

IV

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**concerning the procedures for the preliminary examination and
evaluation of major investment projects for the 1994-1999 and 2000-2006
programming periods together with the Commission's replies**

(presented pursuant to Article 248(4), second subparagraph, EC)

(2008/C 81/01)

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GLOSSARY

Cohesion Fund	Instrument designed to promote economic and social cohesion by financing large projects in the fields of the environment and transport in Member States with a per capita GNP of less than 90 % of the Community average. The Cohesion Fund was originally implemented in Spain, Greece, Ireland and Portugal. Since 1 January 2004 Ireland has no longer been eligible. The new Member States have profited from Cohesion Fund support since their accession to the Community.
Cost-benefit analysis	A technique for comparing all the costs and all the benefits of an intervention to determine whether the benefits outweigh the costs, and if so, by what proportion.
Deadweight effect	An effect that becomes apparent and would have emerged even if a public intervention had not taken place.
Effectiveness	Measures the relationship between the results obtained and the objectives set.
Efficiency	Measures the relationship between the resources employed and the results obtained.
ERDF (European Regional Development Fund)	Financial instrument designed to promote economic and social cohesion between the countries of the EU by correcting the main regional imbalances and by reconversion of regions whose development is lagging behind. ERDF interventions are mainly implemented through operational programmes encompassing a large number of projects.
Impact	Socioeconomic consequences that may be attributed to an intervention.
IRR (internal rate of return)	Rate at which an investment becomes profitable. <ul style="list-style-type: none"> — Financial IRR: a rate of return calculated exclusively from the amounts of financing relating directly to the project. — Economic IRR: a rate of return calculated taking into account external economic factors.
NPV (net present value)	Value obtained by indexing at the present time the value of all cash balances which will be generated by a project during its life. This method enables various projects to be compared.
Operational programmes	A document approved by the Commission, it takes the form of a coherent set of priorities comprising multiannual measures. The priorities may be implemented through recourse to one or more Structural Funds, or, alternatively, to other financial instruments and the EIB.
Programming period	The multiannual framework within which Structural Fund expenditure is planned and implemented.

Risk analysis	Study to determine the probability that the value of the underlying variables originally calculated for a project will actually be confirmed.
Sensitivity analysis	Study of the stability of the expected result of a project when exposed to changes in the underlying variables.
Structural Funds	Community funds financing actions with the aim of reducing disparities in development between the regions of the EU. ERDF is the main financial instrument for these actions.

SUMMARY

I. The regulations define 'major' infrastructure and productive investment projects essentially in terms of the volume of finance involved. In view of the economic significance and potential impact of these projects, they are subject to special preliminary examination procedures prior to approval. For the same reasons, relevant information must be collected so that the effects actually achieved can be assessed in comparison to those which had been expected (see paragraphs 1-8).

II. The Court's audit centred on ERDF major projects and, by analogy, those under the Cohesion Fund for the 1994-1999 and 2000-2006 programming periods. This report is constructed around two main themes: the process of preparation for approval, by the Commission, of major projects and the process of evaluation after their implementation (see paragraphs 9-13).

III. The Court found several weaknesses in the preliminary examination procedure in the two periods in question. Of particular concern were the procedures for project appraisal and for setting the rate of Community co-financing. The quality of the cost-benefit analyses presented by project promoters in support of applications for assistance was extremely variable, and the same was true of the use to which the Commission put those analyses. These findings lead to doubts about the real value added of the special procedure for approving major projects (see paragraphs 14-34).

IV. The Court recommends that the Commission should apply more efficient preliminary examination procedures based on the tools it has itself developed, should ensure that the cost-benefit analysis is rigorously applied, particularly in respect of the data provided, and should continue its efforts to take into account those factors which allow the rate of Community participation to be adjusted (see paragraph 63).

V. As regards the *ex post* evaluation of major projects from the 1994-1999 period (the only such evaluation that the Commission had been able to carry out at the time of the audit), it proved to be severely handicapped by the lack of pertinent and accurate information on anticipated effects and monitoring. Given these circumstances, the evaluations did not produce any information that was useful from the point of view of decision-making for the following period, with the exception of one case concerning projects cofinanced by the Cohesion Fund. The evaluation of ERDF major projects from the 2000-2006 period, which has yet to be carried out, will be able to rely on stricter rules, especially in the area of monitoring. However, not much has yet been done to apply those rules in practice (see paragraphs 35-55).

VI. The Structural Funds regulations for the 2007-2013 period do not require the Commission to carry out individual *ex post* evaluations of major projects. However, the Court recommends that, when completed, the major projects should be evaluated individually, in relation to their specific objectives, by the national management authorities and the beneficiaries, for whom the information obtained from this exercise would be useful. To this end, the Commission must ensure that the applications for assistance contain the information required in respect of indicators and the initial situation, and that this information is rigorously monitored. As regards the information provided by the evaluation, which must be forwarded to it, the Commission must analyse its own requirements so as to ensure that it has relevant, reliable data available on the effects produced by the major projects (see paragraph 64).

VII. In the longer term, the Court invites the Commission, the European Parliament and the Council to give thought to the purpose of the special arrangements for major projects (see paragraph 65).

INTRODUCTION

Definitions and approval framework

1. The concept of 'major projects' is defined, in essence, in the Community regulations on the ERDF⁽¹⁾, and depends on the volume of finance involved in the projects.

⁽¹⁾ The concept already existed in Council Regulation (EEC) No 4253/88 of 19 December 1988 (OJ L 374, 31.12.1988, p. 1). It also applies in the rules for the new period (2007-2013) (Articles 39-41 of Council Regulation (EC) No 1083/2006 of 11 July 2006 (OJ L 210, 31.7.2006, p. 25)).

2. For the 1994-1999 programming period, 'major projects' were 'those the total cost of which taken into account in determining the amount of Community assistance is, as a general rule, greater than ECU 25 million for infrastructure investments or greater than ECU 15 million for productive investments'⁽²⁾.

3. For the 2000-2006 programming period, the definition of 'major projects' covers projects 'whose total cost taken into

⁽²⁾ Article 16(2) of Council Regulation (EEC) No 4253/88 as amended by Regulation (EEC) No 2082/93 of 20 July 1993 (OJ L 193, 31.7.1993, p. 20).

account in determining the contribution of the Funds exceeds 50 million euro' ⁽¹⁾. In addition, these projects must comprise an economically indivisible series of works fulfilling a precise technical function and which have clearly identified aims. As in the previous period, these may be investments in infrastructure or productive investments ⁽²⁾.

4. The Cohesion Fund regulations, on the other hand, contain no definition of 'major projects' for either one of the periods under consideration ⁽³⁾. However, since, in the cohesion countries, similar transport infrastructure or environment projects may be financed by either the Cohesion Fund or the ERDF, the audit also examined, by analogy, a number of Cohesion Fund projects that were selected on the basis of total cost, applying the same criteria as for the ERDF major projects.

5. As regards the approval framework, ERDF major projects for the 1994-1999 period could be submitted individually or within the framework of an operational programme. In any case, the Commission was informed about major projects, with further details to be supplied ⁽⁴⁾, but no formal approval decision was required.

6. All ERDF major projects for 2000-2006 were financed within a wider programme of assistance ⁽⁵⁾. However, the regulations required the Commission to approve them individually, unlike other projects, which were approved only at Member State level ⁽⁶⁾.

7. Under the Cohesion Fund, in both periods, only individual projects could be financed, each project forming the subject of a specific decision.

Table 1

Definition of 'major projects'

FUND	1994-1999 period	2000-2006 period
EDRF 'major projects' (infrastructure and productive investment projects)	Total cost greater than: — ECU 25 million for infrastructures — ECU 15 million for productive investments	Total cost greater than: 50 million euro for all types of project In addition: indivisibility of work from economical and technical points of view and clearly identified objectives
	Individual project or project included in larger intervention	Project always part of larger intervention
	Cohesion Fund 'major projects' (transport infrastructure and environment projects)	No definition in the regulations For the purposes of the audit, total cost greater than ECU 25 million
	Individual project	Individual project

⁽¹⁾ Article 25 of Council Regulation (EC) No 1260/1999 (OJ L 161, 26.6.1999, p. 1).

⁽²⁾ Article 26 of Regulation (EC) No 1260/1999.

⁽³⁾ The Cohesion Fund exists to finance larger projects in the fields of transport and environment. Article 10(3) of Council Regulation (EC) No 1164/94 of 16 May 1994 (OJ L 130, 25.5.1994, p. 1) specified, for the 1994-1999 programming period, that 'the total cost of projects or groups of projects may in principle not be less than ECU 10 million'. For the following programming period, Council Regulation (EC) No 1264/1999 of 21 June 1999 (OJ L 161, 26.6.1999, p. 57) replaces 'ECU' with 'euro'.

⁽⁴⁾ Article 5 of Regulation (EEC) No 4254/88 as amended by Council Regulation (EEC) No 2083/93 of 20 July 1993 (OJ L 193, 31.7.1993, p. 34).

⁽⁵⁾ Mainly Operational Programmes, Single Programming Documents and Community Initiative Programmes.

⁽⁶⁾ Article 26(3) of Regulation (EC) No 1260/1999.

The volume of funds involved

8. Table 2 shows the total cost for the two programming periods of the major projects which received assistance from the ERDF and the Cohesion Fund:

Table 2

Total cost of the 'major projects' which benefited from Community intervention

	1994-1999 period		2000-2006 period	
	ECU 1 000 mil- lion	Number of projects	1 000 mil- lion euro	Number of projects
ERDF MPs	36	676	48	279
Cohesion Fund MPs	12	147	23	154
Total	48	823	71	437

THE SCOPE OF THE AUDIT AND OF THIS REPORT

9. Given the impact that single projects of a financial volume exceeding a certain amount may have on regional development, major investment projects are bound by preliminary examination procedures that are more than usually complex. As of the 2000-2006 period, at least, they are also subject to a separate approval decision. For the same reasons, a retrospective appraisal of the actual effects generated by the allocated resources is required in the interest of obtaining guidance for project design and selection in future programming periods.

10. The Court therefore sought replies to the following questions:

- Is Community financing of major projects adequately prepared by the Commission?
- Does the *ex post* evaluation of major projects generate results that are useful for future decision-making?

