

October 2007



From regional development to convergence



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

Operations Evaluation

Economic and social cohesion

EIB financing of operations in Objective 1 and Objective 2 areas in Germany, Ireland and Spain

Prepared by
Werner Schmidt (team leader)
Ulrich Brunnhuber
Deirdre Gloster
Raul Guerrero
Alexandre Berger



A. Sève
 Head of Operations Evaluation

Glossary of Terms and Abbreviations

Borrower The legal *persona* with whom the Bank signs a Loan Agreement.

CA EIB's Board (*q.v.*) The EIB Board of Directors, which has the power to take decisions in respect of loans, guarantees and borrowings.

CD EIB's Management Committee (*q.v.*)

Community Initiatives

LEADER Liaisons Entre Actions de Développement de l'Économie Rurale" – support for rural development projects

INTERREG III Cooperation initiatives between different EU regions as well as neighbouring non-EU countries

EQUAL Aims to combat discrimination in the workplace

URBAN II Support of economic and social regeneration of urban areas

COP Corporate Operational Plan

EIB European Investment Bank

ERR Economic Rate of Return

EV EIB Operations Evaluation (Ex-Post)

FIRR Financial Internal Rate of Return

JASPERS (Joint Assistance in Supporting Project in European Regions) is a technical assistance partnership between the European Commission, the EIB and the EBRD to assist some Member States and regions in the preparation of major projects

JEREMIE (Joint European Resources for Micro and Medium Enterprises) is an initiative of the EIB and EIF and the European Commission to increase access to finance for micro, small and medium sized enterprises

JESSICA (Joint European Support for Sustainable Investment in City Areas) is an initiative of the European Commission, the EIB and the Council of Europe Development Bank to promote sustainable investment in urban areas

Management Committee The Management Committee is the Bank's permanent collegiate executive body (9 members). Under the authority of the President and the supervision of the Board of Directors, it oversees day-to-day running of the EIB, prepares decision for the Directors and ensures that these are implemented.

OpsA	EIB Directorate for Lending Operations – EU Member, Acceding, Accession and Candidate States
PJ	EIB Projects Directorate – Responsible for <i>ex-ante</i> project techno-economic analyses, the preparation of the Technical Description, and the physical monitoring of implementation and completion
PCR	Project Completion Report
Project	A clearly defined investment, typically in physical assets, e.g. a specific section of road, a bridge, etc.
Promoter	Normally the <i>persona</i> responsible for identifying and developing a project - may also be responsible for operation and/or implementation.
RM	EIB Risk Management Directorate, responsible for credit appraisal and portfolio management
SPV	Special Purpose Vehicle – A company, with its own legal <i>persona</i> , set up for a limited set of specific purposes.

Structural Funds

ESF	European Social Fund
ERDF	European Regional Development Fund
EAGGF	European Agricultural Guidance and Guarantee Fund
FIFG	Financial Instrument for Fisheries Guidance
TA	Technical Assistance
Technical Description	Project definition – prepared by PJ

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The EIB has an obligation of confidentiality to the owners and operators of the projects referred to in this report. Neither the EIB nor the consultants employed on these studies will disclose to a third party any information that might result in a breach of that obligation, and the EIB and the consultants will neither assume any obligation to disclose any further information nor seek consent from relevant sources to do so.

Executive Summary

Introduction

This ex-post evaluation covers EIB financing of a sample of thirteen projects located in Germany, Ireland and Spain and eligible for EIB financing under 'regional development' and/or 'economic and social cohesion' during the period 1995-2006. The evaluation assessed the projects against the EIB's standard evaluation criteria (Relevance, Effectiveness, Efficiency, Sustainability and Environmental Impact), as well as the Bank's contribution and performance in these projects.

The following elements are key for this evaluation a) a comprehensive portfolio review analysing EIB financing trends b) detailed desk reviews and in-depth evaluation and synthesis. In order to increase the relevance of this evaluation and its informational value, the analysis of previously evaluated projects (26) located in assisted areas in the three countries together with the review of the self-evaluation process by analysing recent project completion reports (119) has been conducted. A total of 158 projects in regional assisted areas in Germany, Ireland and Spain were thus considered for this report.

Lending for regional development ("Economic and social cohesion") is part of the EIB Statutes and continues to be the first of the main operational objectives of the Bank.

Signatures in Germany, Spain and Ireland combined (EUR 128.2 bn) amounted to almost one third of total EIB signatures in the EU during the reference period. Signatures in assisted areas of the three countries amounted to 58% of all signatures (EUR 74.5 bn). Analysing the sectoral distribution of EIB signatures in assisted areas in the three countries, it is evident that Transport/ Communications and Electricity/Gas together account for about 50 % of total lending.

Relevance

Since the origin of the European Union, its main objective was to contribute to a balanced development throughout the EU and the reduction of structural disparities between regions. Various specific instruments and mechanisms were developed 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 (with Economic Monetary Union - EMU and the single market). 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. Moreover, article 267 of the EU Treaty has been extended such that "the Bank shall facilitate the financing of investment programmes in conjunction with assistance from the Structural Funds and other community financial instruments". At the same time, public expenditure in Member States is far greater than the amount spent by the EU on cohesion policy. Since the beginning of the EIB, regional development has been and continues to be the main operational priority of the Bank. In general more than two thirds of total EIB lending went to the poorest parts of the European Union (< 75% of average EU GDP and regions with structural deficits). This EIB objective was implemented through the transfer of a predetermined EU framework. Specifically identified geographical locations ("assisted areas") were taken as a delineation of one of the main eligibility criteria for the Bank. The Bank has significantly increased its coordination and cooperation with the EU Commission as well as Member States in recent years.

All projects evaluated were fully consistent with EU, Member States as well as EIB objectives and priorities, demonstrating the strong coherence between the operations financed by the Bank and EU policies translated in the Bank's strategy. The extended scope review of previously evaluated projects confirms the findings of this evaluation.

Project Performance

Beyond their geographic and sectoral dispersion, the 13 operations under evaluation form three clusters driven by the size/nature of the underlying projects: individual operations, with project boundaries clearly defined and identified ex ante. On the other end of the spectrum are large framework operations (by volume or schemes) with 1000+ partly unidentified subprojects. And finally, from an evaluation perspective, there are projects with less than 100 subprojects, which were mostly identified ex ante. In this evaluation these are referred to as framework-type

operations. Differences between these three categories have clear implications from an evaluation standpoint and will be highlighted below.

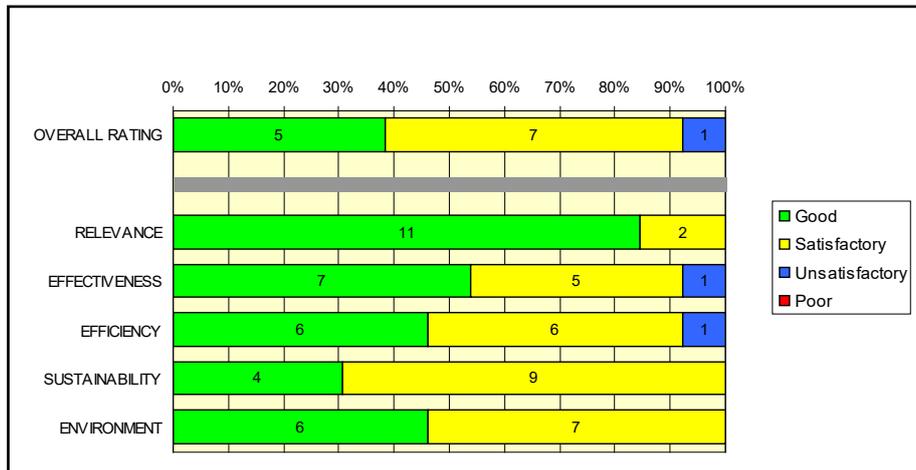
The vast majority (92%) of the 13 projects were rated satisfactory or better for the extent to which their objectives (“Effectiveness”) have been achieved. Most of the projects evaluated not only delivered on the physical implementation, but EV found clear indications that also higher-level operational objectives have been or are being achieved. Only one project failed to deliver beyond the mere physical implementation.

All but one project had ratings of satisfactory or better for the “Efficiency” criterion (92%), which is a very good result. Six projects were rated Good, thanks to high utilisations of the assets (with ex post demand exceeding expectations) and to very favourable overall economic impacts. Large infrastructure projects tend to have long planning, implementation and operational time horizons, which bring with them a fairly high degree of uncertainty about future market/demand aspects. This uncertainty may be driven by trends to move from regulated to liberalized markets, by the incertitude of traffic forecasts, or by time horizons that span over multiple generations.

For the “Sustainability” criterion, all 13 projects received a satisfactory or better rating; in fact, despite the natural uncertainty inherent in the long-term prospects of infrastructure projects with economic lives of between 15 and 80+ years, 4 projects (two urban transport, one water, one energy) obtained a good rating.

Overall, this positive outcome is a reflection of the high-quality specifications of the physical assets, the competency of the promoters/operators and the projects’ financial sustainability; many of the projects are providing basic infrastructure (roads, urban transport, drinking water supply, etc.), where public authorities have an obligation to deliver this public good over the long-haul, i.e. sustainability can often be assumed.

The findings regarding the “Environmental Impact” criterion are remarkable. This positive result is a reflection that (i) all projects were in compliance with EU and/or national guidelines, and (ii) beyond appropriate measures to minimise, mitigate and/or compensate environmental impacts, many projects display positive environmental externalities. Moreover, many promoters now handle their environmental performance in a transparent manner, by publishing – at times even in an audited form – separate Environment or Social Responsibility reports and/or by disclosing environmentally relevant information on their internet sites.



The global rating for 92% of all projects evaluated was satisfactory or good. No project was rated overall poor, nor did any project receive a poor rating on any of the separate evaluation criteria. This finding confirms that the overwhelming majority of the projects have achieved their objectives. As the evaluation found this achievement goes beyond the mere physical implementation to include the fulfilment of higher-level objectives (such as improved water supply, reduced accident rates, diversification of energy supply, etc.).

The project performance ratings of previously evaluated operations as well as the overall global ratings are slightly below the findings of this current evaluation, with the following results of “satisfactory or better”: Relevance 100%, Effectiveness 85%, Efficiency 80%, Sustainability 92%.

However, it needs to be taken into account that for some of the previous evaluations *efficiency* and *sustainability* were not rated. The global ratings for the previous projects are 85% *satisfactory or better*, while one project was rated overall poor, and 3 did not receive an overall rating.

Impact on Economic and Social Cohesion

The relationship between infrastructure investments and socio-economic development is highly complex. The EIB's core priority has since the beginning been to contribute to reduce regional disparities between regions and for this evaluation a qualitative appreciation of the project's impact on socio-economic development has been conducted for all projects evaluated. The methodology followed the one applied in recent evaluations and socio-economic impacts were grouped along four main themes: Employment, accessibility, efficiency and output, and social inclusion.

Temporary and permanent *employment effects* are often an important policy objective for a project. Although temporary employment effects (during construction) were particularly high in some projects, their direct employment effects have not been significant. Improved *accessibility* through the strengthening of the basic infrastructure potential contributes to more balanced living condition within a region. Large infrastructure projects for instance reduced travel costs/time and/or energy costs. Some of the large road as well as energy projects allowed the connection to hinterland networks, thereby impacting on a large section of the population. *Efficiency and output* impacts of the transport projects were noted in the form of reduced road transport induced casualties and intensification of the urbanisation process. Most energy projects impacted positively on supply security. *Social inclusion* effects or effects on the well being of societies and people are particularly difficult to measure and are particularly important for the public transport projects. Often the larger framework projects improved transport, water and/or energy situation of an entire region or even country.

EIB Contribution and Project Cycle Management

The overall findings are positive, since in more than 2/3 of the projects the Bank had a critical role in the funding (interest rate, tenor, flexibility) aspects of these projects. In addition, in three projects the Bank provided important non-financial value added to the projects.

As a major infrastructure financier throughout Europe, the Bank had good relationships with most counterparts. Appraisal depth was clearly linked to the operations' techno-economic, environmental and/or financial complexities. Although the overall Bank's performance on project-cycle management has been more than satisfactory for the projects evaluated, certain deficiencies in the internal management of the project cycle are apparent.

