STUDY
Requested by the TRAN committee

Research for TRAN Committee – EU funding of transport projects

Transport and Tourism

Policy Department for Structural and Cohesion Policies
Directorate-General for Internal Policies
PE 629.199 - July 2019
Abstract

This study provides an analysis of the most important EU funding instruments currently available for transport projects with the aim to evaluate the extent to which they are fulfilling strategic EU policy goals. Based on a thorough assessment of the overall performance of these instruments (through previous reports, interviews and case studies), and after identifying the main opportunities and challenges they will face in the future, the study proposes a set of recommendations on how to improve their effectiveness and contribution to EU added value in the future.
This document was requested by the European Parliament’s Committee on TRAN.

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EU funding of transport projects

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<tbody>
<tr>
<td>AMIF</td>
<td>Asylum, Migration and Integration Fund</td>
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<td>BMVI</td>
<td>Border Management and Visa Instrument</td>
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<td>CBA</td>
<td>Cost-Benefit Analysis</td>
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<td>CEF</td>
<td>Connecting Europe Facility</td>
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<td>CF</td>
<td>Cohesion Fund</td>
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<td>COM</td>
<td>Commission Communication</td>
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<td>CPR</td>
<td>Common Provisions for the Regulation</td>
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<td>DG</td>
<td>Directorate-General</td>
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<td>EASA</td>
<td>European Union Aviation Safety Agency</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ECA</td>
<td>European Court of Auditors</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>EFSI</td>
<td>European Fund for Strategic Investment</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>EIB Group</td>
<td>EIB and EIF together</td>
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<td>EIF</td>
<td>European Investment Fund</td>
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<td>EMFF</td>
<td>European Maritime and Fisheries Fund</td>
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<td>EMSA</td>
<td>European Maritime Safety Agency</td>
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<td>EPEC</td>
<td>European PPP Expertise Centre</td>
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<td>ERA</td>
<td>European Union Agency for Railways</td>
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<td>ERDF</td>
<td>European Regional Development Fund</td>
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<td>ERTOS</td>
<td>European Rail Traffic Management System</td>
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<td>ESF+</td>
<td>European Social Fund Plus</td>
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<td>ESIF</td>
<td>European Structural and Investment Funds</td>
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<td>ETC</td>
<td>European Territorial Cooperation</td>
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<td>EUR</td>
<td>Euro</td>
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<td>Eurostat</td>
<td>European Statistical Office</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GHG</td>
<td>Greenhouse gas</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>IIW</td>
<td>Infrastructure and Innovation Window</td>
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<td>ISF</td>
<td>Internal Security Fund</td>
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<td>ITF</td>
<td>International Transport Forum</td>
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<td>ITS</td>
<td>Intelligent Transportation System</td>
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<td>FR</td>
<td>Financial Regulation</td>
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<td>HS</td>
<td>High Speed</td>
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<td>INEA</td>
<td>Innovation and Networks Executive Agency</td>
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<td>IPE</td>
<td>Investment Plan for Europe</td>
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<td>ISPA</td>
<td>Instrument for Structural Policies for Pre-Accession</td>
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<tr>
<td>JASPERS</td>
<td>Joint Assistance to Support Projects in European Regions</td>
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<td>JOIN</td>
<td>Joint Communications</td>
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<tr>
<td>LDR</td>
<td>Less developed regions</td>
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<td>LGTT</td>
<td>Loan Guarantee Instrument for Trans-European Transport Network Projects</td>
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<td>LNG</td>
<td>Liquefied natural gas</td>
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<tr>
<td>MaaS</td>
<td>Mobility as a Service</td>
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<tr>
<td>MDR</td>
<td>More developed regions</td>
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<tr>
<td>MF</td>
<td>Marguerite Fund</td>
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<tr>
<td>MFF</td>
<td>Multiannual Financial Framework</td>
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<tr>
<td>MS(s)</td>
<td>Member State(s)</td>
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<td>NPBIs</td>
<td>National Promotional Banks and Institutions</td>
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<tr>
<td>NUTS</td>
<td>Nomenclature of Territorial Units for Statistics</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OP</td>
<td>Operational Programmes</td>
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<tr>
<td>PBI</td>
<td>Europe 2020 Project Bond Initiative</td>
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<td>PPP</td>
<td>Public-Private Partnerships</td>
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<tr>
<td>RDI</td>
<td>Research, Development and Innovation</td>
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<tr>
<td>RIS</td>
<td>River Information Services</td>
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<tr>
<td>SFF</td>
<td>Structured Finance Facility</td>
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<td>SESAR</td>
<td>Single European Sky ATM Research</td>
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<td>SMEs</td>
<td>Small and Medium-sized Enterprises</td>
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<td>SMEW</td>
<td>SME Window</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>SWD</td>
<td>Staff and joint staff working documents</td>
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<tr>
<td>TAV</td>
<td>Treno ad Alta Velocità</td>
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<tr>
<td>TEN-T</td>
<td>Trans-European Transport Network</td>
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<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
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<tr>
<td>TO</td>
<td>Thematic Objective</td>
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<td>TPT</td>
<td>Transport</td>
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<td>TR</td>
<td>Transition regions</td>
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EXECUTIVE SUMMARY

Aim

This study provides comprehensive information on the current status of European Union (EU) funding for transport projects, including the main achievements/benefits and issues/problems, with the aim to propose recommendations for improving the effectiveness of EU funding for the future multiannual financial framework (MFF) 2021-2027.

