JASPERS Networking Platform
Webinar on Good Practices and key lessons in Project Assessment and Selection,
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Lessons from 2014-2020 Independent Quality Review Experience

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Jaspers

European Commission

Outline

1. **Overview of 2014-20 ESIF Major Project Appraisal by JASPERS**

    (MP appraisal procedures, statistics by country and sector)

2. **Lessons learned exercise**

    (sample, type and gravity of comments, areas of assessment)

3. **Detailed overview of findings per area of appraisal**

    (demand analysis, option analysis, project costs, financial analysis, economic analysis, risk analysis, environmental compliance & climate, state aid, capacity & timetable)

4. **Recommendations for project appraisal**

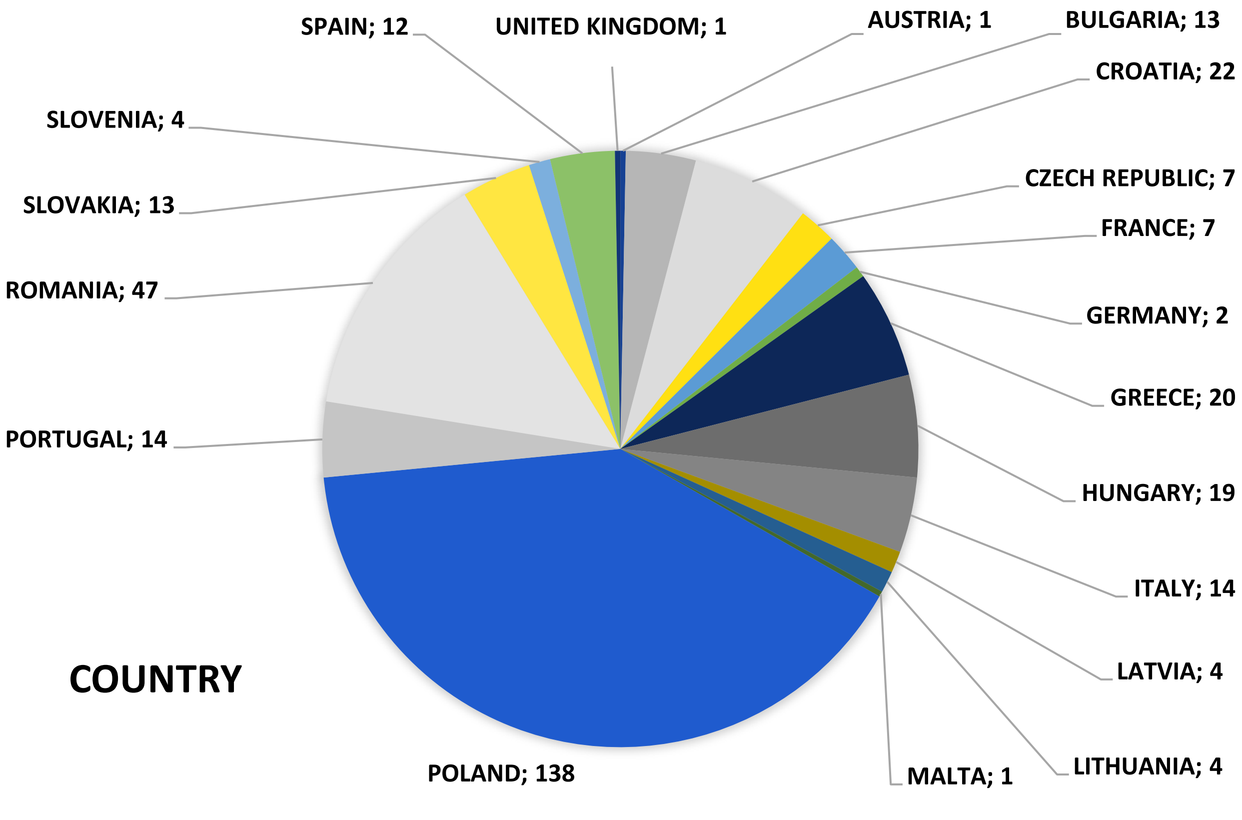
1. Overview of 2014-20 ESIF Major Project Appraisal by JASPERS - Procedures

