
Investment Loan -PPP	
Framework Loan	

Sector	
1. Transport and Storage	
2. Manufacturing	
3. Construction	
4. Education, Health	
5. Energy	
6. Water & Waste Management	

As for the relationship between the Bank and the client, the findings indicate that new clients performed better on average than existing clients. There may be many reasons for this but it is possible, for example, that earlier operations in an investment programme are chosen partly because they are more straightforward and that subsequent or follow up operations are more difficult to implement.

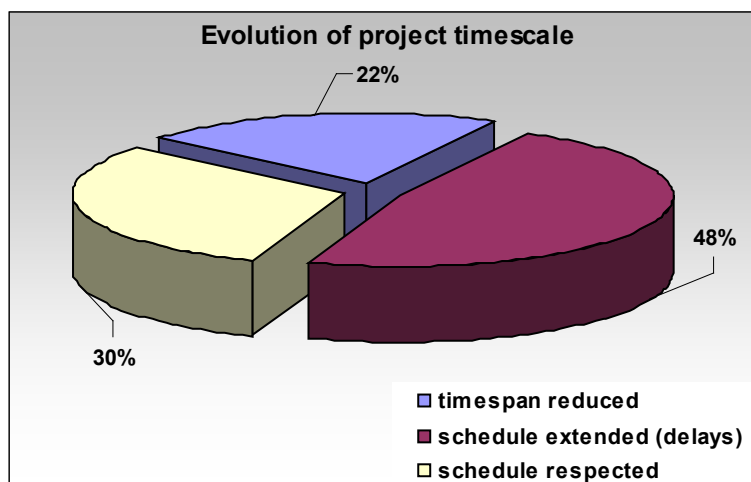
It is worth noting that all energy projects managed by existing clients have been rated as “Excellent”. All PPP projects in the sample have been positively regarded as they have been rated either “Excellent” (5, of which 4 were carried out by new clients) or “Satisfactory” (4, half of them carried out by existing clients) and this generally reflects success in ‘delivering’ a more quantified set of objectives.

#### 4.1.1 Physical implementation, schedule and procurement

Most of the 23 projects examined were satisfactorily completed, with the major components of the projects successfully implemented according to the original technical description and within a reasonable timescale.

In technical terms, this success was linked to the use of well-proven technologies (limiting technological and technical implementation risks), the respect of national and community regulations (operating licences and environmental permits have been obtained where appropriate), as well as to the quality of the initial design. In organisational terms, in two cases it was clear that having the promoter and a contractor in the same organisation generally simplified and accelerated the implementation of a project (project 2 and 10). The support provided by external consultants or the parent company also appeared to represent an advantage and a fully integrated solution (where all the components are coordinated and controlled by one single entity) appeared to be a risk-limiting factor for the construction phase. Furthermore, where the complexity of projects implied an intense mobilisation of several entities and administrations in different jurisdictions, the designation of a high profile public officer or project manager exclusively in charge of the coordination of all public services involved in the project was a very effective and efficient way to ensure a good and rapid implementation of a project as in the cases of projects 2 and 3. The existence of a coordinating function and a true partnership approach around the project appears to be an important factor for success in cohesion terms, and the Bank should more systematically encourage this type of good practice, particularly in the case of major or complex infrastructure projects in Convergence areas.

In most cases, some modifications of scope occurred, reflecting the evolution of markets or technology. Thus, in one case (project 20) a component was not implemented because of the lack of potential market. In another case (project 1), the modification in the scope of the projects entailed a reorganisation of the plans for the part of the infrastructure still to be built or rehabilitated, but still maintaining the key characteristics of the project. Changes during implementation were sometimes linked to Archaeological issues (projects 3, 15, 16, 17 and 21) as well as critical adverse weather conditions, where rain, mud slides and water resulted in issues which were solved by changes in the construction method (project 17). Changes to multi-component projects were more frequent. In several cases (projects 1, 9, 10, 18 and 19), the sort of technical changes described above were covered by



the contractual arrangements, and in most of the cases the extent of change was not significant for the project outcome. In one specific case (project 7), the project was simply not implemented at all due to the combination of three factors: the complete failure of one of the main suppliers, the change made by the national regulator of the framework for wholesale pricing and the cancellation of the negotiations with the potential industrial customers.

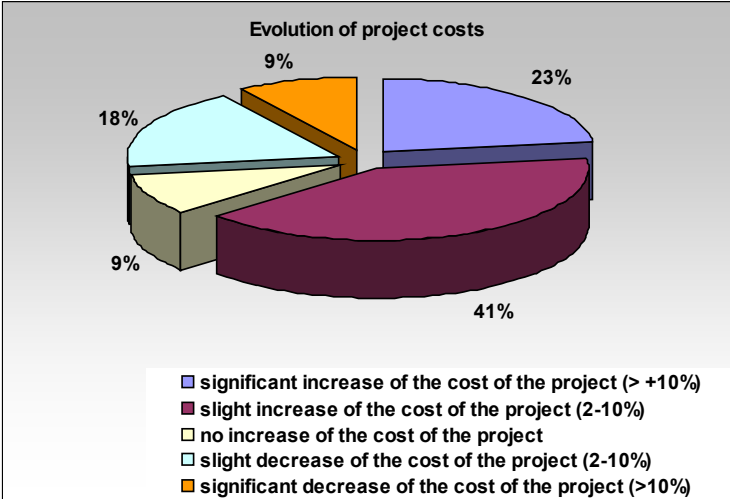
In terms of time schedule (see accompanying graph), around one half of the projects were delivered on or ahead of time. In the case where time schedule was reduced, the drop was significant (216 days on average and more than one year in one case). For those delayed, the average delay was almost one year (352 days) but ranging from eleven days to five years (project 23). However, in most cases, these delays did not run over the deadline for completion specified in the construction permit, and were not perceived as a serious problem by the promoters. The reasons for delays were often unforeseeable (unexpected adverse soil conditions requiring additional foundation works, change of the Municipal Government, more stringent



EIA requirements requiring additional public consultation, longer procedures for EU grant allocation, adverse weather conditions, or the inability of a main supplier to meet the original planned delivery dates). In some cases (projects 19 and 21) public authorities delayed technical approval, or insufficient allowance was made for consultation on additional environmental mitigating measures, land purchase issues, discussions with local communities or national authorities (to obtain licences or permits for instance), public debate, permission to use public resources (in particular in case of areas that were designated as national reserves), and archaeological investigations. And in some cases (projects 8, 9, and 13), these delays reveal more serious organisational or administrative capacity failures (projects 8 and 9): issues between different entities regarding technical approvals, communications or specifications, bad organisation in terms of planning, late start of the civil works due to a lack of labour resources, unforeseen test phases, significant technical performance issues, or problems to ensure timely responses of consulting engineers contracted for design work.

In general, PPP and concession contracts tended to respect original timescales because of incentives and penalties built into the contract, but in general procurement procedures were followed in a satisfactory manner for the sample considered and did not have a significant bearing on delays.

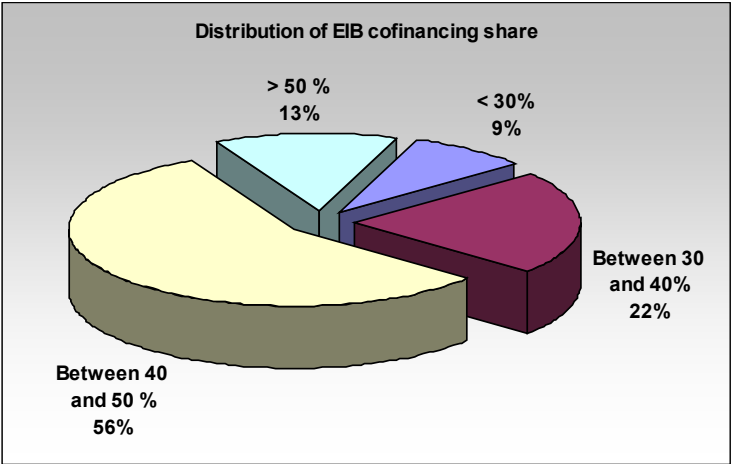
#### 4.1.2 Project cost and financing plan



The average construction cost of the projects evaluated was EUR 479m, ranging from EUR 92m to EUR 1187m. Two thirds of the projects faced cost overruns, and 23% of these were considered to be significant (>10%). All together, the average cost increase ex post is limited to +1.4% and this represents a positive outcome considering the large size of many of the projects.

The reasons provided for cost overruns were varied, either financial – for example for projects 19 and 20 and project 1, where better or worst than expected financial terms, technical

contingencies budget, cost of components or supplies, underestimation of civil works costs (50% more in the case of project 1), or additional legal costs<sup>21</sup> contributed, or for technical reasons in the case of for example projects 16 and 17, where increases in scope, additional works due to adverse weather, additional noise barriers not originally planned, or new features decided upon during the construction phase variously contributed. In many cases, the additional costs were borne by the suppliers under contractual arrangements, particularly with PPP projects where contractual requirements in terms of sharing risk were more explicit.

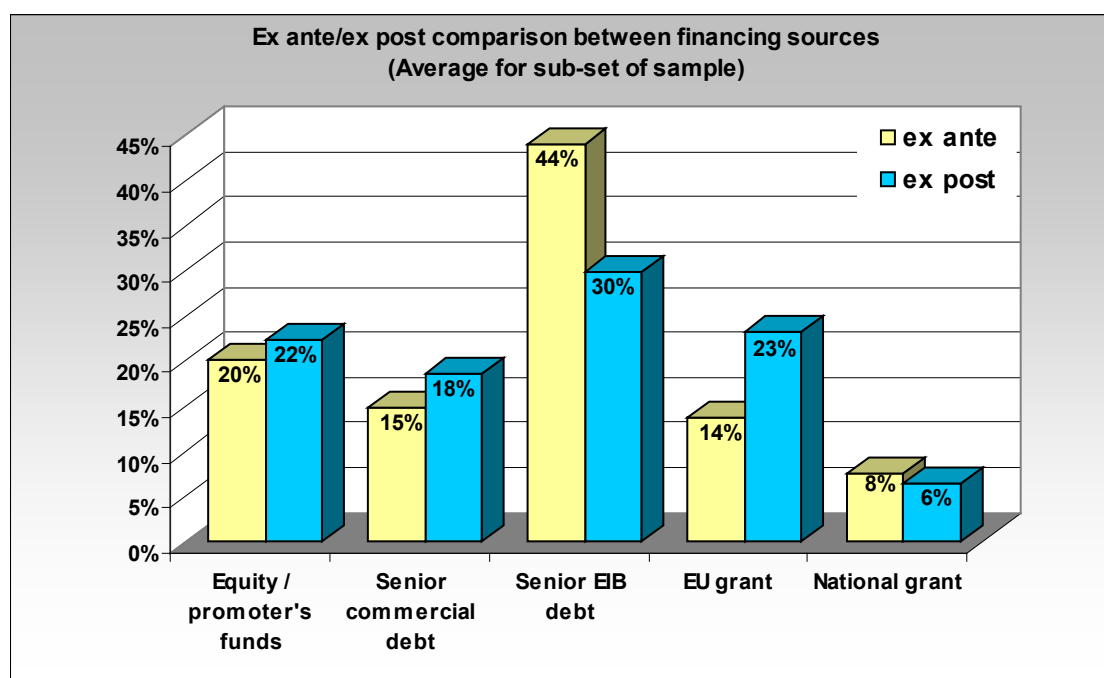


<sup>21</sup> royalty payments to municipalities or the maintenance of reserve account for instance



The ex ante financing plan of the projects evaluated is shown on the accompanying graph<sup>22</sup>. On average, the EIB represents the major source of financing with a 43% share, followed by the other banks (28%), equity (16%) and finally EU and national grants with a more limited share. The majority of projects were intended to be between 40 and 50 % financed by EIB. Around 13% of projects showed an ex ante share of greater than 50%. In two cases these were special EIB facilities or initiatives (AFI for example) where up to 75% EIB financing was allowable under the Bank's policy (projects 8 and 20). However, in two other cases (projects 10 and 15) the Bank's normal 50% threshold was exceeded ex post (63.4% in the case of project 10). For projects where the Bank's ex ante share of financing is close to the maximum, it would be prudent to reinforce monitoring to ensure a more systematic control with regards to the respect for the Bank's normal financing limits.

Ex post, for the majority (54%) of the project sample, the EIB loan amount remained unchanged. For 37% the Bank's actual disbursement was less than approved, while for 9 % of the projects the amount disbursed increased marginally (mainly due to exchange rate differences)(projects 8 and 12 ). EIB share of financing decreased for 54% of the projects ex post; in one case the proportion of the project costs funded by the EIB loan decreased from 50% at appraisal to 19% at completion (project 17).



The graph above shows the comparison of ex ante and ex post financing plans for six projects for which sufficiently complete information exists. These significant changes are partly explained by the ex ante uncertainties regarding the different sources of financing, especially for the miscellaneous loans, as well as the actual level of financial assistance which could eventually be allocated by the ERDF or the Cohesion Fund. It is also the case that the EIB does not tend to increase its initial loan to help cover cost increases during project implementation. However, the significant variations ex post could be regarded both as a missed opportunity (to increase the volume of EIB loans) or as an inefficiency (in cases where EIB loan amount falls with respect to expectations at approval).

#### 4.1.3 Operational Performance: management, use, employment

With regards to operation, management and use, most of the projects performed well, with several projects accredited to international standard management systems (ISO9001 Quality Management Standard, ISO14001 Environmental Management Standard, OHSAS18001 Health and Safety Management System, or SA8000 Social Responsibility certification).

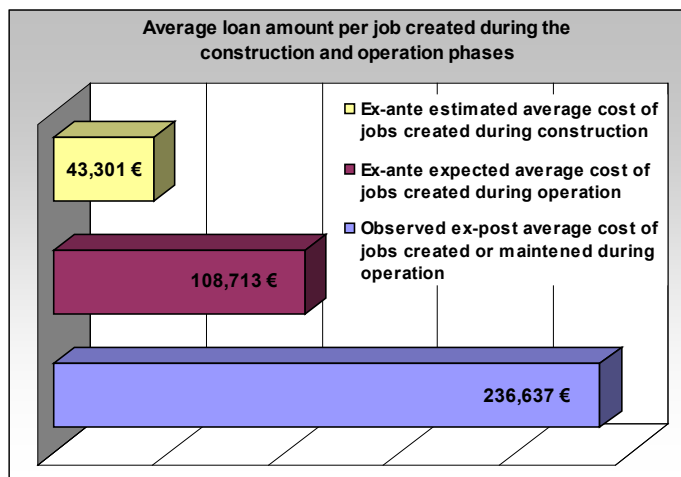
Some of the projects examined exceed ex ante expectations, with in one case (project 3) a significant increase in production capacity in comparison with initial plans (+80% of production with +100% of employees, and within the first year, the production exceeded +172% compared to what was initially

<sup>22</sup> Only for the 18 projects for which all components of financing were known.

foreseen). For the PPP cases, a good level of operational performance is clearly indicated by the level of compliance with output requirements agreed with the public sponsor (above 95% compliance in at least two cases of the sample - projects 13 and 14) and the implied limited levels of financial deductions.