11. The administrative checks and checks carried out in the Member States covered a sample of 20 closed major projects from the 1994-1999 period, and 30 major projects from the 2000-2006 period. In addition, a supplementary sample of 36 major projects from 2000-2006 was taken for administrative checks at the Commission (see Annex I).

12. With regard to the system that was set up for the preliminary examination of major projects, the audit focused on the Commission's procedures for the two periods, 1994-1999 and 2000-2006. The progressive improvements made are indicated. The recommendations in this part will probably have an impact on implementation in the 2007-2013 period, for which the concept of 'major projects' has been retained for all the Structural Funds ⁽¹⁾.

⁽¹⁾ See in particular Articles 39-41 of Regulation (EC) No 1083/2006.

13. Turning to the subject of *ex post* evaluation, only those evaluations concerning the projects of the 1994-1999 period could be taken into account, since, at the time of the Court's audit, implementation of the projects of the 2000-2006 period had not yet been completed and the *ex post* evaluations were still to be done ⁽²⁾. Nevertheless, the report also examines whether improvements can be hoped for in respect of the 2000-2006 period. The observations that were drawn up on conclusion of the audit may have an impact on the evaluations for the 2000-2006 period, which are yet to be carried out, but chiefly on those for the 2007-2013 period which has just begun.

DOES THE COMMISSION PREPARE COMMUNITY FINANCING OF MAJOR PROJECTS ADEQUATELY?

Preliminary examination framework and audit criteria

14. It is the responsibility of the Member States to present major projects for Community co-financing, and this is carried out on the basis of their own preliminary examination procedures and rules, taking into account the stated priorities of the relevant ERDF Operational Programmes and of the Cohesion Fund.

15. The Commission is not expected to make a comparative assessment of the different Member States' projects, as the volumes of finance earmarked for each State are fixed in advance during the preparations for each programming period. Nevertheless, the Commission must examine the quality of the projects to be financed, i.e. whether the projects selected have the potential to achieve results with regard to regional development, and whether financial participation by the Community is required to carry them out and would deliver real added value.

16. The Court scrutinised the Commission's preliminary examination phase, on the basis that the following factors were necessary for this phase to lead to the adoption of worthwhile projects:

- (a) a common framework for the examination of applications for assistance to ensure that the project has been correctly prepared and contains the information which can form the basis for a decision on whether it merits assistance;
- (b) a decision process based on well-tried methods, understood and applied in a similar way by the Member States and the Commission;
- (c) determination of the rate of Community financial assistance on the basis of rules which ensure the public intervention is put to most efficient use.

⁽²⁾ Eight projects adopted between 2000 and 2002 were nevertheless examined in the context of an *ex post* evaluation carried out on behalf of the Commission (see paragraph 41).

Project examination: improvements in the methodological framework but procedures to be strengthened

17. The Court's audit demonstrated that, with time, the management tools put in place by the Commission have been refined. Although there are differences between the application forms for assistance for ERDF and Cohesion Fund major projects for the 2000-2006 period, they are more comprehensive and suitable than the forms used in the preceding period. Likewise, the Guide to the cost-benefit analysis ⁽¹⁾ made available to the Member States by the Commission has been improved both in terms of its presentation of the theoretical framework and its practical application ⁽²⁾.

18. However, the examination of the applications varied in quality:

- as several managing departments are responsible for the preliminary examination (the Commission's geographical units assess the projects as a whole, while the Evaluation Unit examines the cost-benefit analysis), for a long time there was no common approach, for example in the form of a checklist. Apart from the *vade mecum*s and procedural handbooks for Cohesion Fund and ERDF projects in general, it was not until 2003 that appraisal summary tables and checklists for major projects in particular were laid down,
- interdepartmental consultation sometimes leads to conflicting views concerning, above all, the appropriateness and level of assistance. The geographical units responsible do not always heed these unless an explanation is put on file. Sometimes, too, requests for additional information from other services are not followed up (see Box 1),
- there is no clear rule, in the cohesion countries, for assigning major transport and environment projects to the ERDF or the Cohesion Fund, apart from the fact that the Cohesion Fund must prioritise financing for the Trans-European Transport Networks (TEN-T). As the Cohesion Fund applies higher ceilings to project finance, this has led to cases where similar projects are allocated different financial contribution rates. What is more, the assignment of a project to the ERDF or the Cohesion Fund also has different implications for monitoring and *ex post* evaluation (see Box 2).

⁽¹⁾ See the Guide to cost-benefit analysis of ERDF major projects in the context of Community regional policy, which was finalised in 1994. A revised Guide published in 1997 also covered Cohesion Fund major projects. For the following period, the former guidance instrument was replaced in 2002 by the Guide to cost-benefit analysis of investment projects under the Structural Funds (ERDF), Cohesion Fund and ISPA. These documents are available on the Commission's website at: http://ec.europa.eu/regional_policy/sources/docoffic

⁽²⁾ In particular, the Guide published in 2002 specifies the financial and economic rates of return that should be used and the 'time horizons' that should be applied in each investment field in order to assess the return on projects. However, it fails to provide any details or forecasting techniques concerning impacts on the environment or job creation.

Box 1

With regard to productive projects, one Commission department had pointed out that the investments were likely to prove extremely profitable and therefore did not require assistance. For one transport infrastructure project, another department had proposed that the requested 60 % contribution rate be reduced because the project was located in the wealthiest region of the Member State and the authorities were applying lower rates in regions that were less well-off. A rate cut was also sought in the case of another project where the investment return was extremely good. In the end, the reduction in the requested contribution rates was not made for any of these projects. In the case of the construction of an underground railway, it was converted into an environmental project under the Cohesion Fund when DG TREN refused to view it as transport infrastructure, despite reservations expressed by DG ENV on the grounds that only 1-3 % of the benefits to be derived from the project would be environmental in nature.

Box 2

In Greece, assignment to one or the other fund, following consultation with the Commission, depends on the projects' level of preparation and planning and the availability of resources. This has led to the somewhat illogical situation where one extension project for a major transport project was financed by the Cohesion Fund at the rate of 66,3 % and another by the ERDF under an operational programme at 50 %.

19. There were substantial delays in the examination process. The two-month time limit set for Commission approval ⁽³⁾ following the receipt of application forms is usually exceeded. The average time needed for the ERDF and Cohesion Fund projects that were audited on the spot was 187 days, with the approval period ranging from 46 to 1 001 days. These delays are attributable to the fact that the Commission is obliged to seek further details on the vast majority of major projects, largely owing to the poor quality — or absence — of environmental impact studies, which are compulsory in many cases, and to specific aspects of the financial and economic project analyses ⁽⁴⁾. Furthermore, the Member States are often very slow in replying. The shortcomings which affected project management for a considerable time may, in part, explain these delays (see paragraph 17).

20. The Commission's examination for the approval of projects proved to be too lenient:

- projects were approved before they were entirely ready, as indicated by the fact that budgets were overrun and implementation deadlines were missed. Even where it was informed of this problem, the Commission approved them nonetheless,

⁽³⁾ Article 26(3) of Regulation (EC) No 1260/1999; the time limit is three months if the EIB has to be consulted.

⁽⁴⁾ In this connection, see also paragraphs 22-24.

- some projects, on the other hand, were almost completed by the date they were submitted. For some productive projects, the projects were close to physical completion by the date on which the application file was sent to the Commission (although this was ahead of the closure of the accounts). In such circumstances the project could no longer be modified and the Commission could only either approve or refuse the application,
- in the case of productive investments, application of the principles relating to justification of public intervention was only rarely verified. Consideration of the criteria relating to compensating for market weaknesses and avoiding the co-financing of deadweight effects did not play a major role in the financing decisions,
- some major projects did not satisfy the criterion whereby major projects are supposed to comprise an economically indivisible series of works fulfilling a precise technical function and with clearly identified aims (see paragraph 3). A number of ERDF projects that were adopted as major projects were in fact made up by combining a number of separate individual projects. This is important in view of the fact that submission of an application for a major project grants the de facto right to benefit from extended application of the 'n + 2 rule' while the project is being examined, which may take a considerable amount of time ⁽¹⁾.

The cost-benefit analysis: varying quality of applications

21. The cost-benefit analysis required by the legislation, in order to substantiate applications for assistance, is the main tool at the Commission's disposal for its decision to grant Community financing or not. Its satisfactory application is essential to evaluate the quality of the projects submitted. Its objective is to compare the resources deployed with the socioeconomic benefits which may be obtained in the medium term from the proposed action ⁽²⁾. The Commission may ask for the analysis submitted in support of the application to be revised or expanded, or may itself carry out an appraisal of the project, seeking the views of independent experts, where necessary, and the assistance of the EIB.

22. Despite publication by the Commission of a Guide to the cost-benefit analysis of major projects (see paragraph 17), great disparity was noted in the quality of the financial and economic analyses presented by the promoters.

23. The Commission takes an equivocal attitude to this. In some cases it tolerates numerous weaknesses and approves projects without requiring further details, while in other cases it suspends approval until it has received essential items of financial information.

24. The Court's audit has brought to light the following shortcomings and inconsistencies which impair the appraisal of the projects:

- inadequate information to assess the soundness of the analysis carried out; for a number of projects the financial and economic analyses are nothing more than a statement of the investment amount, costs and revenue, with no breakdown of these figures; for other projects only the results of the analyses are presented,
- missing components: in some cases the economic analysis and the cost-benefit report are missing; the contents of the risk and sensitivity analyses are often incomplete; rates and time horizons are not specified (see *Annex II*); direct environmental impacts are simply described or referred to without being assigned a financial value, or only a partial value. In the case of a number of major transport infrastructure projects that form part of wider projects, no overview of the entire project is provided although this is necessary for evaluation of the part presented for cofinancing (see *Box 3*). In the case of major industrial projects the results and impact indicators are rarely quantified, with the exception of employment (direct and indirect job creation, maintenance of employment),
- conflicting or erroneous practices: different financial and economic discount rates have been applied in the analyses, even in one and the same Member State, either to the public infrastructure projects or the productive investments (see *Annex II*). It is not always clear whether rate-of-return calculations are inclusive or exclusive of assistance; depreciation is taken into account when calculating the financial IRR and NPV, which is contrary to the generally acknowledged principles of financial analysis. Lastly, a relatively high proportion of the productive investments examined gave identical financial and economic IRR and NPV data.