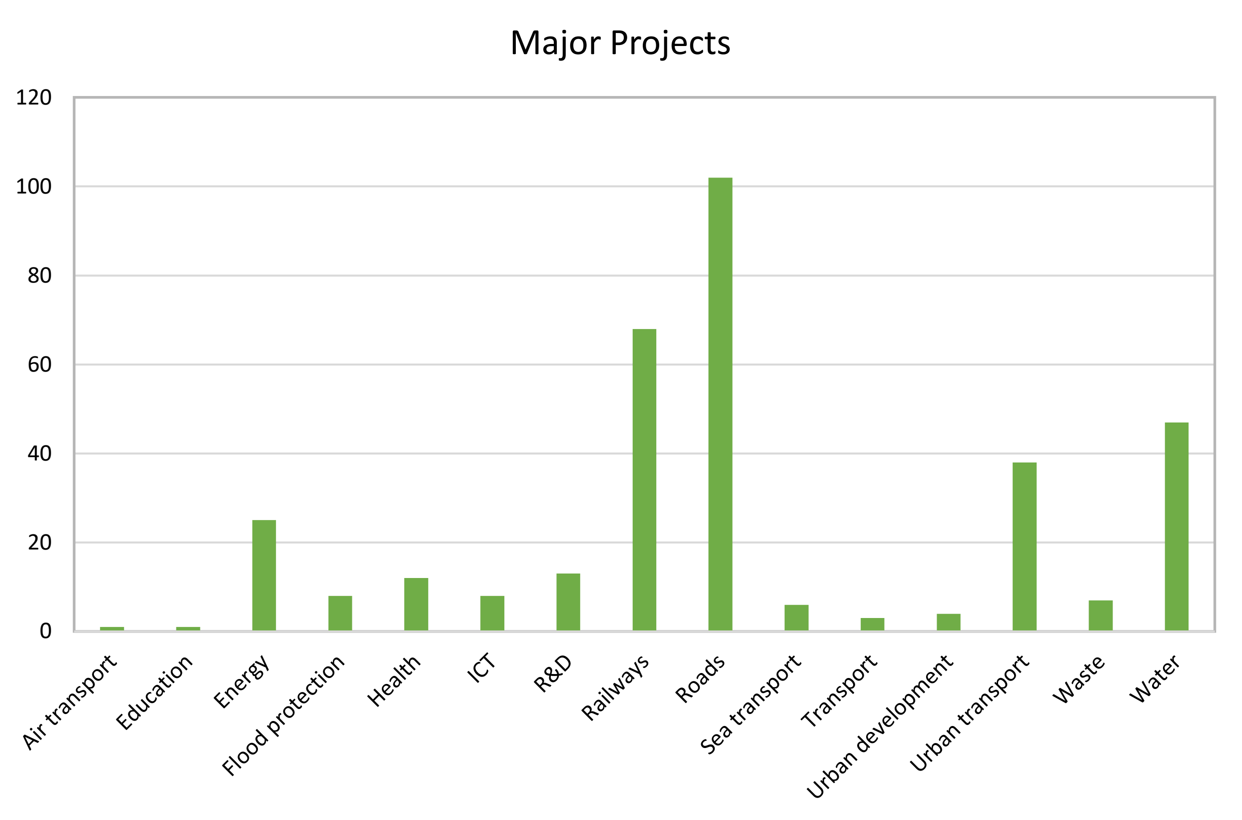
2014-2020 – ERDF and Cohesion Fund

- 2014-2020 period - 2 alternative approval pathways envisaged in Regulation 1303/2013 for **all major projects in ESIF** (eligible costs > 75 MEUR for transport or 50 MEUR for other sectors):
- Projects under **Art. 102(1)** (**Independent Quality Review – IQR**)
  - first sent to JASPERS IQR Division (EIB staff, but funded and acting on behalf of the EC) for assessment
  - IQR report issued max. 6 months after receipt of relevant documentation
  - EC adopted decisions based exclusively on the submitted IQR report and shortened application form ("Notification Form").
- Projects under **Art. 102(2) sent directly to EC**,
  - EC requested JASPERS IQR team to undertake a 'Post Submission Appraisal' (PSA) report to assess regulatory compliance under same quality requirements as in IQR procedure