There were however some significant operational issues for three projects. In two cases (projects 9 and 19), serious technical problems occurred and production was well below expectations, performing below the worst case scenario presented by the Bank at appraisal. In another case (project 21), the plans to upgrade the networks were not implemented as envisaged, and physical leakage remaining generally high.

In terms of staff and employment, the number of jobs created during the construction phase of the projects was estimated at appraisal to be around 82,000 man years, or an average of 4,000 for each individual project<sup>23</sup>. During operation, the expected level of employment ex ante (1,500 on average, or 33,000 in total) was twice that observed ex post (700 on average, and 15,000 in total). This illustrates a propensity to significantly over-estimate the employment effects of the projects at appraisal stage and although these estimates are particularly difficult, some additional efforts would seem to be warranted at appraisal. However, even helping to create or maintain 15,000 jobs in objective 1 and 2 regions still represents a significant contribution to cohesion. If we apply this ratio to the whole cohesion portfolio of the EIB this could mean that around 150,000 jobs have been maintained or created on projects supported by EIB loans between 2000 and 2009 in the three countries observed.



If we relate these figures to the total EIB loan amount, this gives the average “loan cost” per job, as illustrated on the accompanying figure. These figures would be regarded as quite high in the field of public social policy<sup>24</sup>, but do not take into account the indirect jobs created, which would increase the overall employment created and therefore lower the cost per job.

Other employment effects were observed which could be considered as positive, if unquantifiable, from the perspective of EU cohesion policy. In one case (project 3), 75% of the staff

were recruited locally, and more than 70% of new jobs had benefited the unemployed or people in precarious employment. In some cases (projects 3, 8 and 12), promoters had clearly made local employment a priority, using local databases to identify local employees, and working as much as possible with local companies. The contribution to the local economy in terms of training could also be significant. However, the picture was not uniformly positive in terms of creating new local employment. Some projects had also been designed with a view of using a minimum of operating staff (projects 1 and 3). Whilst this is economically efficient the consequences for social cohesion are uncertain, and this is one aspect of the Bank’s approach to economic and social cohesion which requires more careful consideration.

Whilst the Bank makes some estimates of employment at appraisal stage, the impacts in terms of employment does not seem to play a significant part in EIB approval process or the prioritisation of loans, even for projects approved under the Bank’s economic and social cohesion priority. A more sophisticated and systematic use of employment criteria at appraisal stage for cohesion/convergence projects, together with a closer monitoring of job indicators would allow better prioritisation of projects and a closer alignment of EIB and EU priorities. It would also allow better EIB external communication.

<sup>23</sup> Fourteen projects had complete information regarding this aspect but the figure has been extrapolated for the full sample.

<sup>24</sup> For instance, the estimated average cost of job creation from the American Recovery and Reinvestment Act of 2009 was valued at USD 92,136 (i.e. approximately EUR 65,000), see <http://www.whitehouse.gov/administration/eop/cea/Estimate-of-Job-Creation>

#### 4.1.4 Coordination and cooperation with other counterparts

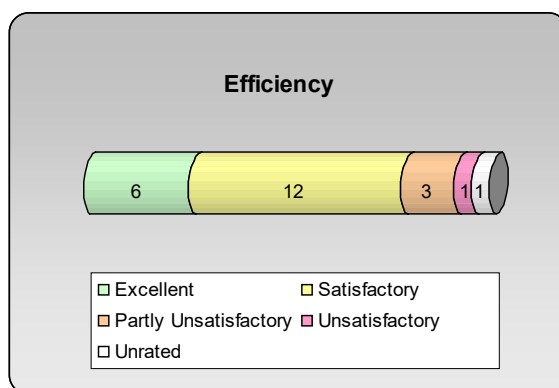
For one third of the projects (8 out of 23), no coordination with entities other than the borrower, was needed. In the other cases, there has been generally a good cooperation with commercial banks and financial intermediaries, as illustrated by the quality and the frequency of project reporting. One of the main factors contributing to this positive outcome is the presence of a coordinator (or global agent) working closely with a technical advisor, a feature especially vital in the case of PPP where refinancing or supplemental agreements are very likely to occur throughout the (often long) life of the concession. However, in a few cases, some coordination problems occurred. In one case (project 19), the promoter was almost the only channel of communication between the EIB and the other banks, with the consequence that he felt that contract negotiations were unnecessary lengthy. In another case, (project 13) the delay in response from the Bank was judged too long by other partners (a case involving an early termination of one of the subcontracts). The coordination within PPP projects seems to be more challenging than within other projects, in particular where partners' roles were not initially well differentiated.

## 4.2 EFFICIENCY

*Efficiency concerns the extent to which project benefits/outputs are commensurate with resources/inputs. Efficiency is also one of the main considerations when choosing between projects to allocate scarce resources.*

This section represents a summary of the findings of the evaluation in terms of the efficiency criterion for the 23 projects in the sample and is based on the more detailed considerations set out in the following sections. Whilst subsequent sections naturally focus on those aspects which could be improved, it should be emphasised that this is within an overall positive assessment of the Efficiency criterion.

The analysis carried out shows a positive overall assessment of the project sample regarding Efficiency. As shown in the graph above, 18 projects had ratings of "Satisfactory" or above for the Efficiency criterion, which represents approximately 78% of the total sample. In some cases the results ex post were below initial expectations, but still judged to be acceptable. Only 3 projects in the sample were rated "Partly Unsatisfactory" and one project was regarded as below expectations receiving an "Unsatisfactory" rating (project 15). One project (project 7) was left unrated as the project was never realised.



Correlation of Rating (Efficiency) by Sector & Type of Operation

					Type of Operation	
	EXCELLENT	SATISFACTORY	PARTLY UNSATISFACTORY	UNSATISFACTORY	Investment Loan	Investment Loan -PPP
1. TRANSPORT & STORAGE	2	11, 12, 17, 18, 23	4, 5	15		
2. MANUFACTURING	3		6			
3. CONSTRUCTION		22				
4. EDUCATION & HEALTH		13, 14				
5. ENERGY	16, 19, 9	8				
6. WATER & WASTE MANAGEMENT	1	10, 20, 21				
	EXCELLENT	SATISFACTORY	PARTLY UNSATISFACTORY	UNSATISFACTORY	Sector	
					1. Transport and Storage	
					2. Manufacturing	
					3. Construction	
					4. Education, Health	
					5. Energy	
					6. Water & Waste Management	

All sectors and types of operation performed well, with the small proportion of less than satisfactory projects concentrated in the transport and manufacturing sectors.

#### **4.2.1 Market, demand aspects**

For almost half of the projects, market and demand forecasts are presently at least as predicted at appraisal. In at least four cases (projects 1, 2, 3, and 17), demand ex post has been above expectations (around +20% in the case of project 2). This positive outcome was mostly connected with the competence of the promoter, including the accuracy and frequency of his demand monitoring system as well as the technical adaptability of his production system.

In the remaining 13 cases, demand levels have been below expectations. This seems to be especially the case in the transport sector where several public transport and road infrastructure projects have not achieved the expected market shares of total travel demand. One public transport project (project 5) experienced a severe diminution of passenger numbers during its first year of operation (-15% compared to forecasts) and the growth since has remained constantly below the 16% growth rate originally expected. For two motorways projects (projects 4 and 11), the traffic volume was on average 20 to 22% less than forecast, and the capacity of infrastructure is therefore oversized in comparison with peak demand. In the worst cases (project 15) passenger numbers were less than 50% of the EIB base case and 68% lower than forecast. This under-performance seems to be particularly significant for heavy goods vehicles with, in several cases (projects 2, 11 and 15), a much slower ramp-up phase than expected. The waste and water treatment projects appear to be achieving predicted demand levels with only a slightly lower volume than forecasted for most of them. In a complex and multi-scheme environmental project (project 21), the demand has been so far between 65 and 95% of predicted levels.

Economic or political circumstances are the main factors put forward to justify these changes. One of the most striking elements stressed in some cases was that the under-performance was often connected to the unavailability of a complementary infrastructure, which then inhibits customers from using the infrastructure (for example car parking in rail stations for instance in project 17 ).

It would also seem that certain risks associated with third-party actions, such as transport policy and institutional changes are under-estimated at appraisal, for example the evolution of the legal framework (the change of the tolling system for a motorway for instance in project 15 ), or the appearance of a competing project in the same case. These risks, associated with the wider context of the project, should at least be signalled or acknowledged at appraisal, even if they cannot easily be mitigated.

In the case of EIB co-financing of broad programmes (such as framework loan co-financing structural funds operational programme in project 22 ) the Bank's approach helped to catalyze actions under the overall programme, the so-called "concentration effect", focusing its loan on clearly identified measures with concrete and realistic aims, serving as a good example to other actors.

#### **4.2.2 Operations, tariff, operating costs**

From a general perspective, operating costs and tariffs seem to be commensurate to the size and the needs of most of the projects assessed in the sample. Their efficiency, measured through a rough cost/effectiveness indicator appears to be accurate and in line with appraisal's expectations. In one typical case for instance (project 4), the charges are currently only 3% higher than originally planned. In another example (project 13), the current operational costs represent a saving in comparison to ex ante situation. Similarly, on the basis of a study covering 21 contracts in 5 different European countries, the unit costs incurred for another project (project 13) were considered comparable.

PPP projects seem to have some advantages in terms of operating efficiency as the deductions system tends to foster a more efficient management by the concessionaire and in the cases examined, the level of cost control appears to be satisfactory, according to technical advisor's reports. However, in one case (project 11) the O&M costs are higher than forecast and costs of availability penalties have significantly increased. However, it should be acknowledge that for all the cases observed, the availability and performance deductions (financial penalties for non achievement of contractual benchmarks) remain below the threshold of 5%.

Some issues regarding cost recovery and operating costs are worth mentioning since in at least three cases (projects 5, 18 and 21), operating costs have been much higher than expected (+22% to +38%). In one public transport project (project 5), the patronage is the lowest of all comparable cities in the same country, and the system is currently operating at less than 25% of the efficiency of the highest productivity systems, in terms of the ratio of farebox revenues to costs, reducing from 50% in 2000 to 34% in 2009.

#### **4.2.3 Financial and economic profitability**

On the whole, the ex ante expected FRR for the projects under evaluation varied depending on the sector with a minimum average value of 5% for transport, 8% for education and social services, 10 % for environment (waste and water management / treatment) , 12 % for energy and 13 % for the manufacturing sector. The same FRR ex post was found to be systematically lower and sometimes much lower. In one case for instance (project 21 ), the FRR was 14% ex ante, and estimated around minus 15% ex post. The most accurate forecasts seem to be in the waste and water management and the energy sectors where the difference ex post/ex ante is minimal.

The deterioration of the financial profitability of all the projects but one suggests that projects eligible for EU grant support might have attracted a higher grant. This may be of some concern in relation to cohesion policy in areas where there are issues of affordability since the level of public support in these areas is partly justified on the premise that user charges will be lower, and therefore more affordable, than otherwise would be possible.

With regards to economic profitability, the sole sector for which an ERR has been systematically calculated is the transport sector, with an average of 7.5%. The ex post ERR is in general below the forecast level (6.5% on average) with some values much below initial expectations, in one case (project 21) being negative. One transport project (project 2) achieved a higher ex post ERR, thanks to a traffic level 20% above expectations.

Where appropriate, the ERR calculated took into account the improvement of safety, and in one road case the number of persons killed in accidents has been substantially reduced thanks to the project (project 18 ) while rail safety has also been impacted thanks to the elimination of level crossings (-77% accidents over seven years) in project 17. Net CO<sub>2</sub> emission reductions achieved were not taken into consideration despite their potential impact on economic profitability, especially for energy projects, but this was consistent with normal practice at the time.

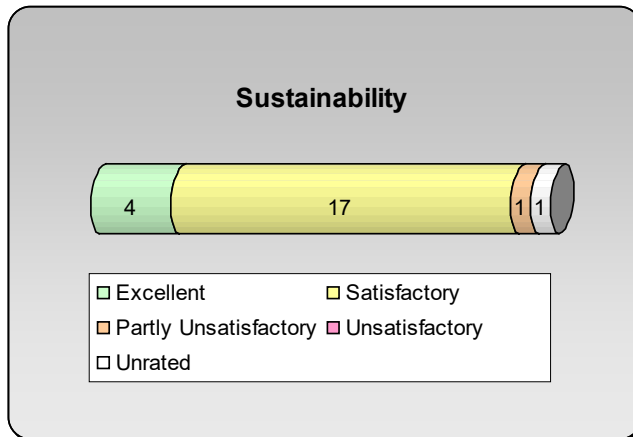
The main two factors explaining this overall disappointing degree of achievement in terms of ERR/FRR are less users and/or higher unit costs. In addition to the recent economic downturn, the fact that a complementary infrastructure or equipment (an access road for instance) has not been implemented as expected is mentioned as a typical occurrence for the projects assessed. In some cases (projects 5, 15 and 18 ), there was a lack of sensitivity analysis to reduced levels of traffic, or optimistic assumptions were used with regards to safety.

Some additional economic benefits have been generated by the projects which are not fully taken into account in the current cost benefit analysis of the Bank. These effects are discussed further under economic and social cohesion. One example in the sample is the alternative uses of excess electricity generated by wind farms (to pump up water or instance) (project 9 Barrow Offshore Windpower). Similarly, the reduction of the need for fuel imports, the benefits in terms of improvements in quality and reliability of service, the impact in terms of indirect employment, or the environmental benefits of greenhouse gas and pollutant emission reductions could have also been taken into account.

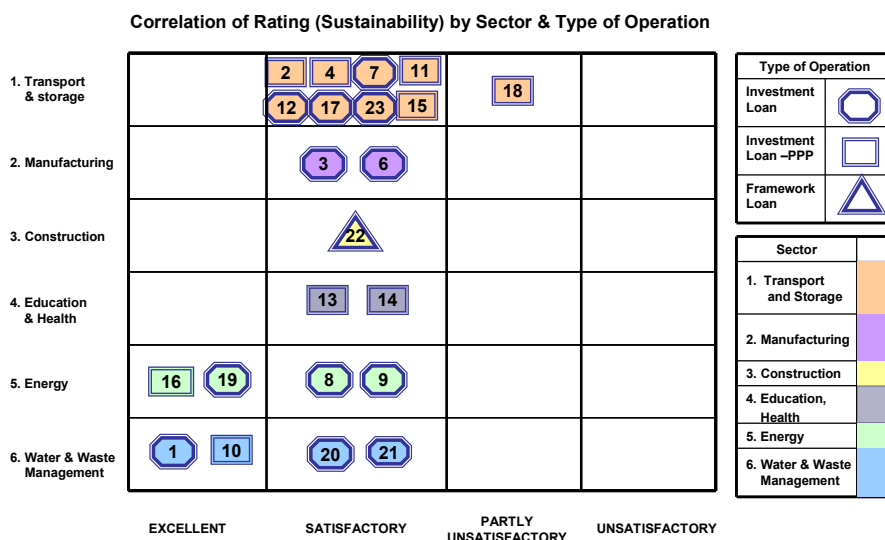
### 4.3 SUSTAINABILITY

The sustainability criterion considers the probability that the resources will be sufficient to maintain the outcome achieved over the economic life-time of the projects, and that any risks can be managed, i.e. the likelihood of continued long-term benefits and the resilience to risk over the intended life of the project. It has to be assessed both in physical/operational and financial terms.