Financial instruments supporting transport policy goals

The policy goals of EU funding for transport projects are threefold: (i) achieving socioeconomic convergence among Member States (MSs); (ii) completing the Trans-European Transport Network (TEN-T); and (iii) tackling specific transport challenges such as decarbonisation, digitalisation, etc. Addressing the transport gaps of MSs and their regions, especially the less developed ones, and promoting a European-wide intermodal transport network are considered essential aspects for boosting growth and competitiveness within the EU and ensuring the proper functioning of the internal market.

Reducing transport externalities is crucial to tackle climate change and improve citizens’ quality of life. In this respect, the EU gives great importance to reach a more sustainable and safer transport system by progressively decarbonizing all transport modes and promoting a better use of existing infrastructure through digitalization. On the other hand, given the importance of EU security and defence, adapting the transport network to comply with military requirements is deemed essential for facilitating military mobility within the EU.

Overall, there are three different types of EU funding instruments available for transport projects: EU grants, European Investment Bank (EIB) loans and innovative financial instruments. Some EU funding instruments — the Cohesion Fund (CF) and the Connecting Europe Facility (CEF) — are mostly focused on supporting TEN-T projects, while other instruments — such as the European Regional Development Fund (ERDF), the European Fund for Strategic Investment (EFSI) and the EIB loans — have greater capacity to finance other projects not included in the TEN-T as long as they produce EU added value.

The European Commission (EC) is increasingly encouraging the use of innovative financial instruments rather than grants. In the next MFF 2021-2027, both the volume and scope of available financing instruments is expected to increase, while some traditional instruments, such as the CF, might see their budgets decrease. In order to reduce overlaps and ease the access to EU financing, the next MFF 2021-2027 intends to merge all centrally managed financial instruments into a new investment fund called InvestEU.

1 Transport externalities or transport external costs refer to the costs related to the negative impacts of transport that are not borne by the transport users — such as pollution, accidents, congestion, etc. — and are therefore not considered when making a transport decision (Korzhenevych et al., 2014).
Performance review of current EU funding mechanisms

The following findings regarding the current performance of EU funding instruments for transport projects can be highlighted:

- EU funds have not been as effective as expected in fulfilling transport policy priorities and, according to the European Court of Auditors (ECA), audit authority of the EU, they require better targeting.

- The current EU allocation of funds to transport seems to be insufficient. The CEF is not able to cover all the valuable applications it receives, while Cohesion policy instruments have been accompanied by a reduction of their budget despite the still existent EU’s regional imbalances.

- While the funding allocation of some instruments, such as the European Structural and Investment Funds (ESIF), is too much influenced by MSs towards national and regional priorities, the allocation of more sophisticated instruments, such as the EFSI and CEF, does not seem to be balanced across regions.

- The evaluation of projects and programmes funded by the EU often lack focus on results and impacts. Moreover, the evaluations conducted by the EC/EIB are often challenged by the ECA.

- Impact assessment analyses are often regarded by MSs as a hurdle to be overcome rather than a tool to select the best projects according to EU priorities.

- Administrative procedures keep on being an obstacle for the effective delivery of projects. The situation is even more critical in cross-border sections where procurement is a major issue.

- The capacity of MSs remains being critical to manage EU funding, especially under the shared management approach.

- Regarding coordination among funding instruments, there is still certain overlapping while examples of combination remain limited.

Challenges and opportunities for the future

The following key challenges and opportunities likely impacting EU transport funding in the future have been identified:

- The need to improve infrastructure resiliency to climatic events, minimize the impact of transport on the environment, digitalize infrastructure, and provide widespread facilities to supply low-carbon energies will require larger funding resources for transport projects.

- Given the current demographic trend, special attention will have to be paid to issues in big cities and remote places that are steadily losing population.

- EU resources for transport projects may be affected by political pressures to reduce the EU budget and other budgetary priorities gaining importance (such as social aspects, immigration, and security).

- The implementation of tougher controls at the intra-EU borders for security reasons may constrain the effectiveness of cross-border relationships between EU countries.

- EU funding for transport may also be undermined by the lack of coordination among institutions, the inability to prove the added value of the projects funded, the difficulties of less developed regions to take advantage of complex financial mechanisms and the lack of willingness of MSs to promote cross-border sections.
The EU still lacks a framework aimed at both safeguarding fair competition among transport modes through the internalisation of external costs\(^2\), and ensuring the effective integration of different transport means, including emerging mobility forms such as car-sharing, ride hailing, scooter-sharing, etc.

**Recommendations**

On the basis of the analysis conducted, this study proposes the recommendations summarized in the following figure:

**Figure 1: Recommendations of the study**

### FINANCING
- Raise the amount of funding to transport needs, especially CEF and CF
- Increase the amount allocated to adapt infrastructure to future mobility needs
- Prioritise measures promoting integration and interoperability
- Prioritise metropolitan areas and declining regions
- Allow ESIF to finance the maintenance and operation of infrastructure

### ORGANISATION
- Condition EU funding to MSs to the prioritization of cross-border sections
- Define more flexible approaches to combine resources from different priorities and instruments
- Set a common evaluation framework for all EU supported transport projects
- Establish clear guidelines for innovative instruments within InvestEU
- Simplify and homogenise the administrative procedures

### GOVERNANCE
- Establish independent supervision of the common evaluation framework for transport projects funded by the EU
- Constitute a single EU Transport Agency
- Provide guidance to less developed regions and countries to modernize their institutions
- Promote a greater harmonization of charging, taxation and subsidy approaches

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\(^2\) Internalising transport externalities means making these costs part of the decision-making process of transport users, which can be achieved either directly through the provision of regulation or indirectly by providing appropriate incentives to users (Korzhenevych et al., 2014)
1. **INTRODUCTION**

The purpose of this study is to provide comprehensive information on the current status of the funding provided by the EU to transport projects (including the main achievements/benefits and issues/problems), to highlight different alternatives available for the future MFF 2021-2027 and to propose recommendations for improving the effectiveness of EU funding. To that end, the methodological approach outlined in Figure 2 has been conducted.