Table of recommendations

	Observations & Recommendations	Response of the Operational Directorates
1.	<p>Observation: This evaluation found good examples, where promoters in the public sector had developed innovative approaches to solve common problems or good practise standards.</p> <p>Recommendation: IDENTIFY MEANS TO DISSEMINATE POSITIVE EXPERIENCES</p> <p>The Bank should identify new ways/platforms to support exchanging and disseminating good practise standards from successfully operating public sector promoters. This could be done through the organisation of specific workshops and/or to be considered within the existing technical assistance programmes of the Bank.</p>	<p>Agree. The Bank will continue its support and cooperation with the public sector at national, regional or local level and, where relevant, other IFI's support of successful implementation practices incl. technical and advisory assistance in large projects. The Bank's services are increasingly solicited for advice on both project formulation and implementation – and thus currently working on the re-enforcement of delivery mechanisms – as well as on appropriate forms of finance. This is currently done for instance by means of the European PPP Expertise Centre (EPEC).</p>
2.	<p>Observation: A number of projects in the sample can be characterised as large framework operations, which have been appraised before the new framework procedures were introduced. These framework operations have specific characteristics in the <i>ex ante</i> appraisal (influencing, in turn, monitoring as well as <i>ex post</i> evaluation). The level of subproject identification varied considerably across these operations. A lack of specificity <i>ex ante</i> tended to blur the visibility at the implementational level <i>ex post</i>. Furthermore, some of these projects covered a wider range of sectors and investment activities.</p> <p>Recommendations: APPLY CONSISTENTLY THE NEW PROCEDURES FOR FRAMEWORK OPERATIONS</p> <p>The Bank should clearly weigh its options, when deciding on the <u>focus</u>, <u>level</u>, <u>timing</u> and <u>depth</u> of the <i>ex ante</i> appraisal for these large framework operations.</p> <ul style="list-style-type: none"> ➤ The evaluation has demonstrated that in particular operations with several promoters, acting in different sectors require clear guidelines for project appraisal and monitoring. ➤ With new promoters, the Bank should consistently consider more in-depth economic analyses on a sample of subprojects to assess the promoter's capacity to pick sound projects. ➤ In extreme cases, where very small parts of the programme are delayed, project analysts could be tempted to postpone "project completion dates" for a long time. Therefore, specifically for framework loans covering a number of different components (water, sewage, road schemes, etc.), regular progress reporting should be applied and detailed progress reports should be prepared once each of the major individual sub-schemes have been completed. 	<p>Agree. It should be noted that the initial notion of "framework operations", used in most operations here under review had been relatively wide. A more concrete definition and related procedures have been established in 2005 and these new procedures are now introduced into the manuals.</p> <p>Moreover, given the nature and diversity of FL operations, it is recommended that the Bank's due diligence is based on a case by case approach in line with Framework Loan procedures. Large programme components should be treated in more detail, whereas a modulated approach is warranted for small scale schemes and for schemes co-financed with the Commission. Modulation should also be based on the <i>ex ante</i> assessment of the promoter's experience, capacity and capability to handle FL operations.</p>

<p>3. Observation: This evaluation found instances where relevant <i>ex ante</i> information was not retained largely due to personnel changes</p> <p>Recommendations: ENSURE CONSISTENT DOCUMENT HANDLING</p> <p>➤ Clear rules of document handling (“chain of custody”) have to be followed or need to be put in place.</p>	<p>Agree. Clear document handling rules exist and their consistent application is to be ensured.</p>
<p>4 Observation: One key step in the Bank’s institutional learning process is the self-evaluation procedure and improvements of the monitoring processes are under implementation. While the monitoring results for the projects covered in this evaluation are still not fully satisfactory, based on this evaluation the Bank’s services are increasingly making use of the specific <i>learning space</i>.</p> <p>Recommendations: CONTINUE TO IMPROVE SELF EVALUATION</p> <p>➤ The Bank should further encourage the use of its learning space, and strive to enhance consistency in the use of the PCR across the Pillars of Value Added. Appropriate measures should be taken to ensure that the brain/knowledge drain is limited, when staff mobility/departure is increased. It seems appropriate to ensure in a period with high staff changes, that relevant project counterparts are consulted when drafting a PCR.</p>	<p>Agree.</p>

1. Introduction

This ex-post evaluation covers EIB financing of a sample of thirteen projects located in Germany, Ireland and Spain and eligible for EIB financing under ‘regional development’ and/or ‘economic and social cohesion’ during the period 1995-2006. The country selection follows the EV strategy and takes due account of previously evaluated operations (e.g. Greece, Italy, Portugal etc.). In line with standard EV practices, this evaluation assesses relevance and performance of the projects (Effectiveness, Efficiency, Sustainability and Environmental Impact) evaluated. Furthermore, EIB’s contribution and project cycle management in these projects is specifically analysed.

The evaluation has two primary functions. Firstly, to increase transparency to the EIB’s governing bodies, as well as interested outside parties and, secondly, as a learning exercise to provide assistance to the Bank’s operational departments, thereby increasing the Bank’s value added in future operations.

Approach and methodology (see also Annex 3)

The comparison of ex-post results with the expectations and objectives at appraisal is the main basis for the evaluation of the operations, which was carried out by internal EV staff. In accordance with the Bank’s evaluation procedures, individual projects were rated in four categories: “Good”, “Satisfactory”, “Unsatisfactory” and “Poor”¹.

The following steps are key elements for this evaluation for the three countries:

- a) A comprehensive portfolio review analysing EIB financing trends, sector distributions in the three countries between 1.1.1995 and 31.12.2006.
- b) A project completion report review - based on an analysis of 119 Project Completion Reports (PCRs) issued from 2004 to 2006 (see chapter 3.5).
- c) An analysis of previous evaluations - in recent years, projects in Germany, Ireland and Spain have been evaluated on several occasions². In order to increase the relevance of the selected sample and the informational value of this evaluation, an analysis of the results of previously (between 2001 and 2007) evaluated (26) projects in the countries concerned with Objective 1 and/or 2, or other regional development eligibilities was performed (chapters 2 and 3). The following thematic evaluations included projects from Germany (13) and Spain (13), with cohesion objectives: Solid Waste Projects (2001), Urban Development Projects (2002), Railways in the EU (2004), PPP Projects (2004), Air Infrastructure Projects (2004), Education and Training (2006), Cross-Border TENs (2006), Health Projects (2007).
- d) Detailed desk reviews were done for thirteen projects, which were chosen to represent a good selection in terms of country coverage, loan volume, sector, size and type of operation, while duly considering the previously evaluated project sample. Given the large number of projects³ (832 of which 520 in Assisted Areas) implemented over the time period considered (1995-2006) and considering EV’s recent and future work programme, rather strict initial selection criteria have been applied (i.e. sectors, signature after 2000 etc.). However, the sample and the enlarged analysis provide a good representation of the projects signed in the individual years.

¹ “High”, “Significant”, “Moderate” and “Low” for EIB contribution.

² Though since 2001 no individual evaluations of Irish projects were performed; evaluations prior to 2001 employed different rating scales. The following thematic evaluations included projects from Germany (13) and Spain (13), with cohesion objectives: Solid Waste Projects (2001), Urban Development Projects (2002), Railways in the EU (2004), PPP Projects (2004), Air Infrastructure Projects (2004), Education and Training (2006), Cross-Border TENs (2006), Health Projects (2007).

³ 402 in Germany, of which 213 in Assisted Areas; 379 in Spain, of which 265 in Assisted Areas and 51 in Ireland of which 42 in assisted areas.

The following table summarises the main features of the selected thirteen projects.

Project	Sector	Operation/EIB Loan Size*	Operation	Counterpart
GERMANY				
Project 1	Roads	Large/Large	Modernisation	Public
Project 2	Roads	Medium/Medium	Modernisation	Public
Project 3	Water	Small/Small	Greenfield	Public
Project 4	Energy	Large/Large	Modernisation/Expansi	Private
Project 5	Light Railway	Medium/Medium	Modernisation	Private
IRELAND				
Project 6	Light Railway	Large/Medium	Greenfield	Public
Project 7	Energy	Large/Medium	Modernisation	Public
Project 8	Public Administration / Water	Medium/Small	Modernisation	Public
SPAIN				
Project 9	Roads	Medium/Medium	Greenfield	Private
Project 10	Water	Small/Small	Modernisation	Private
Project 11	Energy	Medium/Large	Greenfield	Private
Project 12	Roads	Medium/Large	Greenfield	Public
Project 13	Roads/Water	Medium/Large	Greenfield/Modernisati	Public

* Operation size/EIB Loan size – small < EUR 200/100 million, large > 500/250 million.

- e) In-depth evaluation & synthesis: During the last step, detailed project analysis and field visits for the projects have been conducted. Individual evaluation reports have been prepared and discussed with the 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 EIB staff. They will not be released to outside parties and the EIB will not approach promoters for their permission for a wider circulation. This evaluation report is a synthesis of the findings of the individual evaluations and the complementary analysis (PCR, already evaluated projects) considers a total of 158 projects for its conclusions. Conclusions on framework loans also consider the findings from other recent evaluations (RDI, Health).

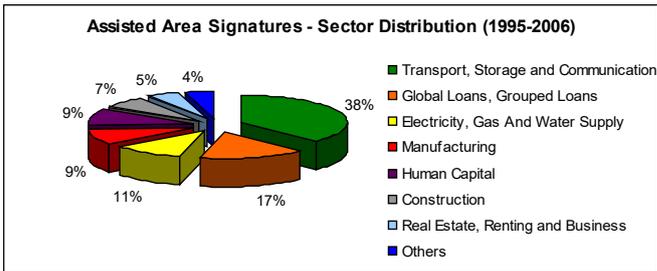
EIB portfolio in Objective 1 and 2 Areas in Germany, Spain and Ireland, 1995 – 2006

The evaluation covers EIB financing from own resources of operations eligible under Economic and Social Cohesion in the Objective 1 and 2 Areas of the Federal Republic of Germany, the Kingdom of Spain and Ireland from 1995 to 2006.

Since the inception of EIB lending, lending for regional development (“Economic and social cohesion”) was and continues to be the first of the main operational objectives of the Bank.

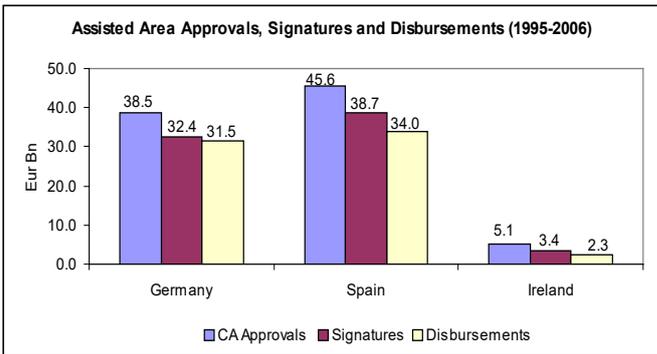
Between 1.1.1995 and 31.12.2006, EIB signatures on own resources in the EU amounted to EUR 391.9 bn. Signatures on own resources in Germany, Spain and Ireland combined amounted to almost one third of this amount (EUR 128.2 bn). Signatures in Objective 1 and 2 areas of Germany, Spain and Ireland amounted to EUR 74.5 bn (58% of total signatures). The development of signatures in assisted and non-assisted areas in the three countries is presented in Annex 2.

The sectoral distribution of EIB signatures in Objective 1 and 2 areas is depicted in this graph. Transport, Storage and Communications (EUR 27.9 bn) and Electricity and Gas (EUR 8 bn) together account for about 50 % of total lending in Objective 1 and 2 areas.



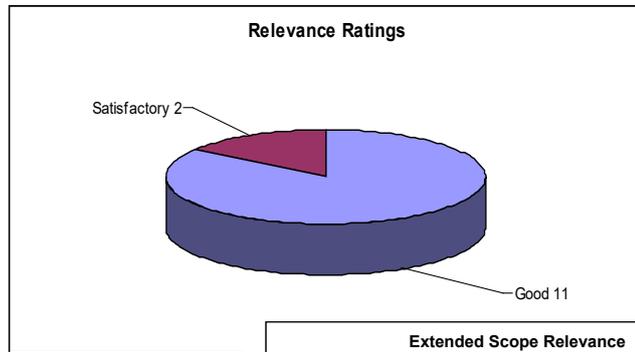
While lines of credit ('Global Loans') account for roughly 35% of total lending in the overall signatures for the three countries, its share amounts to 17% in assisted areas.

A review of the evolution of EIB Board approvals, contract signatures and disbursements reveals the following trends: in Spain, 85% of projects approved were signed and 88% of projects signed were disbursed, and in Germany, 84% of projects approved were signed and 97% of projects signed were disbursed. The translation of approvals into signatures and ultimately disbursements is lower for Ireland, where 66% of projects approved were signed and 68% of projects signed were disbursed.

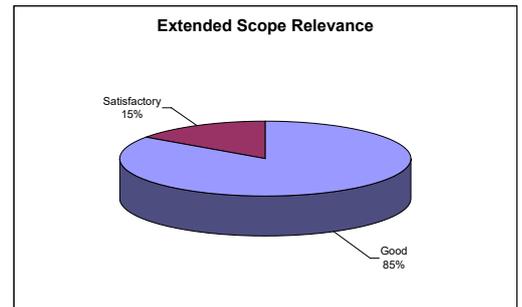


2. Policies and strategies - Relevance

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. The following chapter presents a brief overview about the main EU cohesion objectives and policies and their definition for the 2000 – 2006 programming period for the three countries. This forms the basis for the analysis and the transposition of these objectives into EIB policy. Since almost all projects evaluated were appraised and signed since 2000, therefore a concentration on this period is justified.



The projects were consistent with **EU** and the relevant **Member States** objectives and priorities, as outlined in the relevant Structural Fund Guidelines and the Community Support Frameworks for the countries. All projects evaluated were eligible for **EIB** funding under “regional development/economic and social cohesion” and had also at least one additional EIB eligibility. They were all consistent with the general EIB policies and guidelines.



The evaluation results for the 13 projects are depicted in the graph (above), which is a very positive outcome, demonstrating the strong coherence between the operations financed by the Bank and EU policies translated in the Bank’s strategy. The extended scope review of previously evaluated projects confirms the findings of this evaluation (see graph, and “extended scope” at the end of Chapter 2.2).

2.1. EU, Member States Policies and Objectives

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 regions⁴. Various specific Instruments and mechanisms were developed (i.e. European Social Fund, European Agriculture Guidance and Guarantee Fund) to help achieving these objectives (see also Annex 2).

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 (with Economic Monetary Union - EMU and the single market).

The objective of strengthening economic and social cohesion is explicitly referred to in Article 2 of 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 activity for Economic and Social Cohesion as well as Member States activities and coordination are founded on articles 158 - 160 of the Treaty: “... to promote its overall harmonious

⁴ See preamble to the Treaty establishing the European Community, signed on 25 March 1957.

development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities...” and “The European Regional Development Fund is intended to help to redress the main regional imbalances in the Community...”.

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 region⁵. The specified objectives for the EU as well as the three Member States concerned for the period 2000 – 2006⁶ are presented in the table below.

EU Priority Objectives Structural Funds (2000-2006)		
Promoting the developments and structural adjustment of regions whose development is lagging behind (Objective 1)	Supporting the economic and social conversions of areas facing structural difficulties (Objective 2)	Supporting the adaptation and modernisation of policies and systems of education, training and employment (Objective 3)
Country priorities under the relevant Community Support Framework for (2000-2006)		
<p>GERMANY</p> <ol style="list-style-type: none"> 1) Promoting competitiveness in trade and industry (in particular among SME's) 2) Infrastructure measures 3) Protecting and improving the environment 4) Promoting human resources and equal opportunities 5) Promoting rural development and fisheries 6) Technical assistance 	<p>IRELAND</p> <ol style="list-style-type: none"> 1) Development of economic and social infrastructure 2) Employment and human resource development 3) Productive sector investment 4) Balanced regional development 5) Rural development 6) Social inclusion <p>+ Separate operational programmes for PEACE and technical assistance.</p>	<p>SPAIN</p> <ol style="list-style-type: none"> 1) Improving competitiveness and developing the productive fabric 2) Knowledge society 3) Environment, natural areas and water resources 4) Development of human resources, employability and equal opportunities 5) Local/ urban development 6) Transport, energy networks 7) Agriculture/rural development 8) Fisheries structures and aquaculture 9) Technical assistance

⁵ Full details about the procedures for the 2000-2006 programming period can be found in Council Regulation (EC) No 1260/1999 of 21 June 1999.