This section represents a summary of the findings of the evaluation in terms of the efficiency criterion for the 23 projects in the sample and is based on the more detailed considerations set out in the following sections.



The evaluation results concerning the Sustainability criterion are very positive. Out of the total 23 project sample, 4 projects received an “Excellent” rating and 17 projects have been rated “Satisfactory”, which represents more than 90% of the total sample. In the case of project 18, a “Partly Unsatisfactory” rating was given as some issues concerning their longer term social sustainability were identified. None of the evaluated projects received an “Unsatisfactory” rating, whilst one project (Project 7) was left unrated as the project was never realised.



As depicted in the graph, overall the findings resulting from the analysis of the sustainability of the project sample are very positive with energy and waste and water management, education and health, construction and manufacturing sectors achieving a uniformly positive rating under the Sustainability criterion.

#### 4.3.1 Physical/Operational sustainability

In physical and operational terms, most of the projects assessed are sustainable and their capacity to face adverse natural, economic or social adverse conditions appears on the whole acceptable. The main factors contributing to the overall sustainability of the projects assessed are closely correlated with the competence and the experience of the promoter and his ability to adapt to unforeseen circumstances. Sound monitoring of maintenance issues, the careful planning of maintenance expenditures (regular modernisation of tools, machines, and equipment) and the attention paid to preventive maintenance are critical.

In one case (project 18) unforeseen major repair investment and in another (project 21) the faulty installation of a component were the only adverse technical risks which arose ex post. These are likely

to trigger additional costs, as are the more generic risks associated with the underestimation of potential adverse weather conditions (projects 9 and 17) and an insufficient monitoring of outsourced services (project 21). In one case (project 13), the security of supply and the robustness of contractual arrangements with subcontractors, partners and stakeholders were problematic.

With regards to PPP projects the accuracy and the relevance of the output specifications required by the public sponsor are important in terms of physical sustainability since these specifications should be designed so that the bonus and penalty system provides effective incentives/disincentives for the concessionaire to manage the infrastructure in the manner intended. When such features are in place (projects 13 and 14), PPPs were generally performing well in terms of physical and operational sustainability.

#### **4.3.2 Financial sustainability**

Most of the projects under evaluation (19 out of 23) appear financially sustainable, with a high resilience to downside scenarios, and positive debt service and cost coverage ratios. In the case of PPP projects, this overall positive outcome is reinforced by the minimum level of financial deductions (below 5% in the cases under examination, with even a project having only a 2% deduction rate).

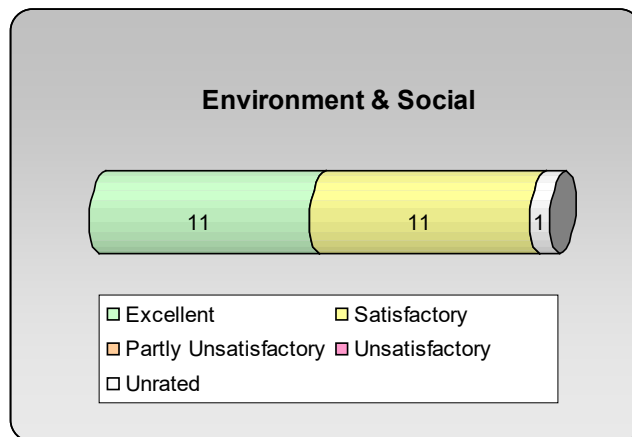
Despite the overall good performance, at least 5 projects out of 23 (projects 5, 15, 18, 21 and 22) are currently facing financial sustainability issues, either in terms of insufficient revenues or excessive costs. Their situation for the project could become unsustainable in the long run, especially in the cases where these two issues are combined. Particularly difficulties are faced by project 15 where toll income is 33 % lower than the base case values. However, this project has now been restructured in a manner by which it can be cross subsidised from other parts of a larger network. For another case (project 5), if passenger numbers continue to stagnate, the project will continue to require larger than expected public subsidy. For project 22, the debt service is of the same order as the operating revenues. Finally, for project 21, six out of seven companies participating in the scheme were assessed as insolvent in 2009, compared to only three in 2006. In many cases, the shortfall is currently covered by public subsidies or resources transferred from other parts of the operating group, but this may not be possible indefinitely.

The over estimation of demand, due to optimistic assumptions at appraisal stage (see also section 4.2.1) seems to have played a role in these situations. With the residual impact of the recent financial crisis, affordability represents one of the main challenges that promoters are currently facing. An additional financial risk has also appeared with the financial crisis, namely the “monoline risk”, associated with a certain type of transaction commonly used and promoted in the 2000’s, where the loan guarantor no longer satisfies minimum covenants in the EIB finance contract, therefore requiring the Bank to request the replacement of these downgraded guarantors.

Greater consideration should be given to the impact and risks associated with the political and economic climate, in particular for future public transport projects and/or other heavily subsidised infrastructures. Where a political choice has been made that a large subsidy is needed, the project can become vulnerable to changes to the subsidies in the long term. Cuts to subsidies, whether driven by political or financial considerations, may then result in cost saving measures or increases in fares, which may further affect the project by reducing passenger numbers if this reduces its competitiveness with other modes.

#### 4.4 ENVIRONMENTALAND SOCIAL

*This criterion examines the immediate impact of project implementation and operation, but also extends to the wider view of the project and its long term consequences on carbon emissions, energy efficiency, social cohesion, etc. where these are relevant. These factors have already been taken into account within the criteria of relevance, effectiveness, efficiency and sustainability developed above, but are repeated here for emphasis, particularly with respect to matters of economic and social cohesion as the particular focus of this evaluation.*



The assessment of this criterion is very positive overall. All but one evaluated projects have received an “Excellent” or “Satisfactory” rating, whilst one project has not been rated as it was not completed. No projects have failed to comply with the Bank’s guidelines and the applicable EU legislation, and all have reached the anticipated level of environmental performance.

The results of the analysis of the ratings given to projects managed by existing clients and non-existing clients show a balanced performance.

**Correlation of Rating (Environmental & Social Impacts)  
by Sector, Type of Operation & Type of Client (Borrower)**

	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	Type of Operation
									Investment Loan
									Investment Loan –PPP
									Framework Loan
1. Public Authority	20	1 5	22						
2. Public Company	8 12 9 21		17						
3. Private Company	16	2 13	4 15	6 10 11 14 18 19 23					
	EXCELLENT		SATISFACTORY		PARTLY UNSATISFACTORY		UNSATISFACTORY		

Sector	
1. Transport and Storage	
2. Manufacturing	
3. Construction	
4. Education, Health	
5. Energy	
6. Water & Waste Management	

##### 4.4.1 Environmental performance and impact of the projects

From an environmental perspective, the projects assessed had on the whole a positive impact and performance or, where the impact could be partly negative, the effects on the environment seem to be minimal or minimised.

For those projects subject to an environmental impact assessment, the EIA took into account a number of different aspects: quality of the water and aquatic environments, air quality, sound environment and vibrations, economic activity (agriculture, industry, tourism), waste management, heritage, etc - compliance was even sometimes anticipated as in one case (project 1) where the project was designed on the basis of a draft version of an EU Directive. Some enhancements were clearly added to the projects according to the EIA carried out: acoustic studies imposing noise barriers, air quality monitoring and controls, mitigating measures related to specific construction techniques, or archaeological preservation involving the setting-up of a dedicated archaeology team who followed all the construction works. Conformity with EU environmental directives was also systematically checked



in particular with regards to the Habitats Directive 92/43/EC, the Birds Directive 79/409/EC, or the Directive on Landfill of Waste (99/31/EC).

One of the main environmental benefits generated is the positive impact of projects on greenhouse gas emissions and pollution reduction thanks to the choice of a less-polluting energy source, an important reduction in energy consumption, and the uses of non-polluting components (environmental-friendly paints for instance). With regards to traffic management, several projects contribute to reduce congestion problems, a few having also a positive impact on urban development, connecting some initially isolated area to the rest of agglomerations and city centres.

When new waste or residues were generated by the project, composting, recycling or re-using of by-products and waste were put in place, allowing in one case (project 3) the promoter to claim that 100% of the waste produced was recycled. In a similar case (project 1) the overall proportion of waste being recycled or composted increased from 10% of total waste generated in 1997 to 50% by 2006. A third case (project 10) was designed with zero discharges of wastewater flows to the environment. Even for the problematic cases of sludge residue or for the disposal of waste at landfill sites some environmentally sustainable solutions were almost systematically envisaged for their re-use (use of the composted sludge in agriculture for instance). For most of the projects, the increase in standards of environmental protection represents a major positive result.

In the transport sector, the projects assessed contributed in some cases to positive modal shifts, as in the case of a rail project (project 17) which removed both long distance freight and passenger traffic from the roads through a rail modal share on the corridor increasing from 3.1% in 2000 to 4.8% in 2010. Another project (project 11) is drawing traffic away from the densely populated areas along the route, maximising this positive effects thanks to the provision of footpaths, and improved cycle and bus lanes implemented in parallel.

The impact is also often positive with regards to public health: improvement of the quality of water sources, beaches becoming safer for bathing (increasing numbers of the so called "blue flag" beaches). In Portugal, the compliance with respect to water quality has increased from 50% in 1993, via 80% in 2002, to 98% in 2009. The contribution regarding biodiversity is also significant in this case where specific species of fish have reappeared in rivers.

Some environmental concerns have been stressed in a few cases. For example in the case of project 17, the EIA was nine years old and out of date by the time the construction started and the environmental mitigation measures were not fully completed when the line opened. For project 19, a special bird species seems to have disappeared from the area after the implementation of the project and there have been complaints about noise caused. In another case (project 21), the difficulty of reusing the sludge from water treatment because of the presence of metals means a large proportion of it is still disposed in landfills.

With regard to green gas emissions reductions, although often mentioned at appraisal, no quantitative estimation of the real level of reduction was provided, although in one case, a carbon footprint exercise is under way. In fairness it was not normal practice at the time, and has now been mainstreamed into the Bank's appraisal process.

Altogether, the contrast between the careful attention paid to these parameters ex ante and the relatively few elements available ex post tends to illustrate a general lack of monitoring and the Bank could promote more systematically the use of an environmental monitoring carried out by an independent consultant or by a public authority.

#### **4.4.2 Contribution to economic and social cohesion**

Many direct and indirect social effects were generated by the projects which were not generally considered by the Bank at appraisal for the project sample examined. Some of these are discussed here because of the importance attached to social considerations under Cohesion policy, although it is not possible to be rigorous about the significance or accuracy of the data, nor to attribute the observed effects directly to the projects concerned. It is acknowledged that at various times the Bank has attempted to define relevant indicators for cohesion related effects. Apart from one example (project 22) these were not present in the selected sample, and have more recently been discontinued

in favour of the Value Added approach. By contrast, a set of development indicators has been formulated, and is currently in use for projects outside the EU.

The creation of new industrial or business districts can be connected with the settlement of suppliers, especially when the work organisation requires their geographical proximity. In one example (project 3), on-site sub-contractors account for 150 jobs pertaining to restoration activities, gardening, logistics and cleaning.

Major transport infrastructure projects such as projects 2 and 11, also impact directly on lifestyle and living standards for residents by allowing better accessibility to centres of economic activities, or the possibility to carry out more recreational activities. New or improved transport links led in some cases to a more structured and balanced spatial distribution of economic activities, allowing some previously remote areas to contribute more actively to regional development. Some projects also opened new land to economic or town planning opportunities. Projects may also contribute to the emergence of new housing construction programmes, even though real estate may become more expensive.

Improving the skills and competences of the workforce, especially in the cases where most of the workers recruited were previously long-term unemployed, can have a positive social impact. In one case (project 3), the promoter committed to implement a Training Action Plan to offer training opportunities for the local workforce.

The tax revenues providing additional resources for local authorities can be important, especially for the smallest municipalities (4% of the local budget in the case of project 19 for instance). In a similar manner, annual payments to landowners could represent a significant amount of money injected into the local economy (EUR 1.4m per year in the case of project 19, where the land was not economically used beforehand).

In the field of education, health and social services, better adapted public infrastructures can improve social and demographic ratios, contributing potentially to the lengthening of life expectancy and reduction in infant mortality thanks to a significant expansion of the medical coverage (project 22). The improvements are often directly linked to features of the projects themselves, as for the renovation of a train station (project 17) which allows better accessibility for persons with reduced mobility or impaired hearing or vision. This is also the situation with regards to average educational attainment and occupancy rate for education projects. In addition, the project's contribution towards better socio-economic cohesion is also demonstrated by the evolution of use by non-habitual users. In the case of schools for instance, it has been demonstrated at least in one case (project 1) that third party activities have been significantly increasing, with a current daily average of 3 lets per school while it was less than two a decade ago - possibly illustrating a better contribution of the schools to community and neighbourhood activities.

In commercial or urban development terms, projects can reinforce attractiveness and foster endogenous development, particularly in the areas severely affected by industrial decline. In one case (project 2), several companies have settled or transferred their activities locally, creating all together more than 200 jobs. Similarly, some projects have demonstrated their contribution to the development of some economic sectors, such as in the typical case of a waste treatment plant fostering the development of recycling activities (project 1). In other cases, the business climate around the project has been significantly improved as in the example of project 3 where more land was sold for industrial zones in the area between 2001 and 2005 than during the fifteen years prior to project's completion. The impact on tourism can be substantial, as in this case of project 2 where the numbers of visitors in the area has doubled since the construction of the infrastructure. Flagship or emblematic projects increase the attractiveness of the territory, contributing potentially to a change of its status.

Some wider regional impacts were observed even though the extension of the geographical scope tends to reduce the intensity of the effects. For the larger projects, the total investment expenditures might represent by itself a significant share of annual regional investment, as expressed in the Gross Fixed Capital Formation. It has been possible to calculate for instance that in the case of a project with 72 sub-projects (project 22) accounts for more than 4% of the annual Gross Fixed Capital Formation (GFCF) of the region.