**Figure 2: Methodological approach**

The structure of the study follows a four-step process. The first step sets the framework of the research analysis. To that end, existing and potential policy goals associated to the transport funding policy of the EU are identified, and the EU funding instruments are characterised. The analysis is conducted on the basis of official information, academic literature, reports from international organisations, etc.

The second step evaluates the overall performance of the instruments previously identified, especially in the multiannual framework 2014-20. To that end, a set of performance criteria, based on existing EU policy goals and other potential goals have been identified. These criteria are analysed on the basis of the available information obtained in the literature, and the feedback from interviews with key stakeholders from EU institutions, national governments and international organisations. The performance review is illustrated with three case studies.

In the third step, the authors, according to all the information provided, define a set of challenges to tackle, and opportunities to take advantage of in the future. Some of the challenges and opportunities have been picked up from suggestions from international organisations.

In the fourth step, the authors of the study propose a set of recommendations and actions to be implemented aimed at addressing the challenges and opportunities previously outlined. The recommendations focus on: future EU funding priorities for transport projects, possible organisational improvements at the level of EU institutions and potential governance and broad policy reforms.
2. EU POLICY GOALS RELATED TO TRANSPORT PROJECTS

KEY FINDINGS

- The main EU transport policy goals are threefold: (i) achieving socioeconomic convergence among MSs; (ii) completing the TEN-T; and (iii) tackling specific challenges such as decarbonisation and digitalisation of transport.
- Addressing the transport gaps of MSs and developing a European-wide intermodal transport network are considered essential aspects for boosting growth and competitiveness within the EU and ensuring the proper functioning of the internal market.
- Reducing transport externalities is crucial to tackle climate change and improve citizens’ quality of life. To that end, the EU is moving towards a more sustainable and safer transport system by progressively decarbonising all transport modes and promoting a better use of existing infrastructure through the deployment of management and intelligent transport systems.
- Given the importance of EU security and defence, adapting the transport network to comply with military requirements is deemed essential for facilitating military mobility within the EU.

2.1. Transport policy priorities

Transport is a crucial driver of global competitiveness, job creation and economic, social and environmental development. It is also an essential factor in the quality of life of citizens, since it allows them to freely move and have access to essential services. This sector is also vital to reaching the sustainable development goals, as transport is at the core of critical development challenges such as climate change, social integration, accessibility and liveability.

Moving towards a more sustainable transportation is one of the main European priorities. **Transport accounts for over 33% of the EU-28 final energy consumption and around 25% of the EU’s greenhouse gas emissions.** Given the rising motorization rates, together with the growing mobility patterns estimated both at the EU level and globally, the impact on the environment may be huge if policy measures are not adopted to mitigate those actions.

The transport sector produces other negative externalities, including accidents, congestion, noise, pollution and health issues, with the large economic and social costs that they entail, especially in urban areas. The need for combatting the negative externalities of the transport sector has been stressed both at the EU level and worldwide.

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3 Transforming our world: the 2030 Agenda for Sustainable Development is a plan of action adopted by all United Nations Member States in 2015 focused on areas of critical importance for humanity and the planet. It set 17 Sustainable Development Goals and 169 targets that tackle the three dimensions of sustainable development: economic, social and environmental. Sustainable Development Goals: Knowledge Platform, 2 July 2019.
9 Paris Agreement on Climate Change (December 2015).
In order to tackle climate change through transport policies, the «Transport and climate change 2018 Global Status Report»\textsuperscript{10} provides three different strategies: ‘(i) avoid and reduce the need for motorized travel […]’ (ii) shift to more environmentally friendly modes of transport by increasing funding for and upgrading the capabilities of urban public transport, railways, and walking/cycling and (iii) improve the energy efficiency of transport modes, by enhancing fuel economy of vehicles, increasing access to electric mobility, and promoting investment in renewable energy’.

At the EU level, the 2011 White Paper «Roadmap to a Single European Transport Area – Towards a competitive and resource-efficient transport system» provides 10 goals for developing a competitive and resource-efficient transport system able to achieve the 60% GHG emission reduction target that it recommends. These goals were framed into three main objectives: (i) developing and deploying new and sustainable fuels and propulsion systems; (ii) optimising the performance of multimodal logistic chains, and (iii) increasing the efficiency of transport infrastructure use with information systems and market-based incentives. The objective at the EU level is to progress towards a European zero-emission transport system in a neutral climate economy.\textsuperscript{11}

The aforementioned White Paper also gives great importance to the development of a single European multimodal transport area, since it should ‘ease the movements of citizens and freight, reduce costs and enhance the sustainability of European transport.’ In addition, it stresses the importance of making a better use of the existing transport infrastructure networks through the deployment of transport management systems and intelligent transport systems, and improving both safety and security of all modes of transport. Furthermore, it supports the application of ‘user pays’ and ‘polluter pays’ principles and the engagement of the private sector in the financing of transport infrastructure.