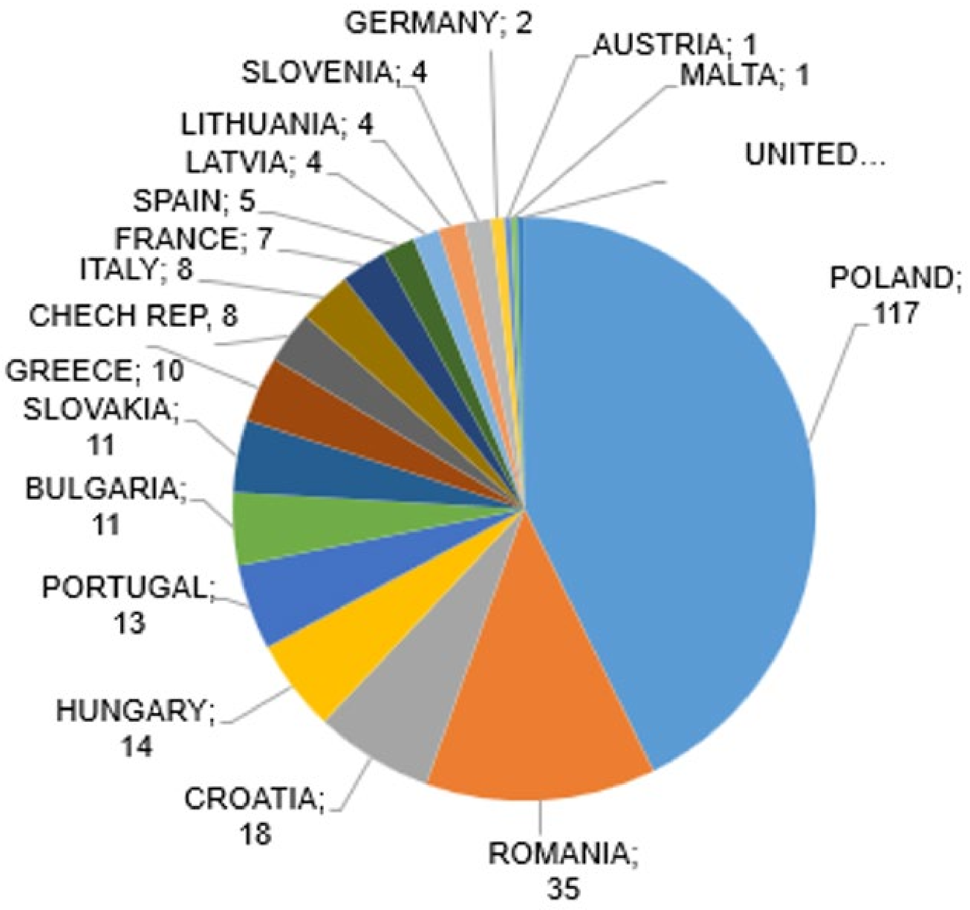
1. Overview of 2014-20 ESIF Major Project Appraisal by JASPERS – Statistics

- 343 major projects appraised (449 incl. modifications) with total costs of 123 BEUR