The evolution of regional population and regional growth rate are two good indicators to estimate the possible impact of a project, especially if the evolution of these indicators is faster than national

average. In one example (project 2), the activity of the regional economic agency has increased by 40% since the project's completion, while a significant turn-around in the population growth occurred. Whereas between 1975 and 1999, the region was actually depopulating (-5.1%), since 1999 it is now increasing again (+4.3%). In this same case, the attractiveness of the whole territory has undoubtedly increased, even if the reversal in trends cannot be entirely attributable to the project. In another case (project 13), even though many other factors may also have influenced the trend, the 2009 population is 2% higher than in 2000, while the inflection point precisely coincides with the launch of the project. This regional impact is of course variable according to the size of the regional economy and is more important in a region economically weak or lagging behind than in a wealthy and populated area. The use of a simple ratio total investment cost of the project / economic weight of the region (measure by its GDP or its GFCF where available), or other readily available indicators, could facilitate the prioritisation of the projects within a pipeline, especially with a cohesion/convergence objective in mind, although too large a ratio could also have a negative implication in terms of crowding out other investments which would otherwise have been made anyway.

At a larger scale, the impacts of the projects are also on employment, as demonstrated in one case (project 1) where the focus of the project on recycling triggered the development of a new economic sector (namely the recycling of small devices and electronic equipment) and contributed to create around 3,000 indirect jobs in the agglomeration. Such an outcome was particularly significant for an Objective 2 area. In another case (project 3), the arrival of the promoter has stimulated regional logistics and the settlement of several other companies in the region, some of them being outside the economic sector originally developed. The projects may in some cases have some impact on the structure and the evolution of markets, as in this example of project 3 where the promoter positively stimulated its local competitors to improve their production system as well as their social dialogue. In the energy sector, several projects contributed to the diversification of energy sources providing opportunities for enterprises to purchase energy at more attractive prices.

However, the positive effects described above were not automatic. One important factor for success appears to be that the project is part of a wider public and partnership framework or planning, with the existence of a support programme in parallel of the project itself as a key feature for the local integration of the project. In one example (project 3), the setting up of a "welcoming family policy" (housing hunting, adaptation of the educational system, etc.) together with the appointment of a dedicated high profile public coordinator, reinforced the cohesion aspects of the project. The second means observed to maximise these cohesion effects was connected to the ability of the promoter to take part in local partnerships or outreach programmes. In the same case (project 3), a specific "neighbourhood committee" of elected officials of surrounding communes, meeting on a regular basis, was set-up, organising demonstration and education activities to local authorities and schools. Another local organisation developed brochures to create awareness on the benefits of its project. These types of activities appear to be important in fostering local ownership and appropriation of the project, which may then have more chance to generate social benefits.

These sorts of partnership require time to establish. In one case (project 19), the length of the process to make changes to municipal spatial plans was clearly identified as a risk and entailed a specific consideration for the promoter. Clearly this is not a process which the Bank could easily make a condition of its finance, but the presence of this type of local support networks is something which the Bank could look for at appraisal and should be a factor in choosing convergence projects.

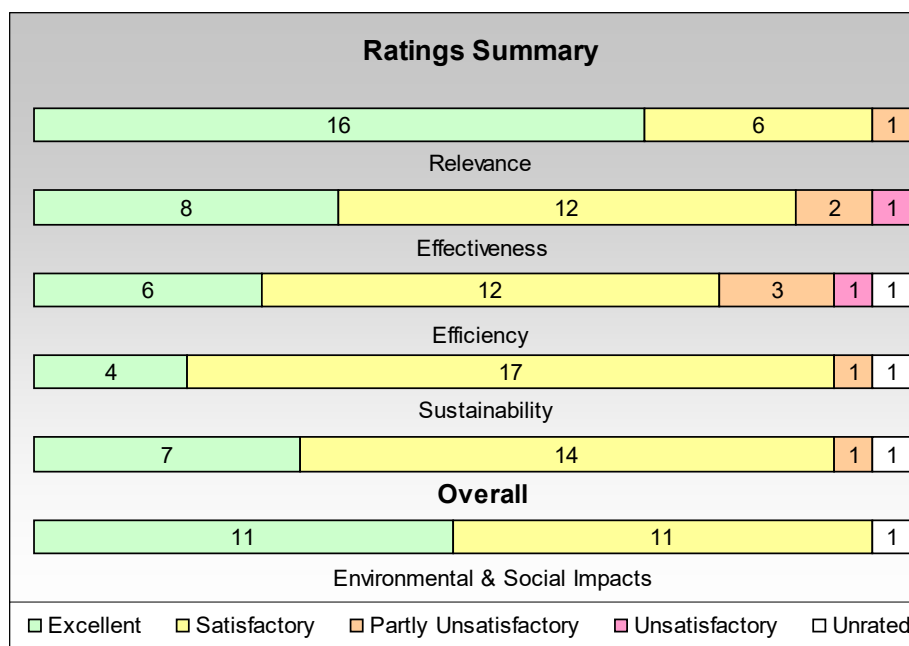
Most of the impacts presented in this section were not really expected, or even considered ex ante, illustrating that the question of what economic and social cohesion really means at the level of each single project has not been fully considered at appraisal stage. The contrast is striking between the rigorousness of the environmental compliance check undertaken by the Bank and the rather superficial and partial consideration of economic and social cohesion issues. The Bank's current approach is largely based on geography. Creating an economically productive project in a convergence or cohesion area is seen as being enough to contribute to European economic and social cohesion objectives.

On the basis of the best practice examples presented above, a more sophisticated approach can be envisaged which does not entail a large amount of additional analysis at appraisal. Additional factors which could be taken into consideration might for example be the number of direct and indirect jobs to be created, the existence of a support programme alongside the project itself, the presence of a public coordinator, the degree of social corporate responsibility of the promoter, the ratio cost of project as a proportion of the local economy, the degree of consistency against EU funds operational programmes,

etc. This could also be a way for the Bank to promote good practice and to account more reliably on its precise contribution with regards to economic and social cohesion, which remains its first priority lending objective.

## 5. OVERALL PROJECT RATINGS

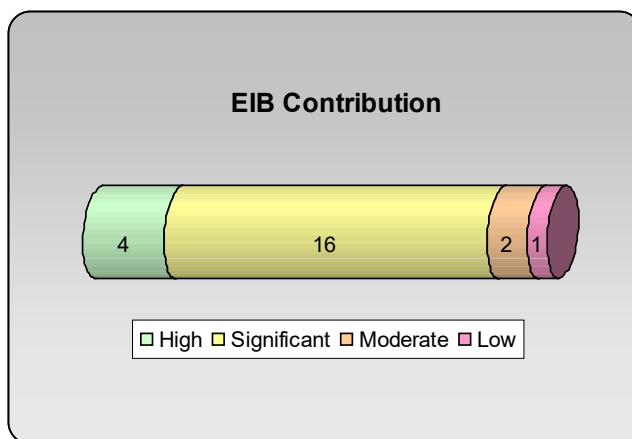
As outlined in the introduction, the operations were evaluated on the basis of internationally accepted evaluation criteria of Relevance, Effectiveness, Efficiency and Sustainability. These individual ratings are considered together to produce an overall rating for the project. This is not an arithmetical exercise, and reflects the extent to which individual aspects contribute to the whole on a case by case basis. Environment and social aspects are rated separately, but are already accounted for within the four main ratings.



The overall ratings confirm that the majority of projects which the Bank financed in the framework of the cohesion/convergence objectives in France, Portugal and the United Kingdom between 2000 and 2009 performed well under difficult operating conditions. Relative deficiencies were linked to cost overruns and delays which were not anticipated and the inability to tackle particular sectoral problems.

## 6. EIB CONTRIBUTION

The contribution which the EIB makes to the achievement of economically productive projects is both financial and non financial. It is assumed that if the Bank is able to conclude an operation with a particular promoter, that this contribution must by definition represent a positive contribution. This criterion is therefore rated on a different scale from previous evaluation criteria, and all ratings are positive (high, significant, moderate and low).



The evaluation evidences a remarkable overall assessment of the project sample regarding EIB contribution. As shown in the graph above, 19 projects had ratings of “Significant” or better. Only four projects in the project sample were considered to perform less well and therefore were rated “Moderate” (3) (project 15, 6 and 10) and “Low” (1) (project 7).

Overall, the EIB’s presence was found to have created a remarkable signalling effect to other investors, as well as a noticeable effect in the stakeholders’ perception of the quality of the projects and the access to EU funds. For the vast majority of the evaluated projects, the presence of the EIB provided confidence to the sponsors in the soundness of the projects, as well as sent a strong message to the markets that the EIB is supporting the development of projects in the sector/region. Further, promoters considered that the EIB’s involvement provided the projects with a “European labelling” as a kind of quality stamp that reassures other potential investors. Locally, the EIB was also perceived by the promoters as a guarantee in terms of compliance with EU regulations and directives (project 3). The not-for-profit nature of the Bank, as compared to commercial banks involved in the projects, was seen as an added value in one case (Project 17). In another case (project 13) the participation of the EIB also increased EIB’s own reputation, resulting in the perception of the EIB by stakeholders as a “social investor”.

All projects carried out by either a public authority or a public company have received a “Significant” or better rating against EIB contribution.

**Correlation of Rating (EIB Contribution)**  
by Sector, Type of Operation & Type of Client (Borrower)

	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT
1. Public Authority	22		20	1 5				
2. Public Company	17 21		8 9 12					
3. Private Company		23	4 16	2 11 13 14 15 19 18	6	10	7	
	HIGH		SIGNIFICANT		MODERATE		LOW	

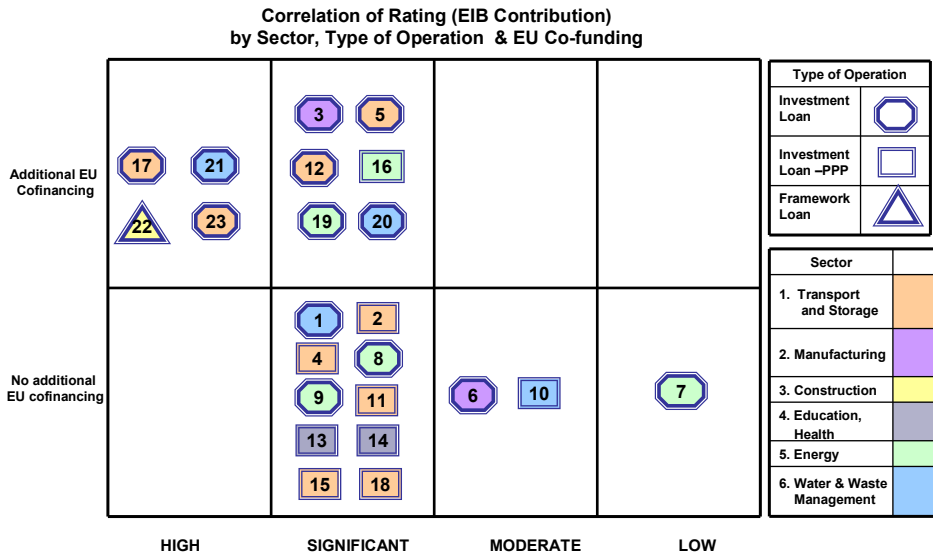
Type of Operation	
Investment Loan	
Investment Loan –PPP	
Framework Loan	

Sector	
1. Transport and Storage	
2. Manufacturing	
3. Construction	
4. Education, Health	
5. Energy	
6. Water & Waste Management	

The EIB contribution was also “Significant” in a large number of projects undertaken by private companies (10 out of the total 14). However, they also attracted the lowest ratings under this criterion (3 projects were rated “Moderate” and 1 was rated “Low”). In terms of the higher two ratings, the EIB

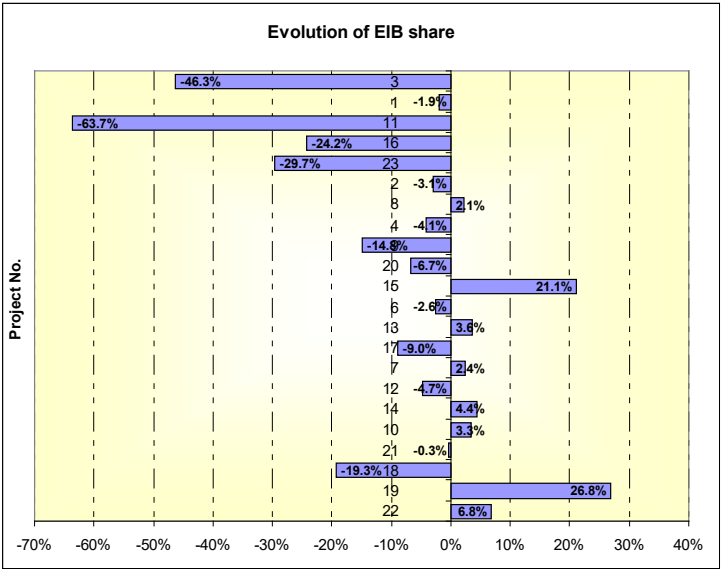
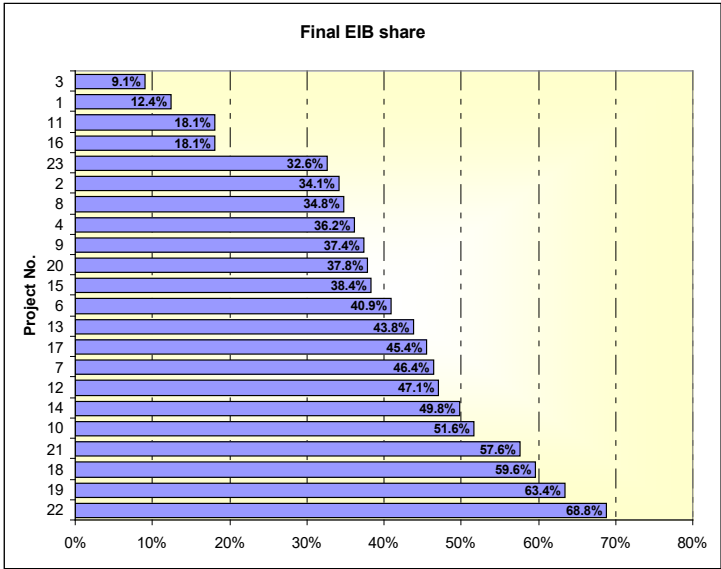
contribution was similar for those projects undertaken by new clients and those undertaken by existing clients, although the performance of existing clients was more variable overall.



The EIB contribution has been higher in projects undertaken with additional EU funding support than in those without additional EU funding. All projects undertaken with additional EU funds have been rated “Significant” or better against the EIB contribution criteria suggesting perhaps that projects requiring grant assistance also may have fewer financing alternatives.

### 6.1 FINANCIAL CONTRIBUTION

The Bank has provided a large volume of loan finance in support of the evaluated project sample. The EIB has provided between 30% and 50% of the total investment costs for 13 projects out of the total 23 project sample, and for 5 projects the EIB co-financing share has exceeded the normal threshold of 50% of the total investment cost.