Another transport priority nowadays is the digitalisation of transport and logistics, which may contribute to increase safety and help addressing the growing congestion and emission problems worldwide. Regarding freight transport, digitalisation and big data may promote a more efficient management of deliveries through synchronomodality. However, for this to happen, it is necessary to develop a seamless digital layer through the entire single European transport area.

2.2. Trans-European Transport Network policy

Although in the Treaty of Rome (1957) transport policy was already part of the common EEC policy, it was not until the early 1970s that the European Community considered the need to develop a European infrastructure policy due to the fact that this area was considered of exclusive competence of the MSs.\textsuperscript{12} Following the Paris summit in October 1972, the Commission of the European Communities considered the need to intervene in transport infrastructure planning in order to define networks according to Community criteria, with the aim of transforming isolated networks developed on the basis of national criteria into an efficient, sustainable system capable of responding to future traffic needs at both the national and the Community level.

However, it was not until the Maastricht Treaty of 1992 that the principles of the Community infrastructure policy and the financing instruments for its development were established. The Treaty stipulated that the Community should contribute to the development of trans-European

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\textsuperscript{12} Treaty of Rome (EEC).
EU funding of transport projects

networks in the fields of transport infrastructure, telecommunications and energy in order to promote the interconnection and interoperability of national networks.

Regarding transport infrastructure, the TEN-T aims at developing a European-wide network of roads, conventional and high speed railway lines, inland waterways, sea routes, ports, airports and rail road terminals in order to boost growth and competitiveness within the EU. **Its main objective is to remove bottlenecks, address missing links, improve interoperability among different transport modes and between regional and national transport infrastructure, and integrate urban areas into the TEN-T.** Furthermore, it also encourages the deployment of new technologies and innovative solutions focused on transport decarbonisation, and the creation of a safer, more efficient and accessible transport infrastructure for all citizens.

Since the TEN-T policy was established, the general guidelines have been frequently amended to adapt them to the needs and challenges of each time, including the successive accessions of new MSs. The last revision carried out in 2013 promoted the shift from a set of individual priority projects to a multimodal network of corridors and urban nodes at the EU level. As such, **the TEN-T is currently structured in two different layers: (i) a comprehensive network**, aiming at ‘ensuring the accessibility and connectivity of all regions in the Union, including the remote, insular and outermost regions’\(^{13}\) and **(ii) a core network**, consisting of ‘those parts of the comprehensive network which are of the highest strategic importance for achieving the objectives of the TEN-T policy’\(^{14}\). According to the TEN-T guidelines,\(^ {15}\) the core network should be implemented by 2030, and the comprehensive one by 2050.

**Figure 3: TEN-T core corridors of the Core Network**

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Source: European Commission.

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\(^{14}\) Ibidem

\(^{15}\) Ibidem
The aforementioned guidelines also divided the core network into 9 main corridors, and defined the projects that make them up, to facilitate their implementation in a coordinated way (see Figure 3). In order to guarantee that their implementation is undertaken efficiently and effectively, one European coordinator has been appointed to lead each of the corridors. The TEN-T policy also covers two horizontal priorities, closely related to the TEN-T development, namely the establishment of the European Rail Traffic Management System (ERTMS) and the development of the Motorways of the Sea. Two more European coordinators have been nominated to support the proper implementation of these two key policy areas.

2.3. Other EU policies related to transport

EU transport policy contributes to the 9th priority outlined by President Juncker: «Europe as a stronger global actor»\(^{16}\), particularly in the areas of security and defence. In this respect, transport infrastructure plays a key role in improving military mobility within the EU, since adequate infrastructure that allows ‘a smooth, efficient and effective movement of military personnel and assets across and beyond the EU will enhance the EU’s preparedness and response to crises. It will enable EU Member States to act faster, in line with their defence needs and responsibilities, both in the context of the Common Security and Defence Policy missions and operations, and in the framework of national and multinational activities’\(^{17}\).

However, one of the main barriers to military mobility encountered is the lack of compliance of transport infrastructure with military requirements. The Action Plan on Military Mobility\(^{18}\) issued by the Commission defines the main steps to be carried out in order to make the TEN-T suitable for both civilian and military purposes. To that end, the Commission proposes for the MFF 2021-2027 a EUR 6.5 billion envelope for military mobility in order to enhance strategic transport infrastructure and make it suitable for military mobility needs.\(^{19}\) This envelope will be made available to the transport strand of the CEF programme.

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\(^{17}\) European External Action Service, Defending Europe: Improving Military Mobility within and beyond the European Union, 20 November 2018.


EU funding of transport projects

3. EU FUNDING INSTRUMENTS FOR TRANSPORT PROJECTS

KEY FINDINGS

- Overall, there are three different types of EU funding instruments available for transport projects: EU grants, EIB loans and innovative financial instruments.
- Some EU funding instruments (CF and CEF) are mostly focused on supporting TEN-T projects while other instruments (such as the ERDF, EFSI and the EIB loans) have greater capacity to finance other projects not included in the TEN-T as long as they produce EU added value.
- The Commission is increasingly encouraging the use of innovative financial instruments rather than grants. In the next MFF 2021-2027, both the volume and scope of the available financing instruments are expected to increase, while some traditional instruments, such as the CF, might see their budgets decrease.
- In order to reduce overlaps and ease the access to EU financing, the next MFF 2021-2027 intends to merge all centrally managed financial instruments into a new EU investment fund called InvestEU.