⁶ The projects evaluated were implemented during this period, which serves as basis for the relevance assessment.

From regional development to convergence: There were similarities between the EU's Lisbon strategy and the cohesion policy priorities, which have led to a more strategic approach for 2007 - 2013. Guidelines on Cohesion have been 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 or entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital”*.

82% of the total amount will be concentrated on the **Convergence** objective, under which the poorest Member States and regions are eligible – (largely current objective 1 regions).

Regional Competitiveness and employment 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 the **“European Territorial Cooperation”** objective (2%).

2.2. EIB Policies and Objectives

EIB mandate and objectives: Since the beginning of the EIB, regional development has been and continues to be the main operational priority of the Bank. In Article 267 of the Treaty, defining the missions and main objectives of the Bank, it is clearly stated that EIB should support *“projects for developing less developed regions”*. Further, in the protocol on economic and social cohesion annexed to the Treaty, Member States *“reaffirm their conviction that the EIB should continue to devoting the majority of its resources to the promotion of economic and social cohesion”*. In general more than two thirds of total EIB lending went to the poorest parts of the European Union (< 75% of average EU GDP and regions with structural deficits).

This EIB objective was implemented through the transfer of a predetermined EU framework. Specifically identified geographical locations (“assisted areas”) were taken as a delineation of one of the main eligibility criteria for the Bank. However, the Bank “exercises its discretionary power regarding not only the choice of individual operations, but also the sectors in a given area to be covered and the type of eligible investment.”⁷

⁷ EIB Eligibility Guidelines, May 2004
(http://www.eib.org/attachments/strategies/eligibility_guidelines_en.pdf)

The new strategic cohesion policy for 2007 – 2013 is translated by EIB to continue lending in the new convergence regions (including phasing in and out regions). The other objectives of the EU structural funds will be supported through other existing lending priorities.

It is to be noted that in line with the need for further improved coordination and cooperation the Bank has significantly increased its cooperation with the EU Commission as well as Member States in recent years. In addition, three new instruments, JASPERS, JESSICA and JEREMIE have been implemented (see text box). In addition, the discussions also increasingly involve local authority levels, including regions and municipalities.

Furthermore, the recent restructuring of the Bank’s project department to closely align with core COP objectives has induced the creation of a new department “Convergence and Environment”, which should contribute to focus the Bank’s activities further towards this priority objective.

All projects evaluated were eligible for EIB funding under “regional development/economic and social cohesion” and had also at least one additional EIB eligibility. They were all consistent with the general EIB policies and guidelines.

New instruments: JASPERS, JEREMIE and JESSICA

The EU had until the end of 2006, four Structural Funds (ESF – European Social Fund, ERDF European Regional Development Fund, EAGGF – European Agricultural Guidance and Guarantee Fund and FIGG – Financial Instrument for Fisheries Guidance) and the Cohesion Fund, plus four “Community initiatives” (LEADER +, INTERREG III, EQUAL, URBAN II). Since 1.1.2007, there are only two Structural Funds left (ESF, ERDF), whereby the other two have been combined under one instrument in the Common Agricultural Policy. The Cohesion Fund has been retained, while Community initiatives do no longer exist as separate entities.

New instruments should support efficient and sound fund management and closer cooperation between the European Commission, the EIB and other financial institutions aim to strengthen capacity building:

JASPERS (Joint Assistance in Supporting Project in European Regions) is a technical assistance partnership between the EU Commission, the EIB and the EBRD to assist some Member States and regions in the preparation of major projects

JEREMIE (Joint European Resources for Micro and Medium Enterprises) is an initiative of the EIB and EIF and the Commission to increase access to finance for micro, small and medium sized enterprises.

JESSICA (Joint European Support for Sustainable Investment in City Areas) is an initiative of the Commission, the EIB and the Council of Europe Development Bank to promote sustainable investment in urban areas.

Extended scope: “Relevance” of previously evaluated projects with cohesion eligibilities

Previous evaluation results: In order to increase the coverage of this evaluation and its informational value, an analysis of the results of previously evaluated projects was performed. Since 2001, EV has evaluated 26 individual projects in Germany and Spain that had an Objective 1 and/or 2, or other regional development eligibilities. These projects cover a wide variety of industries and sectors, including *education, health, urban development, infrastructure (rail, road, etc.), and others* (solid waste, energy). Their ratings on Relevance is illustrated in the table below, which closely mirrors the overall positive rating for Relevance in this evaluation: 85% were considered good, and 15% satisfactory, which is in fact an indication that *all* can be considered *fully* relevant.

RATING "RELEVANCE" OF PAST EIB EVALUATED PROJECTS WITH A COHESION ELIGIBILITY											
Sectors	Good	Satisfactory	Unsatisfactory	Poor	Not rated	Total					
Education	6	0	0	0	0	6					
Health	6	0	0	0	0	6					
Urban Development	4	1	0	0	0	5					
Infrastructure	4	2	0	0	0	6					
Others	2	1	0	0	0	3					
Total	22	4	0	0	0	26	85%	15%	0%	0%	0%

3. Project Performance

Project performance, relating to EIB’s second pillar of value added, is assessed using the three core evaluation criteria, namely Effectiveness (3.1), Efficiency (3.2) and Sustainability (3.3), which are all rated individually in this section. Beyond these criteria, EV systematically highlights the Environmental Impact of the projects under evaluation. This is achieved through the addition of specific “Environmental” ratings (3.4), which are considered an integral part of the overall project performance (3.5).

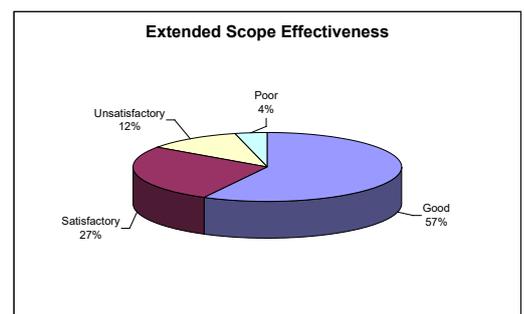
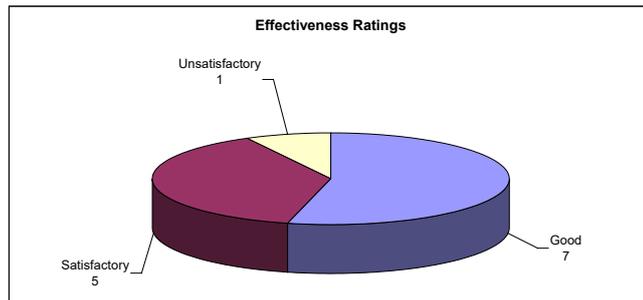
Beyond their geographic and sectoral dispersion (see Chapter 1), the 13 operations under evaluation form three clusters driven by the size/nature of the underlying projects: 6 operations can be classified as individual operations, with project boundaries clearly defined and identified ex ante (Projects 3,5,6,9,11,12). On the other end of the spectrum are 4 large framework operations (Projects 1,2,4,7), with 1000+ partly unidentified subprojects. And finally, from an evaluation perspective, there are 3 projects (Project 8,10,13) with less than 100 subprojects, which were mostly identified ex ante. In this evaluation these are referred to as framework-type operations. Differences between these three categories have clear implications from an evaluation standpoint and will be highlighted below.⁸

3.1. Effectiveness

Project Effectiveness rates the extent to which project objectives have been achieved, based on the following two major parameters: a) implementation: the evaluation looked at completion information: coherence with the technical description, timing, procurement, costs and funding, and b) operation: achievement of higher-level objectives, management and organisation of project operations, and cooperation and coordination with counterparts.

The result is positive, since for the vast majority (92%) of the projects the extent to which their objectives have been achieved was satisfactory or better. Regarding effectiveness the extended scope review of previously evaluated projects is slightly below the findings of this current evaluation.

Only one project (9) failed to deliver beyond the mere physical implementation. In this particular case – a toll-road project – the physical infrastructure was implemented more or less within budget, albeit with a delay of one year; however, the road’s current utilisation is significantly below design capacity and consequently some of the higher-level objectives, such as improved reliability and safety through a reduction in congestion of the toll-free alternatives and/or a better interurban traffic distribution in the region, have not been achieved.



Most of the projects evaluated not only delivered on the physical implementation, but EV found clear indications that also higher-level operational objectives have been or are being achieved. At times these findings are based on aggregate observations for the promoter or a specific region, and hence a clear causal link between the project and the higher-level effect cannot always be established. Still, some overall positive results include: Improved accident rates for road projects (1,2,12), increased availability, speed, and comfort for urban transport (5,6), a more reliable and improved water supply or waste water

⁸ N.B.: This categorisation was introduced for purposes of this evaluation and does not necessarily reflect EIB nomenclature.

treatment meeting EU-Directives (3,8,10), or reduced CO₂ emissions (4). For a number of projects environment related objectives were embedded in the project definition; hence, where relevant, they were also considered when evaluating 'the extent to which project objectives have been achieved' (effectiveness).

3.1.1. Implementation Performance

Physical implementation and time schedule

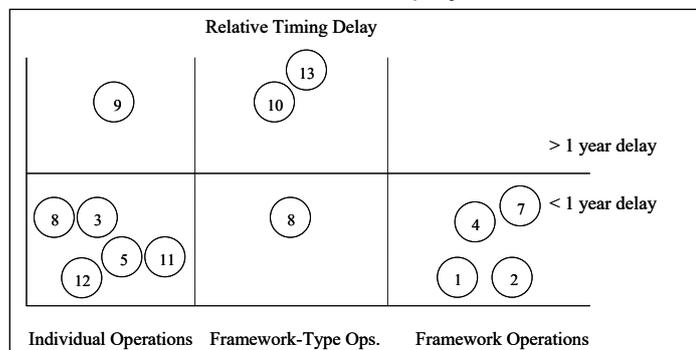
Physical Implementation: For all 6 individual operations evaluated, with clear *ex ante* project definitions, the evaluation found a high degree of consistency between the technical description and the projects as implemented. Any alterations made during implementation were minimal and had no material effect on cost or timing; for example, for one road project (12) an extra interchange and viaduct were added (with no cost/time implications). For one large stand-alone water project, the physical infrastructure was completed, but some minor beautification works and certain environmental measures are still pending (3). 5 of these 6 individual operations were also greenfield projects, only one (5) was a modernisation project for public transport rolling stock.

On the other hand, for the remaining projects the degree of *ex ante* subproject specification varied widely: the framework operations all included 1,000+ subprojects. For example, for Project 1 no subprojects were identified *ex ante*. This framework operation was to target small to medium schemes for the rehabilitation, up-grade and reconstruction of a road network. Ultimately, some 2,000 such smaller measures were subsumed in the implementation of the project. In cases with no (or little) distinct subproject information provided *ex ante*, the evaluation focused on whether the investment volume in the target area was achieved. This was the case in all 4 framework operations. In fact, some of these exceeded their target, as due to an increased scope significantly more was spent on eligible investments.

For the framework-type operations with below 100 subprojects more concrete sub-project related information was available as to physical implementation. One project (8) that was defined as a framework loan at the outset had 5 distinct and clearly defined subprojects; *ex post*, the framework character of this project could be questioned. This project also experienced a change in the initial definition of eligible subprojects to include a water treatment project in what was originally conceived as a framework operation for the renewal of public administration buildings.

The evaluation contrasted the two types of framework operations with the individual operations, and found: While the indicators may vary according to the nature of the operation, no material difference was identified in terms of the overall physical implementation performance. Where individual subprojects in framework loans had been identified *ex ante*, a small number was at times not carried out. Still, a fairly high degree of consistency between the technical description and the actual projects could also be confirmed for the framework and framework-type operations.

Time schedule: Like with *physical implementation*, the evaluation of the projects' time schedule performance is linked to the nature of the project (framework versus individual). This is illustrated in the adjacent graph. Overall, the evaluation found where delays of more than one year occurred they were mainly due to legal problems (expropriation) or government authorization issues, and not related to changes in project scope or design, procurement procedures or environmental opposition.



It is no wonder that with a large framework operation of 1,000+ individual measures some will have had time overruns, while others may have been completed faster than expected. In those cases the evaluation determined whether the investment programme achieved the investment

volume during the envisaged time frame. Projects 1, 2, 4 and 7 fall into this category. *Grosso modo* they all delivered the initially intended investment volume (and more) during the investment horizon. Some “delays” were caused by an increased scope of the underlying investment programme; one large subproject for Project 7 was delayed more substantially on environmental grounds.

As for the smaller framework-type operations, some more considerable delays were mainly caused by administrative hurdles, due to land acquisition and associated expropriation problems. Similar problems occurred with the individual Project 9, where land acquisition and environmental issues caused a one-year delay.

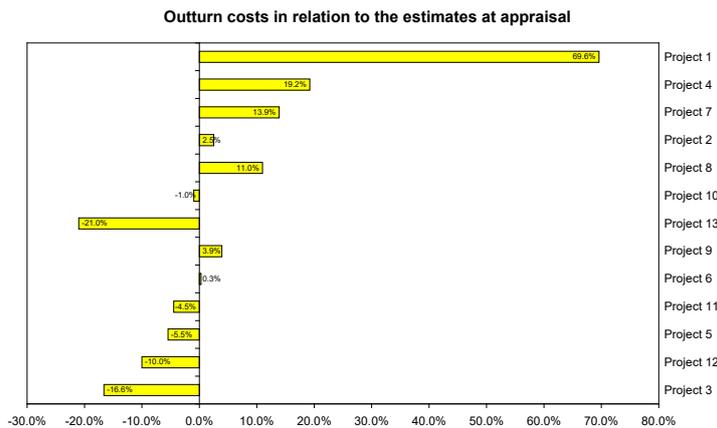
For Project 13, 62% of outturn costs were consumed by two subprojects combined, which itself was completed with only a slight delay of 6 months. On the other hand, to reach over 90% completion across all subprojects a delay of 3 years was incurred. In particular for operations with a certain imbalance in size across multiple subprojects, this raises the questions of *when* such framework-type projects can reasonably be considered *completed*. This in turn has implications for the Bank’s project cycle management (See Chapter 5.4).