In many cases, the EIB financial contribution to the projects has been lower than anticipated at the outset, when compared to the initial funding plans. This reduction has been caused mainly by the partial cancelation or partial use of the EIB loan due to the increase of funding from alternative sources, for instance additional EU funding (project 16 , 17 , 19 and 22 ) and the changes of the financial conditions (project 9 ). Although in the latter project, the EIB’s financial value was still considered

overall very positive, as at the time of appraisal, corporate loans for offshore wind projects were very difficult to obtain, and the Bank's participation led to greater confidence, making commercial banks more likely to engage.

In some specific cases the EIB contribution has exceeded the threshold of 50% of total investment costs, which - as explained earlier in this report (see, cf. section 4.1.3 on "Project costs and financing plans"), was justified ex ante in the following cases:

**Amsterdam Resolution on Growth and Employment (97/C 236/02) and was covered by the Amsterdam Special Action Programme**

In the case of project 1, the project was related to one of the priority sectors identified in the Amsterdam Resolution on Growth and Employment (97/C 236/02)<sup>25</sup> and was covered by the Amsterdam Special Action Programme, which meant that EIB funding could cover up to 75% of the total project cost. The EIB planned loan of EUR 130M covered 74% of the total planned project cost of EUR 176M, but ex post amounted to 59.6% due to the increase of the total investment costs. The fact that in this case the loan could be more than 50% of the total project cost added significant value, as the EIB loan greatly facilitated the quick implementation of the solution to a major environmental problem. There was an urgent need for new options for waste treatment/disposal following the closure of the existing incineration plants and the new legislation enforced, which at the time was phasing in the ban on land filling of unsorted/untreated municipal waste.

**Accelerated Finance Initiative (AFI)**

In response to an invitation by the European Council of Ghent (19 October 2001) the EIB developed the Accelerated Finance Initiative (AFI). AFI consisted of temporarily (2002-2004) increasing the maximum percentage of EIB lending, normally limited at 50% of investment cost, to up to 75% of such cost (or any percentage in between), provided that there was a genuine acceleration effect achieved through the higher funding levels. Eligible regions were both EU and Accession countries, and Eligible sectors were: (i) long-term investments in transport (in particular TENs and related networks, etc.); (ii) environment; (iii) the fields of i2i, including education; and (iv) investment in tourism, notably undertaken by SMEs.

As recognised at appraisal, project 20 was considered under the AFI as it was in an area that had been impacted by financial recession and was in particular need for regional development. No additional details have been made available on the motivation behind the use of AFI in this case. The EIB loan has amounted to 57.6% of the total project costs. The high proportion of the EIB loan allowed significant simplification of the financial structuring of the project; as well as for accelerated development of the integrated waste management facilities. However, the lack of knowledge about the EU grant component raises some concerns, as it was an essential part of the overall project, both in terms of developing the waste facilities and contributing towards affordability.

In another case, the EIB loan for an energy project in the sample (project 8) amounted to 64% of project costs and 75% of external funding under the Accelerated Finance Initiative (AFI). As was the case in the previous example, limited information has been made available with regard to the justification for the project's eligibility under the AFI, and regarding the different other project funding sources. The EIB financial contribution was of paramount importance at the time when investments were needed in new electricity capacity in the region. The EIB loan assisted in this overall financing need, and contributed to lower the cost of the Promoter's power generation services through lower interest rates and long maturities. Furthermore, the EIB loan also helped the promoter to develop his international electricity sector assets, which the company needed due to its reducing market share in the country. The Promoter also appreciated the flexibility of EIB financing which allowed him to use part of the loan in GBP and part in EURO.

The main advantages of EIB funding have taken different forms. For the vast majority of the projects, the main advantage has been the provision of competitive interest rates and improved terms and conditions, giving lower costs and therefore improving the affordability of the projects. By providing long-term funding with a profile in line with the life of the projects, EIB funding enabled the borrowers

<sup>25</sup> [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997Y0802\(02\):EN:HTML](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997Y0802(02):EN:HTML)

to share moderate revenue risks with other counterparts, contributing to reducing the overall cost of capital, as well as optimising funding costs over the project life, saving the risk premium during the riskier phase and benefiting from interest rates which were considered in many cases more attractive than those offered through other commercial banks and funding sources, particularly from insurance companies offering monolines (Projects 5, 15, 16 & 23).

The EIB presence also brought margins down by creating competition between commercial banks (Project 5 and 8). The lower costs as a result of the lower rates and longer maturities offered by the Bank gave savings in many cases, which could be used for investment in other services in the framework of the project and/or in the area (Project 8) and 14) or which were passed through to the public sector, to the local education sector (Project 13).

A key strength of the Bank's funding advantage identified in the vast majority of the evaluated projects has thus been its ability to provide long-term funding in line with the economic lives of the underlying assets in the context of a changing political, regulatory and/or budgetary framework (projects 2, 4, 5, 10, 11, 12, 13, 16, 17, 18, 19, 20, 21, 22 and 23). Long loan maturities that the EIB can offer have been considered crucial in financing most of the types of infrastructure implemented in the project sample with substantial grace periods and long payback periods: for instance transport, water and waste collection and treatment and energy projects, where the affordability issues are critical. In fact, the affordability of these operations would have been compromised without such a long-term source of funding provided by the Bank.

EIB's long-term, low interest rate financing has provided the promoters with access to funding for undertaking projects which, in some identified cases, would not have been possible without the presence of the EIB as no other long-term alternatives were available. In some cases (for example, for projects 16, 20, 21 and 23), the terms of the EIB loan would not be easily (if at all) available to the promoter in the commercial market to undertake public infrastructure projects<sup>26</sup>.

As a consequence of the onset of the economic and financial crisis in 2008, the financial value added of the Bank as compared to the conditions offered by commercial banks has been further enhanced as the commercial banks rates increased substantially. This situation is well illustrated by one project in the sample (project 19), where the banks requested substantially higher spreads from the promoter on loans provided, increasing over the 18 years of the tenor of the new loan from 185 to 250bps as a result of the turmoil in the banking sector. After refinancing, the terms of the EIB loan were far more favourable than those of the commercial banks.

By participating as a senior lender, the EIB generated a significant catalytic effect likely to have contributed to the improvement in the conditions obtained from other funding sources for the majority of the evaluated projects (Projects 2, 6, 7, 8, 13, 15 and 16). Promoters reported that the EIB's endorsement sent a strong signal to other banks and senior lenders, demonstrating EIB willingness to continue supporting major innovative infrastructures, as well as making them more confident regarding the soundness of the project in question. If the EIB was involved, commercial banks were confident that technical and financial matters of a project had been scrutinised. By doing so, the presence of the EIB attracted other lenders, creating a catalytic effect with a noticeable improvement in the quality of other financial partners and securing additional financing from them under improved financing conditions. In this respect, the contribution of the Bank has been instrumental in making new and innovative technologies bankable sending a very positive message to the financial market, especially for renewable energy projects in the sample (Projects 9 and 19). In the case of the only R&D project in the sample (project 6) for instance, EIB's contribution towards the overall R&D sector was widely appreciated by stakeholders involved.

In addition, the long-standing and fruitful relationship between the Bank and the promoter in some cases can be considered as a catalyst and a sign of a growing financial strength and maturity of the promoter, as it has facilitated credit access for a number of evaluated projects (projects 15, 16, 20 and 21).

The flexibility of the financial arrangements agreed with the EIB (tranching, maturities, repayment schedules, the use of a part of the loan in the local currency and part in EURO, etc) has been much appreciated by many promoters involved (projects 1, 2, 8, 13, 15, 19 and 22). Other qualitative elements of financial added value of the EIB loan offer were seen very favourably, for instance the diversification

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<sup>26</sup> The EIB estimated ex ante that alternative commercial funding issued for five years would be valued at EURIBOR (6M) + 45b.p., whereas the EIB loan for this project 21 was rated at EURIBOR (6M)+ 12b.p. It is thus confirmed that the promoter did not have an alternative to the EIB.



of funding (projects 4 and 15), allowing the promoter to blend his requirements from a wider variety of sources, and the innovative structuring of the loans used, in particular for some PPP projects in the sample (for instance the step-down arrangements applied in project 10 and the two-stage financial engineering scheme in the case of one of the first PPPs in France [project 2]).

Some factors, however, diminished the expected financial value added of the Bank in a limited number of projects. For instance the partial cancellation or partial use of the EIB funding support (projects 9, 16, 17, 19 and 22) and in the case of one project (project 13) the downgrading of the monoline insurer, where a review process is currently ongoing. However, within the context of such PPP health projects, the financial value added can still be said to be satisfactory.

### **Co funding with EU Structural Funds**

When analysing the EIB financial contribution in conjunction with additional EU funding (Cohesion Fund grants and Structural Fund – ERDF - grants), the evaluation found that the combination of EIB loans with EU grant components in financing the evaluated projects can be of particular importance in convergence regions, especially by increasing the financial profitability of the projects (for example, in the case of projects 12, 17, 20, 21, 22 and 23). This financing structure has strengthened the financial and technical robustness of the investments, and limited the need for high tariff increases, thus enhancing affordability. This has been particularly the case for the wastewater schemes (project 20 and 21) where the investment requirements were bigger, coverage of existing facilities was less widespread, and willingness-to-pay was (and still is) generally lower. Further, the investments in water and waste management projects aimed to raise environmental standards to compliance with EU legislation, and would not have been affordable for the local population without the use of EU funding support.

In some cases, the combination of EU funds and EIB loans has provided substantial leverage which has even been used to help shape the sector in question (project 16, 20, 21 and 23; see section 6.2. below and case study box for further details). Nevertheless, in a small number of cases the investment programmes were robust enough to be carried out even without the EU grants (project 16 and project 10). In the latter case it seems that EU grant funding was not even considered by the promoter (or the EIB), but could have helped tackle pending problems (i.e. leakages) and enhanced the sustainability of the project. If the EIB had facilitated this, it might have also given the Bank more influence and leverage overall. Also, although EIB funding has been combined successfully with ERDF and Cohesion Fund grants throughout the EU, there remains considerable uncertainty as to whether, and how, EU grant funding can be used to co-finance PPP projects.

EIB loans seem to have enhanced the leverage effect of the EU Funds by concentrating on some specific axes and measures within SF programmes (in the case of the only Framework loan in the sample; project 22), focusing on those with particular potential impacts on economic and social cohesion and their “*structuring effects*” (in the local economy or some economic sectors). In this case, the flexibility in the use of the EIB loan has partially released the region from various constraints imposed by the EU structural funds regulations (in particular the N+2 rule) enabling the extension beyond the programming period and smoothing the constraints imposed by the programme closure procedure.

Another important added value of EIB financing as compared to the EU funds seems to be its liquidity: the timeframe between the submission of an application for EU Funds and the disbursements of the grants was regarded by some promoters as being too lengthy and often delayed (projects 16 and 20 ). In contrast, EIB funds are characterised by promoters as having a high degree of liquidity, even more so than in case of commercial banks.

Finally, it is worth highlighting that the information regarding the use of the additional EU funding support to the evaluated projects has not been readily available and still remains unclear with regard to many projects examined as to whether the planned EU funds have been (fully or partly) used and as to whether the EU Funds have had the expected impacts (for instance in the case of projects 16, 20 and 21). This uncertainty is a potential concern to the overall assessment of these projects’ financial and economic profitability and financial sustainability, as there might be additional risks (for instance in the case of projects 20 and 21). The Bank therefore needs to improve its knowledge and awareness of EU grants for projects and the potential effect this may have on the value added of the operation. This will require closer cooperation by and with the Commission both during and after appraisal, together with improved information exchange.

## 6.2 INSTITUTIONAL AND TECHNICAL CONTRIBUTION

As compared to the financial value added of the EIB financing, the non-financial contribution of EIB for most evaluated projects has been more limited. The strong management expertise and technical experience of the promoters left little (if any) room for the EIB technical experts to provide advice on technical aspects or financial risks that might have further enhanced project implementation (Projects 2 and 9 ). In the case of environmental projects, such as projects 8 and 10 where the input of the EIB's technical experts would have been relevant, EIB's non-financial contribution was relatively limited as the environmental planning had already been carried out prior to EIB's involvement. Furthermore, it is worth taking into account that almost half of the evaluated projects have been carried out by operators with whom the Bank had worked on previous occasions (10 out of 23 projects have been carried out by existing EIB clients). However, even in cases where the Bank's technical input was limited, the sector knowledge and experience of the Bank was appreciated by promoters, and particularly its familiarity with EU norms and regulations.

However, the evaluation found that the EIB has provided valuable technical expertise and advice on financial structuring and engineering in a number of cases. For instance, the Bank has contributed to strengthening of the assumptions of the economic model and this was perceived as an internal and external "*guarantee of relevance and rigor*ness" for the promoter (project 2). This expert advice was highly appreciated, for instance in the context of the educational PPP project where the lack of experience in the preparation and implementation of such complex arrangements was an issue for EIB's counterparts (Project 13). In this case, the Bank shared its knowledge and experience with the service provider jointly with other counterparts with regard to the refining of the economic and financial model for a PPP project, making it more robust in the long run.

Even though project promoters had a solid technical expertise and project management experience, the EIB involvement and feedback at different phases of the project cycle was seen favourably in some cases:

- The attention paid to environmental aspects during the appraisal process was seen very favourably (project 16) as was the extent that it does not need to rely on external technical and legal advisors.
- For project 9, the EIB's extensive due diligence process made the Promoter aware of some potential risks and impacts. In addition, the role and advice of the EIB regarding stakeholder consultation and engagement, in particular the value added in possible discussions with other governments was much appreciated.
- In the case of project 22 , the necessity for all sub-projects to be part not only of the regional programme itself, but also of a proper sector plan was emphasized by the EIB to the promoter in order for these sub-projects to be fully consistent with local needs (in particular with regards the risks of having duplicated or over-sized infrastructures).

However, in a number of projects it has been argued that the EIB could have played a stronger role providing technical and expert advice with the view to get a more robust approach to the assessment of the project's viability, profitability and sustainability at the early stages of the project. This has been the case, for instance, of a number of transport projects and one energy project (project 16 ). In the latter case, the evaluation found that the EIB could have had a more proactive role in including special loan conditions in the financial contract regarding the decontamination of the site of the town gas plant, as it basically is an integral part of the conversion from town gas to natural gas.

In a number of cases, the EIB has played a catalyst role in developing a specific sector and/or a region. The EIB financing has also allowed the Bank to foster and reinforce its long term cooperation with a country and/ or region in which has had a long-established cooperation in the sector in the financing of priority investments (project 20 and 22). This has been the case, for example, of projects 16 and 21, where the EIB's contribution to the development of the natural gas and water and wastewater sectors in the country has been widely recognised.

