

New ways of financing transport infrastructure projects in Europe

Meeting large infrastructure needs – including proper maintenance and operation – is and will remain a major challenge for the European Union (EU) in the coming years, requiring targeted innovative financing mechanisms. A range of mechanisms to finance transport infrastructure projects in cross-border regions, and the strategic role that the European Groupings of Territorial Cooperation (EGTC) could play in the planning and implementation of cross-border investments, notably for small-scale projects, were targeted in the STOA study 'New ways of financing transport infrastructure projects in Europe', published in February 2018. The purpose of this policy options briefing is to highlight the main challenges and suggested policy options to facilitate and accelerate cross-border transport infrastructure projects based on the STOA study.

Housing over a third of the EU population, cross-border regions have a significant social and economic dimension, playing a pivotal role in fulfilling the founding principles of the EU, notably territorial cohesion. Despite some achievements, successful cases are limited and infrastructure continuity across cross-border regions remains a challenge. Technological and systems innovation, such as the collaborative internet, big and open access data, 5G or Galileo are contributing to a faster deployment of intelligent and collaborative transport, transforming the transport sector and reshaping the mobility paradigms at EU and global level. However, as with transport infrastructure, EU technological infrastructure has evolved independently, consequently, internal borders also act as barriers to the interoperability and continuity of technological systems and to the portability of online services.

The difficulties in eliminating challenges and barriers, together with the continued existence of numerous cross-border missing links justify further policy action. The STOA study proposes a set of seven **policy options**. Each policy option is expected to contribute towards alleviating at least one challenge or barrier. The study also identifies positive or mutually reinforcing influences among the different options, which indicates that enhanced results could be obtained provided they are implemented together. The proposed list of policy options:

Policy Option 1: Create an EU observatory on cross-border transport and mobility dynamics

Available data on cross-border dynamics is relatively scarce and unreliable. The lack of reliable and comprehensive datasets at the EU level creates problems of a different order. Foremost, it hinders accurate diagnosis of the mobility patterns. The lack of data also prevents the realisation of benchmarking exercises across regions and Member States. Thirdly, the policy decision-making process is conducted without the appropriate ground data and information, which increases the margin of error of the decision. Finally, business and private investors are unable to run financial and business analytics, reducing their interest in cross-border investments.

A new EU observatory on cross-border transport and mobility dynamics would overcome these, and other, data limitations. It would provide the necessary data and real-world evidence to support the policy decision-making process. The data could be used in an economic and financial assessment of cross-border transport needs and the respective investments. Setting common rules for data collection and collecting data on cross-border regions would greatly contribute to bridging missing links. Common rules would enable benchmark analyses between different regions. Additionally, public and private investors could start developing more transparent analyses, which would reduce risk and bias, and favour investment.

Policy Option 2: Raise the political visibility of small-scale cross-border projects in central governments

A recurrent complaint voiced by the Local and Regional Authorities (LRA) located in cross-border regions is that they are below the political radar of central governments. The geographical distance of these regions in relation to the capital city continues to act as a relevant communication barrier, which not even the recent advancements in information and communication technologies (ICT) seems able to overcome.

There are however signals that the situation is improving. What is known as 'integrated territorial investment' could combine INTERREG and mainstream EU funds for cross-border transport projects, which entail political visibility within central government and decision-making bodies. These projects can be carried out by EGTC.

Developing initiatives to raise awareness about and the visibility of cross-border projects could be beneficial for their approval. The creation of dedicated offices (or contact points) in central institutions and governments would facilitate communication with the LRA and contribute to raising visibility and presence on central government agendas. In addition, adoption of cross-border sustainable mobility plans, interoperable solutions and joint consultations should be a condition for cross-border investments.

Policy Option 3: Develop new project assessment and evaluation guidelines for small-scale cross-border projects

Customised project assessment and evaluation approaches should be developed considering the specificities of small-scale cross-border projects. Such projects are hardly attractive to private investors and, even at political level, often play a secondary role to other more popular or visible projects.