⁽¹⁾ This rule provides for the automatic decommitment of commitments that have not been settled within two years of the date on which the corresponding appropriations were entered in the Community budget. It constitutes an incentive to rapid implementation of the projects.

⁽²⁾ Article 26(1) of Regulation (EEC) No 4253/88, as modified by Regulation (EEC) No 2082/93 for ERDF projects from the 1994-1999 period, Articles 25 and 26 of Regulation (EC) No 1260/1999 for ERDF projects from 2000-2006. Article 10 of Regulation (EC) No 1164/94 and Regulation (EC) No 1264/1999 for Cohesion Fund projects from 1994-1999 and 2000-2006 respectively.

Box 3

In the case of the construction of a cross-border tunnel, the application, as a major project, was submitted by one of the two Member States involved. An overview of the entire tunnel project would have been useful for an evaluation of the applicant Member State's section. The same applies to the cross-border motorways. For the national motorways and railways a separate economic analysis was made in many cases for each phase, with each phase constituting a major project, but there was no overall economic analysis.

Generally speaking, the quality of the analyses is weaker in the case of major productive investment projects.

25. The poor quality of the analyses accompanying the aid applications shows that, in the examination phase, the Commission did not always carry out an effective examination of the cost-benefit analyses of the projects. Whether infrastructure investments or productive investments, under these circumstances conclusive rejection of a project was a very rare occurrence, as rare as requests for projects to be revised after examination by the Commission.

Setting Community financial assistance: criteria inconsistently interpreted and applied

26. The purpose of the administrative examination undertaken by the Commission is to 'confirm or amend the rate of Community assistance' ⁽¹⁾. Introduced to ensure that awards are effective, this instrument ensures that the financed project receives the resources needed for its achievement without the beneficiary acquiring any unjustified advantage. This is particularly important where the beneficiaries are private businesses, as Community funding may distort market conditions.

27. Community assistance is subject to certain regulatory ceilings. Lower regulatory ceilings are provided for investments in infrastructure that generate substantial net revenue and for investments in firms ⁽²⁾. In addition, Community rules and State aid ceilings must be complied with.

28. Within the limits of these ceilings the only precise factor used by the Commission to determine the rate of Community assistance has been the financing gap ratio, which is only applied to revenue-generating infrastructure projects. It consists of calculating that part of the discounted initial investment cost of the project which is not covered by the net present value of operating revenues (including the residual value) ⁽³⁾. This calculation allows the maximum level of public intervention to be fixed. In 2003 the Commission introduced an amended method of

calculation for major sanitation and solid waste management projects ⁽⁴⁾, which takes account of revenue generation while seeking to avoid penalising beneficiaries who rigorously observe the 'polluter pays' principle ⁽⁵⁾.

29. In practice, in certain cases examined by the Court, the application of the financing gap ratio principle has either resulted in fixing too high a rate of Community contribution or there is doubt as to the correct application of this principle.

30. Apart from the financing gap method, no guidelines indicate any other factors to be taken into account for the purpose of adjusting Community assistance rates, which helps to explain certain differences in the views expressed during the interdepartmental consultation process (see paragraph 18). In the absence of previously established criteria, the rate of assistance is adjusted in a random manner and its consistent application cannot be verified.

31. The Court's audit has shown that as regards public infrastructure investment projects which do not generate revenue, socioeconomic aspects ('context' factors such as the degree of industrialisation of a region or its relative prosperity) are not taken into account for the purpose of reducing assistance rates. The same applies to such criteria as complementarity with other Community operations. The Commission also did not question the structure of the financial arrangement submitted by the project initiator.

32. As regards productive investments, the review of the projects has shown the method of setting assistance rates to be relatively automatic:

- in most cases the rate granted is merely the rate applied for,
- financial cost-benefit analysis (which is mainly constructed around the financial IRRs and NPVs and risk and sensitivity analyses) was not taken into account for the adjustment of the assistance rate. Some highly profitable projects with a high financial IRR attracted high co-financing even though Commission departments other than the examining geographical unit had emphasised the deadweight effect of assistance. The audit has indicated that in certain cases deadweight effects actually appeared after the projects were implemented (see Box 4),

⁽¹⁾ See Article 26(3) of Regulation (EC) No 1260/1999.

⁽²⁾ See Article 13 of Regulation (EEC) No 2052/88 as amended by Council Regulation (EEC) No 2081/93 of 20 July 1993 (OJ L 193, 31.7.1993, p. 5) and Article 29 of Regulation (EC) No 1260/1999 for the ERDF; Article 17 of Regulation (EEC) No 4253/88 as modified by Regulation (EEC) No 2082/93 and Article 7 of Regulation (EC) No 1264/1999 for the Cohesion Fund respectively.

⁽³⁾ The 'financing gap' ratio formula is as follows: $r = (C-R)/C$, where C represents the total cost of the discounted initial investment and R the net present value of operating revenues.

⁽⁴⁾ 'Simplification, transparency and coherence in the evaluation of major public infrastructure projects: application of four elementary rules', DG Regional Policy, Note of 14.4.2003 formally addressed to the competent authorities of the Member States and accession countries. A note on the new rules for the application of the 'financing gap' formulae had already been sent to the Committee for the Development and Reconversion of Regions in July 2002.

⁽⁵⁾ For both types of projects the principle that the polluter pays requires setting a higher charging level to cover the operating and investment costs, which reduces the financing gap and consequently the amount of Community assistance. The modifications applied in relation to the traditional formula correct this 'distortion' by providing that the formula should not take account of the total net value of operating revenues but only the part calculated as a proportion of the investment assistance granted by the Commission. The formula is slightly different for the Cohesion Fund and for the ERDF.

- within the limits of the regulatory ceilings and the maximum levels determined by the rules governing State aid, socio-economic concepts (such as value added, the creation or maintenance of employment, leverage effects) were not generally taken into account in fixing the assistance rate. Nevertheless, good practice was observed in the case of productive investments in Spain, where the competent national departments also drew on non-financial criteria when specifying the rate, and the co-financing rate was calculated by reference to employment, the use of regional natural resources, value added (especially in terms of increased productivity), technological innovation and knock-on potential,

- the Commission's departments did not consider the use of loans rather than grants. However, loans ought to be considered, particularly for productive investments with high financial IRRs or for businesses with good financial ratios. Generally speaking, aspects such as the financial situation of the business or market conditions are not taken into account in determining the level of assistance.

Box 4

In the case of one company generating substantial profits, the project would have succeeded without Community assistance. The same applies to another industrial production project, for which the business concerned had almost no competitors in the European market. However, in certain cases the effects of locating a project at a particular site might justify subsidies for projects with favourable IRRs. In the case of a major project of another company, which, at the time, had substantial shares of the world market for several projects, the co-financed investment was at a company site in an Objective 1 region and Community grants played a significant role in the choice of site.

33. The Commission is aware of these weaknesses. In 2004 it made an attempt at rationalisation by seeking to adjust Community assistance rates by reference to certain criteria. This produced indicative assistance rates weighted by each sector's anticipated rate of return, calculated on the basis of financial IRRs from a sample of 200 infrastructure and productive projects. This is a useful tool, although still very limited. In any case, it came too late for examination of the files.

34. The new guidelines published in 2006 ⁽¹⁾ propose including in the financing gap calculation factors that are not purely financial, such as the existence of a public-private partnership and equity (that is, the relative prosperity of the region). They also deal

with the manner of combining subsidies and loans on the basis of the profitability normally expected per sector. Even though 'context' factors are still not fully taken into account, these improvements are in line with the approach favoured by this report of seeking a wider and more objective framework for differentiating the amount of aid. They must be applied consistently and transparently to the financing decisions of the new period.

DO EX POST EVALUATIONS OF MAJOR PROJECTS GENERATE RESULTS THAT ARE HELPFUL FOR SUBSEQUENT DECISION-MAKING?

Evaluation framework and audit criteria

35. Generally speaking, the aim of evaluating a project after completion is to account for the use of resources and the effectiveness and efficiency of the operation undertaken. It is of particular interest to political leaders, managing authorities and beneficiaries. It must allow lessons to be drawn about the need for supplementary or corrective measures to be taken in the future. As the results generated by such evaluations concern the effects produced by a project, they will also be used in quantifying the objectives of future projects.

36. The Structural Funds regulations stipulate that Community interventions shall be subject to such a type of evaluation. It is characterised as an 'ex post evaluation' and must be undertaken by the Commission in collaboration with the Member States ⁽²⁾. As an ERDF major project that is submitted outside an operational programme is regarded as an intervention, it is in principle subject to ex post evaluation. There is no explicit regulatory requirement as regards the individual major projects that make up an intervention ⁽³⁾.

37. However, as regards the Cohesion Fund, there is express provision for ex post evaluation of each project ⁽⁴⁾.

⁽²⁾ Article 6(2) of Regulation (EEC) No 2052/88 as amended by Regulation (EEC) No 2081/93 and Article 43 of Regulation (EC) No 1260/1999.

⁽³⁾ Nevertheless, a separate ex post evaluation is possible. Article 27(4) of the 2002 Financial Regulation provides for the evaluation of all programmes and activities which entail significant spending. Meanwhile, Article 21 of the rules implementing the Financial Regulation requires an interim and/or ex post evaluation of any programme or activity that exceeds five million euro. Without prejudice to these provisions, the Commission has asserted its right to choose the level of exclusiveness at which an evaluation is to be carried out, taking into account a certain number of criteria including, in particular, financial size and expected impact (see the recent Communication to the Commission from Mrs Grybauskaitė, *Responding to strategic needs: Reinforcing the use of evaluation*, SEC(2007) 213 of 14 February 2007, paragraph 2.1).

⁽⁴⁾ Article 13 of Regulations (EC) No 1164/94 and (EC) No 1264/1999.

⁽¹⁾ See Working Document No 4 'The new programming period 2007-2013. Guidance on the Methodology for carrying out cost-benefit analysis', August 2006.

38. The basic data used in the *ex post* evaluations are mainly collected by the Member States through the monitoring system. During the 1994-1999 period, only Cohesion Fund projects were subject to individual monitoring and annual implementation reports. Structural Funds projects were explicitly monitored at a higher level (measures, priorities, operational programmes, Community support frameworks, etc. ⁽¹⁾).