In contrast, of the 6 individual operations, 5 showed very good performance in time schedule. Where “delays” occurred they were not due to the promoter; one large water project was delivered with less than 6 months delay, but final full operation depends on (obviously uncontrollable) precipitation levels. In another case, a phased road project experienced hold-ups due to land expropriation issues and archaeological digs, but a skilful promoter was still able to deliver each of the three phases ahead of time.

Procurement

For all projects procurement was done in accordance with EU (where applicable) and EIB guidelines. Two large framework operations (Projects 1,2) had both over 1,000 small to medium subprojects, none of which fell under the EU Directive. Hence, the relevant national guidelines were applied. One individual water project had a very long and complex procurement history with several (unsuccessful) legal challenges, which led to an interim delay of one year for the contract awards. However, skilful management of the promoter, who advanced in parallel on the procurement and the building permit front allowed for a timely delivery of the final project. Finally, Project 12 stands out as the Bank played a positive and contributing role in the procurement process for the various phases of the project. The promoter recognized this during this evaluation.

Project cost and financing plan



Project Cost: The pattern of outturn costs to initial estimates reveals some interesting insights into the nature of the operations across all 13 projects. The 6 individual operations had outturn cost essentially at or below the initial estimates. On the other hand, the large framework operations had sometimes large increases in total outturn “cost”, which in fact is explained through significant changes in scope thanks to *more* funding

becoming available during the investment period. For two energy projects (4,7), these scope increases were mainly in the distribution field of their respective activities.

On the other hand, 5 individual operations came in under estimates thanks to the strict application of procurement guidelines, positive changes in the scheduling of payments that led to lower interest rates, or in one case is simply explained by the fact that *ex ante* the project planning firm had grossly overstated expected costs. Solely Project 9 might still develop some cost overruns of 14% if open claims currently under litigation were to have a negative outcome.

For the framework-type operations, the emerging picture is less conclusive: overruns of 7%-11% in one case (with certain claims still outstanding) contrast to a project where the promoter’s prudent budget policy has led to savings of more than 20%.

Project Funding: On the funding side, the evaluation found that in line with EIB’s guidelines, *ex post* EIB financing remained within the statutory limits for 10 out of 13 projects. Two individual operations (3,12) show a slightly higher EIB participation *ex post* (between 50% and 55%), driven by lower outturn costs. One Project (11) has EIB funding amounting to 78%; however, this will be reduced with the funding of an extension project, such that overall EIB project funding will amount to 75% - in line with the Accelerated Finance Initiative (AFI). In fact, for three projects in the sample (2,5,11) the AFI mechanism was considered. Results are mixed, and are presented in Chapter 4.

All of the large framework operations show a relative reduction in EIB participation, as increases in project scope were financed through own resources, or access to more grant funds (ERDF and national plans). Project 13 – a framework-type operation with many subprojects in the roads and water sectors – could end up having a total amount of “European Funds” (Cohesion Funds plus EIB loan) in excess of the usual 90% threshold, (due to a significant reduction in cost (21%) and ERDF funding).

3.1.2. Operational Performance

Higher-level operational objectives

While the degree of explicitness varied, all projects targeted – beyond the mere physical implementation – higher-level objectives, such as for the road projects reduced accident costs, reduced vehicle-operating costs, time savings, better (faster) access to the highway network (including TENs), and/or a reduction in traffic congestion or a better traffic distribution in a certain area. The water projects targeted an improved and more reliable water supply (or waste water treatment) meeting EU-Directives, while the urban transport projects aimed at increased availability, speed, and comfort in order to improve the attractiveness of urban transport. Finally,

the energy projects aimed at a more rational use and reliable supply of energy, through for example a reduction in line drops, technical losses, and/or a diversification of supply, etc.

For these higher-level objectives, the findings of this evaluation are (with one exception) highly encouraging. However, they need to be prefaced by one caveat: Due to the framework nature of some of the underlying operations, indications found on the achievement of these higher-level objectives are at times based on aggregate observations for the promoter or a specific region, and hence a clear causal link between the project and the higher-level effect cannot always be established.

A number of projects also had environment related objectives embedded. Projects 4 and 11 were intended to contribute to a reduction in the use of fossil energy and consequently a reduction in CO₂ emissions. A water project included 33 individual measures as an integral part of the project definition; this project has turned out exemplary on the environmental impact side (see Chapter 3.4). Finally, one urban transport project was intended to deliver energy savings and noise reduction. As the evaluation found, it did – demonstrably so.

That said, in the context of four road projects (1,2,12, and 13, which had a large road component), there are positive – in some cases very clearly measurable – indications regarding accident cost savings, time-savings, safety increases, accessibility to the high-way network (including TENs). The water projects (3,8,10 and in part 13), show an impressive track record: they all *enabled* the promoter to improve the quality and reliability of the water supply (and/or its waste water treatment capacity), and thus to comply with the underlying EU-Directives. Project 10, moreover, contributed to the improvement of water savings through a reduction in physical losses in a region characterised by high water scarcity. Finally, the two urban transport projects contributed to improving the attractiveness of this mode of transport, as is witnessed by the impressive increases in passenger numbers (at times surpassing the initial estimates).

On the other hand, for Project 9, since the toll road's current utilisation is significantly below design capacity, some of the higher-level objectives, such as improved reliability and safety through a reduction in congestion of the toll-free alternatives and a better interurban traffic distribution in the region, have consequently not been achieved.

Management and employment

With no exception, all 13 projects were managed by competent promoters in their respective fields, many with longstanding relationships with the Bank. All of the operations visited during the evaluation were technically sound, functional and in good condition and the management considered appropriate. The Bank should consider ways/platforms to support exchanging and disseminating good practise standards from successfully operating public sector promoters.

For some projects certain aspects of operations/maintenance have been outsourced, for others reorganisations have led to changes in the responsible operator. None of these issues appear to have impacted the projects and their operations negatively. For the large framework operations with 1000+ measures this assessment rests on a high-level evaluation of the operator/promoter.

The direct long-term employment effects are in most cases relatively limited. Taking those projects together where information was available some 330 new permanent positions were created across all 13 projects. Temporary employment – though – amounts to over 40,000 person-years, in many cases positively effecting the employment situation in the respective region (see Chapter 3.5).

Coordination and cooperation with other counterparts

All projects followed the usual pattern of coordination/cooperation with the European Commission, national governments, and/or other parties or national bodies that functioned as intermediaries or negotiators between the Bank and the final borrowers. Despite the frequent use of ERDF funding for a number of projects, no evidence of specific coordination beyond the initial stages was found between the EIB and EC funds, which in one case (13) – as mentioned above – leads to a situation where *ex post* EIB funding combined with expected ERDF funding could potentially amount to “European Funds” (Cohesion Funds plus EIB loan) in excess of the normal 90% limit.

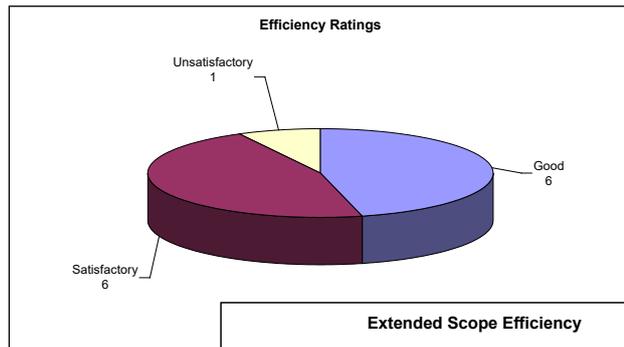
Extended scope: “Effectiveness” of previously evaluated projects with cohesion eligibilities

The ratings of previously evaluated operations (see under 2.2 – extended scope) are depicted in the following table. 85% of the in-depth evaluated operations in Germany and Spain with an Objective 1 and/or 2, or other regional development eligibilities were rated satisfactory or better for effectiveness, which is slightly below the findings of this current evaluation (92%).

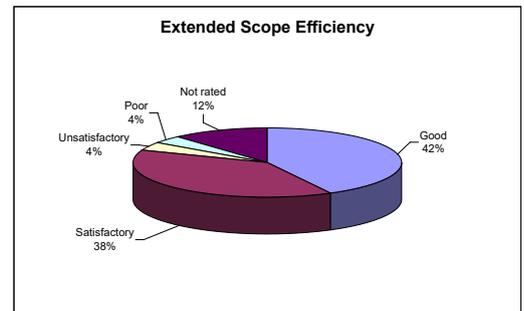
RATING "EFFECTIVENESS" OF PAST EIB EVALUATED PROJECTS WITH COHESION ELIGIBILITIES											
Sectors	Good		Satisfactory		Unsatisfactory		Poor		Not rated	Total	
Education	4		1		1		0		0	6	
Health	2		3		1		0		0	6	
Urban Development	4		0		0		1		0	5	
Infrastructure	3		3		0		0		0	6	
Others	2		0		1		0		0	3	
Total	15	58%	7	27%	3	12%	1	4%	0	0%	26

3.2. Efficiency

Project Efficiency measures the extent to which project benefits/outputs are commensurate with resources/inputs. Here, the evaluation considered the following parameters: (a) market and demand aspects, including capacity utilisation of the underlying infrastructure, (b) operations, tariffs, and operating costs, including operational efficiency, extent of cost-recovery, etc. and (c) the financial/economic impact of the projects. Depending on the nature of the project, its sector and/or size different indicators can be used to evaluate “efficiency”, including economic and financial rates of return, cost-benefit analyses, and unquantified socio-economic benefits.



All but one project had ratings of satisfactory or better for the Efficiency criterion (92%), which is a very good result. Six projects were rated Good, thanks to high utilisations of the assets (with ex post demand exceeding expectations) and to very favourable overall economic impacts. Regarding efficiency the extended scope review of previously evaluated projects is below the findings of this current evaluation; however, there are a number of un-rated projects.



The current economic impact of one project (9) is below expectations, as demand increase has been limited, in fact capacity utilisation is at less than 50%.

3.2.1. Market and Demand Aspects

Despite their sector diversity (see table in Chapter 1), when evaluating *market and demand aspects* for the 13 infrastructure projects two common themes emerge:

First, one key question is whether the project at hand has created a situation of overcapacity. The evaluation found that in 12 out of 13 cases, there are indications that overcapacity is not an issue. On the contrary, 6 projects (urban transport, energy, roads/water) have current demand exceeding expectations. Even in the one project where the asset is currently grossly underutilized (9), one could argue that an adequate capacity utilisation might only be a function of a more

appropriate time frame, that allows for the necessary (longer than expected) ramp-up period (see box).

This leads to the second topic: large infrastructure projects tend to have a long planning, implementation and operational time horizon; obviously, this brings with it a fairly high degree of uncertainty about future market/demand aspects. At times, it is impossible to predict accurately how current market trends are going to affect capacity utilisation of the underlying asset. This is particularly the case with energy projects (4,7), where the liberalisation of the relevant markets may lead to competitive pressures that cannot yet be fully foreseen. The same question of demand uncertainty arose in particular in Projects 3 and 9 (see box).

Project 9: The shareholders of the concessionaire behind this toll road project include experienced companies, even one of the largest transport concession holders. Project management is fully satisfactory. The key shortcoming is that – despite multiple independent studies – all traffic demand forecasts significantly overstated the actual outcome. Currently, traffic on the various segments of this project is more than 50% below expectations, which illustrates that even good promoters can heavily overestimate traffic growth and competition (toll-free alternatives). One explanation for this unfortunate outcome is that the social acceptability of real tolls had been misjudged. As real tolls were un-accustomed in that particular region, their introduction requires much more time than expected. The time frame of the concession may have been too short, not allowing for this slow ramp-up period.

Project 3 experienced significant changes in “expected” demand, due to a variety of factors (changes in demographic patterns, reduction in the initially targeted clientele, systematic reduction of per capita water use, etc.). These factors led to a *political compromise* to reduce the physical size of the infrastructure, which as the evaluation learned was not optimal operationally. This project clearly demonstrated the difficulties in assessing future demand, especially when the economic life of the infrastructure stretches over multiple generations (80+ years). For such projects at times a clear vision may outweigh shorter-term demand expectations; and, in fact, as the evaluation found recent changes in the whole supply system tend to validate the project’s overall capacity.

3.2.2. Operations, Tariffs and Operating Costs

Under *operations, tariffs, and operating costs* the evaluation investigated to what extent the operations of the projects *post* completion can be said to be “managed efficiently”. Depending on the nature of the operator/promoter (public vs. private sector) and the market (regulated vs. non-regulated), different indicators were taken into account, including the degree of cost recovery, the evolution of operating expenses, and the composition and evolution of the relevant tariffs, etc.

Generally, the evaluation found that the projects were operated professionally, with increasing operating efficiencies and good cost management. It is important to note that overall public sector operators by no means displayed less skills/awareness than their private sector counterparts in this field. In that respect some projects (3,5,10) stand out. Project 10 in particular – operating under a full cost recovery paradigm – convinced through a suite of initiatives/approaches that could be considered “good practice standards” (use of meaningful performance indicators, diversification into higher-value added products and services, etc.). Similarly, the promoter of Project 3 – likewise in the water sector – enhanced operational efficiency in the system through forward integration, now providing a higher value-added product (with a streamlined expense structure). This evaluation recommends that the Bank support exchanging and disseminating good practice standards from successfully operating public sector promoters. This could be done through good coordination, networking, the organisation of specific conferences and/or within the Bank’s existing technical assistance programmes, e.g. JASPERS.

The vast majority of those projects that charged prices to intermediaries or endusers are in fact operating in a more or less *regulated environment*. The evaluation found, however, that the pricing/tariff mechanisms often left some flexibility to allow the promoter to negotiate contracts or set prices that catered to particular clients' needs. In this context, no evidence was identified whether or to what degree the price/tariff elasticity of demand might explain the unsatisfactory utilisation of Project 9 (see above, 3.2.1).