Tailored project assessment and evaluation guidelines should be developed considering the specificities of such projects and the limited (human and technological) resources and timings of LRA. Also, projects' entire life cycles should be kept in mind, with a separate business plan for each phase (e.g. planning, design, procurement, construction, operation and maintenance).

Segmenting a project like this would shed light on which parts of the project could be attractive to private investors. Risks could be better shared between the public and private sectors, and the ex-ante conditionality of access to EU funds strengthened, for example by requiring a project to be linked to a national transport master plan to benefit from the European Structural and Investment Funds (ESIF).

The guidelines should also include dedicated sections on business models, to raise interest among private investors. As small-scale cross-border projects rarely produce viable business models, development of innovative business models is deemed necessary.

Policy Option 4: New funding mechanism tailored to small-scale cross-border projects

The creation of tailored financing mechanisms, with simplified rules and stable budgets, would help increase the rate of small-scale cross-border projects supported. A possible way forward is to design a new fund specifically for projects with long implementation times, low returns, and EU benefits, which would complement the Connecting Europe Facility (CEF). Other alternatives that could secure new financing for infrastructure projects include: (i) promoting cross-financing (e.g. highway toll revenues funding railways); (ii) extending the 'polluter pays' principle to value positive externalities (e.g. recognising the environmental benefits of rail versus road); (iii) developing banking laws that recognise special infrastructure needs; or (iv) promoting the participation of private investors (e.g. through public-private partnerships (PPP), by taking them off the balance sheet). Alternatively, complementarities between different mechanisms can be exploited (e.g. combining Horizon 2020 and ESIF financing instruments).

Policy Option 5: Strengthen the INTERREG programme as the chief financing instrument for cross-border regions

INTERREG has gained wide popularity over the last decades, as the primary source of financing for cross-border projects located outside the Trans-European Transport Network (TEN-T) corridors. Even so, the programme contains some limitations.

Improvements in INTERREG conditions could facilitate implementation and promote cross-border projects. A list of key domains of intervention and a brief description of proposed actions includes: (i) legal framework and budget conditions (e.g. review and simplify EU legislation by creating a single regulation reflecting INTERREG-specific implementation provisions, or increase INTERREG funding allocation, particularly concerning technical assistance); (ii) thematic focus (e.g. focus on the specific needs of cross-border regions, instead of defining general goals (or thematic menus), or define investment priorities to better address the various degrees of integration); (iii) harmonisation and simplification of regulations (e.g. define a set of common indicators tailored to the needs of the INTERREG programme); and iv) management and control system (e.g. adjust INTERREG programme governance to better respond to thematic priorities, or clarify and adapt the rules of auditing to the specificities of the INTERREG programme).

Policy Option 6: Adopt new legislation to simplify cross-border projects

The need to abide by national regulations is repeatedly indicated as a key barrier, notably the need for individual approvals by each Member State along the various stages of a project. Even the adoption of a **border friendliness approach** in the transposition of EU laws does not guarantee a good fit on the border because of a variety of other differences and dissimilarities.

Member States should simplify their procurement and permit procedures for cross-border projects by adopting special rules for them. Such legislation must override national laws, in a similar way to the EGTC or INTERREG programmes. In this new context, cross-border projects would be subject to a single legislative framework and could be developed faster, with lower risks and costs than those usually associated with regulatory fragmentation.