In this section, a review of the current EU funding instruments for transport and their potential evolution in the MFF 2021-2027 is conducted. The analysis focuses on the funds and support instruments available for the real implementation of projects. The Horizon 2020 programme, which is devoted to RDI, is not reviewed in this report since it has a different goal.

3.1. Cohesion policy

Cohesion policy is one of the most important investment policies within the EU. Its main objective is strengthening the economic, social and territorial cohesion among the Union. It targets all regions and cities in the EU and supports economic growth, job creation, business competitiveness, sustainable development and environment protection. Particularly, it aims at ‘reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions’.

Accordingly, most of the resources made available under this policy are allocated to less developed regions and countries within the EU.

During the MFF 2014-2020, cohesion policy focuses on 11 thematic objectives, sustainable transport and network infrastructure (TO7) being one of them. The ERDF and the CF are the main funding sources for the EU cohesion policy. The ERDF supports all cohesion objectives, while the CF, on its part, focuses its investment on energy or transport projects benefitting the environment and transport infrastructure included in the TEN-T.

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21 Articles 174 to 178 of the Treaty on the Functioning of the European Union (TFEU).
23 The European Social Fund (ESF) is the third instrument developed under the EU’s Cohesion policy, and is mainly focused on objectives 8-11. These three funds, together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), comprise the European Structural and Investment (ESI) Funds.
3.1.1. The Cohesion Fund

The CF was established in 1994 with the aim of strengthening the economic, social and territorial cohesion of the Union with a view to promoting sustainable development. It provides support to: (i) investment in the environment, including areas related to sustainable development and energy which present environmental benefits; (ii) TEN-T; and (iii) technical assistance. The CF is targeted at those MSs whose Gross National Income (GNI) per inhabitant is less than 90% of the EU average, and offers maximum co-financing rates for projects of up to 85% of their costs.

In the framework of actions pursuing the EU environmental objectives, the CF may support other transport modes outside the TEN-T such as rail, river and sea transport, intermodal transport and their interoperability, clean urban transport and public transport. Furthermore, the Fund also supports transport infrastructure projects with added value for Europe under the CEF instrument that will be described later.

In the 2014-2020 programming period, the EU has committed almost €63.28 bn to the Fund, plus a contribution to be awarded to the Cohesion countries through CEF, reaching altogether a total amount of almost 75 billion. The CF budget proposed by the Commission for the next MFF 2021-2027 means a reduction compared to the previous MFF, since it allocates EUR 46.7 billion of which 11.3 billion will be channelled to the Cohesion countries through CEF. The amount directly assigned to the countries by the CF is thus substantially reduced, a fact to which the EP has declared its firm opposition.

3.1.2. The European Regional Development Fund

The ERDF was established in 1975 as a redistributive instrument with the aim to assist the least developed regions by focusing on productive investments, infrastructure and SMEs development. The Fund pursues two main goals: (i) Investment for growth and jobs, aiming at reinforcing the economy and generate employment; and (ii) European Territorial Cooperation (ETC), aiming at promoting cross-border, transnational and interregional cooperation between MS. In addition, the Fund also includes a specific allocation for outermost regions and sparsely populated areas.

ERDF funding is available to all regions within the Union. However, both the ERDF funds allocated and its co-financing rates differ according to the category of the beneficiary regions (NUTS 2).
EU funding of transport projects

In this respect, three different categories of regions are distinguished based on their relative per capita gross domestic product (GDP): (i) least developed regions, whose per capita GDP is less than 75% of the average GDP of the EU-27; (ii) transition regions, between 75% and 90% of this magnitude; and (iii) most developed regions, higher than 90% of the average. The least developed regions benefit from co-financing rates ranging from 80 to 85% of the eligible cost (85% for outermost regions). In transition regions, the ERDF can finance a maximum of 60% of the cost of the project, which drops to 50% in the more developed regions.

In the framework of actions pursuing the EU’s sustainable transport and network infrastructure objectives, the ERDF may support TEN-T projects and connections of secondary and tertiary nodes to TEN-T infrastructure, including multimodal nodes, low-carbon transport systems and interoperable railway systems. Furthermore, the ERDF also funds cross-border, interregional and transnational projects under the ETC objective.

The total amount of money allocated in the current MFF 2014-2020 was around EUR 199 billion,34 of which about 95% is devoted to ‘investment for growth and jobs’ and 5% to ETC.35 For the 2021-2027 framework, it is expected to rise to EUR 226.31 billion, of which EUR 215.17 billion will be within the item ‘investment for growth and jobs’.36

3.1.3. Management of ESI Funds

All ESI Funds, including the ERDF and the CF, are managed together by the MSs and the Commission through Partnership Agreements. Based on these Agreements, each MS proceeds to elaborate the Operational Programmes (OP), which provide further detail on the specific objectives, the expected results and the concrete actions to be undertaken. Once these programmes are approved by the Commission, they are implemented by the MSs and their regions through shared management. Thus, the managing authorities of the MSs ultimately decide where and how funds are allocated at the project level under the respective programme.