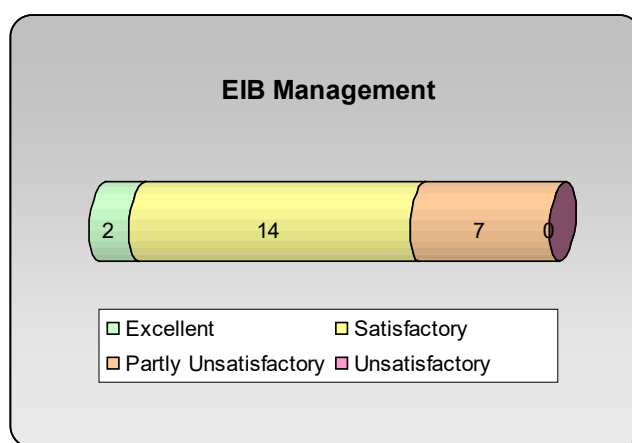
However, it seems that the Bank did not engage in wider sector reform in all cases where it could have played a significant role in sector development (for instance, in the framework of projects 8, 9, 10 and 19). The timing of EIB involvement has been a key factor in this respect. Where the EIB became involved from an early stage in the planning process, the Bank had more potential leverage to influence the project plans and even in sector development. In the case of project 10, for instance, the EIB participation was valuable as it was the first PPP scheme in the region's drinking water sector and

gave the project some credibility. In spite of this, its effect has been rather minor, as the relatively late stage in which the EIB became involved (when the tendering for a private operator of the water treatment plants was ongoing) limited the scope of the EIB to influence the project and to add non-financial value. In particular, the EIB reportedly did not suggest conditions related to metering of domestic service connections, or linked the project to actions to improve the efficiency of the distribution network by reducing physical leakage. Such conditions would have been in line with the spirit of the EU Water Framework Directive (2000/60/EC). However, the EIB may not have had the necessary leverage to impose these types of condition.

## 7. EIB PROJECT-CYCLE MANAGEMENT

*This criterion examines the way in which the EIB followed the project through the project cycle from signalling, through appraisal and monitoring to completion. It examines the appropriateness of the Bank's internal processes and the extent to which these were followed during the project.*

The overall EIB's performance on project cycle management was regarded satisfactory, though the evaluation also reveals some areas where further improvements are needed. As shown in the graph above, 16 projects in the sample have received an "Excellent" or "Satisfactory" rating, which is a positive result. Comparatively, the EIB's management of 7 projects in the sample has been below expectations and therefore a "Partly Unsatisfactory" was given.



**Correlation of Rating (EIB Management)  
by Sector, Type of Operation & Type of Client (Borrower)**

	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	EXISTING EIB CLIENT	NEW CLIENT	Type of Operation
									Investment Loan
									Investment Loan –PPP
									Framework Loan
1. Public Authority			20	5	22	1			
2. Public Company			8	9					
			17	21	12				
3. Private Company		2	4	3	11	7	10		
		19	6	13	14	16	23		
			15	18					
	EXCELLENT		SATISFACTORY		PARTLY UNSATISFACTORY		UNSATISFACTORY		

Sector	
1. Transport and Storage	
2. Manufacturing	
3. Construction	
4. Education, Health	
5. Energy	
6. Water & Waste Management	

The assessment of the EIB's performance in managing the project cycle has been more positive in the projects undertaken by public companies as 80% of the projects were rated "Satisfactory", followed by the projects carried out by private companies (71% of the projects received a "Satisfactory" rating or better). The EIB project cycle management seems to have performed similarly in the case of projects undertaken by new clients and existing clients (8 projects received a "Satisfactory" rating or better, as compared to the 8 projects carried out by existing clients receiving a "Satisfactory" rating). A larger number of projects carried out by existing clients have been considered not to meet the expectations

regarding the EIB project cycle management (4 projects received a “Partly Unsatisfactory” rating, as compared to the 3 projects carried out by new clients receiving the same rating).

## **7.1 PROJECT IDENTIFICATION AND SELECTION**

The initial contacts and the project identification process paved the way for the appraisal and the selection of sound projects. No major issues have been identified with regard to the first contacts, the project identification process, the pre-screening carried out or its timing. Some promoters, however, have regarded EIB requirements and internal decision-making procedures, in particular related to loan preparation, as too cumbersome and lengthy (project 9, 10, 11 and 16). In this respect, commercial banks seem to have a comparative advantage over the EIB.

The evaluation has found, however, that the EIB has developed solid relationships with the main counterparts involved in the evaluated projects from the outset. The quality and seniority of the relationship between the Bank and the promoter/borrower appears to be a key factor in the overall project performance on one side, and on the efficient EIB project management and monitoring cycle on the other side.

Prior experience and knowledge of the EIB requirements and procedures have thus facilitated the loan preparation. In this respect, it is worth noting that 10 out of the total 23 project sample have been carried out by existing EIB clients, though very good examples of good cooperation from initial contacts onwards have also been found in projects undertaken by new EIB clients (Projects 2, 3 and 13). Most of the first contacts established between the EIB and existing promoter/borrower were initiated through regular contacts and meetings related to ongoing projects, to identify ongoing investment priorities or develop a project pipeline (Projects 1, 4, 6, 8, 9, 15, 20 and 21). In fact, some of the evaluated projects were built upon existing projects, complementing the infrastructure in place and/or implementing the requirements following a policy change in the sector (project 4, 7, 15, 20 and 21).

Some projects, however, were identified thanks to the proactive approach of the EIB’s loan officers, which has been very much appreciated by the promoters/borrowers in question (Projects 3, 22). This was the case, for instance for the manufacturing project 3, which differs significantly from the approach used with some other companies in the automotive sector with whom regular meetings are arranged on a regular basis to screen all the investments projects. In the case of projects undertaken by new EIB clients, the Bank was approached in most cases as a major infrastructure financier in Europe (projects 2, 3 and 12).

For a number of projects (projects 1, 6, 10, 11, 16, 18 and 19), the project had already been planned, had been broadly defined and/or had already started or was in an advanced stage of implementation by the time that the EIB got involved. In fact, in two cases (projects 4 and 6) the largest part of the EIB financing was retroactive as the projects were very close to completion. In some of these cases, the EIB loan was approved at the time where the selection and/or contract negotiation with preferred bidders was underway (project 10 and 18). At that time, the detailed contractual and financial structure of both projects was not yet known, and this was partially dependent on the submissions of short-listed bidders. The way in which the EIB might enter the deal was not yet defined because this would only become clear during contract negotiations with the preferred bidder. Consequently, a two-stage appraisal was suggested for both projects. This late entry may well have limited the ability of the EIB to influence the scope of the project and to add value.

## **7.2 APPRAISAL**

In many cases project appraisal was seen as an efficient, well-structured and rapid process (for example projects 3, 6, 15 and 22) and promoters considered the involvement of the EIB at appraisal stage favourably. The appraisal process has thus contributed to identifying risks, assessing the project’s technical and economic feasibility, its financial profitability and its sustainability.

The involvement of the Bank at appraisal stage has also lead to the adjustment of optimistic forecasts made and the addition of technical contingencies to the estimated costs in the sector in question, reflecting the long-term lending perspective, the volatile nature of the markets, as well as social and sustainability aspects (projects 20, 23). The EIB has added in the due diligence of the project appraisal process - even in the case where competent and experienced promoters have undertaken the main tasks - and contributed to a better defined project that it would have been without the EIB’s involvement (projects 14 and 19).

In general, the appraisal work has been carried out by the Bank with no major delays, with some exceptions, which seems to be justified considering the size and complex character of these projects (projects 7, 16 and 21).

In the case of the PPP projects in the sample, a detailed and thorough appraisal process was carried out. The previous experience of the EIB was that PPPs have made additional demands on its appraisal, structuring and negotiating capacity. The evaluation of the PPP projects in the sample shows that the appraisal phases were particularly detailed and carefully carried out (projects 10, 11, 13 and 14).

The evaluation findings also evidence that there is some room for improvement with regard to the quality of the appraisal process:

- In some cases, mostly transport projects, the appraisal report included sensitivity analysis that left aside, or else underestimated, some other important elements, which would have contributed to more realistic financial forecasts and the economic benefits (i.e. changes in the volume of generated traffic, the risks of lower traffic than estimated, (projects 4, 5, and 15);
- Additional key issues were not mentioned whilst calculating the EIRR and FIRR at appraisal stage, for instance: regional regeneration and human capital development (which were difficult to quantify for project 12); positive externalities of a gas pipeline (enabling the development of the gas network adjacent to the route, in the case of project 8), among others. By contrast, in one case some issues were considered in calculating the project performance forecasts which were debateable (benefits associated with a reduced need for further investment in other airports, in the case of project 12);
- In some cases, the evaluation found that the assumptions made by the EIB at appraisal turned out to be over optimistic. The assumptions that the promoter's capacity to successfully implement project 21 was available - as it was the follow-up of a similar previous investment project – seem to have underestimated the differing levels of development in the rural and less populated areas covered by project 21. Further, the economic and financial forecasts undertaken for project 4 appear to have been based on the assumption that the central section of the road is constructed, which has not happened and is not happening in the near future;
- Finally, the institutional set up of the sector has left some key issues in the political arena, which has resulted in the lack of progress affecting the project profitability ex post. This was the case for project 21 in relation to the issue of affordability of gradually increasing water tariffs under the concession agreements. Given the uncertainties in some markets as a result of deregulation and liberalisation at the time of appraisal (such as the gas and electric markets in the UK and Portugal, etc), other related risks have been assessed in more detail and a more conservative hypothesis was considered when risks regarding the potential future movements in the market were analysed – as was the case for project 8 for instance.
- The majority of non PPP projects did not have quantified objectives at the outset. Setting quantified objectives at appraisal would have enabled a much closer monitoring during project implementation. It is thus important to ensure that measurable monitoring indicators are developed at appraisal stage to provide a key information source for project follow-up and monitoring during its implementation.

Generally, lessons learnt from previous projects seem to be applied by the EIB technical staff during appraisal to more accurately assess risks, take into account technical contingencies to the estimated costs and therefore better define the projects. The mutual knowledge and long-established relationships between the EIB and many promoter/borrower offers a valuable opportunity to draw lessons from past experiences to improve the appraisal work.

### **Treatment of Economic and Social Cohesion**

The “Cohesion” dimension of the projects was established at appraisal by applying the EIB eligibility criteria on the basis of a basic geographical location: most of the time by checking that the project is implemented in a cohesion area as defined on the EU cohesion policy map. The analysis of the project sample evidences that the projects’ impacts on socio-economic cohesion were not prominent during project appraisal, which was concerned mostly with other eligibilities. Thus the “cohesion dimension” seems to have been considered as a secondary dimension that represents an additional asset to a project.

The lack of focus on “cohesion” at appraisal is also reflected in the limited detail provided by most appraisal reports, which were otherwise found to have good detail on the technical, financial, and environmental aspects related to the design, construction and management of the operations. This was generally in stark contrast to the lack of quantified socio-economic impacts related to cohesion, and socio-economic indicators, against which regional development could have been appraised and monitored.

The expected cohesion impacts and results were not quantified ex-ante, so that no baseline was set up for monitoring purposes. In some cases, the economic benefits in terms of the cohesion (i.e. regional regeneration, human capital development, etc) have not been considered whilst calculating the economic returns of the project (project 12), so that the figures could be considered to be an underestimate.

No special conditions have been set at appraisal for some of the projects benefiting with additional financial support from other EU funds (ERDF, Cohesion Funds, etc) (projects 12, 20 and 23). In some cases, funding allocated by EU funds has not been confirmed ex post. Where the financial analysis of a project depends on EU financing, conditions should be set up at appraisal stage to ensure that the grants are confirmed. Furthermore, monitoring should be defined to ensure that data on the use of additional funding sources is collected and shared with the EIB in order to verify that the amounts of the grants are used as anticipated.

### **7.3 PROJECT IMPLEMENTATION/FINANCING ARRANGEMENTS**

Generally the EIB procedures and support during project implementation was seen favourable by the promoters/borrowers. In many cases, however, the EIB did not provide with any specific technical assistance during project implementation, as the expertise and knowledge were considered to exist within the promoters and therefore additional EIB's expertise was not deemed needed.

Nevertheless, the lack of decision-making power regarding issues that are not standard EIB procedure, as well as the perceived complexity brought by EIB technical staff and legal experts in certain stages of the management cycle have not been sufficiently understood and appreciated by some project promoters (projects 9, 16 and 19).

The evaluation has found that well-prepared project management and implementation schemes have been a key success factor. Projects set up with a systemized approach to implementation, in particular in the case of complex investment arrangements, have been more successful in managing risks and expectations. However, in many cases, projects with new clients also performed well.

The evaluation found particular benefits for projects where the EIB has supported long-term development investment programmes or has developed a long-term relationship with the Promoter. This is the case, for instance, of the projects 16, 19 and 20, as the EIB has done long-term business with their promoters since the 90s.

Loan disbursements have been carried out in most cases according to plan once the precedent conditions have been fulfilled and verified by the Bank's services. The average EIB's disbursement arrangements were reported to be in one or three tranches in most projects, with some exceptions. Generally, both disbursement of funds and repayment transactions have worked smoothly from an administrative point of view.

Significant changes occurred in some projects during their implementation, and some projects have been refinanced to avoid higher finance costs (project 13 and 19). For a number of projects, the financial and contractual arrangements previously agreed with the EIB had to be readjusted as promoters/borrowers had undergone some internal restructuring process for differing reasons that had some implications (project 3, 6, 15 and 18) or the promoter requested a change in the security loan structure replacing the bank guarantee with a corporate loan (project 3). For the project 21, the reprogramming of the remaining specific investments was also requested, while maintaining the key characteristics of the project. The changes were not considered fundamental and were expected to facilitate the project closure within foreseeable time, which has incurred in considerable delays, while still allowing full disbursement of the loan.

Full or partial cancelation of the loan has been requested in the cases of a number of projects (projects 9, 16, 17, 19 and 22), mainly as they received funding from other sources. Though the cancelation of the loan may be taken as a negative project outcome, it was considered in one case as a positive

outcome. The project was not considered bankable at the outset, but the EIB signalling effect attracted alternative funding sources (the case of project 9).

#### **7.4 MONITORING**

Overall, the evaluation has found that the physical monitoring carried out has been weak. Most projects have had less monitoring by the EIB than expected, given the risks and given the monitoring categories assigned to them at appraisal. In some cases where little or no monitoring was carried out, it seems that the EIB's requirements laid down in the finance contracts regarding annual and regular reporting were not very specific. Out of the total project sample, 9 projects were classified under category 3 (now category B) for monitoring purposes and therefore extensive and careful monitoring was recommended. For these projects, the monitoring carried out has been rather limited, in particular considering the recommendations at appraisal (for instance projects 9, 11, 18 and 23, of which 2 are PPP projects).