3.2.3. Financial and/or Economic Impact of the Projects

The type of financial and economic analysis provided *ex ante* reflects the diversity of the 13 projects evaluated. Overall, the evaluation found that for all projects (except one) the *ex ante* anticipated financial and/or economic impact was determined to be equivalent or better *ex post*. In many cases this is a reflection of the better than forecast demand / capacity utilisation, lower than expected cost, and additional positive externalities (increases in safety, reductions in accident costs, increased availability and/or use of public services, etc.). However, the underlying economic justification and the kind and depth of analysis differed significantly.

Four projects (3,8,10,13), which in whole or in part were driven by compliance aspects with EU-Directives, were economically justified on cost-effectiveness grounds. For 5 projects no financial analysis was applicable, because those projects (1,2,8,12,13) in fact are providing a non-revenue generating public good. Still, all these projects were justified economically, as they provided incremental benefits, such as increased road safety, a reduction in accident costs, significant time-savings, and economies of scale through the consolidation of public services.

For the framework operations, Project 2 stands out, as – unlike the others – for this project the Bank performed a full-fledged economic profitability analysis on a subset of schemes that had been identified by the promoter. This allowed the Bank to obtain an estimate of the economic viability of some of the main schemes, and at the same time assess the promoter's ability to select sound projects. The Bank should consider performing in-depth economic analyses on such a sample basis for framework loans, especially in cases where the Bank is dealing with a new promoter (see box).

Project 2: For this large framework operation (1000+ subprojects), the Bank's services performed a full-fledged economic analysis on a sample basis. 8 major road bypasses were chosen, and the Economic Road Investment Appraisal Model (ERIAM) was applied. This is a complex model that was developed by the Bank to provide an estimate of the economic rate of return for road projects. It allows for a considerable degree of flexibility and specification, using over 40 input variables (and more sub-variables), depending on the complexity of the underlying road project (including time-savings, vehicle operating cost savings, safety benefits, construction costs, operating and maintenance costs, and others).

The *ex ante* findings showed impressive ERRs of between 11% and 67%. *Ex post*, the evaluation found these models to be robust; a sensitivity analysis highlighted that changes in some key assumptions only minimally affect the outcome. This finding, coupled with other unquantified positive externalities, supported the conclusion that an overall ERR of 15% for the Project is plausible.

One project (9) appears both financially and economically doubtful in its present performance, as the project suffers from a lower than expected capacity utilisation; unfortunately, two factors that could influence its performance are largely beyond the control of the promoter, i.e. traffic/user patterns on the toll road and the tariff structure, regulated by the authorities.

The project's expected financial return was marginal to begin with, and is likely inadequate now, as witnessed by the substantial equity injections necessary by the project's shareholders. Economically, the project was anticipated to generate a *double-digit* return, but is now far below normal EIB standards. Time will tell, whether current investments in the project's greater geographic area will trigger better utilisation rates.

Extended scope: “Efficiency” of previously evaluated projects with cohesion eligibilities

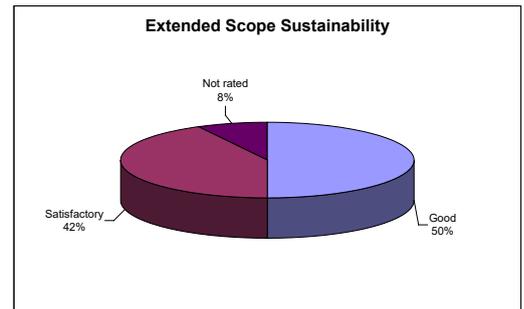
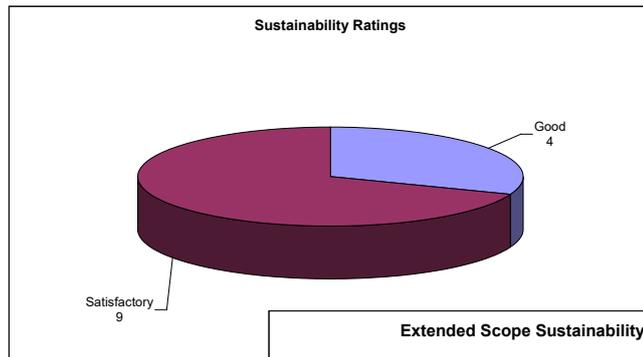
The ratings of previously evaluated operations (see under 2.2 – *extended scope*) are illustrated in the following table. 80% of the in-depth evaluated operations in Germany and Spain with an Objective 1 and/or 2, or other regional development eligibilities were satisfactory or better for efficiency, which is below the findings of this current evaluation (92%). It is noted, however, that there is a fairly high number of non-rated projects (3).

RATING "EFFICIENCY" OF PAST EIB EVALUATED PROJECTS WITH A COHESION ELIGIBILITY						
Sectors	Good	Satisfactory	Unsatisfactory	Poor	Not rated	Total
Education	2	2	0	0	2	6
Health	6	0	0	0	0	6
Urban Development	1	3	0	1	0	5
Infrastructure	1	3	1	0	1	6
Others	1	2	0	0	0	3
Total	11 42%	10 38%	1 4%	1 4%	3 12%	26

3.3. Sustainability

The sustainability criterion investigates the probability that the appropriate resources are sufficient to maintain the outcome achieved over the economic life-time of the project, and that any risks can be managed adequately. In this evaluation, sustainability was assessed under (a) physical and operational sustainability, including the likelihood of reaching the physical and economic lives of the underlying assets, the long-term operational competency of the promoter/operator, etc. and (b) financial sustainability, including revenue generating capacity through concessions, tariff policy, budgetary allocations, profitability trends, etc.

All 13 projects received a satisfactory or better rating (graph); in fact, despite the natural uncertainty inherent in the long-term prospects of infrastructure projects with economic lives of between 15 and 80+ years, 4 projects (two urban transport, one water, one energy) obtained a good rating. Regarding sustainability the extended scope review of previously evaluated projects mirrors the findings of this evaluation (100% satisfactory or better), once adjusted for projects that were not rated.



Overall, this positive outcome is a reflection of the high-quality specifications of the physical assets, the competency of the promoters/operators and the projects’ financial sustainability; many of the projects are providing basic infrastructure (roads, urban transport, drinking water supply, etc.), where public authorities have an obligation to deliver this public good over the long-haul, i.e. sustainability can often be assumed. Even Project 9, that received unsatisfactory ratings on effectiveness and efficiency, is considered sustainable, because liquidity appears secured thanks to a solid shareholding structure, and mid- to long-term prospects for a traffic recovery are plausible.

3.3.1. Physical/Operational Sustainability

Physical sustainability: All 13 projects passed the evaluation of physical sustainability thanks to high-quality specifications of the underlying assets; naturally, for the large framework operations, with 1000+ subprojects, this assessment rests on the promoter/operator's competency and adherence to certain mandatory quality standards, rather than a physical inspection.

For two projects some minor issues were identified, in one case (12), a minor segment of a road project encountered unforeseen geological problems that led to some early repair work, and in another case (8) a subproject may be held to higher water-quality standards than originally planned, thus necessitating some upgrade investments. One large water project (3) was built to withstand a natural catastrophe that has a likelihood of occurring once in 10,000 years. The evaluation considered this adequate from a physical sustainability perspective.

Operational sustainability: All 13 projects are managed by professional promoters that in many cases have long-term operating experience in their fields and the technical capacity/skills to ensure operational sustainability. This finding is corroborated by a variety of factors: the degree of training offered, cases of quality assurance (ISO 9001), lack of vandalism (especially relevant for the two urban transport projects, where in one case video surveillance, which was part of the project, has had a very positive impact on the occurrence of vandalism), and continuous efforts and investments to maintain and even expand the infrastructure provided. Where operations were outsourced to third parties through concessions contractual obligations are in place to ensure proper functioning, and return of the physical assets in good order at the end of the contractual period. Thus, for all projects the risk of not achieving their full economic life is considered low.

3.3.2. Financial Sustainability

None of the projects evaluated faces any serious financial sustainability issues, including Project 9 thanks to the financial strength of its shareholder base and their willingness to inject additional funds in the hope of an ultimate recovery of traffic figures. The above finding, however, comes as no surprise, as only 2 projects in the sample (4,9) face full market risks in a competitive environment. In one case (9), the project's "market" exposure lies in traffic participants' freedom of choice (or degree of willingness to pay tolls), and/or the competition of a nearby public alternative; in the other example (4), the promoter operates in what is now a largely liberalised energy market. However, its position in the relevant market is strong and expectations about its future earnings capacity as encapsulated in the promoter's equity stock price are encouraging: it has more than tripled since the appraisal of the project.

In fact, all the other projects provide some form of public good or service and/or operate in an at least partly regulated environment. Moreover, oftentimes promoters enjoy long-term government contracts to provide the particular good or service. In some cases, the government even covers the ultimate financial and operational liability. Hence, financial sustainability reflects in essence the sovereign's willingness and ability to deliver water, roads, administrative space or urban transport. In all these cases financial sustainability could be assumed.

In cases where the promoter was not a sovereign authority itself (ministry of transport, etc.), quasi-public law entities or private operators had long-term contractual relationships of 5, 10 and more years with the sovereign to provide the service or good. Despite (or owing to) this privileged position some promoters have been able to manage their projects toward financial viability, most impressively so in the two urban transport projects (5,6). Some projects are situated somewhere between the public and private sector (7,11); these still enjoyed long-term governmental commitments to recover investment and operating costs, entitlements to certain revenues, or mid-term pricing policies that provide for a stable outlook.

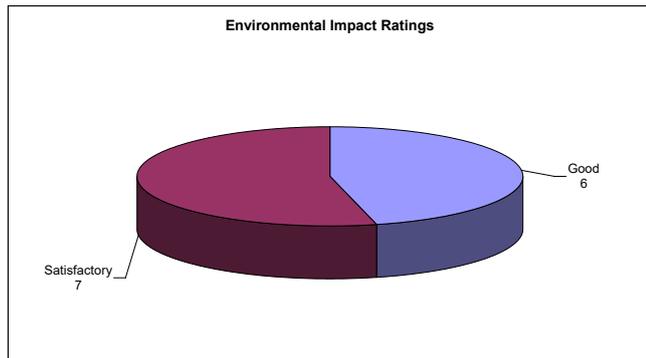
Extended scope: “Sustainability” of previously evaluated projects with cohesion eligibilities

The ratings of previously evaluated operations (see under 2.2 – *extended scope*) are illustrated in the following table. 92% of the in-depth evaluated operations in Germany and Spain with an Objective 1 and/or 2, or other regional development eligibilities were rated satisfactory or better for sustainability, which is below the findings of this current evaluation (100%). However, this is solely due to there being two non-rated projects. But for these 2 projects, all others were rated satisfactory or better on sustainability.

RATING "SUSTAINABILITY" OF PAST EIB EVALUATED PROJECTS WITH A COHESION ELIGIBILITY						
Sectors	Good	Satisfactory	Unsatisfactory	Poor	Not rated	Total
Education	2	2	0	0	2	6
Health	5	1	0	0	0	6
Urban Development	4	1	0	0	0	5
Infrastructure	1	5	0	0	0	6
Others	1	2	0	0	0	3
Total	13 50%	11 42%	0 0%	0 0%	2 8%	26

3.4. Environmental Impact

Beyond the traditional evaluation criteria for Project Performance (effectiveness, efficiency, sustainability), EV systematically highlights and rates the Environmental Impact of the projects under evaluation. The ex post rating system follows those for the other evaluation criteria (good, satisfactory, unsatisfactory, poor) 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,⁹ and the extent to which residual impacts are broadly similar, worse or even better than anticipated.



The environmental ratings are an integral part of the overall project performance as presented in the following chapter (3.5).

The findings regarding the Environmental Impact criterion are remarkable. This positive result is a reflection that (i) all projects were in compliance with EU and/or national guidelines, and (ii) beyond appropriate measures to minimise, mitigate and/or compensate environmental impacts, many projects display positive environmental externalities (such as noise reduction, energy savings, urban renewal and development, positive changes in commuter behaviour, renaturalised riverbeds, and others). Moreover, many promoters now handle their environmental performance in a transparent manner, by publishing – at times even in an audited form – separate Environment or Social Responsibility reports (4,5,7,10) and/or by disclosing environmentally relevant information on their internet sites.

Only one caveat is warranted from an evaluation perspective: Most projects evaluated have reached completion and assumed operations fairly recently. The very final impacts of some environmental measures can only ultimately be measured after a longer time frame; therefore, there remains a degree of uncertainty in these findings.

Compliance with guidelines

⁹ For the ex ante assessment the Bank’s “Environmental and Social Practices Handbook” gives guidance.

For *all* 13 projects appropriate environmental procedures were followed, in line with the relevant EU and/or national as well as the Bank’s guidelines. One or more formal Environmental Impact Assessments (EIA) were required and carried out for 8 of the 13 projects (or for parts of them). These were in compliance with Annex I of EU Directive 85/337/EEC *as amended*; additionally, one project (11) complied with the Seveso II Directive (EC 96/082) on the prevention of major accidents for projects involving dangerous substances.

In a number of cases the evaluation found that independent experts (bio-engineers, etc.) were monitoring the implementation of and adherence to environmental standards, both during construction *and* now during operations.

Environmental performance

The Bank’s services rated 3 projects “A” (“*acceptable without reservations in environmental terms*”), and 9 projects “B1” (“*acceptable, with minor negative residual impacts*”). For one older project no Bank internal environmental rating had been issued. From an *ex post* perspective, it is worth noting that of the aforementioned 6 “good” environmental ratings, 4 in fact belong to “B1” rated projects (3,4,6,11), an indication that these projects *ex post* were found to perform better than expected *ex ante* from an environmental perspective. These cases in particular convinced this evaluation based on two factors: (1) *positive* environmental externalities were identified *ex post*, and (2) the degree of transparency in handling environmental performance matters.

All projects had necessary measures in place to minimize, mitigate and/or compensate for their environmental impact. This is especially important as some projects were adjacent to and/or had implications for environmental protection zones (Fauna-Flora-Habitat – FHH; Special Area of Conversation; Natura-2000 network). Where information was available the expenses for these environmental measures ranged between 5% and 10% of total project cost.