Most of the support provided under ESI Funds is channelled through grants. MSs are also allowed to transform ESIF resources into financial instruments such as loans, guarantees or equity to support projects with the potential to be financially viable.37 Although their scope has been extended and currently covers all thematic objectives, very few resources have been committed to the transport sector (TO7).38

3.2. The Connecting Europe Facility

The CEF is the specific funding instrument of the current EU competitiveness policy dealing with infrastructure. It is aimed at promoting growth, jobs and competitiveness among the EU through specific investments in Europe-wide infrastructure for transport, energy and digital services. It was created in 2013 as a means to ‘accelerate investment in the field of trans-European networks (TEN)

34 European Commission, European Structural and Investment Funds: European Regional Development Fund, 10 July 2019.
35 Sapala M (2016) How the EU budget is spent: European Regional Development Fund.
37 European Commission - DG Regional Policy, Financial Instruments in Cohesion Policy.
38 European Commission, DG for Regional and Urban policy (2018) Financial instruments under the European Structural and Investment Funds Situation as at 31 December 2017.
and to leverage funding from both the public and the private sectors. CEF is available to all EU MSs and all modes of transport (road, rail, inland waterways, maritime and air).

Regarding transport infrastructure, the instrument shall contribute specifically to three main sectoral objectives: (i) eliminating bottlenecks, improving transport interoperability, filling the missing links and improving cross-border sections; (ii) ensuring sustainable and efficient transport systems in the long-term by paying special attention to decarbonisation of all transport modes, and (iii) optimising the integration and interconnection of transport modes and reinforcing the interoperability, safety and accessibility of transport services.

**In the transport area, the CEF’s main objective is to support the development of the Core Network and its nine corridors.** To that end, an overall budget of EUR 24.05 billion was allocated to TEN-T projects in the current MFF. This represented a threefold increase compared to its predecessor, the TEN-T programme 2007-2013. The budget is divided into two main envelopes: (i) a general envelope, which is available to all MSs, and (ii) a cohesion envelope, only available to the MSs eligible for the CF. The specific amounts set for each envelope and those proposed for the next MFF 2021-2027, including the new Military mobility, can be observed in Figure 4.

**Figure 4: CEF’s allocation during the current and the next MFF, in EUR billion**

![Figure 4: CEF’s allocation during the current and the next MFF, in EUR billion](image)

Source: Authors based on data from the European Commission

The CEF mostly provides grants, but it also supports innovative financial instruments managed jointly with the EIB. **Regarding grants, both preparatory studies and works in the transport sector are eligible for funding.** The grants for studies may cover up to 50% or 85% of the eligible costs for the general and cohesion envelopes respectively. The maximum co-funding rates of grants for works may vary, for the general envelope, from 10% to 50% of the eligible costs depending on the priority and the type of project, and from 20% to 85% for the cohesion envelope. For projects generating revenues, **CEF support may be provided through financial instruments** that can take the form of either loans, guarantees or credit enhancement mechanisms to project bonds. These instruments are offered under the **CEF debt instrument**, which is managed by the EIB through a delegation agreement. The CEF debt

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40 European Commission, Innovation and Networks INEA: Connecting Europe Facility.

EU funding of transport projects

instrument has also merged some of the financial instruments that were already in operation such as the Loan Guarantee Instrument for Trans-European Transport Network Projects (LGT2), the Europe 2020 Project Bond Initiative (PBI) and the Marguerite Fund (MF), which will be presented in subsection 3.3.2. Finally, the CEF also allows combining grants and innovative instruments in order to optimise the impact of EU resources.

In line with the CEF main objectives and in order to make the best use of its limited resources, most of the CEF budget in the period 2014-2020 is addressed to core network projects pre-identified in the CEF regulation. Specifically, it focuses on supporting cross-border projects and projects addressing bottlenecks and missing links in the 9 core TEN-T corridors, where it is supposed to allocate 80% of the aforementioned resources. The remaining 20% is used to provide support to projects tackling horizontal priorities such as the deployment of traffic management systems for increasing the efficiency of existing infrastructure (e.g. ERTMS for railways, SESAR for aviation, ITS for road, RIS for inland waterways), and new technologies and innovations for transport decarbonisation (e.g. electrification, LNG, intelligent transport systems).

Management of CEF grants

CEF grants are awarded through competitive calls for project proposals launched by the Commission on the basis of Annual and Multi-Annual Work Programmes, in which specific objectives, priorities and available budgets are defined. For each call, the Commission assesses independently each proposal41 according to the award criteria defined — relevance, maturity, impact and quality — and proposes the list of projects to be supported and the amount of funding to be allocated per project. INEA is responsible for managing the allocated funds and supervising the projects’ implementation.

3.3. EIB support instruments

The EIB was created in 1958 under the Treaty of Rome.42 Since then, the institution has incorporated numerous objectives, such as support for trans-European transport and energy infrastructure networks, the promotion of knowledge and innovation, the improvement and protection of the environment and support for SMEs. The Bank fulfils these objectives by providing technical assistance and financial investment to projects that promote productivity, employment and growth in the European economy within the framework of these policies. Currently, the Bank focuses on four main areas: (i) innovation and skills, (ii) SMEs, (iii) infrastructure, and (iv) climate and environment.