However, some projects classified under the heaviest monitoring category (category B or, for older projects, 3) have however been carefully monitored by the Bank's services with regular reporting, monitoring missions, exchanges of information and fluid communication with the counterparts (projects 10, 14, 16, 21 and 22).

Careful monitoring and reporting was not considered needed in many cases (15 projects in the sample have been classified under the monitoring category 1 or 2; now category A) given the strong experience of the promoter, the seniority of the relationship with the Bank and/or the technical specifications of the project. This was interpreted in some cases as no monitoring at all, for instance for projects 1, 5, 7 and 12. In these cases, there were minimal or no significant communication between the promoter/borrower and the EIB during the implementation of the project, until the PCR was carried out or until the end of works. For one project, the promoter and the EIB seemed to have been more in contact for forthcoming projects, than for the monitoring of ongoing projects (project 12).

Although at the time of appraisal it may well have been sensible to recommend a "low-intensity" monitoring, it does not seem advisable not to monitor the projects at all during their implementation. Monitoring is arguably the key EIB project cycle management phase to better assess the risks related to the works carried out during implementation and to verify whether all measures were being implemented according to schedule and as agreed during the project implementation.

The risks of this situation for the Banks reputation are well illustrated by one energy project in the sample (project 7). The disbursement was made immediately after the signature (September 2000). However, the EIB services were made aware in 2004 that all three sub-projects were abandoned due to the decline in country's wholesale electricity prices in 2001/2002 and technical development problems with the main equipment at that time. In accordance with the decision taken by the Management Committee to maintain the loan until final maturity (2006), the administrative closure took place in 2005 and no contact with the promoter has been made since. This situation reveals the exposure to reputational and financial risks in cases where there has been no fluid communication and monitoring during project implementation.

A complete absence of monitoring and reporting also means that the positive aspects (such as the major improvements in environmental performance, job creation, etc), were also unknown to the EIB until after project completion. The potential for the EIB to use these projects as a positive demonstration project for other projects in the sector and/or in the country was therefore missed. In this respect, the evaluation found that there is some room for improvement to make the most of the learning opportunities provided by monitoring to identify critical issues in the implementation of the projects that can be used in subsequent projects, in particular on how to address specific risks.

Although one of the core lending objectives of the EIB is the development of less-developed regions (EU Treaty, Article 309, (a)), the evaluation has confirmed that little monitoring of the relevant Cohesion and regional development indicators has been carried out during project implementation.

In view of the core mandate to focus on less-developed regions, it would be expected that the EIB would monitor and report socio-economic indicators related to regional development, in particular with regard to those projects approved under this objective. Monitoring relevant regional development indicators during project implementation would be beneficial for the Bank to track Cohesion and Convergence impacts of these projects more closely and highlight the real contribution of the EIB to this key EU policy objective, both at project level and also at a more strategic level.

Despite the importance of the implementation of the works under the EU grant component, there are cases where this aspect was not monitored by the EIB (e.g. projects 16, 20 and 21). In this respect, it is worth recalling the importance of defining ex ante the framework for monitoring the projects at appraisal stage, as already stressed out in this report (see section 7.1 in this report). Further, a closer monitoring and data collection in line with the EU-funded Operational Programmes structure (priority areas, themes, measures) by using the subproject fiches seems advisable. By doing so, the EIB will contribute to strengthening the concentration of funds on the Operational Programme's most significant measures and to avoiding a too wide dispersion into a very diverse range of activities. In project 22 EIB lending and all additional EU funding support ex post exceeded 90% of the project's total investment cost, and required a justification on a case by case basis according to EU regulation and internal procedures<sup>27</sup>.

As for the Bank's internal document handling, the Project Completion Reports (PCRs) prepared for the evaluated projects had limited information on key issues (for instance, progress for EU-funds, etc), and much less detail than expected. In particular, the PCR have limited focus on lessons learned. A PCR had been submitted by all promoters involved in the evaluated projects, with some exceptions, for instance the energy project 21 (as the project is expected to be completed during the second half of 2011), and project 8) (as no requirement for the submission of a PCR was included in the Finance contract). With some notable exceptions (for instance, projects 10, 16, and 21), the number and details of the progress reports submitted by the promoter to the EIB have been regarded lacking details. Thus, there is still some room for improvement with regard to the quality and availability of the information required by the EIB to the promoter, as well as to the data provided regularly by the promoters to meet those requirements.

## **7.5 COORDINATION AND COOPERATION WITH OTHER FINANCIAL INSTITUTIONS.**

A specific coordination issue has to be underlined with regards to the cooperation with European Commission services, and particularly DG REGIO. In general there was no evidence of close coordination and cooperation between the EIB and the EC, although the EIB was occasionally aware of the promoter's efforts to apply for subsidies. On the Commission side, no official documentation published by the managing authority for Structural or Cohesion funds, nor any evaluation reports provide any information related to the EIB contribution, even if it was major.

In one exceptional case, the water project 21, the EIB worked closely with the EC desk and other EU Commission Services, as well as with the National Management Authorities for the EU Structural Funds in the country.

Considering the EIB's mandate to focus on the development of less-developed regions (EU Treaty, Article 309, (a)), it is recommended that the coordination and communication between the EIB and the EC be improved, in particular in the projects that are cofinanced by EIB lending and EU-funded programmes. Alongside the coordination with ERDF and Cohesion Funds managers at EC and country level, the large scope of some evaluated projects might also make it advisable to coordinate with the ESF (European Social Fund).

The standard Article 21 (now Article 19) consultation procedure carried out during appraisal provides little information as regards the way the EC considers the project in terms of grant support, and usually takes place long before any application for grant has been made. Particularly for projects classified under the cohesion/convergence lending priority, the Bank should seek to incorporate the provision of grant status as part of an extended Article 19 process, placing an obligation on the Commission to inform the Bank at key stages of the application process.

A maximum contribution of 90% EU assistance for each project is stipulated by EU regulations<sup>28</sup>. However there does not appear to be any coordination between the Commission and the Bank to monitor compliance, which is only checked ex post by the Bank at the level of the overall operation. In general this rule appears to have been respected ex post, but in the case of multi-scheme investments it is only applied to the overall programme. This means that in practice individual schemes can benefit from 100% community support. Improved coordination and clarity would seem to be warranted on this issue.

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<sup>27</sup> As mentioned notably in the Council Regulation (EC) No 1364/1999 of 21 June 1999 amending Regulation (EC) No 1164/94 and reflected in internal procedures.

<sup>28</sup> Ibidem. Nevertheless, it does not exist a strong legal ground for applying such a 90% threshold, which appears more to be a matter of good practice (and originally the threshold was different with 50 % + 20 % for convergence regions).



In the context of structural funds programming, the steering committee of each operational programme could play a crucial role in that enhanced coordination, since it is the sole entity with a global view on EU interventions and financing. In the only case where EIB participation which was formally foreseen (project 22), no EIB representative attended any steering committee meeting during the 2000-2006 programming period.

On the basis of the sample of operations evaluated there would seem to be a need for closer cooperation between the two institutions from appraisal onwards in order to make better use of potential synergies and avoid unnecessary duplication. There are many difficulties to be overcome in forging closer cooperation but there should be an ongoing process of discussion in relation to areas of common interest such as the formalisation of the empirical rules used for the monitoring of identified co-financed projects, the use of a common numerical codification to identify and monitor immediately the co-financed projects, as well as a more institutionalised coordination through the simple use of identified project contact persons.



## **THE ARTICLES 174 & 175 OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION**

Article 174 (ex Article 158 TEC): *“In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions. (...)”.*

Article 175 (ex Article 159 TEC): *“(...) the formulation and implementation of the Union’s policies and actions and the implementation of the internal market shall take into account the objectives set out in Article 174 and shall contribute to their achievement. The Union shall also support the achievement of these objectives by the action it takes through the Structural Funds, the European Investment Bank and the other existing Financial Instruments.*

## THE DEVELOPMENT OF COHESION POLICY

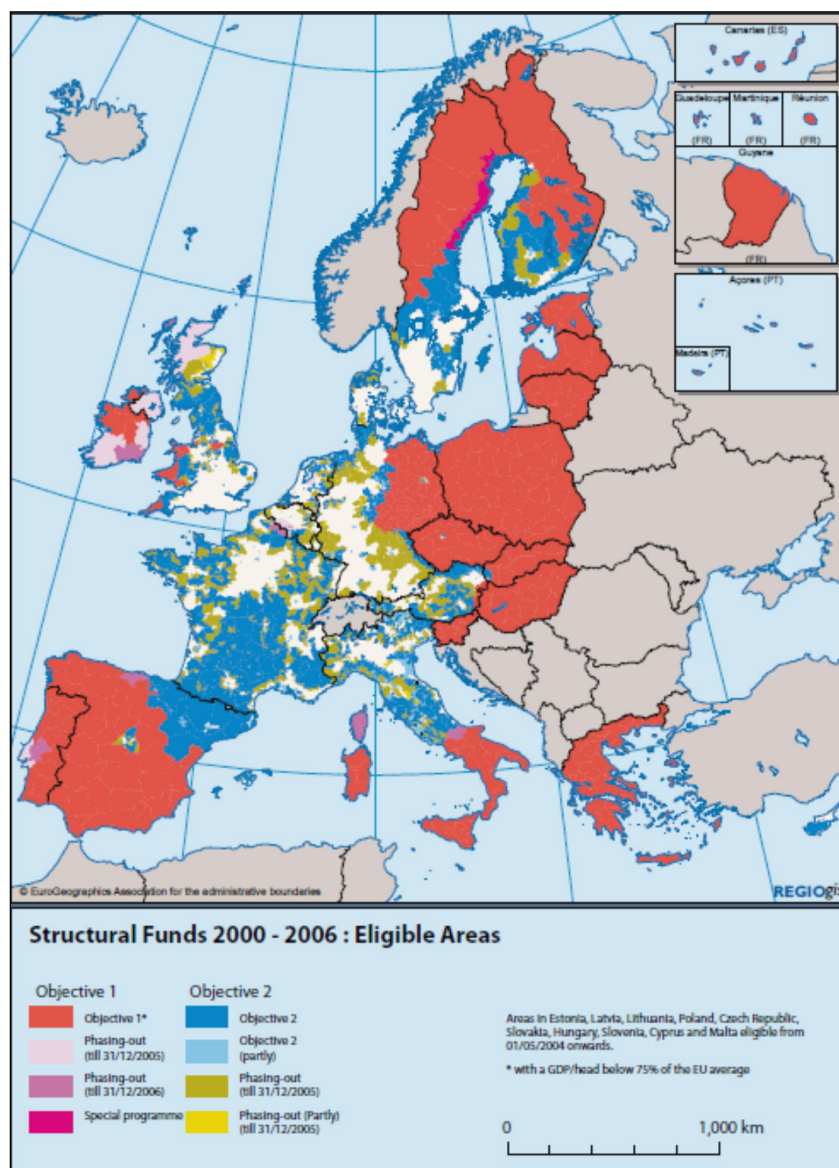
Since the origin of the European Union, its main objective is to contribute to a balanced development throughout the EU and the reduction of structural disparities between regions. Various specific Instruments and mechanisms were developed (i.e. European Social Fund, European Agriculture Guidance and Guarantee Fund) to help achieving these objectives.

Over the following decades, a regional policy was adopted, which in 1986 was transformed by the Single European Act into a European cohesion policy. With the Maastricht Treaty, economic and social cohesion became one of the priority objectives for the EU (together with Economic Monetary Union - EMU and the single market).

The objective of strengthening economic and social cohesion is explicitly referred to in the Treaty as the first objective: "The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing common policies or activities to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States."

EU cohesion policy covers a multitude of different policy areas, which is achieved by means of a variety of funding schemes, principally through the Structural Funds and the Cohesion Fund. At the same time, public expenditure in Member States is many times greater than the amount spent by the EU on cohesion policy, but EU cohesion policy tackles specifically the underlying factors for disparities between countries and region. The EU structural funds budget and priority orientations are decided by the European Council and the European Parliament based on a proposal from the EU Commission. Regions and Member States establish development plans a) to define and describe regional and national priorities and b) give an indication of the financial contribution from the different structural funds. While the Community Support Framework (CSF) provides for coordination of all EU structural assistance in the relevant regions, the assistance covered by a CSF is usually provided in form of an integrated Operational Programme by region. The specified objectives for the EU for the programming period 2000 – 2006 (during which most of the projects under evaluation were approved) were:

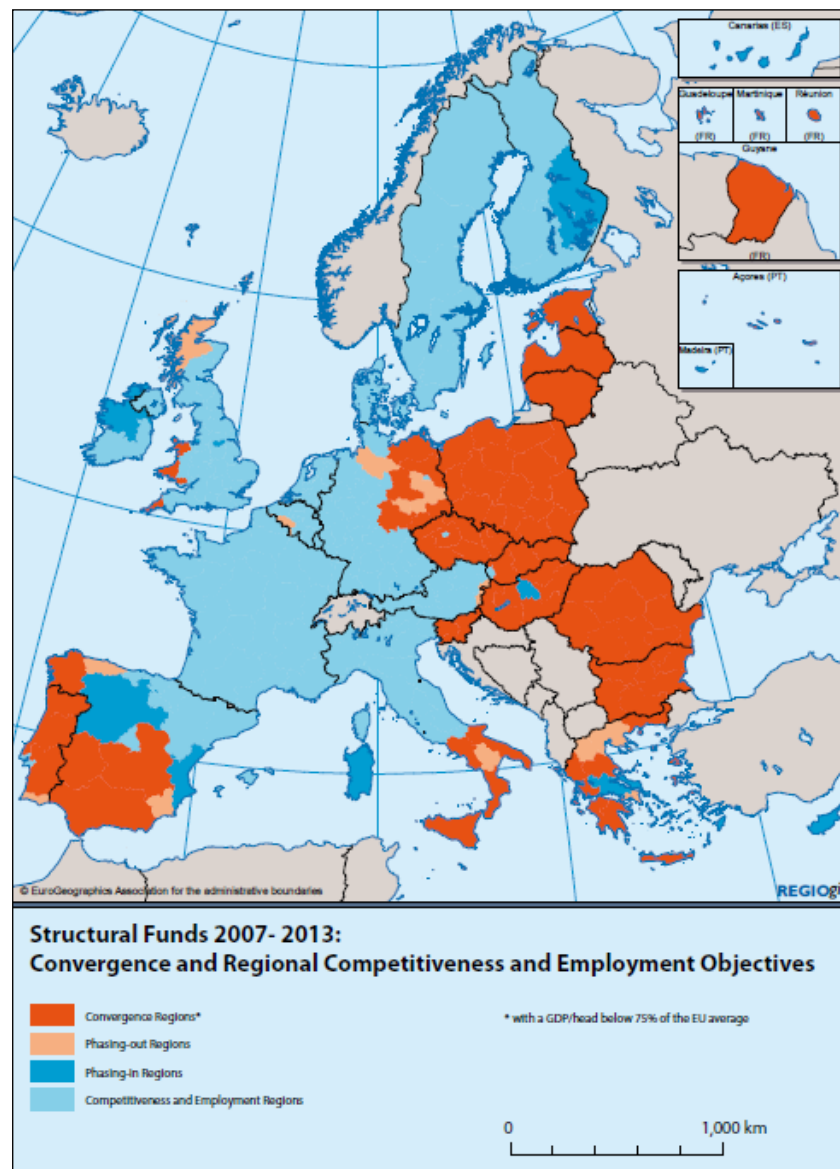
EU Priority Objectives Structural Funds (2000-2006)		
Promoting the developments and structural adjustment of regions whose development is lagging behind ( <b>Objective 1</b> )	Supporting the economic and social conversions of areas facing structural difficulties ( <b>Objective 2</b> )	Supporting the adaptation and modernisation of policies and systems of education, training and employment ( <b>Objective 3</b> )



### FROM REGIONAL DEVELOPMENT TO CONVERGENCE

There were similarities between the EU's Lisbon strategy and the cohesion policy priorities, which led to a more strategic approach for the 2007 – 2013 programming period.