39. The Court examined the evaluation phase from the point of view that:

- (a) the evaluation of major projects must serve to guide the implementation of future projects. The national authorities and the beneficiaries are primarily concerned by these evaluations, which provide information for improving the effectiveness and efficiency of operations on the ground;
- (b) the tools for monitoring project implementation and for comparing their achievement must be defined from the outset;
- (c) data must be obtained for these tools to be used.

Several wide-ranging evaluations but very few individual evaluations of major projects

40. The Member States only rarely carry out *ex post* evaluations of major projects ⁽²⁾. Only one of the twenty projects audited by the Court had been evaluated (see Box 5). Naturally, studies of the sectors to which the major projects belong — such as, for example, the port and automotive sectors — may be conducted by beneficiaries, managing administrations or external bodies (universities or research centres). However, such studies do not target the projects directly and are not in the nature of *ex post* evaluations. Furthermore, they are not always forwarded to the departments responsible for managing the Community funds.

Box 5

Only one of the projects in the Court's sample had undergone individual *ex post* evaluation. However, the macroeconomic impact was assessed on the basis of factors which differed from those initially provided for in the *ex ante* evaluation presented in support of the application. As a result, the impact cannot be compared with the one anticipated. What is more, there was no recalculation of the expected financial return.

⁽¹⁾ Article 25 of Regulation (EEC) No 2082/93.

⁽²⁾ By way of example, in Ireland Forfás performs *ex post* evaluations of a sample of productive investments every year. In Portugal, the Departamento de Prospectiva e Planeamento (DPP) used econometric models to carry out the macroeconomic *ex post* evaluation of certain infrastructure investments.

41. At Commission level, the evaluations that specifically target the major projects of the 1994-1999 period (the only ones to have been evaluated up to now) (see paragraph 13), or concern some aspect of them, have very heterogeneous aims and methods. They were not used by the national managing authorities and beneficiaries, with one exception (see (d)):

- (a) a thematic evaluation of the impact of the Structural Funds on transport infrastructures, which essentially considered the strategies per country and per method of transport at programme level. This evaluation provides little data with regard to the efficiency, effectiveness and impact of the individual projects;
- (b) an *ex post* evaluation of Objective 1 that includes an examination of sixty major ERDF and Cohesion Fund projects. It used a wide-ranging approach that included an assessment of the appropriateness of the strategy, of effectiveness, efficiency and impact, management and implementation systems and Community value added. However, only a small number of major projects were considered from the point of view of certain aspects of effectiveness;
- (c) an evaluation of the macroeconomic impact of individual Cohesion Fund projects — the only evaluation to consider this aspect — by means of specially adapted macroeconomic models. However, the real effects of the projects were not examined, as the only data used was that drawn from the *ex-ante* cost-benefit analyses ⁽³⁾;
- (d) an *ex post* evaluation of projects ⁽⁴⁾ on the basis of a sample of 200 Cohesion Fund projects. The evaluation assessed the adequacy of the strategic planning, project design and project selection procedures, management and implementation systems, effectiveness and efficiency. A sub-group of 60 projects was later given a more in-depth examination from the point of view of socioeconomic impact. Using the Guide to cost-benefit analysis as a benchmark, the internal economic rate of return was recalculated. This study's recommendations were discussed by the Member States concerned and led to improvements in methodology.

⁽³⁾ The models were applied especially to investments in nine major transport infrastructures in environmental projects in Spain. The application of these models was reviewed in Special Report No 15/2000.

⁽⁴⁾ The projects were from the 1994-1999 programming period, with the exception of eight projects adopted by the Commission between 2000 and 2002.

Factors that impeded the *ex post* evaluation of major projects

42. The Court has on several occasions ⁽¹⁾ highlighted the weaknesses of the evaluation exercises for the 1994-1999 period, which were particularly marked by the absence of data or its unreliability. The Court's reports invited the Commission to consider the possibility of collecting information on the individual projects, without which the methodologies used are too theoretical or inapplicable. The audit of the major projects of that period corroborated these findings.

Incomplete aid applications

43. The *ex post* evaluation of major projects was at first hindered by missing information in the aid applications. This was noted both by the studies undertaken of major projects and by the Court's audit.

44. One of the evaluations carried out highlighted, in particular, that:

- (a) the objectives of the projects were not always quantified;
- (b) at the level of cost-benefit analysis, benefits which were difficult to evaluate — in particular environmental benefits — were not quantified or were taken into account in the calculation of the *ex ante* economic internal rate of return without adequate concrete information and justification having been obtained. In numerous cases the anticipated results were not quantified;
- (c) the distinction was not always drawn between permanent jobs and temporary jobs; the methodological hypotheses for *ex ante* estimates of impact on employment were not explained or different methodologies were applied.

45. In addition to the inadequacy of the cost-benefit analysis that has already been highlighted (see paragraphs 21-25), the audit carried out by the Court confirmed the shortcomings found in the earlier reports, in particular:

- (a) the absence, weakness or inadequacy of the indicators;
- (b) the absence of any reliable information concerning the initial situation, that is, the situation existing before the project was implemented.

46. As these factors are necessary in order to evaluate the operations, the deficiencies discovered impede *ex post* evaluations.

⁽¹⁾ See in particular Special Reports No 15/2000 on the Cohesion Fund, No 12/2001 concerning certain structural measures to improve the employment situation, No 7/2003 on the implementation of assistance programming for the period 2000 to 2006 and No 10/2006 on *ex post* evaluations of Objectives 1 and 3 programmes for the 1994-1999 period.

Inadequate monitoring

47. Even in those cases where a monitoring system was introduced at project level, the studies undertaken and the audit carried out by the Court have shown that the monitoring process did not ensure that adequate data was collected for the purposes of evaluation.

48. One of the evaluations carried out found that:

- (a) the collection of statistics relating to the use of transport infrastructures did not focus on the economic implications of this use, such as reductions in the cost of travel;
- (b) analyses of unit costs did not result in a comparison of the projects on the basis of benchmarks;
- (c) information on the revenue generated and on the application of the polluter pays principle were inadequate in a number of cases;
- (d) the *ex post* recalculation of the economic internal rate of return was hampered by a lack of information concerning actual results. It often had to be based on hypotheses and, in the absence of any contradictory information, on the data contained in the *ex ante* evaluation;
- (e) information concerning the creation of direct employment and permanent employment was sometimes not available or of poor quality.

49. The Court's audit of major projects for the 1994-1999 period also showed weaknesses in monitoring:

- (a) as regards investments in infrastructures, with the exception of one project, monitoring focused only on effects that were, technically, easy to trace, i.e. creation of direct employment, goods and passenger traffic, number of connections, areas sold, number of beds per 1 000 inhabitants. Other direct effects that are more difficult to monitor (petrol consumption, comfort, environmental effects, quality of healthcare) were not subject to any follow-up. The same applied a fortiori to indirect and more long-term effects (such as productivity, the creation of businesses and employment, prices, etc.). Furthermore, those aspects used by the beneficiary to calculate the estimated economic return (for example, for road infrastructure: time savings, reduction of the cost of transport, reduction of accidents, effects on the flow of traffic generated and on additional traffic, etc.) were generally not considered to be indicators that needed monitoring;
- (b) as regards productive investments, monitoring was limited to the physical and financial aspects of the investments and, generally, to the direct creation of employment, since the final reports drawn up in connection with the final payment had to comply with the contractual requirements concerning payment. Generally speaking, the managing body does not have information about such factors as the creation of enterprises and indirect employment, productivity increases or the environment.

The 2000-2006 period: evaluations at risk of being compromised

50. For the 2000-2006 period, the ERDF legislation stipulates that, in future, for the major projects, the annual implementation reports on interventions must contain a separate chapter on progress made and financing. In addition, financial and progress indicators must be designed to provide separate information for the major projects ⁽¹⁾.

51. Nevertheless, although the annual implementation reports contain a chapter on major projects, these chapters are often restricted to a simple description of the projects and do not present the physical progress made, or separate results and impact indicators.

52. In the same way, the priorities and measures concerning major projects do not always include the indicators allocated to them, or the indicators at priority and measure level are not consistent with those for the major projects.

53. At the level of the projects examined on-the-spot, while a number of major projects have an adequate list of implementation, results and impact indicators, other projects either do not refer to any indicator at all, or have only been allocated physical and financial implementation indicators.

54. Sometimes no clear link exists between the overall objectives, the individual objectives and the designated indicators. A number of objectives have not been allocated indicators at all. Likewise, indicators put in place for projects which are similar but cofinanced by the ERDF or the Cohesion Fund respectively are not identical.

55. Future *ex post* evaluations will be affected for the same reasons as in the preceding period, i.e. the weaknesses found concerning monitoring and indicators. The contribution of major projects to the more global objectives of regional development will therefore remain very difficult to define.

THE NEW REGULATIONS FOR THE 2007-2013 PERIOD

56. The new framework regulation for the 2007-2013 period ⁽²⁾, which applies both to the ERDF and the Cohesion Fund, introduces certain improvements as regards major projects:

- (a) the concept is redefined ⁽³⁾, with ERDF projects and Cohesion Fund projects being treated equally;
- (b) the information to be submitted by the Member States is clearly defined. In particular, there must be explicit justification for a public contribution to the funding;
- (c) there is a clearer definition of revenue-generating projects and how they are to be treated;

⁽¹⁾ Article 36(3) of Regulation (EC) No 1260/1999.

⁽²⁾ Regulation (EC) No 1083/2006. These aspects are referred to in Articles 39-41, Article 37, Article 55 and Article 67(2)(g).

⁽³⁾ New thresholds now apply: 25 million euro for environmental projects and 50 million euro for other projects.

- (d) the annual report and the final report on implementation must provide a clear view of the physical progress and financing of major projects.

57. In addition, in 2006 the Commission published guidelines on the preparation of major projects in the new period, which made a certain number of improvements (see paragraph 34).

58. Finally, the rules provide for *ex post* evaluations to be carried out by the Commission at programme level only. There is therefore no provision for either ERDF or Cohesion Fund projects to be evaluated individually.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

59. There are a number of shortcomings in the preliminary examination procedures for major projects:

- (a) the project examinations varied in quality. Not until 2003 was a common approach provided for the managing departments (see paragraphs 17-20);
- (b) many weaknesses were tolerated by the Commission. Great disparities exist in the quality of the financial and socioeconomic analyses presented in support of the projects. In particular, the quality of the analyses presented in support of productive investments projects is poor. As a result, major projects are adopted although the data provided do not permit an adequate assessment (see paragraphs 21-25);
- (c) in spite of the improvements made by the Commission, the factors used to adjust the rate of Community intervention are not yet sufficiently precise. For productive investments the possibility of granting a loan instead of a subsidy was not examined (see paragraphs 26-34).