Beyond these measures to minimize, mitigate and/or compensate, this evaluation found at times clearly measurable positive environmental externalities. For example, one urban transport project (5) delivered measurable energy savings of up to 30% – compared to the *ex ante* situation. In 2006 – as was demonstrated during the evaluation – this translated into savings of roughly EUR 230,000. The other urban transport project (6) caused a reduction in car use of 21%, with positive implications on traffic congestion and air quality. Some road projects *produced* reductions in noise pollution through the use of low-noise road surfaces (1,2); in these projects a number of road bypasses led to a clear reduction of traffic in residential areas, and when coupled with new cycle paths had positive effects on *quality of life* aspects. In Project 8, buildings were designed in an environmentally sensitive manner to minimize heat loss and generate solar gains. Early involvement of environmental bodies and all relevant stakeholders (3,9) has contributed to a more rapid and smooth implementation.

For one large water project a list of 33 measures to minimize, mitigate and/or compensate its environmental impact was included in the project’s Technical Description and enshrined in the building permit. This catalogue of measures over 10 and *more* years had been established through a transparent, at times highly controversial process involving all stakeholders. These measures cluster around 4 major areas: a) ecological management and monitoring of the water discharge, b) relocation of animals, c) reforestation, and d) renaturalisation of riverbeds. Final results are still too early to tell, but for some of these areas – as demonstrated during the evaluation – the promoter developed innovative systems that can simulate pre-project conditions in a fully automated fashion. This new environmental technology has set a best practice standard, and already has a signaling value to other promoters in the field. Finally, part of the landscape affected by the project has recently won a “Landscape of the Year” award, with one environmental observer commenting that the area *had gained rather than lost* through the measures undertaken in the wake of this large infrastructure project.

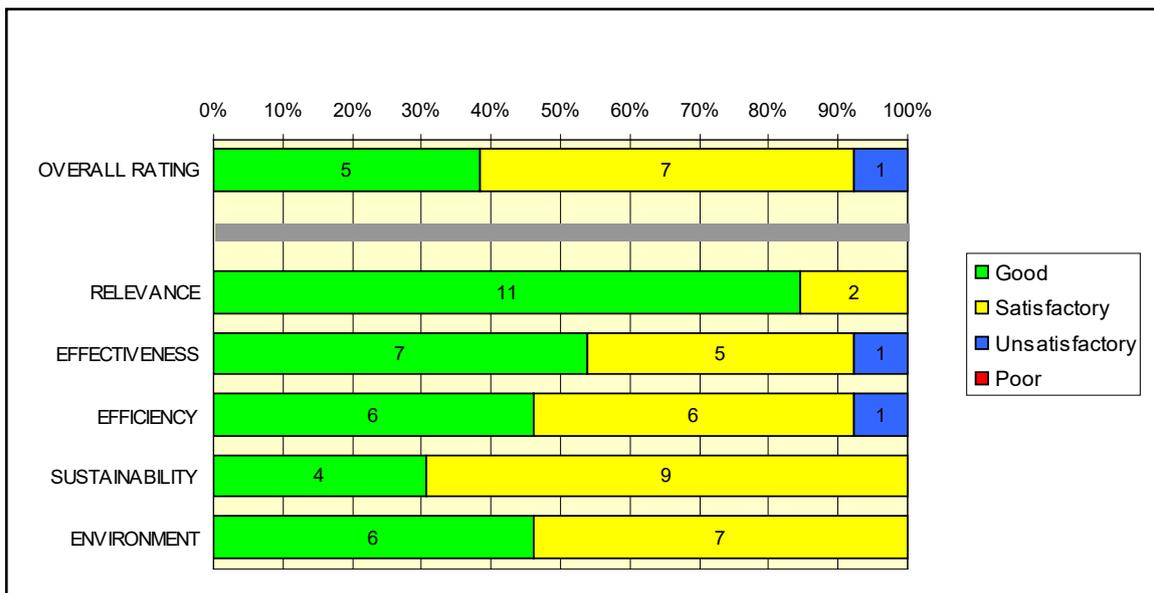
Two large water projects (3,10) received a “good” rating. One of them is a landmark infrastructure project with arguably a significant environmental impact. The various environmental dimensions of this project were handled very professionally by the promoter, in a spirit of full cooperation and transparency with all stakeholders (see box).

The promoters for all three energy projects (4,7,11) have received in large parts the ISO 14001

certification, an international standard for environmental management systems. At times, information – by business unit – on CO₂, SO₂, and NO_x emissions are disclosed, one promoter proudly claiming that it had reached the Kyoto goal of a 21% reduction in CO₂ already by 2005 (instead of 2012). Moreover, many promoters were found to handle their environmental performance in a transparent manner, by publishing – even in an audited form – separate Environment or Social Responsibility Reports (4,5,7,10) and/or by disclosing relevant information on their internet sites. Finally, where issues arose – as for one subproject of Project 7 – environmental procedures were respected and appropriately handled in consultation with the authorities and the general public.

3.5. Overall Project Ratings and Impact on Economic and Social Cohesion

Ratings on relevance and project performance: As outlined in the introduction, the 13 operations were evaluated on the basis of the internationally accepted evaluation criteria of Relevance, Effectiveness, Efficiency, Sustainability and the Environmental Impact (see graph below; also Annex 3).



Note: "Unsatisfactory" ratings relate to one project.

(92%) received an overall satisfactory or good rating. No project was rated overall poor, nor did any project receive a poor rating on any of the separate evaluation criteria. This confirms that the Bank is financing well performing projects.

This finding confirms that the overwhelming majority of the projects have achieved their objectives. As the evaluation found this achievement goes beyond the mere physical implementation to include the fulfilment of higher-level objectives (such as improved water supply, reduced accident rates, diversification of energy supply, etc.). As the evaluation has further demonstrated these objectives have mostly been achieved efficiently, through competent promoters in their respective fields; moreover, there is a high likelihood that appropriate resources are sufficient to maintain the outcomes over the economic life-time of the projects; this includes the unsatisfactory project thanks to its supportive shareholder base. Finally, a key finding relates to the projects' environmental performance: all projects had measures in place to minimise, mitigate and/or compensate environmental impacts; many projects had even indications of positive environmental externalities.

The global ratings for the previously evaluated projects – as the table below illustrates – are 85% "satisfactory or better", while one project was rated overall poor, and 3 did not receive an overall rating. This contrasts to the 92% "satisfactory or better" rated projects of this current evaluation (see above).

OVERALL RATING OF PAST EIB EVALUATED PROJECTS WITH A COHESION ELIGIBILITY						
Sectors	Good	Satisfactory	Unsatisfactory	Poor	Not rated	Total
Education	3	1	0	0	2	6
Health	5	1	0	0	0	6
Urban Development	3	1	0	1	0	5
Infrastructure	2	3	0	0	1	6
Others	2	1	0	0	0	3
Total	15 58%	7 27%	0 0%	1 4%	3 12%	26

**Extended Scope: Survey of Self Evaluation Procedure through
Project Completion Reports (PCRs) for Germany, Ireland and Spain (see § 1)**

119 PCRs (61 Germany, 7 Ireland, 51 Spain), which were issued by PJ between 2004 and 2006, were included in this Completion Report Survey. Of these, 102 (86%) had at least one cohesion eligibility criterion attached (Objective 1 and/or 2). The sub-sectoral split of the PCRs is led by "Transport, Storage & Communication" (42), and followed by "Manufacturing" (21) and "Human Capital" (20). Other sectors include: "Electricity, Gas & Water Supply" (11), "Construction" (8), one Global Loan (1) and "Others" (16). By monitoring category, 52/52/11 projects were classified in category 1/2/3 respectively and four projects were not classified.

In light of the thematic focus of this evaluation, this Completion Report Survey focussed only on the 102 PCRs that covered projects with Cohesion Objectives.

RATINGS

- Value Added Pillar 1 -

The contribution to EU objectives was considered "high" in 58% of the present desk review portfolio, "medium" in 18%, and as "moderate" in 10% of the projects in the sample. 14% of the PCRs did not receive any rating for VA Pillar 1 and one was judged "not acceptable". The underlying entity of the project rated "not acceptable" had declared bankruptcy in 2004, i.e. the project did not come to fruition.

Country	Number of PCRs	High	Medium	Moderate	Not acceptable	Blank
Germany	48	28	8	5	1	6
Ireland	7	5	-	1	-	1
Spain	47	26	10	4	-	7
TOTAL	102	59 (58%)	18 (18%)	10 (10%)	1 (1%)	14 (14%)

- Value Added Pillar 2 -

The projects' quality and soundness were considered as "good" in 48% of the projects, "satisfactory" in 36%, and "unsatisfactory" in 6%. There were 11 projects that were not rated under the VA Pillar 2 and none were judged "not acceptable".

Country	Number of PCRs	Good	Satisfactory	Unsatisfactory	Low	Blank
Germany	48	22	19	2	-	5
Ireland	7	5	2	-	-	-
Spain	47	22	16	3	-	6
TOTAL	102	49 (48%)	37 (36%)	5 (6%)	-	11 (11%)

- Value Added Pillar 3 -

Value Added Pillar 3, "Financial benefits obtained by use of EIB funds" was reported in only one of the PCRs analysed (where a qualitative assessment was offered). During the course of this evaluation the Bank has undertaken steps towards clear procedures regarding the VA Pillar 3 self-evaluation process.

Key Findings:

- A majority of the 102 projects with Cohesion Objectives (58%) were deemed to contribute "highly" to EU objectives;
- Over 80% of the projects reviewed were considered "satisfactory" or better from a project quality/soundness perspective.
- 8 of the 119 PCRs were in fact "place holders", as the Bank was unable to procure project completion information in part due to the early repayment of the underlying loans.
- Finally, the Bank's self-evaluation procedure is a key step in the institutional learning process, and while yet not fully consistent, based on this review the Bank's services are increasingly making use of the specific *learning space* provided during the self-evaluation process.

Impact on Economic and Social Cohesion

Public expenditure in the various EU Member States is much larger than the amount spent by the EU on its cohesion policy¹⁰. Nevertheless, despite its relatively small size, EU cohesion policy plays a role in tackling the underlying causes of disparities across the Union.

Recent EU Commission publications have summarised the impacts of the EU cohesion policy and showed for instance that income and employment disparities across the EU have narrowed especially since the mid-1990s. Between 1994 and 2001, growth of GDP per head in the Cohesion countries, even excluding Ireland, was 1% p.a. above the EU average.

In addition, such analysis shows not only that growth of GDP, employment and productivity in objective 1 regions has exceeded that in the rest of the EU since the mid-1990s. Economic performance and growth in particular in Spain and Ireland has been very significant over recent years. In Spain for instance, GDP in 1999 was estimated to have been some 1½ % higher than it would have been without intervention of the EU cohesion policy, in Ireland, almost 3 % higher and in the new German Länder GDP is estimated to have been increased by around 4% as a result of EU policy¹¹.

The relationship between infrastructure investments and socio-economic development is highly complex. There are successful regions in the European core, there are also centrally located areas suffering from industrial decline and high unemployment. At the same time, some of the poorest regions in the EU are in the periphery, but there are also prosperous, high growth peripheral regions, such as the Scandinavian countries. Similarly, successful regional development and economic growth is impacted by a wide range of different elements and policy areas, whereby large scale infrastructure projects are only one, often relatively small, component in the overall set of available policy instruments. Good infrastructure is in most cases a required, but not a sufficient, condition for sustained economic growth.

The EIB's core priority has since the beginning been to contribute to reduce regional disparities between regions and consequently a qualitative appreciation of the project's impact on socio-economic development has been conducted for all projects evaluated. General conclusions can be drawn, but the statistical representativeness will naturally be limited. Furthermore, it is a fact that aggregation of projects results does not necessarily equal the overall output and contribution. It is attempted to distil from the project level analysis, the main factors to understand some of the main impacts of the projects on economic and social cohesion.

The evaluation team has not tried to invent new quantitative measurements nor the use of specific macroeconomic models. The methodology followed the one used in the recent CB-TEN evaluation and socio-economic impacts were grouped along four main themes: Employment, accessibility, efficiency and output, and social inclusion.

For these categories, the evaluation shows the following:

- Temporary and permanent *employment effects* are often an important policy objective and concern for regional politicians promoting a project. Although temporary employment effects (during construction) were particularly relatively high in some of the large infrastructure projects (1, 6, 9, 12, 13), the direct employment effects of all projects have not been significant given the sector composition of the project sample. In fact, due to the induced efficiency improvement for one project (7), staff reductions could be observed. Regional employment effects of large infrastructure project cannot be taken for granted and if the regional work force is not subject to skills-upgrading, the longer-term effects are often limited.

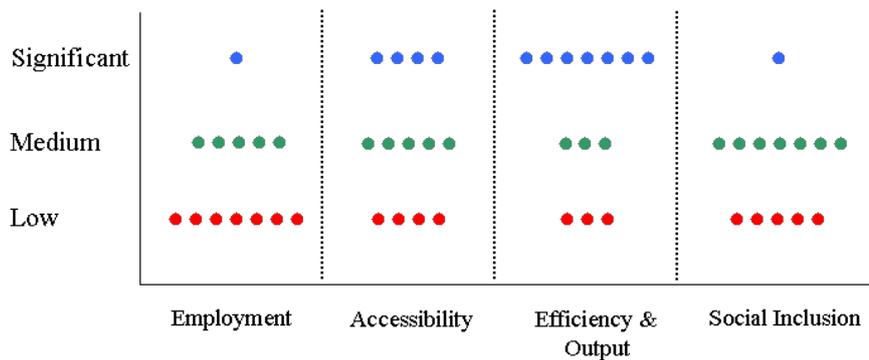
¹⁰ Third Report on Economic and Social Cohesion-http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/cohesion3. Brussels, 18 .2.2004 COM(2004) 107 final.

¹¹ Third Report on Economic and Social Cohesion.