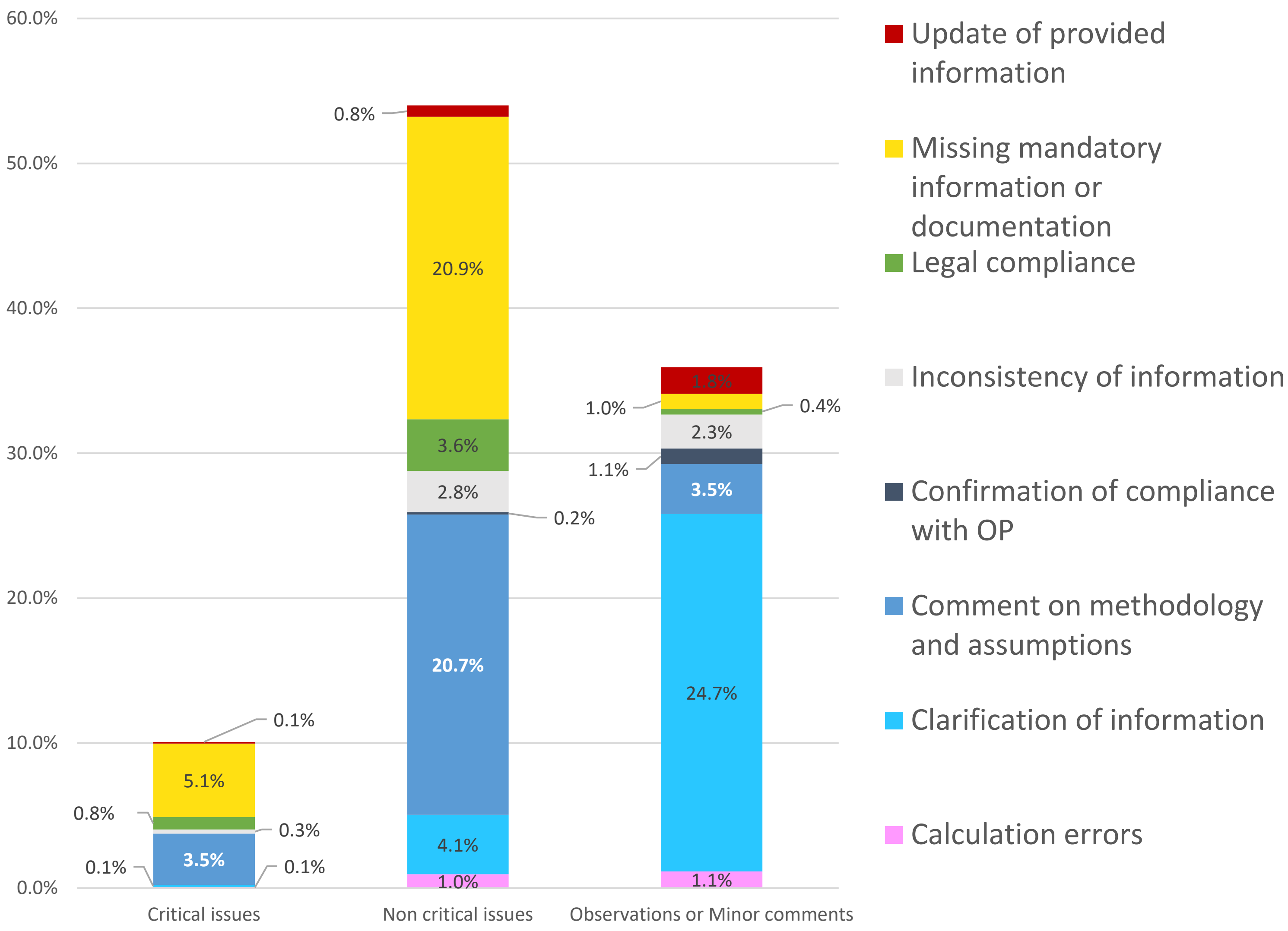
2. Lessons learned exercise: Countries and Sectors



Sectors:

- Transport (65% of all projects studied)
- Water (14%)
- Energy and solid waste (10%)
- Smart development (12%)