60. Taking these factors into consideration, the Court entertains doubts concerning the real added value of the approval process for major projects as implemented by the Commission. The exercise is cumbersome and does not exclude projects of inferior quality or adjust the rate of intervention in a satisfactory manner. Neither does it guarantee adequate preparation for the subsequent evaluation. The weaknesses noted in the preliminary examination procedure had repercussions on the *ex post* evaluation process.

61. Weaknesses were also discovered in the *ex post* evaluations:

- (a) hardly any individual *ex post* evaluations are carried out on the initiative of the Member States. At Commission level there is no global approach to the *ex post* evaluation of major projects. Those evaluations carried out had very heterogeneous aims and methods (see paragraphs 40-41);

- (b) the *ex post* evaluation of major projects for the 1994-1999 period was hindered by substantial shortcomings in the aid applications, in particular concerning anticipated effects, indicators, and the initial situation. These deficiencies prevented an evaluation of the real effects of the interventions and the drawing of lessons from them for subsequent decision-making (see paragraphs 43-46);
- (c) the manner in which the monitoring was carried out in this period hampered the *ex post* evaluations, as numerous aspects were neglected (see paragraphs 47-49).

62. The Commission adopted a number of measures in 2003 in the light of the weaknesses found at the end of the *ex post* evaluation of the 1994-1999 period. However, no substantial progress was made with the adoption and monitoring procedures for the major projects of the 2000-2006 period and the *ex post* evaluation exercise for this period, which is still to be carried out, is at risk of being compromised (see paragraphs 50-55).

Recommendations

63. As regards the 2007-2013 period, the Community regulations provide that, as in the preceding periods, the Commission should approve the granting of Community assistance for each major project. To avoid financing decisions being reduced to an administrative exercise with no influence on the quality of the projects adopted, the Commission should:

- (a) apply more efficient preliminary examination procedures based on the tools that it has itself developed;
- (b) ensure that the cost-benefit analysis is applied rigorously, particularly as regards information that can be used to check the reliability of the hypotheses used;
- (c) continue its efforts to take into account the socioeconomic factors that allow the rate of Community participation,

which at present is based mainly on financial aspects, to be adjusted. Consideration of such factors should be based on explicit and less random rules applied in a consistent manner.

64. The Structural Funds regulations for the 2007-2013 period do not provide for the *ex post* evaluation of major projects by the Commission. However, the Court considers that the evaluation of major projects after completion is essential for the national administrations and the beneficiaries, who need to verify the real efficiency and effectiveness of the expenditure in order to improve management and for whom the evaluation should provide real assistance with regard to programming. As a result:

- (a) it is important for major projects to be evaluated individually, against their own objectives, by the national administrations and beneficiaries;
- (b) as regards the information provided by the evaluation, which must be communicated to it, the Commission must analyse its requirements in respect of the information needed to undertake the evaluation and, in particular, must review the information needed to assess the impact of the major projects on regional development objectives, to which the projects are supposed to make a very substantial contribution. The Court considers that this evaluation could be based on data generated at major project level. To this end, and to ensure the evaluation is feasible, the requirements regarding the information to be collected and the reports to be drawn up should be rationalised;
- (c) in order to guarantee the quality of subsequent evaluations, the Commission must ensure, when examining the files, that there are no *lacunae* in the applications submitted as regards indicators and the initial situation;
- (d) for the same purpose, subsequent to the Commission's examination, monitoring must focus on the objectives and on the implementation and results indicators set out in the applications for assistance.

65. In the longer term, the Court invites the Commission, the European Parliament and the Council to give thought to the purpose of the special arrangements for authorising major projects.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 14 February 2008.

For the Court of Auditors
Vitor Manuel DA SILVA CALDEIRA
President

ANNEX I

SAMPLES I AND II BY MEMBER STATE CONCERNED — LIST OF PROJECTS EXAMINED

Checks on files and in the Member States (50 projects)	Additional checks on files at the Commission (36 projects)
<p>Germany</p> <ul style="list-style-type: none"> — Buna Sow — project 25153584 — Logistik-Center Rheinhausen 'Logport' Infrastruktur — Ausbau der Schienenstrecke (ABS) Berlin-Frankfurt/Oder — Otto GmbH&Co KG — Phönix West 	<p>Germany</p> <p>/</p>
<p>Greece</p> <ul style="list-style-type: none"> — Athens Metro (OP Urban development 1994-1999) — General hospital of Chania — project 18861 (OP Crete 1994-1999) — Extension of Athens Metro from Panagoulis to the old airport at Elliniko (CF) — Water supply of Irakleion and Agios Nikolaos from the Aposelemi dam (2nd. phase) (CF) — Renewal and extension of the bus and trolley fleet of Athens public transport companies ETHEL-ILPAP (OP SAAS 2000-2006) — Extensions of Athens Metro and transfer stations (OP OALAA) 	<p>Greece</p> <ul style="list-style-type: none"> — Développement du tram d'Athènes — C(2003)/122 — Sections d'Egnatia Odos-Ioannina-Metsovo — C(2004)/4367
<p>Spain</p> <ul style="list-style-type: none"> — Túnel de Somport — 941165005 — Autopista Madrid-Valencia — 961165008 — Línea Valencia-Tarragona-Acond 200-220 km/h entre ppkk 30 y 50-10.6 — CN-VI. Autovia Madrid-A Coruna. Tramo: Villartelin — Nadela — 1.1.1 — Fabricación de Automoviles Renault Espana S.A. (Construction of an environmentally friendly car engine) — VA/198/P07 — Ceramicas Belcaire, S.A. (Reconstruction of a manufacturing plant) — CS/265/P12 — Ampliación del Puerto de Alicante — C(2003) 4394 (2003 ES 16 CPT 018) — Actuaciones Línea alta velocidad Madrid-Barcelona-frontera francesa: Tramo Madrid-Lleida C(2000) 2939 (2000 ES 16 CPT 002) — Arteria aductora del Campo de Pozos de Guadarrama y estación de tratamiento-2002 C(2004) 3565 (2002 ES 16 CPT 035) — Saneamiento y depuración de diversas zonas de Cantabria — C(2000) 4307 (2000 ES 16 CPT 001) — Ampliación Puerto de Ferrol (puerto exterior) — C(2004) 1862 (2002 ES 161 PR 001) — Ampliación del Puerto de Sagunto — C(2003) 4232 (2002 ES 161 PR010) — Glapilk, AIE — C(2003) 118 (2002 ES 161 PR 016) — Petroquímica Espanola SA — C(2004) 145 (2003 ES 161 PR026) — Tableros Tradema SA — C(2003) 5090 (2003 ES 161 PR 020) — Construcciones aeronáuticas — Cádiz (2004 ES 161 PR 010) 	<p>Spain</p> <ul style="list-style-type: none"> — Dupont Ibérica SL — C(2003) 1342 — Fibras del Noroeste SA — C(2003) 180 — Bioetanol Galicia SA — C(2003) 181 — BP Oil Refinería de Castellón — C(2003) 3974 — Biocarburantes de Castilla y León — C(2004) 658 — Intercontinental Química SA — C(2004) 2306 — Airbus España SL, Fabricación automatizada Toledo — C(2003) 4736 — Airbus España SL, centro excelencia montajes Cádiz — C(2003) 4738 — Construcciones Aeronáuticas Sevilla — C(2004) 2441 — Ford España — C(2003) 4229 et C(2004) 2303 — Renault España — C(2004) 2304, C(2004) 3444 et C(2004) 3702 — Autovia de la Plata — C(2004) 275, C(2004) 0141, C(2004) 245 et C(2004) 2440 — Autovia del Mediterraneo — C(2003) 1336 et C(2003) 3809 — Autovia del Cantabrico — C(2003) 209, C(2003) 211 et C(2003) 2594

Checks on files and in the Member States (50 projects)	Additional checks on files at the Commission (36 projects)
<p>France</p> <ul style="list-style-type: none"> — RN 20 — Déviation de Foix — RCEA — Route Centre Europe Atlantique — C(2003) 2265 — Sevelnord — C(2003) 53 — Pilkington — C(2002) 3478 	<p>France</p> <ul style="list-style-type: none"> — Tunnel du Lioran — C(2002) 4154 — Tramway de Clermont-Ferrand — C(2004) 4349 — Grand Halle d'Auvergne — C(2002) 1765 — Electrification des lignes vosgiennes — 2ème tranche — C(2003) 3131
<p>Ireland</p> <ul style="list-style-type: none"> — Gateway 2000 Ireland Ltd Dublin — N11 Rathnew/Ashford by-pass — M1 Cloghran/Lissenhall (stage 2) 	<p>Ireland</p> <ul style="list-style-type: none"> — Luas Line A (Light rail), C(2001)/4330 — N22 Ballincollig By-pass, C(2002)/4617
<p>Italy</p> <ul style="list-style-type: none"> — ESSO Italiana SpA — SGS-Thomson microelectronics — Produzione di pompe ad altissima pressione per motori diesel — C(2004) 5697 — RFI SpA — Potenziamento infrastrutturale e tecnologico della Caserta-Foggia — C(2005) 1268 	<p>Italy</p> <ul style="list-style-type: none"> — Metropolitana di Napoli — Dante/Garibaldi — C(2005) 5235 — Metropolitana di Napoli — Vantivelli/Dante — C(2005) 5241 — Autostrada Siracusa-Gela — C(2005) 5233 — FRIEL — C(2005) 2839 — IVECO — C(2005) 1481
<p>Portugal</p> <ul style="list-style-type: none"> — Autoeuropa — Auto-estrada A12 — Sistema multimunicipal de saneamento do Tejo-Trancão — C(2003) 2951 — Porto do Caniçal — C(2003) 4458 — Linha do Algarve II et V — C(2000) 3486 et C(2001) 3590 — Linha do Douro (troço Cête — Caíde) — C(2001) 2124 — Infineon technologies — C(2004) 3220 — Mabor Continental — C(2004) 661 	<p>Portugal</p> <ul style="list-style-type: none"> — IC 10 — Ponte sobre o Tejo em Santarém — C(2001) 2727 — Armazenamento subterrâneo do Canriço — C(2001) 2011 — EPCOS — C(2003) 183 — CIMPOR — C(2003) 5099 — MST — Metropolitano do Sul do Tejo — C(2003) 3078 — Aeroporto Sá Carneiro (2003 PT 161 PR 004)
<p>United Kingdom</p> <ul style="list-style-type: none"> — Phoenix natural gas network — Liverpool Airport — Merseyside Special Investment Fund (MSIF) — C(2001)2059 et C(2003)5386 — Yorkshire and Humber Partnership Investment Fund (Y&H PIF) — C(2003)206 et C(2003)5386 	<p>United Kingdom</p> <ul style="list-style-type: none"> — Frenchgate Interchange, Doncaster — Combined universities in Cornwall (CUC) — Edinburgh Biomedical Research Institute