- Accessibility.* Improved accessibility of a given region through the strengthening of the basic infrastructure potential contribute to more balanced living condition within the region. Large infrastructure projects for instance reduced travel costs/time and/or energy costs. Some of the large road as well as energy projects allowed the connection to Hinterland networks, thereby impacting on a large section of the population. This in turn often triggered private investments to rehabilitate and upgrade surrounding areas and often more importantly, to attract new enterprises, which is an important feature of socio-economic development in the regions (see box). Most energy and road transport projects had a higher influence on improved accessibility, than some of the water and public administration projects.
- Efficiency and output* impacts of the transport projects were noted in the form of a reduced number of road transport induced casualties and the intensification of the urbanisation process. Most energy projects impacted positively on supply security and to some extent on lower energy prices. In certain projects (in particular 3, 12, 13), a specific impact on tourism development was noted.
- Social inclusion* effects or effects on the well being of societies and people are particularly difficult to measure. In fact, it could be argued that all above categories and dimensions are clearly related to the socio-economic situation of the population concerned. They are particularly important for the two public transport projects (5, 6). In these cases economic activity was increased through the creation of a completely new mode of transport or the project allowed the increased participation of elderly and mobility-impaired people in the society. Often the larger framework projects improved transport, water and/or energy situation of an entire region or even country. For instance, all energy projects significantly improved energy supply in assisted areas.

Project 11: The energy project strengthened basic energy infrastructure in the country, since it contributed to a) supply diversification and reduced dependence, b) increased import capacity and c) improved security of supply. It provided the city in its proximity, a major centre of demand, with access to needed resources to satisfy growing demand and triggered major down stream investments. As a further spill-over effect, the project has contributed to significantly increase the city's port market share in a national context.

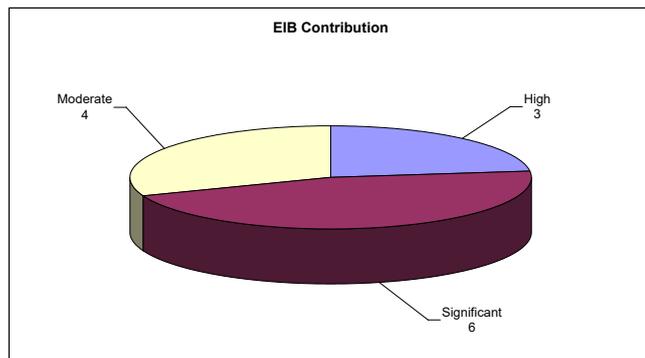
Distribution of Cohesion Performance Indicators



4. EIB Contribution

EIB contribution assesses the Bank’s main value added to a project. The ex post rating system (high, significant, moderate, low) follows the Bank’s “Third Pillar of Value Added“, and considers two categories: (a) The Bank’s financial value added, including any funding advantage over alternative sources, terms and conditions, etc., and (b) other contributions, which includes any non-financial impact the Bank’s presence might have, e.g. the extent to which EIB project expertise was involved at appraisal and/or monitoring (on procurement issues, sectors, deal structuring, etc.).

Overall the findings are positive: Of the 13 projects evaluated none received a “low” rating; in fact, 3 projects (3,10,11) achieved a “high” rating, reflecting the Bank’s critical role in the funding and in non-financial aspects of these projects. For one of them (11), the Bank made use of the Accelerated Finance Initiative (AFI) funding 75% of the overall project cost (see box below). 6 projects (1,2,7,8,12,13) obtained a “significant” rating, accounting for the Bank’s favourable terms and conditions (interest rate, tenor, flexibility). On the other hand, 4 projects (4,5,6,9) were rated “moderate”. In these cases, the Bank’s initial funding advantage was either minimal, loan amounts utilised fell significantly short of expectations, part of the Bank’s funding was reimbursed early, and/or the evaluation’s evidence base is weak leading to some uncertainty.



4.1. Financial Value Added

The evaluation found, that – as the leading EU long-term infrastructure lender – the Bank provided an identifiable financial value added (FVA) to all 13 operations evaluated. This FVA took different forms, but in most cases included a clear funding advantage over alternative sources (i.e. favourable interest rates), and the Bank’s terms and conditions (long loan maturities, grace periods, etc.), which often matched the economic lives of the underlying assets. A number of promoters particularly noted the positive aspect of the Bank’s flexibility in structuring its financing instruments to meet the underlying projects’ needs (tranching, availability of a wide range of loan tenors, repayment schedules, etc.).

Nonetheless, as the Bank faces market forces, the increased competitiveness of the European banking sector led to a number of promoters emphasizing that its funding advantage had decreased over time.

Beyond the Bank’s funding advantage, its presence was at times perceived as catalytic; for one project (10), in particular, the presence of the EIB was critical for the closure of the deal. For other projects (5,12) the EIB’s presence and/or its particular terms and conditions provided additional value that might otherwise have not been obtained. Furthermore, a key strength of the Bank was found to be its ability to provide long-term funding that matches the economic lives of the underlying assets. In one way or another this was highlighted by all promoters (except one – 6, where the long-term nature did not come to fruition). As the Bank sometimes offered its financing through intermediary financial institutions, this evaluation noted with interest that in one case this intermediation was considered positive, as the final borrower was in essence outsourcing some of its sourcing functions to the intermediary, whereas in another case intermediation would now be less welcome, especially where any funding advantage would be lost through its course.

For three projects EIB funding up to 75% was considered through the Accelerated Finance Initiative (AFI) - however with varying success (see box below):

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.

Findings of this evaluation: In Project 5, a proposal to utilize the AFI mechanism was welcomed by the promoter, but was turned down internally at the Bank (as no acceleration effect was identifiable). Indeed, the evaluation found that the Bank contributed to a refinancing of the underlying assets. Project 2 provided for the AFI mechanism, with funding up to 75%, but the promoter was able to raise higher levels of grant funding, such that a substantial portion of the loan was cancelled. Finally, Project 11 in all respects is a positive example of implementing AFI: 75% of the overall project is financed by the EIB. This coupled with a substantial funding advantage and a favourable loan tenor led to a higher investment capacity for the promoter and thus to a true acceleration effect. In fact, the project's expansion is now also financed by the Bank, and the Bank's financing mechanism has developed into a blueprint for similar large infrastructure projects.

4.2. Other Contribution

Thanks to its experience and expertise on multiple levels (sector, industry, procurement issues, financial structuring, PPPs, etc.), at times the Bank has the ability to provide additional contributions beyond the pure financial aspects. The evaluation found instances were this additional contribution was important and welcomed by the promoter, in at least one instance the EIB presence proved critical for advancing the project to a successful outcome (see box).

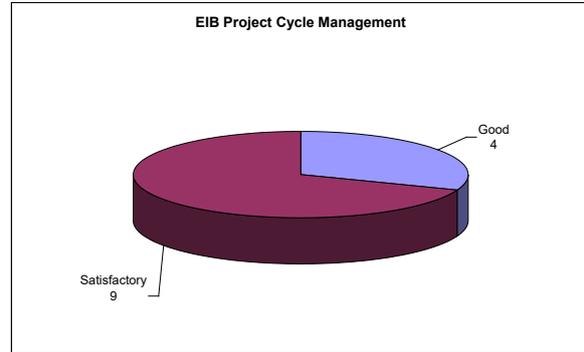
For Project (3) the EIB provided a critical non-financial contribution, which *enabled* the entire Project to proceed more or less according to plan: In the wake of the assessment and evaluation of the environmental impacts, the Promoter had to comply with certain EU regulations. According to the Promoter, some parties involved deemed these hurdles insurmountable. As the Promoter was presenting its case to EU Commission in Brussels, its ability to point to a conditional EIB credit approval was one critical factor in convincing the DG ENV to proceed with the issuance of its environmental assessment. According to the Promoter the fact that the EIB supported the Project at this critical stage was a key ingredient in successfully advancing this process.

Specifically, the presence of EIB funding was perceived as carrying an important signalling value to other stakeholders and/or investors: Often this signalling value lies in the perception that the presence of the EIB provides a quality stamp, particularly safe-guarding the adherence to proper procurement procedures and/or environmental standards. In other cases, it was said to improve public perception about access to funds from a European level, or it can enhance the promoter's position vis-à-vis other financiers. In one case (12), the Bank's deep expertise in procurement issues was brought to bear in the various phases of the project and had a tangible and positive impact: it helped with considerable cost savings (see also 3.1.a procurement).

However, as stated previously (see 3.1.b management and employment), all 13 projects were managed by competent promoters in their respective fields; hence, on the technical side the contribution was minimal. This was even more the case for projects that had been well under way, when EIB financing became relevant (1,2,5).

5. EIB Project Cycle Management

As a major infrastructure financier throughout Europe, the Bank had good relationships with most counterparts. Project appraisal was well structured and systematic. Appraisal depth was clearly linked to the operations' techno-economic, environmental and/or financial complexities. Although the overall Bank's performance on project-cycle management has been more than satisfactory for the projects evaluated, certain deficiencies in the internal management of the project cycle are apparent.



5.1. Project identification and pre-appraisal

The Bank had good relationships with many of the main counterparts, which are often repeat borrowers. For certain projects, the Bank was also building on pre-existing relationships with the relevant Ministries of Finance and/or Transport or their regional counterparts. Once identified, the projects went through the initial internal screening process, which has contributed to allow the selection of sound projects in most cases.

For some of the projects (1, 2, 4), it is important to note that the promoter's investment programme had already been under way when the Bank entered the process and project selection (> 1000 schemes) was more a verification of the relevant budget lines. In one case (5), at the time of signature the majority of the project has been implemented and in essence, the Bank had an opportunity to re-finance the underlying rolling stock purchase.

5.2. Appraisal

Project appraisal was usually well-structured in most cases, the reports were focussed and the appraisal was a rapid process. Most of the evaluated projects' major risk issues were identified and documentation was sufficiently detailed. In most cases, promoters found the Bank's appraisal procedures and documentation requirements acceptable.

For some of the larger framework programmes (1, 2, 4, 7, 13), where promoters were well known to the Bank, the programme type character of the operations was clearly reflected in the Bank's appraisal. Overall, the level of modulation was acceptable and appropriate. In some projects, in light of its general parameters the techno-economic appraisal was relatively light, but specific features of the projects induced a particularly thorough financial and legal due diligence. Complex projects (3, 9, 11) resulted in very thorough techno-economic, environmental, financial and legal due diligence in line with the complexity of the operations. The Bank's professionalism and rapid response in two of these projects was particularly appreciated by the promoter (3, 11). It is to be noted that in 2005 more stringent procedures for framework (type) operations have been introduced. In fact, according to these procedures, at least one of the framework operations (13) would probably not have been presented to the Bank in its original form any more.

In two cases (6, 10) new financial products and/or structures triggered significant internal discussions and successive presentation of the proposals to the Bank's management. For one project (9), traffic forecasts were over optimistic, leading to significant performance problems. Risks were adequately identified but should have been translated into clear project conditions. This PPP project initially stipulated a risk participation of the Bank under the SFF framework. A gradual and partial release of guarantees post-completion was anticipated, if the project appraisal was satisfactory and the project compliant with financial and technical tests.

Overall, given the substantial performance problems of the project, the Bank is clearly to be commended for deciding in this case against a possible SFF operation.

In regulated markets, the appraisal should always reflect the volatility of future regulatory changes (7). For projects comprising several phases (12), whereby the Bank finances successive phases, it must be ensured that project cost estimates are realistic and financing arrangements authorised are respected (EIB contribution maximum 50% of total project cost).

In recent years, there have been changes in the way the Bank treats the projects' impact on regional development or social and economic cohesion. In 2004, a specific appendix on "Social and Economic Cohesion Indicators" was introduced, which subsequently was then discontinued and integrated into the current value added concept of the Bank.

5.3. Project Implementation/Financing Arrangements

Most of the projects' promoters were satisfied with the EIB's procedures to support an appropriate project implementation. Disbursement flexibility and smooth handling was adequate. As already stipulated in earlier EV reports, conditions/undertakings (2, 3, 7, 9), often linked to regular progress reporting, have not always been fulfilled. In spite of increased EIB emphasis on obtaining regular progress information, it appears difficult to make some promoters give sufficient priority to fulfilling their obligations of the loan agreement. The recent introduction in the PJ appraisal reports of previous monitoring experience is a step in the right direction. However, final compliance could be ensured through linking progress reports and disbursements. For framework type operations with several promoters (8), clear guidelines are required for the project appraisal and monitoring processes. In some cases, EIB financed more than 50% of the project cost.

5.4. Monitoring

Project follow-up and physical monitoring during project implementation has been limited. Specific financial monitoring is done by RM for projects in which the Bank is at risk. Project Completion Reports (PCR's) have been prepared¹² for all but one project (13), since small components of this project will be only fully completed at a later stage. Although in most cases, the assessment from PJ's self-evaluation process can be confirmed, PCR's are often drafted as a completion task, rather than a real learning exercise. A consistent approach in particular in the rating methodology is required (9).

EV found room for improvement in the Bank's internal document handling; some important information was not retained. In this context, EV recommends that in the wake of the current succession planning clear rules of document handling need to be established.

Further improvements in the monitoring process are implemented, but improvements can still be made. Appropriate measures should be taken to ensure that the brain/knowledge drain is limited, when staff mobility/departure is increased. It seems appropriate to ensure in a period with high staff changes, that relevant project counterparts are consulted when drafting a PCR. Furthermore, in the context of current succession planning clear rules for internal document handling have to be established. The third pillar of value added (FVA) was not documented in the PCR's, but procedures for the implementation were under discussion during the period of this evaluation (see also recommendation in CB TEN report 2006).

For framework loans covering a number of different components (water, sewage, road schemes), regular progress reporting should be applied and progress reports should be prepared once each of the individual sub-schemes have been completed. Although this approach is more demanding on PJ resources, it could be helpful for monitoring and knowledge management.