2. LESSONS LEARNED EXERCISE : GRAVITY AND TYPE OF COMMENTS

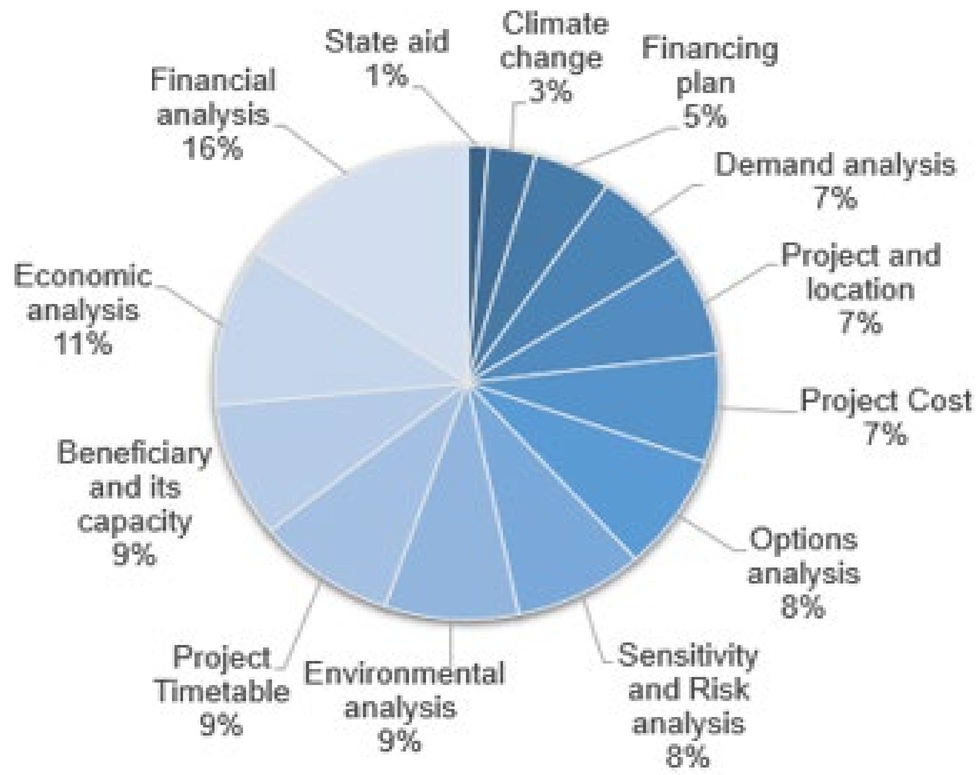


Example of missing mandatory information or documentation:

- mandatory risks listed in Regulations not included in the Risk Analysis

2. Lessons learned exercise: IQR comments by area of assessment

Share of all types of issues by area of assessment:



For projects financed in 2014-2020, issues arose in all areas, but particularly in:

- **Financial analysis** (16% of total, e.g., lack of demonstrated financial sustainability)
- **Economic analysis** (11% of total, e.g., incorrect calculation of economic indicators).
- **Beneficiary and its capacity**,
- **Project timetable**
- **Environmental analysis**

(each 9% of total)

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3. Detailed overview of findings per area of appraisal - General Lessons from 2014-2020

<u>**Pre-appraisal stage – main points to watch**</u>

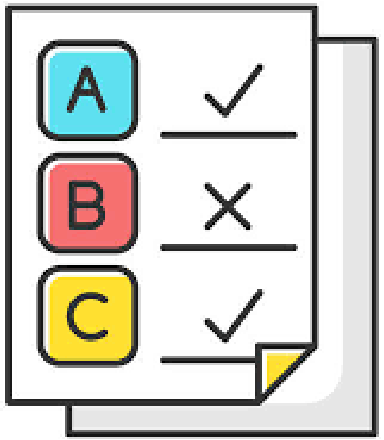
- **General context** in the sector – legal framework, compliance with policies, capacity of beneficiaries, available funding
- Existing **strategies compliant with EU policies** (but compliance not sole objective itself)
- **Realistic needs assessment/project scoping** to ensure successful and sustainable operation
- **Compliance with requirements of the chosen EU fund** (programming; calls for proposals vs "national" projects) - but avoiding overly bureaucratic processes/gold plating

Demand/needs analysis

- **Outdated data** on historical demand (population, traffic flows, consumption, etc.)
- **Unrealistic future demand** (due to overoptimistic assumptions relating to traffic flows, transport modal shift, consumption volumes, production outputs)
- **Not using official statistics** even when available
- Demand/needs analysis **not justifying project scope** and **inconsistent with project objectives**