3.3.1. The role of the EIB in financing transport projects

The Bank has actively supported infrastructure through loans to governments, corporations and public-private partnerships, becoming a key player in infrastructure funding, mainly in the field of transport, and acting as the main financer and promoter of the TEN-T. The EIB supports projects mainly through loans and guarantees, but it also offers a wide variety of financial instruments as well as financial and technical advice through different initiatives and organisations such as JASPERS or the EPEC. In addition, the EIB continues to work closely with the Commission and the private sector to increase the leverage effect of the Bank’s financing by encouraging the combined use of its loans with grants from the EU budget and different innovative financial instruments.

41 Projects applying for CEF grants must prove their economic viability by providing a cost-benefit analysis (CBA), and prove that they cannot benefit from financial instruments.
42 Treaty of Rome (EEC).
The main **EIB mechanisms available for transport projects** to get long-term financing are:

- **Direct loans.** They represent the bulk of EIB support and are targeted at individual projects, often providing key support to attract other investors. These loans can cover up to 50% (75% in the case of TEN-T projects) of the total investment cost.

- **Indirect loans.** These are loans made to local banks or other intermediaries which, in turn, offer financial support to the final recipient.

- **Private equity funds.** The Bank also stimulates and catalyses private capital through investment in equity funds devoted to numerous sectors such as transport infrastructure.

- **Innovative financial instruments and EFSI,** which, given their relevance for the MFF 2021-27, will be explained in greater detail in sections 3.3.2 and 3.4 respectively.

Furthermore, **the EIB can provide additional support to priority projects with a higher risk profile than that normally accepted by the bank under the Structured Finance Facility (SFF).**

Projects receiving EIB financing must be in line with EU policy objectives, be economically, financially and technically viable, meet the strictest environmental standards and be tendered according to EU procurement rules.\(^{43}\) The EIB makes its own decisions based on the merits of each project and the benefits to the public sector of its participation in the project. Once the project is selected, the Bank is closely involved in all stages of the project, from design to the selection of contractors and subsequent monitoring.

### 3.3.2. Other innovative instruments managed by the EIB

Of all the innovative financial instruments developed in the EU with the aim of leveraging private sector financing in transport infrastructure projects, the most important ones are the Loan Guarantee Instrument for Trans-European Transport Network Projects (LGTT), the Europe 2020 Project Bond Initiative (PBI) and the Marguerite Fund (MF). As was previously mentioned, in the current MFF these instruments fall under the scope of the CEF programme even though their management is delegated to the EIB. In the MFF 2021-27, they are expected to merge into the new InvestEU programme.

**The LGTT** is a financial instrument developed jointly by the EC and the EIB and launched in 2008 **specifically designed to cover the risks of debt service due to insufficient demand** and the corresponding unforeseen loss of revenue during this period, thus strengthening the financial viability of the projects and accelerating their implementation.

**The PBI** intends to improve the credit quality of the bonds issued by European infrastructure projects in order to make them more attractive to investors through subordinated loans or stand-by credit facilities provided by the EIB. These facilities may cover up to 20% of the senior debt to which the project company can turn in the event of financial difficulties.\(^{44}\)

The Marguerite Fund I (the 2020 European Fund for Energy, Climate Change and Infrastructure) is a pan-European infrastructure capital fund created by long-term institutional investors, including the EIB, from both the public and private sectors, supported by the EC as part of the European Economic Recovery Plan. Its successor, the MF II, will fund similar investments in transport, energy, renewables, ICT and water infrastructure projects in line with the objectives of the IPE and the EFSI. The Fund is expected to have over EUR 700 million of investment capacity and a lifespan of 10 years.

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The use of innovative financial instruments has attracted increasing attention for many reasons. First, they have a greater economic impact, since they create a multiplier effect or financial leverage. Second, their returnable nature promotes the sustainability and recycling of the public funds initially available. Finally, they incentivise higher quality projects, greater financial discipline, and encourage efficiency and responsibility among the final recipients.45

3.4. The European Fund for Strategic Investment

EFSI is an initiative jointly implemented by the EIB Group and the EC in 2015 following the global economic and financial crisis as a means to tackle the existing investment gap in the EU, and thus foster EU economic growth, employment and competitiveness. To do so, EFSI was intended to leverage private sector financing for (i) stimulating strategic investment in infrastructure and innovation, and (ii) increasing access to finance for SMEs and Mid-cap companies.

Initially, EFSI consisted of a EUR 16 billion portfolio guarantee from the EU budget provided to the EIB Group complemented by a EUR 5 billion capital contribution from the Bank, that was expected to enable the EIB Group to provide over EUR 63 billion of additional financing and leverage up to EUR 315 billion in investment throughout the EU until 2018.46 The EU guarantee allows the EIB Group to support projects with a higher risk profile than that usually assumed by the Bank. In 2017, the duration of the fund was extended until 2020, and both its risk-bearing capacity and its target in terms of investment mobilised were increased.47 In addition, another policy area was added to the seven main areas to be originally supported by the fund (see Figure 5).

Investments in transport are channelled through the Infrastructure and Innovation Window (IIW), which is deployed by the EIB and intended to provide financing to strategic projects. EFSI support may be provided through loans, guarantees, counter-guarantees, capital market instruments, credit-enhancement instruments, and direct or indirect equity and quasi-equity. EFSI also allows third parties, such as National Promotional Banks and Institutions (NPBIs) and countries, to indirectly contribute into the Fund either through investment platforms or by co-financing individual EFSI-financed projects.