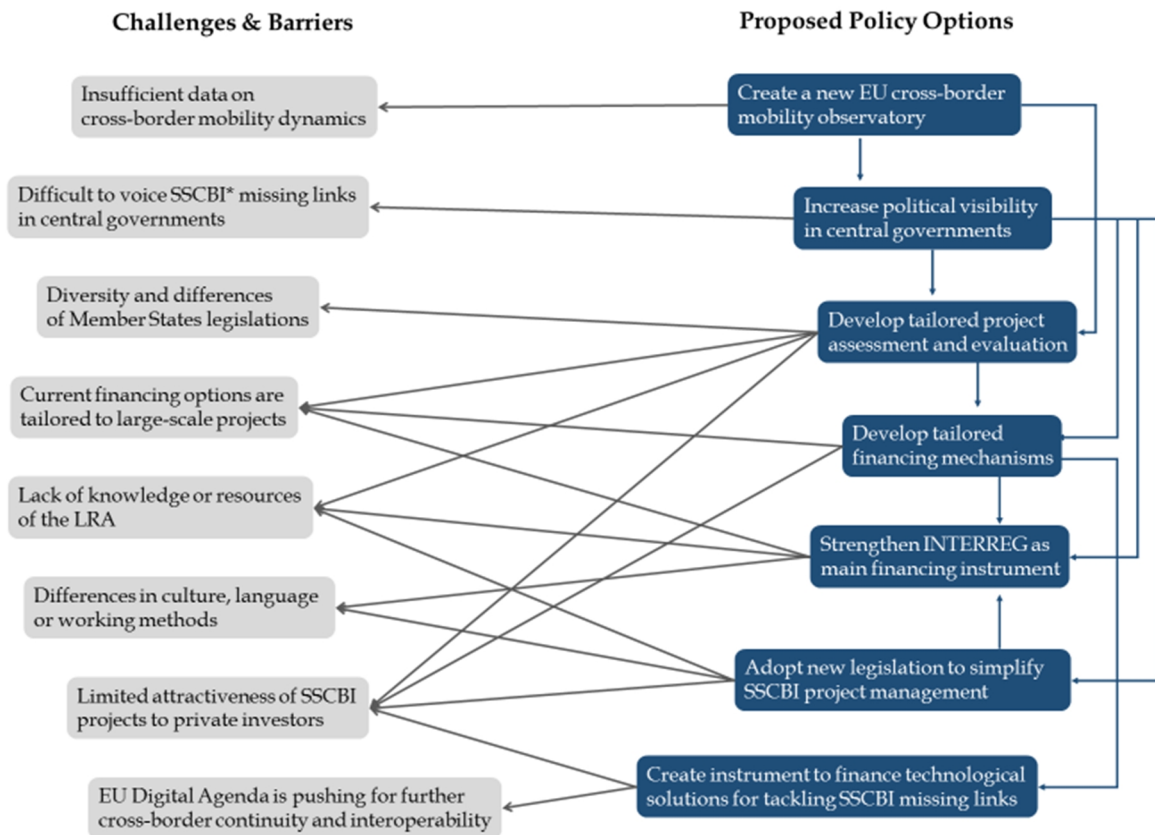
An EGTC can take on the role of a cross-border transport authority that could build demand for cross-border transport services, promote sustainable urban mobility plans at cross-border level and help with their implementation, operation and maintenance.

Policy Option 7: Create an instrument to finance technological solutions to tackle small-scale missing links

Financing mechanisms to help cross-border regions are available; the problem is accessing them in an efficient manner. New, more risk-based financing schemes are not a preferred choice, however. Cost-benefit analyses of small-scale projects are not yet widely practised, which also makes it harder to prioritise and drive investment. Despite their privileged understanding of cross-border mobility barriers, cross-border region participation in international fora or research projects remains limited and they risk lagging behind.

Cross-border regions could actively contribute to the design and development of future technologies, to ensure that cross-border barriers and gaps are considered and addressed in the solutions proposed. New instruments to finance technological solutions for tackling small-scale missing links are needed that could: (i) address specific cross-border problems and specificities; (ii) require the active participation of LRA or other organisations located in these; or (iii) envisage the development of pilots or case studies in these areas. Alternatively, risk capital, notably venture capital, could be raised to support small-scale projects and to finance innovative, and often disruptive, business ideas from small and medium-sized enterprises (SMEs) or start-up companies.

Proposed policy options to overcome challenges and barriers in small-scale cross-border projects



Source: own production (TIS)

* SSCBI: Small-scale cross-border infrastructure

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