Option analysis

- **Unrealistic alternatives** presented
- **Disaster scenario presented as baseline** making smaller interventions less palatable
- **Flawed costing of options** (CAPEX, OPEX) – inconsistent assumptions with other parts of documentation
- **Absence of net present value analysis** and comparison of options
- **Unclear presentation of criteria for selection** of the best alternative
- **Insufficient justification for selected option**



Project costs

- **Incorrect calculation of investment costs** – e.g. confusion of constant vs. current prices; contingencies (too low or too high); wrong exchange rates for non-Eurozone MS)
- **Ineligible costs, incl. incorrect phasing**
- **Gold plating**
- **Incorrect estimates of operating and maintenance costs** (usually underestimation)
- In modifications, **inconsistent presentation of cost overruns** (tendering + construction)

Financial analysis

- **Outdated or incorrect macro-economic** historical **data** and/or future assumptions
- **Incorrect quantifications of investment and operating costs**, incl. asset lifetimes and residual values
- **Incorrect choice of reference period**
- For funding gap projects, **manipulations attempting to maximise EU grant** (overestimating costs, underestimating revenues, manipulation of without-project scenario, etc.)
- **Wrong tariff setting and low cost-recovery** for polluter-pays principle projects
- Insufficient demonstration of **financial sustainability** (project and beneficiary level)

Economic analysis

General flaw – deliberately decreasing economic costs and increasing economic benefits to boost economic viability

- **Incorrect application of fiscal corrections and conversion factors** (shadow prices)
- **Inappropriate** choice of **economic benefits**
- **Incorrect unit values of benefits**
- Projects becoming economically viable just due to **overoptimistic demand forecasts**
- **Applying the benefits over incorrect basis/population**
- **Incorrect calculation of economic performance indicators** and/or, as a result, project below economic rate of return (ERR) threshold values

Risk analysis

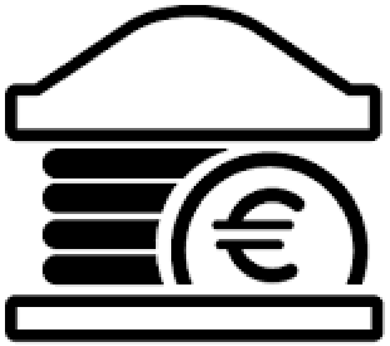
- **Absence of qualitative risk analysis** (risk matrix)
- **Not all risks** defined by legislation **analysed**
- **Entities responsible for risk mitigation not defined**
- **Generic risk mitigation measures**
- In modifications, no analysis of how risk mitigation were applied and what adjustments were made
- Unable to prevent delays and cost overruns due to COVID-19 and war in Ukraine

Environmental compliance & climate

- EIA procedure, development consent, Natura 2000 assessment, greenhouse gas calculation and CCVRA - comments relate mostly to **legal compliance and missing mandatory information**
- **Horizontal issue on Natura 2000** - Member States have not completed their exercise of establishing site-specific conservation objectives or those objectives were too generic to ensure that the mitigation measures proposed for the major projects concerned would be sufficient -> delays in project approvals
- **Difficulties in sorting out at project level when the issue is not project specific**

State aid

- Missing confirmation of **transfer of rail rolling stock assets** acquired under the project after expiration of the PSC
- For public transport projects, **missing confirmation of procedures to be applied for awarding of next PSC**
- Inclusion of **excessive commercial floor space as part of rail station upgrade projects**
- Uncertainty as to whether a given project is fully covered by an existing State Aid decision
- Missing confirmation of **lack of overcompensation** for services provided under public service contracts (PSC)



Capacity of beneficiary & project timetable

- **Insufficient beneficiary capacity** (mainly financial – lack of financial sustainability at beneficiary level)
- For budgetary beneficiaries, **uncertainty** about future revenues from public budgets to **cover operation and replacement costs**
- **Unrealistic project timetables** leading to additional costs & often phasing (delays in tendering causing most project delays)