ANNEX II

2000-2006 MAJOR PROJECTS EVALUATED — DISCOUNT RATE AND TIME HORIZONS

Project	Sector	Financial discount rate	Economic discount rate	Time horizons
Germany				
Ausbau der Schienenstrecke (ABS) Berlin-Frankfurt/Oder Phoenix west	Infrastructure	7,5	3	6 + 30
Otto GmbH	Infr.	6 et 5	—	15
		5	5	14
Greece				
Extension Metro Athens (CF)	Infr.	6	6	30
Extension Metro Athens (OP AA)	Infr.	6	6	30
Aposelemi dam (CF)	Infr.	5	3	45
Bus and trolley Renewal (OP SAAS)	Infr.	6	5	12
Extensions Metro Athens (OP OALAA)	Infr.	Unspecified	6	Unspecified
Sections d'Egnatia Odos-Ioannina-Metsovo	Infr.	6	6	25
France				
RCEA	Infr.	—	8	25
Sevelnord	Productif	—	—	—
Pilkington	Prod.	—	—	—
Tunnel de Lioran	Infr.	—	8	20
Grande Halle d'Auvergne	Infr.	4 and 5,2	—	31
Tramway de Clermont-Ferrand	Infr.	6	6	35
Electrification lignes vosgiennes	Infr.	6	6	31
Déviation Sainte-Marie	Infr.	—	8	23
Electrification Ligne Tours-Saincaize	Infr.	6	8	30
ATMEL II	Prod.	5,5	—	5
ATMEL III	Prod.	5,5	—	5
Philips France Semi-Conducteurs	Pord.	6	6	5
Spain				
Ampliación del Puerto de Alicante	Infr.	6	6	30
Actuaciones de Línea de alta velocidad Madrid-Barcelona-frontera francesa: Tramo Madrid-Lleida	Infr.	6	6	20
Arteria aductora del Campo de Pozos de Guadarrama y estación de tratamiento — 2002	Infr.-Env.	5	5	25
Saneamiento y depuración de diversas zonas de Cantabria	Infr.-Env.	5	5	25
Ampliación Puerto de Ferrol (puerto exterior)	Infr.	6	6	20
Ampliación del Puerto de Sagunto	Infr.	6	6	20
Glapilk, AIE	Prod.	5	—	25
Tableros Tradema SA	Prod.	10	—	10
EADS Petroquímica Española-Andalucía	Prod.	5	—	5
EADS Construcciones aeronáuticas — Cádiz	Prod.	8	—	10
Dupont Ibérica SL — C(2003) 1342	Prod.	3,5	—	Unspecified
Fibras del Noroeste SA — C(2003) 180	Prod.	6	—	Unspecified
Bioetanol Galicia SA — C(2003) 181	Prod.	Unspecified	—	5
BP Oil Refinería de Castellón — C(2003) 3974	Prod.	Unspecified	—	10
Biocarburantes de Castilla y León — C(2004) 658	Prod.	Unspecified	—	5
Intercontinental Química SA — C(2004) 2306	Prod.	Unspecified	—	Unspecified
Airbus España SL, Fabricación automatizada Toledo — C(2003) 4736	Prod.	Unspecified	—	Unspecified
Airbus España SL, centro excelencia montajes Cádiz — C(2003) 4738	Prod.	Unspecified	—	Unspecified

Project	Sector	Financial discount rate	Economic discount rate	Time horizons
Construcciones Aeronáuticas Sevilla — C(2004) 2441	Prod.	Unspecified	—	Unspecified
Ford España — C(2003) 4229	Prod.	4,5	—	11
Ford España — C(2004) 2303	Prod.	4,5	—	10
Renault España — C(2004) 2304	Prod.	Unspecified	—	7
Renault España — C(2004) 3444	Prod.	Unspecified	—	10
Renault España — C(2004) 3702	Prod.	—	—	5
Autovia de la Plata — C(2004) 275	Infr.	—	5	30
Autovia de la Plata — C(2004) 0141	Infr.	—	5	30
Autovia de la Plata — C(2004) 245	Infr.	—	5	30
Autovia de la Plata — C(2004) 2440	Infr.	—	5	30
Autovia del Mediterraneo — C(2003) 1336	Infr.	—	5	30
Autovia del Mediterraneo — C(2003) 3809	Infr.	—	5	30
Autovia del Mediterraneo — C(2003) 209	Infr.	—	5	30
Autovia del Cantabrico — C(2003) 211	Infr.	—	5	30
Autovia del Cantabrico — C(2003) 2594	Infr.	—	5	30
Ireland				
N11 Rathnew/Ashford By-Pass			5	30
M1 Cloghran — Lissenhall Stage 2			5	30
N22 Ballincollig By-Pass			5	20
Luas Line A			5	30
Italy				
Produzione di pompe ad altissima pressione Bosch — C(2004) 5697	Prod.	6	5	10
RFI SpA — Ligne Caserta-Foggia — C(2005) 1268	Infr.	6	5	30
Metropolitana di Napoli — Dante/Garibaldi — C(2005) 5235	Infr.	6	6	30
Metropolitana di Napoli — Vanitelli/Dante — C(2005) 5241	Infr.	6	6	30
Autostrada Siracusa-Gela — C(2005) 5233	Infr.	5	5	35
FRIEL — C(2005) 2839	Infr.-Energy	5	5	16
IVECO — C(2005) 1481	Prod.	6	6	4 + 7
Portugal				
Sistema multimunicipal de saneamento do Tejo-Trancão — C(2003) 2951	Infr.-Env.	6	6	30
Porto do Caniçal — C(2003) 4458	Infr.	6	6	25
Modernização da linha do Algarve II-C(2000) 3486	Infr.	5	5	25
Linha do Algarve V (troço Ermidas-Faro) — C(2001) 3590	Infr.	5	5	25
Linha do Douro (troço Cête-Cáide) — C(2001) 2124	Infr.	5		35
Infineon technologies — C(2004) 3220	Prod.	3	—	10
Mabor Continental — C(2004) 661	Prod.	3	—	10
IC 10 — Ponte sobre o Tejo em Santarém — C(2001) 2727	Infr.	—	10	23
Armazenamento subterrâneo do Caniço — C(2001) 2011	Infr.-Energy	8,4	—	30
EPCOS — C(2003) 183	Prod.	10	—	10
CIMPOR — C(2003) 5099	Prod.	8	—	6
MST — Metropolitano do Sul do Tejo — C(2003) 3078	Infr.	7	7	27
Aeroporto Sá Carneiro	Infr.	6,62	12	25/27
United Kingdom				
Merseyside Special Investment Fund (MSIF)	Prod.	Unspecified	Unspecified	9/10
Yorkshire and Humber Partnership Investment (Y&H PIF)	Prod.	Unspecified	5	10
Frenchgate Interchange, Doncaster		6	6	25
Combined universities in Cornwall (CUC)		5	5	25
Edinburgh Biomedical Research Institute		3,5	3,5	25

THE COMMISSION REPLIES

SUMMARY

I. Given the very significant amounts of funds involved in Major Projects, the Commission believes it is important to subject them to a more rigorous application process and a closer examination. This helps to ensure maximum impact on regional development and efficient use of Community resources.

III. The Commission agrees that Major Project applications from Member States have been of mixed quality. To improve the quality of dossiers, it has sought clarifications and additional information from the project promoters during the appraisal.

The Commission has taken steps to improve both the preparation of project applications by Member States and its own appraisal. These will have their full impact in the 2007-2013 programming period.

IV. The Commission agrees with the Court's recommendations and intends to ensure that the improved regulatory provisions are properly implemented.

For the 2007-2013 programming period the Commission has published a working document on cost-benefit analysis (CBA), which should improve the quality of CBAs and provide a common framework for project appraisal. Also, the document sets out the calculation method for determining the level of the EU grant based on the provisions of Regulation 1083/2006.

V. The Commission will use Major Project information to address specific evaluation questions, such as unit costs in infrastructure projects, in the context of its wider European Regional Development Fund (ERDF) 2000-2006 *ex post* evaluation.

VI. The Commission agrees that Member States could benefit from *ex post* evaluations of Major Projects and has therefore always encouraged the practice.

The new application forms specifically ask for a description of the starting position, together with relevant indicators of outputs and of the contribution to programmes objectives. The new tool for electronic exchange of information will facilitate the collection of structured data on projects which are required by the Commission implementing Regulation.

Annual implementation reports will have to include information on the progress and financing of Major Projects.

VII. Any review of the requirements for Major Projects should take account of the impact of the improvements in procedures for the 2007-2013 period.

DOES THE COMMISSION PREPARE COMMUNITY FINANCING OF MAJOR PROJECTS ADEQUATELY?

15. The Commission examines the project applications as thoroughly as possible, with reference to the factors and criteria listed in Article 26(2) of Regulation (EC) No 1260/1999, and carries out the necessary internal consultations, and if necessary enlists the help of the European Investment Bank (EIB), in order to make a full appraisal.

16. The Commission agrees with the Court's statement of principles as to the standards to be aimed for in examining Major Projects. However it is important to bear in mind the constraints of the regulatory environment:

(a) the Commission has to rely on the information supplied by Member States;

(b) and (c) different rules applied for ERDF and the Cohesion Fund which were interpreted differently by the Member States. The Commission had no clear legal criteria it could use to require Member States to accept a given financial contribution.