EU Priority Objectives Structural Funds (2007-2013)		
82% of the total amount was to be concentrated on the <b>Convergence</b> objective, under which the poorest Member States and regions are eligible – (largely previous objective 1 regions).	<b>Regional Competitiveness and employment</b> is guided to areas outside the convergence regions (16 %) to support innovation, sustainable development, better accessibility and training projects.	Cross-border, transnational and interregional cooperation falls under <b>European Territorial Cooperation</b> objective (2%).



Guidelines on Cohesion were prepared with the purpose “to foster an increase in the strategic content of cohesion policy with a view to strengthening synergies with, and help to deliver, the objectives of the renewed Lisbon agenda”. Programmes co-financed through cohesion instruments (amounting to EUR 308 bn) should target three priorities:

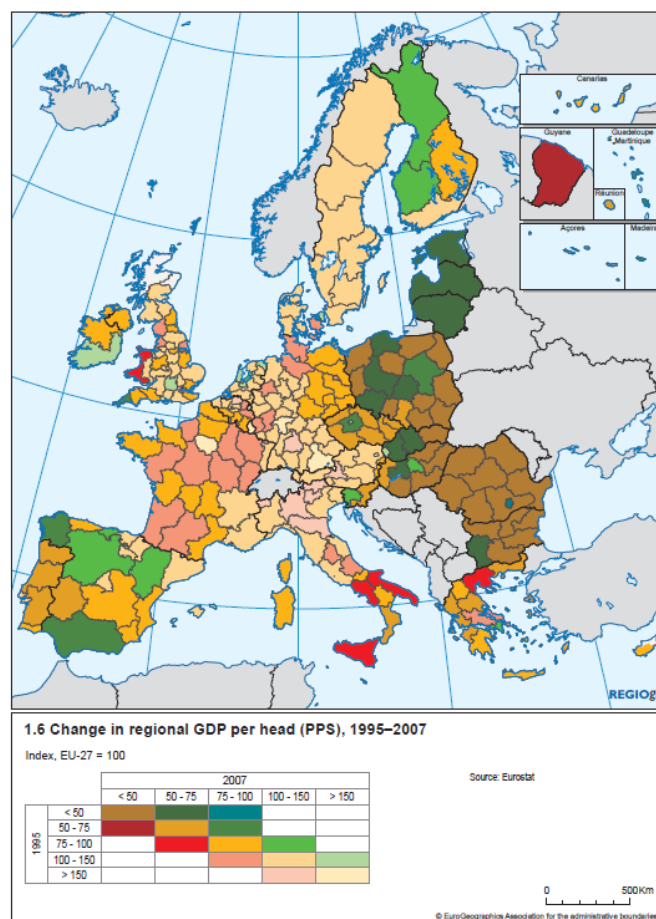
- “improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving the environment
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies, and
- creating more and better jobs by attracting more people into employment entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital”.

## THE COHESION POLICY DEBATE, KEY COMPONENTS AND PLAYERS

If the debate about EU cohesion policy has always been a consubstantial component of its identity, six specific circumstances tend today to re-activate, enlarge and intensify its controversial nature:

- The question of under-absorption of EU funds remains central and has not received a clear and definitive answer. De facto, even though the effective absorption for the 2000-2006 programming period could be considered as having been relatively acceptable<sup>29</sup>, the situation with regards to the current period is still a concern since last estimations for the current state of play give a percentage of around 5 to 10 % at mid-term. This situation could be considered even more worrying considering the numerous elements put in place to facilitate or accelerate this absorption in the framework of the 2007-2013 programming period:
  - a more decentralised implementation system has given more independence of management and more responsibility to Member States and Managing Authorities;
  - four important technical assistance and financial engineering initiatives have been set up with a view to optimising this absorption (JASPERS, JEREMIE, JESSICA and JASMINE);
  - the current 2007-2013 regulation offers many possible adaptations giving more flexibility to financial and legal rules;
- The earmarking exercise mentioned above corresponds in effect to a sort of “Lisbonisation” of cohesion policy, although the adoption of a more thematic approach could be regarded as in contradiction with its original territorial / horizontal dimension. This evolution could partially pave the way for the redistribution of Structural and Cohesion Funds towards other community budgets such as RTD, Transports or Environment where the needs are considerable;
- The real convergence of economies is far from being achieved both at European and national level :
  - most of the main beneficiaries of EU cohesion policy during the last two programming periods –Portugal, Greece, Spain, but also many new member states – have been proportionally more seriously hit by the financial crisis than most of the “net contributors” (Germany, Sweden, the Netherlands);
  - whereas regional disparities were diminishing until 2007, they have tended to deepen since, as stated in the 16 March 2011 edition of the *EIB Weekly Note on Economic and Financial Developments* which stated that “data from regional labour markets suggest that regional differences have deepened since 2007” and “this (...) has likely widened the income gap between poorer and better-off regions in the EU”;
  - the following map extracted from the 5<sup>th</sup> cohesion report depicts also clearly the contrast between some regions with a growth for GDP per head much faster than others (regions in green on the map to be compared to regions in red):

<sup>29</sup> With an outcome of 85-88 %, cf. page 44 & ff of the ex post evaluation synthesis report published by DG REGIO [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/expost2006/wp1\\_synthesis\\_report.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2006/wp1_synthesis_report.pdf)



- The difficulty remains for managing authorities and promoters to find and renew counterparts to cofinance their projects since in many regions public as private money is a scarce commodity. This lack of financial “counterparties” is illustrated by the fact that several managing authorities who often do not absorb all EU grants apply at the same time for EIB framework loans (in Poland in particular);
- Even more worryingly, the direct evidence that cohesion policy expenditure has produced an acceptable rate of return is weak. As stressed by Jérôme Vignon in June 2008<sup>30</sup>, “two [...] elements which justified giving strong influence to the European Commission were the questions of evaluation and of additionality – which should assure the net contributors that the money would be safely used everywhere. I think one of the difficulties is that we have not been able to deliver on those specific innovations. ‘Evaluation and added value’ are large failures in my view and to demonstrate that we have been effective is not much reflected, for example, in the Cohesion Reports.”. This was an opinion shared by recent DG REGIO 5<sup>th</sup> Cohesion report<sup>31</sup> which acknowledges that “higher-quality, better-functioning monitoring and evaluation systems are crucial for moving towards a more strategic and results-oriented approach to cohesion policy”. Thus, the development of cohesion policy is based on uncertain knowledge since explanations of how the economies of regions develop is still short of robust empirical findings. Some interesting recent methodological developments, using more rigorous impact evaluation methodology, intend to address this collective failure, despite the methodological difficulty of defining a policy “counterfactual”, i.e. to describe an hypothetical situation without EU cohesion policy;
- One of the consequences of this lack of evidences is also the emergence of a new scientific paradigm which tends to threaten the genuine theoretical foundations of cohesion policy. Many

<sup>30</sup> “A debate between the officials of the European Commission” in InfoREGIO n°26, June 2008;

[http://ec.europa.eu/regional\\_policy/sources/docgener/panorama/pdf/mag26/mag26\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/panorama/pdf/mag26/mag26_en.pdf)

<sup>31</sup> “Investing in Europe’s future, 5th Report on economic, social and territorial cohesion, 2010, p. xv



academics and experts (Jean Poulit in France or Indermit Gill<sup>32</sup> at the World Bank for instance) are currently questioning the relevance of the place-based approach which is at its very heart. Their arguments tend to demonstrate that it would be more efficient to concentrate the financial means on the most potentially wealthy areas (growth poles) to maximise the economic impact of public spending. According to these iconoclast authors, spending resources on making economic activity more equally distributed across regions may even curb efficiency and economic growth. The paradigmatical necessity to compensate spatial imbalances is thus being seriously challenged.

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<sup>32</sup> See for instance "Regional development policies: place-based or people-centred?" October 2010

## EVALUATION PROCESS AND CRITERIA

In accordance with EV's Terms of Reference, the objectives of evaluation are:

- To assess the quality of the operations financed, which is assessed using generally accepted evaluation criteria, in particular those developed by the Evaluation Cooperation Group, which brings together the evaluation offices of the multilateral development banks. The criteria are:

**a) Relevance** corresponding to the first pillar of value added: is the extent to which the objectives of a project are consistent with EU policies, as defined by the Treaty, Directives, Council Decisions, Mandates, etc., the decisions of the EIB Governors, as well as the beneficiaries' requirements, country needs, global priorities and partners' policies. In the EU, reference is made to the relevant EU and EIB policies and specifically to the EU Treaty that defines the mission of the Bank. Outside the Union, the main references are the policy objectives considered in the relevant mandates.

**b) Project performance, measured through Effectiveness (efficacy), Efficiency and Sustainability and second pillar of value added.**

Effectiveness relates to the extent to which the objectives of the project have been achieved, or are expected to be achieved, taking into account their relative importance, while recognising any change introduced in the project since loan approval.

Efficiency concerns the extent to which project benefits/outputs are commensurate with resources/inputs. At ex-ante appraisal, project efficiency is normally measured through the economic and financial rates of return. In public sector projects a financial rate of return is often not calculated ex-ante, in which case the efficiency of the project is estimated by a cost effectiveness analysis.

Sustainability is the likelihood of continued long-term benefits and the resilience to risk over the intended life of the project. The assessment of project sustainability varies substantially from case to case depending on circumstances, and takes into account the issues identified in the ex-ante due-diligence carried out by the Bank.

Environmental and Social Impact of the projects evaluated and specifically considers two categories: (a) compliance with guidelines, including EU and/or national as well as Bank guidelines, and (b) environmental performance, including the relationship between ex ante expectations and ex post findings, and the extent to which residual impacts are broadly similar, worse or even better than anticipated.

Evaluations take due account of the analytical criteria used in the ex-ante project appraisal and the strategy, policies and procedures that relate to the operations evaluated. Changes in EIB policies or procedures following project appraisal, which are relevant to the assessment of the project, will also be taken into account.

- To assess the EIB contribution (*Third Pillar*) and management of the project cycle:
  - EIB Financial contribution** identifies the financial contribution provided in relation to the alternatives available, including improvements on financial aspects as facilitating co-financing from other sources (catalytic effect).
  - Other EIB contribution (optional)** relates to any significant non-financial contribution to the operation provided by the EIB; it may take the form of improvements of the technical, economic or other aspects of the project.
  - EIB Management of the project cycle** rates the Bank's handling of the operation, from project identification and selection to post completion monitoring.

## **EUROPEAN INVESTMENT BANK OPERATIONS EVALUATION (EV)**

In 1995, Operations Evaluation (EV) was established with the aim of undertaking ex-post evaluations both inside and outside the Union.

Within EV, evaluation is carried out according to established international practice, and takes account of the generally accepted criteria of relevance, efficacy, efficiency and sustainability. EV makes recommendations based on its findings from ex-post evaluation. The lessons learned should improve operational performance, accountability and transparency.

Each evaluation involves an in-depth evaluation of selected investments, the findings of which are then summarized in a synthesis report.

The following thematic ex-post evaluations are published on the EIB Website:

1. Performance of a Sample of Nine Sewage Treatment Plants in European Union Member Countries (1996 - available in English, French and German)
2. Evaluation of 10 Operations in the Telecommunications Sector in EU Member States (1998 - available in English, French and German)
3. Contribution of Large Rail and Road Infrastructure to Regional Development (1998 - available in English, French and German)
4. Evaluation of Industrial Projects Financed by the European Investment Bank under the Objective of Regional Development (1998 - available in English, French and German)
5. An Evaluation Study of 17 Water Projects located around the Mediterranean (1999 - available in English, French, German, Italian and Spanish).
6. The impact of EIB Borrowing Operations on the Integration of New Capital Markets. (1999 – available in English, French and German).
7. EIB Contribution to Regional Development A synthesis report on the regional development impact of EIB funding on 17 projects in Portugal and Italy (2001 – available in English (original version), French, German, Italian and Portuguese (translations from the original version)).
8. Evaluation of the risk capital operations carried out by the EIB in four ACP countries 1989-1999 (2001 - available in English (original version), French and German (translations from the original version)).
9. EIB financing of energy projects in the European Union and Central and Eastern Europe (2001- available in English (original version), French and German (translations from the original version))
10. Review of the Current Portfolio Approach for SME Global Loans (2002 – available in English (original version), French and German (translations from the original version)).
11. EIB Financing of Solid Waste Management Projects (2002 – available in English (original version), French and German (translations from the original version)).
12. Evaluation of the impact of EIB financing on Regional Development in Greece (2003 – available in English (original version) and French (translation from the original version)).
13. Evaluation of Transport Projects in Central and Eastern Europe (2003 – available in English (original version)).
14. EIB Financing of Urban Development Projects in the EU (2003 – available in English (original version), French and German (translations from the original version)).
15. Evaluation of the Projects Financed by the EIB under the Asia and Latin America Mandates (2004 – available in English (original version), French, German and Spanish).
16. Evaluation of EIB Financing of Airlines (2004 – available in English (original version) French and German)
17. Evaluation of EIB Financing of Air Infrastructure (2005 - available in English (original version) German and French)
18. EIB financing with own resources through global loans under Mediterranean mandates (2005 - available in English (original version) German and French.)
19. Evaluation of EIB Financing of Railway Projects in the European Union (2005 - available in English (original version) German and French.)
20. Evaluation of PPP projects financed by the EIB (2005 - available in English (original version) German and French).
21. Evaluation of SME Global Loans in the Enlarged Union (2005 - available in English (original version) and German and French.)

## **EUROPEAN INVESTMENT BANK OPERATIONS EVALUATION (EV)**

22. EIB financing with own resources through individual loans under Mediterranean mandates (2005 - available in English (original version) and German and French.)
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