General capacity

Sufficient capacity at level of

- beneficiary (technical, financial, legal/public procurement)
- public administration (management of EU funds, environmental authorities, state aid)
- private sector/market (consultants, designers, environmental specialists)

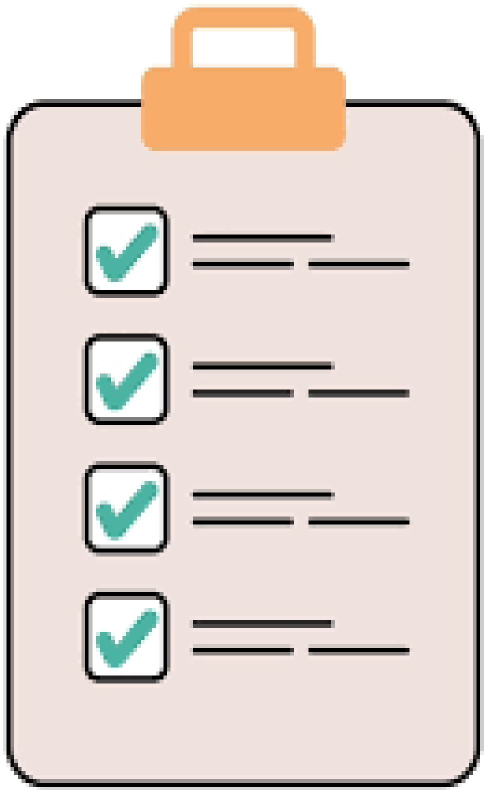
Capacity varying across sectors (infrastructure-heavy sectors with long experience in investment projects e.g. transport having advantage)

➔ need for good quality consultants, transferring know-how and building up beneficiaries' capacity

➔ capacity building measures at public administration

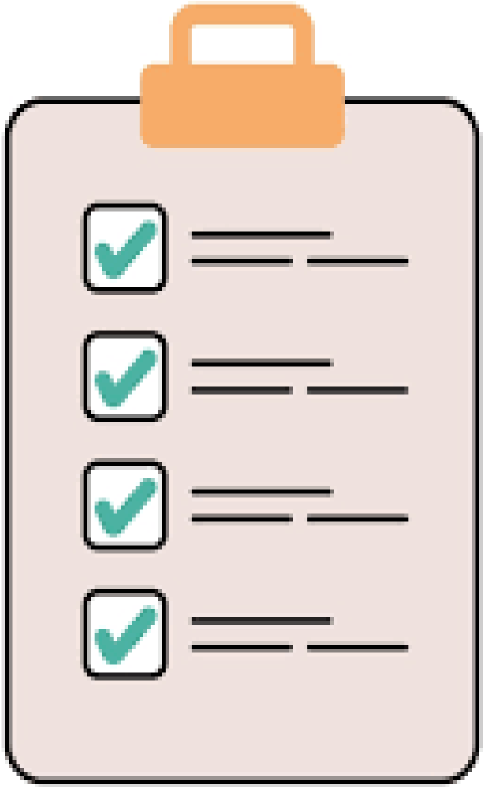
4. Recommendations for Project Appraisal (& Preparation)

- **Realistic alternatives** (scale, scope) to be analysed to avoid over-dimensioning and excessive costs
- **Project costs to be benchmarked** against well-documented market values at sector/country level
- Need to set **common parameters for financial and economic analyses** at sector/country level to ensure selection of best projects
- Compliance with **environmental requirements** to be verified by independent experts
- **State aid assessment** to start as early as possible
- **Risk analysis** to be carried out not only as paper exercise (avoiding cost overruns and delays)



4. Recommendations for Project Appraisal System

- Setting up and application of **clear rules against which the projects are appraised** at appropriate level
- **Knowledge of these rules by all stakeholders** already from project preparation
- **Setting up project appraisal system** (institutions, procedures) depending on particularities of each country/sector
- **Sufficient project appraisal capacity** – expert profiles covering all areas of appraisal
- Example of JASPERS IQR team – technical, financial and environmental experts, with access to specialised knowledge when needed (e.g. state aid experts, lawyers)



THANK YOU FOR ATTENION!