17. In addition, a Guide to the Cohesion Fund 2000-2006 was sent to the Member States in 2000. It contained annexes on the 'polluter pays' principle and the financing of revenue-generating projects.

The 2002 CBA guide is currently being updated to reflect the new regulatory framework and include the latest methodological developments. The new version will be issued in the second quarter of 2008. It will strengthen the sections dealing with the inclusion of environmental impacts and employment effects in CBA results.

18.

First indent — Most 2000-2006 projects were in fact submitted after the detailed guidance was provided in 2003.

Second indent — The results of the inter-service consultation are shown in a fiche accompanying the proposed decision so that the Commission is aware of any dissenting views before it takes the decision. The Directorate General for Regional Policy endeavours to procure any further documentation requested by the other services to clarify uncertain points.

Third indent — There are no ground rules in the regulations about the criteria governing the allocation of projects to the one or the other fund. The range of projects to which the Funds can be applied is determined by their regulations, namely Article 2 of Regulation 1783/1999 for ERDF and Article 3 of Regulation 1164/94 for the Cohesion Fund. The Cohesion Fund has a much narrower scope, being limited to TEN-T and environmental projects.

Box 1 — In productive investment projects considerations of regional development may outweigh arguments against funding based on the financial profitability of projects. State aid is allowed in order to compensate for the disadvantages of location.

With regard to the metro project, it was considered that the lack of an immediate link with the TEN-T should not disqualify the project from funding by the Cohesion Fund. The Environment Directorate-General's concern was that the acceptance of this project should not be to the detriment of classic environmental projects financed by the Cohesion Fund, which proved not to be the case. The quantification of the environmental effects of an individual project is very difficult, in view of the number of factors influencing air pollution and energy use in a major conurbation.

Box 2 — For a project eligible for financing from either fund, maturity is a valid consideration as the completion deadlines for Cohesion Fund projects are somewhat more flexible than those under ERDF programmes. The co-financing rate for the Cohesion Fund project of 66 % was justified, given the higher permitted co-financing rates for the Cohesion Fund and the restriction of ERDF co-financing of projects generating substantial revenue located in Member States covered by the Cohesion Fund to 50 % (Article 29(4)(a) of Regulation 1260/1999).

19. The limited period for processing applications begins to run from the receipt of complete information. Therefore, the processing periods referred to by the Court do not necessarily represent a breach of the deadline. As the Court itself notes, the reason for the delays has mainly been the need to request clarifications or missing information from the managing authorities.

20.

First indent — The Commission encourages Member States to present funding applications for projects that are sufficiently mature. To avoid the presentation of funding applications for immature projects, the Commission in 2002 decided that Cohesion Fund project decisions would only be able to be amended once in the project's lifetime. The JASPERS facility now set up for the 2007-2013 period (see reply to point 57) is also intended to assist Member States to improve project preparation. Cost overruns can occur even for well prepared, mature projects, especially as a result of inflation of raw material costs, and especially as implementation is spread over several years. Delays are sometimes due to administrative or legal procedures in the Member State, which are also independent of the state of maturity of the project when presented.

Second indent — The regulations allow Member States to present funding applications for projects which are virtually complete. For productive investment projects the EU grant is often awarded to 'top-up' the national aid within the allowable state aid limit; the decision by the national authorities is taken well before the project is completed. In any case, irrespective of the time of submission, the information required with applications imposes a beneficial discipline on Member States in the justification of projects and increases transparency.

Third indent — Productive investment projects are subject to the rules on state aid schemes which include criteria for assessing eligibility for aid and the compatibility of the aid package proposed with the state aid rules. The standard application form moreover requires information on how the ERDF contribution accelerates or is essential for the implementation of the project. The Court is also referred to the reply to point 32.

Fourth indent — Cases of groups of projects being accepted as an ERDF Major Project are rare and justified by special circumstances. The advantage of Major Project status under the 'n + 2' rule is counterbalanced by the more stringent information requirements. This reduces the risk of spurious Major Project applications. In the Commission's experience, there is a greater risk of Member States failing to notify projects that meet the criteria for Major Projects, and this risk was behind the definition in the regulations as an 'economically indivisible series of works.'

22. The Commission agrees that the CBAs submitted were of mixed quality. Use of the CBA guide was not compulsory, but the Directorate-General for Regional Policy has encouraged national authorities to follow it and has contributed to training actions. Above all, however, the Commission has sought to promote internal consistency of CBA methodological approaches across projects at single Member State level because CBA is used to assign financial resources to projects and therefore needs to be applied consistently.

In order to improve the quality and the comparability of CBAs for the 2007-2013 programming period, the Directorate-General for Regional Policy has produced a working document providing guidance for carrying out CBA (working document No 4 — see reply to point 24).

23. The degree of detail required in the analysis advanced in justification of funding proposals is also a matter of judgment, especially where the analysis submitted is based on national criteria for infrastructure investments or on a state aid examination.

24. First paragraph — It is true that Major Project applications sometimes suffered from the weaknesses listed by the Court and that the Commission has in some cases been unable to obtain all the additional information necessary to fill gaps before approving projects.

For the 2007-2013 period working document No 4 containing guidance for carrying out CBA provides a set of working rules and indicative values for key parameters for CBA (e.g., discount rates, reference periods). In the document the Commission recommends that the Member States develop their own CBA guidelines to take into account their specific institutional and economic conditions. JASPERS (see reply to point 57) is currently assisting Member States to develop national guidelines.

First indent — As from 2007, following the inclusion in the Commission implementing regulation of a structured list of data required for Major Project applications (Annex XX of Regulation 1828/2006), it will not be possible to omit key information like the rates of return or the reference period, so that projects lacking basic elements of CBA will not in principle be considered as admissible.

Second indent — For the 2007-2013 programme period the Commission recommends use of standard reference time horizons by sector (working document No 4). The quantification of environmental impacts is not straightforward; however, the CBA guide makes it clear that this should be done and recommends use of any of the various techniques that have been developed.

Third indent — The discount rates recommended by the Commission are intended as benchmarks from which national rates can diverge, but the Commission recommends internal consistency across similar projects in a Member State or region. The application forms for the 2007-2013 period distinguish clearly between financial profitability with and without the EU grant. Concerning the inclusion of depreciation, both the CBA guide and working document No 4 make it clear that this is an accounting item and not a cash-flow and therefore it must be excluded from the discounted cash-flow analysis.

Second paragraph — The Commission agrees on the relative weakness of the CBAs for productive investments compared to infrastructure projects. To improve the guidance to the Member States on CBA for productive investments, the Commission intends to add a case study on a productive investment in the update of the CBA guide. The differences between the financial analysis and the economic analysis for industrial projects will be highlighted.

Box 3 — The Commission agrees that as far as possible information on the impact of linked projects on their respective localities should be taken into account when preparing a Major Project application. It should be noted that network effects are typically dealt with in the traffic and demand analysis and are therefore already indirectly included in the CBAs.

25. The Commission has generally carried out a thorough appraisal. The relatively lengthy period for adoption of project applications is typically due to the 'requests for additional information that the Commission has to make for a large majority of Major Projects' (see point 19).

While the Commission very seldom rejects projects, in some cases Member States withdraw projects following observations from the Commission.

27. The purpose of the state aid examination is to ensure that State aid is allowed only up to the level necessary to compensate for the disadvantages of a particular location or reward the performance of certain activities in the public interest (such as research, training or environmental protection).

29. In the cases referred to by the Court the cost-benefit or financial analyses were, often after considerable internal discussion, considered to justify the co-financing rates proposed.

The Evaluation Unit has developed CBA software which can be used by desk officers to check the correctness of the analyses carried out by the Member States, including the financing-gap calculation done to determine the EU grant. The software has been available since the end of 2004 and was recently updated to incorporate the new co-financing rules for 2007-2013.

30. The 2000-2006 regulations afforded considerable flexibility in setting co-financing rates. In the Cohesion Fund the flexibility allowed by the Regulation was even greater than for ERDF. The Commission's guidance (for example, the 'appraisal summary tables' referred to in point 18) strives for maximum consistency in the methods applied, especially internally within a given Member State, but cannot impose completely standard practices.

For the 2007-2013 programme period, clearer rules for modulating contributions from the Funds are provided by Article 55 of Regulation 1083/2006. The calculation method for modulating the EU grant has been explained in working document No 4 (see reply to point 24). The application forms have also been adapted to ensure provision of relevant information.

31. Socio-economic conditions such as the relative prosperity of the region where the investment is made can play an indirect role in the determination of the grant through the demand analysis of the CBA.

The economic analysis mainly plays a role in the decision on whether or not to fund an infrastructure project. However, once a project is selected based on its socio-economic impact, the grant is generally determined on the basis of the financial analysis. The Commission believes that this is a correct approach. Giving less money to economically very desirable projects could endanger them.

The Commission considers that it cannot decide on the structure of the overall financing package proposed by the Member State but only on the level of the Community grant.

32. Where a productive investment has been the subject of an ad-hoc state aid approval or is in line with an approved state aid scheme, it is normal to rely on this assessment in considering an EU contribution requested within the agreed public aid package (see also replies to points 20 and 27).

As regards taking into account socio-economic factors to modulate the level of grant, see reply to point 31.

The Commission agrees that procedures for the comparative appraisal of aid applications for productive investment projects at national level are desirable in order to consider wider economic issues and avoid over-financing.

Box 4 — The financial status of a company contemplating an investment at a particular location is not a determining factor in the decision on the award of aid but the expected financial profitability of the (incremental) investment at the location. Deadweight is a typical risk in state aid schemes, since a large proportion of Major Projects may be assumed to have positive financial net present values and financial rates of return higher than the financial discount rate and sometimes the very objective of the aid is to attract to a less developed area an investment that would have been carried out anyway in other areas.

33. In addition to the guidance referred to by the Court, the Commission had earlier provided the guidance referred to at points 17 and 18 in 1999-2001, a guidance note on the determination of the rate of assistance for revenue-generating investments in the Structural Funds in 2002, and in 2003 had recommended Member States to apply common principles for discount rates and other parameters in financial analyses (see point 28).

34. For public-private partnership projects working document No 4 suggests that the use of a higher discount rate may be appropriate to reflect the higher opportunity cost of capital to the private investor. Regarding considerations of relative prosperity, the working document recommends that tariff affordability is explicitly taken into account when determining project revenues, which are an input into the financing-gap formula.