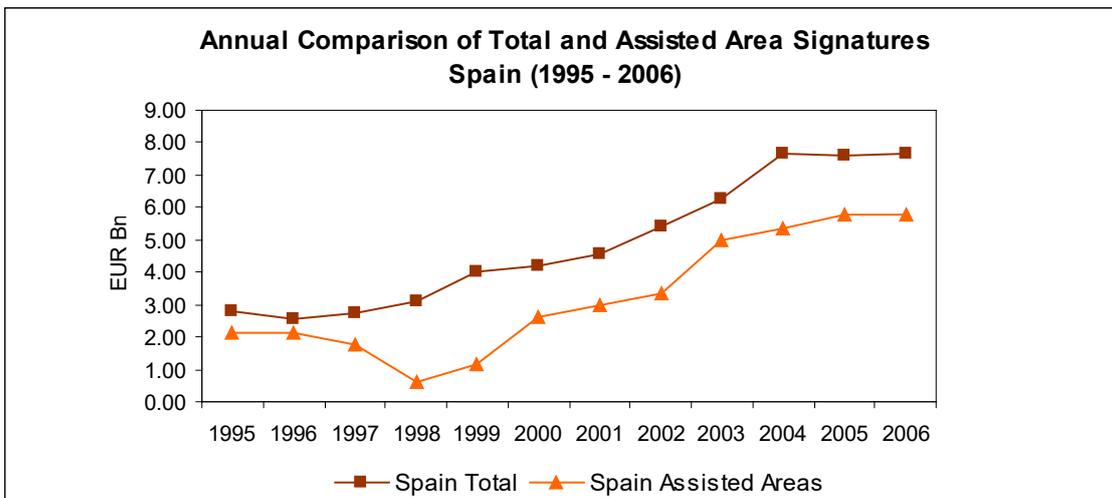
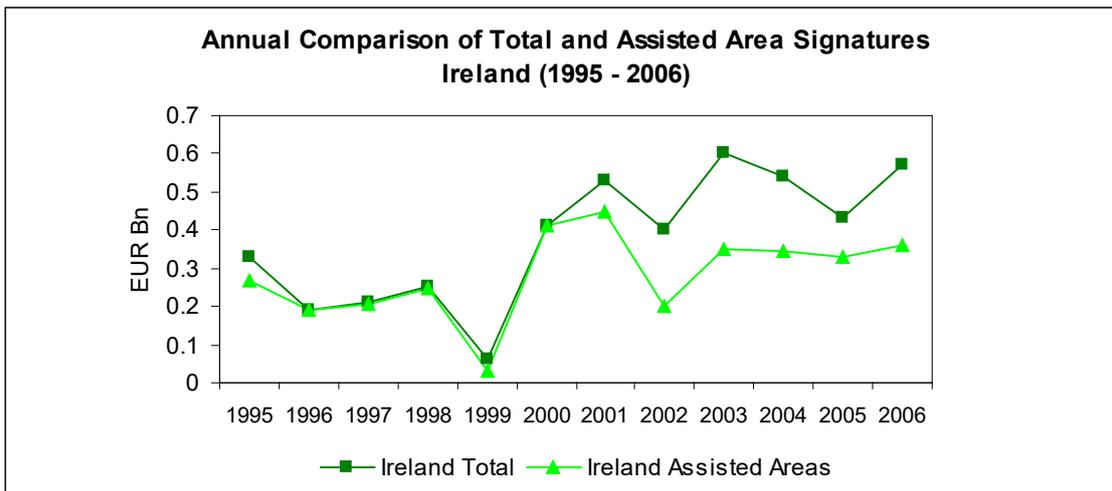
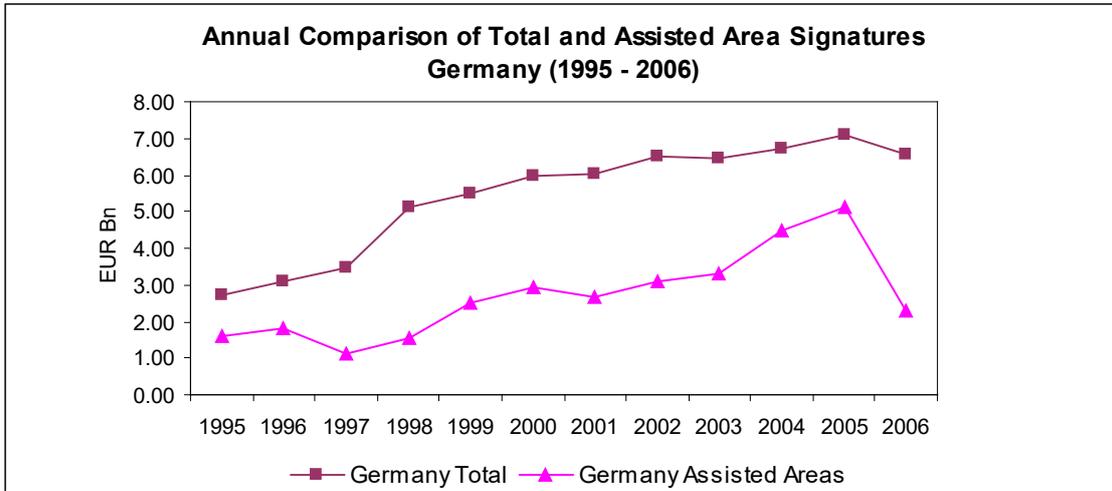
5.5. Coordination and Cooperation with Other Financial Institutions

Besides the usual consultation procedures with the EU Commission, in most cases evaluated during this exercise, there is no specific evidence for a particular close coordination and cooperation with other institutions. For project 12, the Bank was fully responsible for administering

¹² 2007 (1); 2006 (6); 2005 (3); 2004 (2).

the scheme (First Financial Mechanism 1994-1998), which implied substantial professional input and coordination, from the various operational departments of the Bank.

Annex 1 Portfolio Review



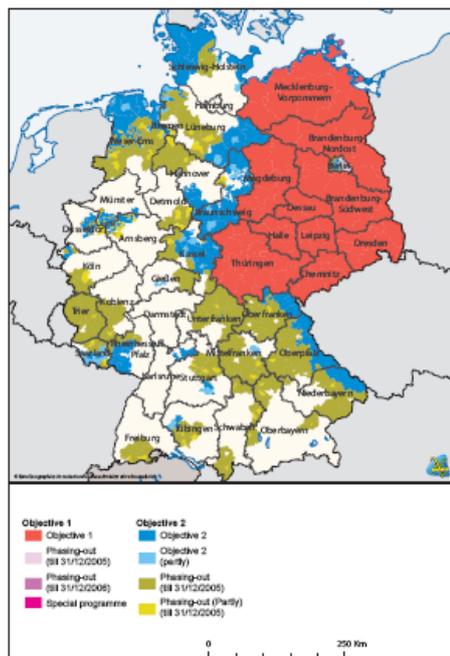
Annex 2 EU Regional Policies and eligible regions in D, IRL and SP

A BRIEF HISTORY OF EU REGIONAL POLICY

- 1957** Treaty of Rome refers to the need 'to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing among the various regions and the backwardness of the less-favoured regions.
 - 1958** European social fund (ESF) creation.
 - 1962** European agricultural guidance and guarantee fund (EAGGF) creation.
 - 1974** European Regional Development Fund (ERDF) to redistribute part of the Member States' budget contributions to the poorest regions.
 - 1986** Single European Act as basis for cohesion policy with specific emphasis on the southern countries and other less-favoured regions.
 - 1992** Treaty of the European Union designates cohesion as one of the main objectives of the Union (with economic/ monetary union, the single market), Cohesion Fund creation.
 - 1993** Edinburgh European Council - 200 billion ECU for cohesion policy.
 - 1999** Berlin European Council reforms structural funds for 2000-2006 (213 billion EUR). Instrument for structural policy for pre-accession (ISPA) and the special pre-accession programme for agriculture and rural development (SAPARD) complete the 1989 Phare programme to promote development in central and eastern European countries.
 - 2000** Lisbon Council adopts a strategy with focus on employment to make the EU 'the most competitive and dynamic knowledge-based economy in the world by the year 2010'.
 - 2001** Gothenburg Council links this with sustainable development.
 - 2002** Copenhagen Council - agreement on the conditions for the accession of 10 new Member States.
 - 2004** 1 May Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia join the European Union.
 - 2005** Cohesion policy budget for 2007-2013 (almost 350 bn euros)
 - 2006** 17 May agreement on 2007-2013 budget; 1 August regulations governing the structural funds (2007-2013) enter into force. 6 October Community strategic guidelines on cohesion adopted", as basis of the new policy.
 - 2007** On 1. January, Bulgaria and Romania become members of the EU.
- Source: http://ec.europa.eu/regional_policy

ELIGIBLE REGIONS IN GERMANY

Eligible regions 2000-2006

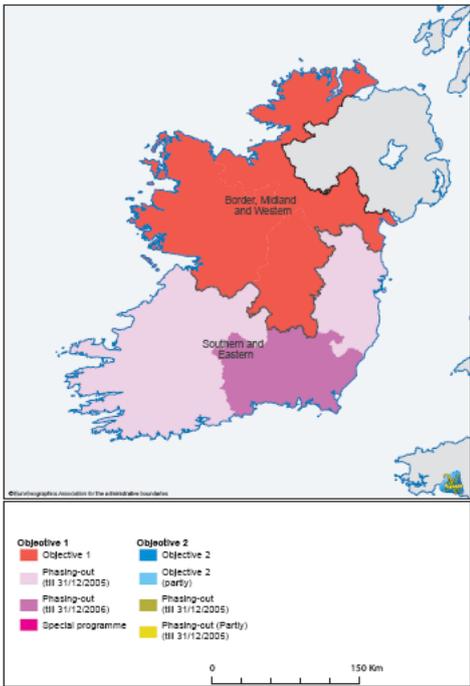


Eligible regions 2007-2013



ELIGIBLE REGIONS IN IRELAND

Eligible regions 2000-2006

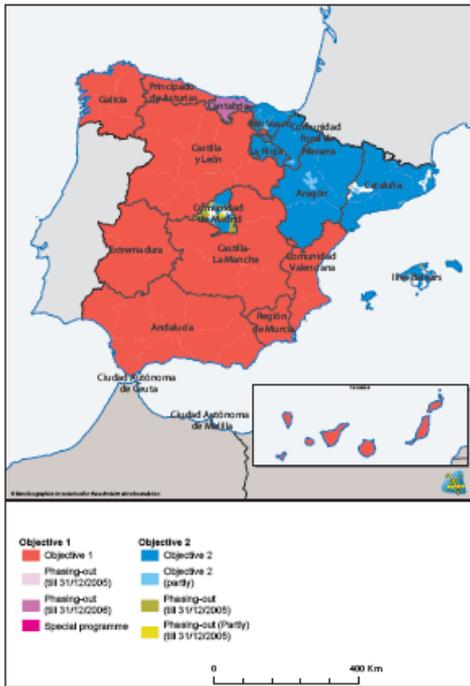


Eligible regions 2007-2013

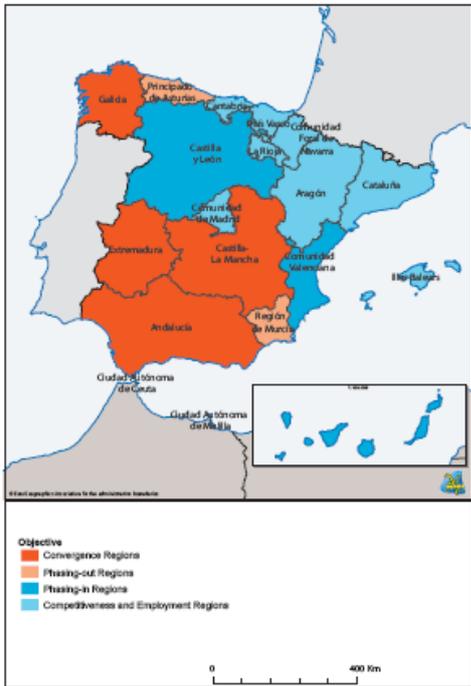


ELIGIBLE REGIONS IN SPAIN

Eligible regions 2000-2006



Eligible regions 2007-2013



Annex 3

Evaluation Process, Criteria and Methodology

In accordance with EV's Terms of Reference, the objectives of this 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 Article 267 of the 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 Impact (and social when relevant) 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 and management of the project cycle:
 - EIB Financial value added (Third Pillar of value added)** identifies the financial value added 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.

Specific selection criteria

The projects selected for individual evaluation met the following criteria:

- I. In order to be eligible for selection, projects had to be implemented in Assisted Areas (Objectives 1 and/or 2) in Germany, Ireland and Spain, and classified in the appraisal report as fulfilling either regional development and/or economic and social cohesion eligibility criteria.
- II. In view of their overall importance in the three countries, two main infrastructure sector areas, (1) transport, storage and communication and (2) electricity, gas and water supply are being considered. Other sectors are not included in this evaluation for the following reasons: ICT projects and global loans will be subject of forthcoming evaluations. Education and health projects have either already undergone an evaluation or are currently in the process of being evaluated. The focus on infrastructure projects in the cohesion areas is justified not only through its overall importance for the countries, but also in view of the overall importance of infrastructure lending for the Bank. In addition, the EFS 2008 conference will focus on infrastructure and its importance for economic and social cohesion.
- III. The selection was further refined to consider mostly projects which :
 - i) were signed after 2000,
 - ii) have been disbursed and are not yet repaid,
 - iii) have a PCR in the new format (completion between 2004 and 2007) which should ensure that they are at least operational since one year.

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.)
22. EIB financing with own resources through individual loans under Mediterranean mandates (2005 - available in English (original version) and German and French.)
23. Evaluation of EIB financing through individual loans under the Lomé IV Convention (2006 - available in English (original version) German and French.)
24. Evaluation of EIB financing through global loans under the Lomé IV Convention (2006 - available in English (original version) German and French.)
25. Evaluation of EIB Investments in Education and Training (2006 - available in English (original version) German and French.)
26. Evaluation of Cross-border TEN projects (2006 - available in English (original version) German and French).
27. FEMIP Trust Fund (2006 - available in English.)
28. Evaluation of Borrowing and Lending in Rand (2007 - available in English.)
29. Evaluation of EIB Financing of Health Projects (2007 - available in English. (original version) German and French)
30. Economic and Social Cohesion - EIB financing of operations in Objective 1 and Objective 2 areas in Germany, Ireland and Spain (2007 - available in English. (original version) German and French)

These reports are available from the EIB website: <http://www.eib.org/publications/eval/>.

E-mail: EValuation@eib.org