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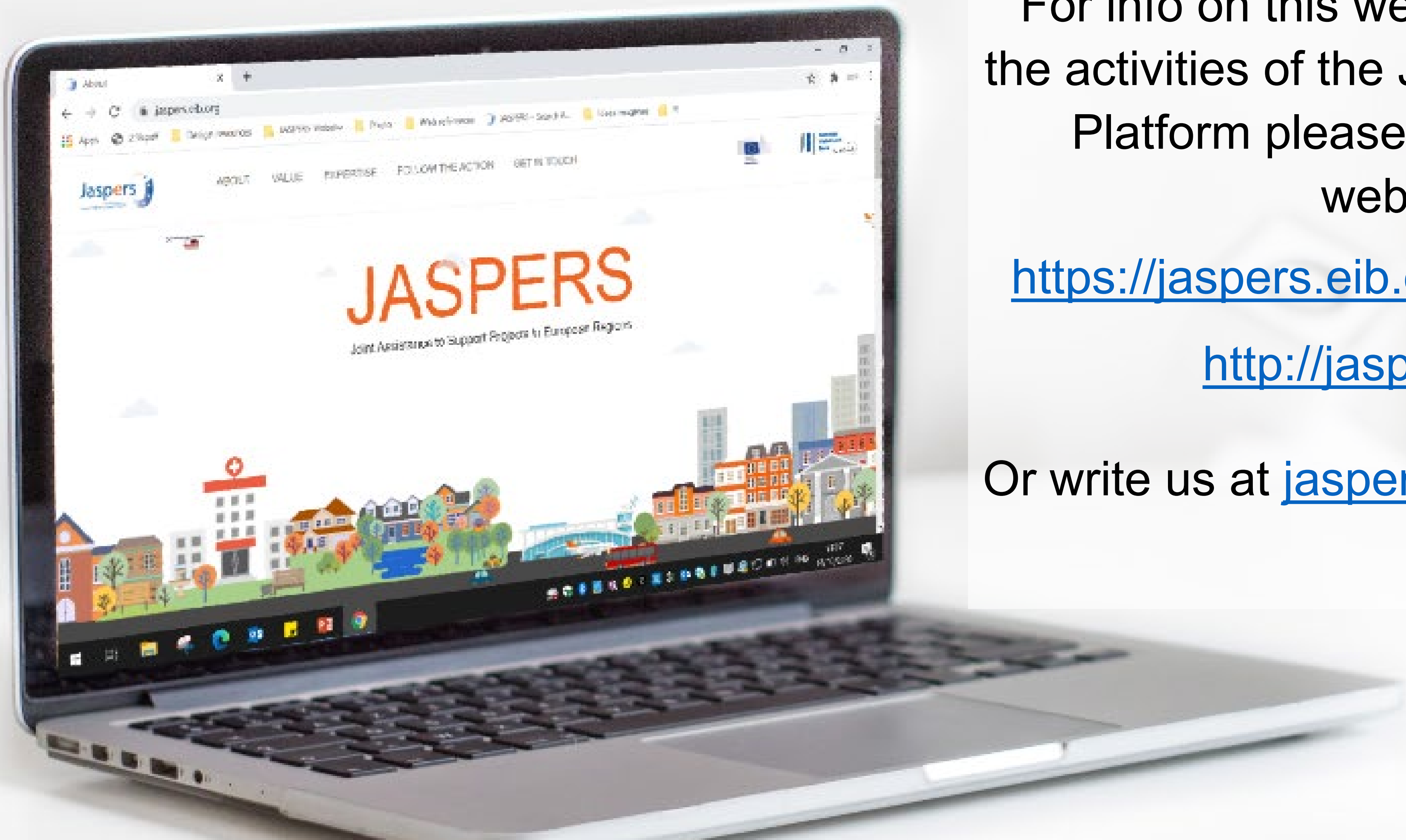

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