DO EX POST EVALUATIONS OF MAJOR PROJECTS GENERATE RESULTS THAT ARE HELPFUL FOR SUBSEQUENT DECISION-MAKING?

36. The ERDF *ex post* evaluation was carried out for the 1994-1999 period for the whole 'Objective' and therefore encompassed interventions at different levels, though mainly aggregate programme level. Concerning 2000-2006 *ex post* evaluations, see reply to point 55.

38. Information from the monitoring system does not form the only basis for the *ex post* evaluation. Such data needs to be supplemented with, for example, analysis of network effects, longer term demand and impacts after the investment phases, etc.

39. The Commission agrees with the Court on the importance of evaluation as an input into future decisions on financing and implementation and on the need for tools to determine and collect the data required to carry out evaluations. It has made considerable efforts to improve the arrangements for evaluation and to foster an evaluation 'culture' among the actors responsible for structural actions expenditure.

40. Other exceptions have been the *ex post* evaluation of CBAs of environmental projects in Ireland in 2002/2003 and a recently published *ex post* evaluation of 1993-1999 and 2000-2006 Cohesion Fund projects in Portugal. For the 1994-1999 period the regulations did not explicitly assign responsibility for *ex post* evaluation (as is the case for the 2000-2006 and 2007-2013 periods). Eventually it was the Commission (not the Member States) which assumed the responsibility for *ex post* evaluation. There was no regulatory requirement for carrying out *ex post* evaluations at project level, although this is encouraged.

The performance of Major infrastructure Projects is often reported on for the purpose of further development, as in the case of the Athens Metro project with its 'Metro Development Study' and 20-year business plan. These studies contain much information about previous stages of the project similar to that in an *ex post* evaluation.

41. The evaluation referred to by the Court in paragraph 41(d) provided useful information for future decision-making and the debate on the findings led to improvements in the new regulatory framework for the 2007-2013 programming period.

42. The Commission has fully accepted the weaknesses due to lack of data in relation to the 1994-1999 period and has taken steps to improve the gathering of data in the 2000-2006 period and still more so in that for 2007-2013.

43. With the new tool for electronic exchange of information, 'SFC2007', it will not be possible to submit a Major Project application until all the structured data (Annex XX of Regulation (EC) No 1828/2006) are encoded in the system.

44. The Commission has followed up the findings of the evaluation referred to by the Court, as described in the reply to point 41. See also the various actions taken to improve the data available for evaluation referred in the replies to points 24, 42 and 43.

(c) The Commission has recently developed a working document on methods for measuring employment effects. It is encouraging Member States to use this methodology in order to improve the information on job creation.

45.

(b) It is true that in many funding applications the starting position is not explicitly or comprehensively described. Nevertheless, as CBA is carried out on an incremental basis, i.e. based on the difference between a scenario with the project and the scenario without the project, the latter is of course modelled on the existing situation. The new application forms are more specific on this point. They also ask for the relevant indicators on output and on the contribution to the programmes objectives.

46. See reply to point 42.

48.

(b) The Commission intends to explore the issue of unit costs in more depth starting with the ERDF 2000-2006 *ex post* evaluation. One of the evaluations will assess the efficiency of ERDF funded Major Projects. It will also develop and test a methodology for investigating unit costs which will later be applied in future evaluations, such as the planned *ex post* evaluations of Cohesion Fund and ISPA projects. The ultimate objective is to create a database of unit costs which include both operations funded under cohesion policy and available international benchmarks.

(d) At the time of the *ex post* recalculation of the projects' economic rate of return, actual figures were mostly only available for the investment phases (i.e. investment cost amounts and timing) and only in part for the operational phases. This is why the *ex post* recalculation needed in several cases to use the *ex ante* figures for measuring the project's net benefits which occur in the operational phase.

(e) It is worth noting the difficulties in estimating indirect job creation due to infrastructure projects. For this reason the Commission has decided not to ask for this information in infrastructural Major Project application for the 2007-2013 period.

49.

(a) Indirect impacts forecast by the CBAs of infrastructure projects such as indirect employment or reduction of road congestion following a railway extension cannot be measured through monitoring. Financial and physical outputs can be monitored during the investment phase, but the same is not true for economic impacts which occur in the operational phase and more generally in the longer term.

(b) The Commission believes that the evaluation of broader economic impacts at regional level (business creation, induced job creation, productivity, and environment) can be better assessed at programme rather than project level.

51. It is intended to increase the attention paid to this requirement in the new period. At all events, such data are generally found in the final reports after completion of the projects.

52-53. Although they should be consistent, indicators selected for monitoring Major Projects should not necessarily be the same as those set at priority level. This is particularly the case for results or impact which can be meaningfully measured at priority level but not at project level. For instance, it would be hard to measure improved accessibility due to a single project and the improvement of accessibility measured at priority axis level would not stem from the mere sum of the individual project impacts because network effects would probably play an important role.

54. While there are certainly weaknesses and inconsistencies in the data being collected for the 2000-2006 period, the Commission considers that the situation has improved compared to the past and that there is a considerable amount of relevant material that is being gathered and could be used for evaluation purposes (see reply to point 55). For the 2007-2013 period, to increase the standardisation and comparability of information, the Commission has defined a set of 'core indicators' (Annex I to working document No 2 on monitoring and evaluation indicators). The Commission encourages Member States to use these key output and result indicators at programme, not at project level.

55. The ERDF 2000-2006 *ex post* evaluation is being organised in 11 work packages assessing the overall effects of the policy including selected thematic aspects. One of these has been designed specially to collect the available information on indicators across all programming documents. The data gathering work package will facilitate the work of the consultants working on the other work packages which will focus on filling the data gaps and will carry out the actual evaluations. While in the *ex post* evaluation the Commission will mainly evaluate investments co-financed by the ERDF at aggregate policy level, not at individual project level, one of the work packages will focus on the

impact of Major transport Projects, which will be analysed individually. Another work package will aggregate information on the employment effects of Major Projects. Work is also to be done on unit costs in Major infrastructure Projects (see reply to point 48(b)).

The Commission will carry out an *ex post* evaluation of 2000-2006 period Cohesion Fund projects in 2009.

THE NEW REGULATIONS FOR THE 2007-2013 PERIOD

57. The Commission also refers to the improved application forms, whose data will be recorded on the central database 'SFC 2007', the updating of internal instructions (via a special section of the *aide-mémoire* for desk officers), the use of software to check the coherence and consistency of CBA parameters and results, and the introduction of a facility for technical assistance of Member States with project preparation called 'JASPERS' (Joint Assistance for Projects in European Regions). See also the replies to points 22, 24, 29, 43 and 44.

58. While the main emphasis will be on *ex post* evaluation at programme level, the Commission will draw on data from Major Projects as it is doing in the *ex post* evaluation for the 2000-2006 period (see reply to point 55). It will also continue to encourage Member States to carry out evaluations, *inter alia* at project and sector level, on a voluntary basis.

CONCLUSIONS AND RECOMMENDATIONS

59. The constraints of the regulatory environment for 2000-2006 should be borne in mind.

- (a) The Commission has generally carried out a thorough appraisal. Most 2000-2006 projects were submitted after 2003.
- (b) The Commission agrees that funding applications were of mixed quality and were relatively weak for productive investment projects. It generally made efforts to improve the quality of dossiers by requesting clarifications. For the 2007-2013 period, the legal basis and the tools for the Commission's examination of Major Project applications have been improved.
- (c) The 2000-2006 regulations afforded considerable flexibility in setting co-financing rates.

60. Given the very significant amounts of funds involved in Major Projects, the Commission believes it is important to subject them to a more rigorous application process and a closer examination. This helps to ensure maximum impact on regional development and efficient use of Community resources.

The Commission has taken steps to improve both the preparation of project applications by Member States and its own appraisal. These will have their full impact in the 2007-2013 programming period.

61.

- (a) Since 2000 there has been no regulatory basis for requiring Member States to carry out *ex post* evaluations at project level although this is encouraged. *Ex post* evaluation for projects was only required for the Cohesion Fund and was undertaken by the Commission.
- (b) The Commission recognised the weaknesses of the data provided with applications in the 1994-99 period and has taken steps to improve the gathering of data in the 2000-2006 period and still more so in that for 2007-2013.
- (c) There were deficiencies in monitoring data which handicapped evaluation. Steps have been taken to remedy these deficiencies, especially for 2007-2013. However, the Commission does not consider that indirect impacts can be monitored at project level (see reply to point 49).

62. While there are certainly weaknesses and inconsistencies in the data being collected for the 2000-2006 period, the situation has improved and the limitations of previous evaluations have been taken into account in planning those for the 2000-2006 period.

63. The Commission agrees with the Court's recommendations and intends to ensure that the improved regulatory provisions are properly implemented.

- (a) As well as stricter requirements in the regulations on the information required with applications and clarification of the rules for determining the EU-grant, internal instructions have been updated and procedures are being computerised.
- (b) Together with the stricter requirements for applications and the computerisation of processing, a working document on cost-benefit analysis and an updated CBA guide should improve the quality of CBAs and provide a common framework for project appraisal.
- (c) The regulations for 2007-2013 lay down clearer rules for determining the EU contribution for revenue-generating projects. The working document has provided guidance on the application of the new rules. The Commission believes that the modulation of the grant should be based on the financial analysis which already indirectly takes into account some socio-economic aspects.

64.

- (a) The Commission agrees that Member States could benefit from *ex post* evaluations of Major Projects and has therefore always encouraged the practice. It will continue to do so, but believes that broader economic impacts at regional level can in many cases be better assessed at programme level.
- (b) The Commission's recommendations to Member States on monitoring take account of the needs of future evaluations, in which project data will continue to play a major part. The new tool for electronic exchange of information will facilitate the collection of the structured project data required by the Commission implementing regulation.

Annual implementation reports will have to include information on the progress and financing of Major Projects.

- (c) The new application forms specifically ask for a description of the starting position, together with relevant indicators of outputs and of the contribution to programmes objectives.

65. The Commission believes it is important to subject Major Projects to additional requirements and scrutiny in view of the large amount of resources they employ. Any such review as proposed by the Court should take account of the impact of the improvements in procedures proposed by the Commission for the 2007-2013 period.