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Figure 5: EFSI – financial structure and eligible sectors

General objectives to be supported by EFSI

1. Research, development and innovation
2. Energy
3. Transport
4. Information and Communication Technologies
5. Environment and resource efficiency
6. Human capital, culture and health
7. Support to SMEs and mid-cap companies, through local partner banks and institutions
8. Sustainable agriculture, forestry, fishery, aquaculture and other elements of the wider bioeconomy

Source: European Commission

EFSI support can be used in combination with any source of EU funding, including instruments under the ESI funds as long as they generate synergies. The Fund has its own specific governance structure. However, EFSI is established within the EIB and, as such, the existing EIB governance structures still apply to EFSI operations and procedures. Thus, all operations are subject to the Bank standard due diligence and consequent approval by its relevant Governing Bodies.

EFSI support is demand-driven and available to eligible projects all throughout the EU, including cross-border projects. Although no geographic or sector quotas were contemplated, the EFSI Steering Board established both sectorial and geographical concentration limits in order to guarantee a sufficient diversification of the EFSI portfolio.

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48 Ibidem, Article 9.
For a project to be eligible, it needs to: (i) be economically, technically and financially viable; (ii) be consistent with Union policies and match at least one of the EFSI eligible sectors; (iii) provide additionality to other EU funding instruments; and (iv) maximise, where possible, the mobilisation of private sector capital. Thus, projects and co-financing rates are decided on a project basis according to their individual characteristics, and the type of support provided.

For the next MFF 2021-2027, the Commission proposes to set up a new investment programme, InvestEU, which builds on the experience of the EFSI and the current financial instruments available at EU-level. This programme will integrate all centrally managed financial instruments available at EU level, including the LGTT, the PBI and the MF. This new approach is intended to ‘reduce overlaps, simplify access to funding and reduce administrative burden’\(^{51}\). InvestEU aims at mobilising EUR 650 billion of public and private financing for strategic investments within the Union by providing an EU guarantee of EUR 38 billion.

### 3.5. Summary and classification of instruments

This section shows an illustrative figure and a summary table of the most important EU funding instruments for transport described over this chapter.

**Figure 6: Illustrative summary of EU funding instruments**

*Purely illustrative: the size of the circles does not correspond to actual volumes*

![Illustrative summary of EU funding instruments](image)

Note: The arrow from CF to CEF refers to the CEF cohesion envelope, which is funded with CF resources. The arrow from CEF to FIs means that, although these instruments are currently funded with CEF resources, they are managed by the EIB through a delegation agreement.

Source: authors based on European Commission (2017)\(^{52}\)

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\(^{50}\) According to a CBA following Union standards, taking into account possible support from, and co-financing by private and public partners. *EFSI regulation*, Article 6.


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### Table 1: Summary and classification of instruments

<table>
<thead>
<tr>
<th>Fund</th>
<th>Product type</th>
<th>2014-2020 Budget (bn EUR)</th>
<th>Max. co-financing rates</th>
<th>Management</th>
<th>Eligible regions</th>
<th>Eligible transport projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>CF</td>
<td>Mainly grants</td>
<td>63.28</td>
<td>85%</td>
<td>MSs/EC</td>
<td>MSs with a GNI/capita &lt; 90% EU-27 average</td>
<td>Eligibility criteria set within the respective OP</td>
</tr>
<tr>
<td>ERDF</td>
<td>Mainly grants</td>
<td>199.24</td>
<td>LDR: 85% TR: 60% MDR: 50%</td>
<td>MSs/EC</td>
<td>All regions in the EU</td>
<td>Eligibility criteria set within the respective OP</td>
</tr>
<tr>
<td>CEF</td>
<td>Mainly grants &amp; financial instruments</td>
<td>30.4 (Tpt: 24.05)</td>
<td>All MSs: 50% Cohesion MSs: 85%</td>
<td>EC/INEA</td>
<td>EU-27: Mainly core but also comprehensive TEN-T network</td>
<td>All modes; missing links, cross-border, bottlenecks, intermodal connections; projects tackling horizontal priorities.</td>
</tr>
<tr>
<td>EIB</td>
<td>Standard loans &amp; financial instruments</td>
<td>Demand driven</td>
<td>Usually: 50% TEN-T: 75%</td>
<td>EIB</td>
<td>EU-27, the enlargement area of SE Europe and external provision in Asia, Africa, Caribbean, Pacific and Central America</td>
<td>Economically, financially and technically viable; consistent with EU policies; meet the strictest environmental standards; be tendered according to EU procurement rules</td>
</tr>
<tr>
<td></td>
<td>SFF loans</td>
<td></td>
<td>Max. EUR 300 million</td>
<td>EIB/EFISI/EC</td>
<td>EU-27</td>
<td>Economically &amp; technically viable; consistent with EU policies, provide additionality; maximise the mobilisation of private sector capital</td>
</tr>
<tr>
<td>EFSI</td>
<td>Standard loans &amp; financial instruments</td>
<td>33.5 (Tpt: 8%**)</td>
<td>n.p.</td>
<td>EIB/EFISI/EC</td>
<td>EU-27</td>
<td>Economically &amp; technically viable; consistent with EU policies, provide additionality; maximise the mobilisation of private sector capital</td>
</tr>
</tbody>
</table>

Source: Analysis of the authors based on Dhondt et al. (2015)\(^{53}\) and Van Essen et al. (2012)\(^{54}\)

*LDR: Less developed regions; TR: Transition regions; MDR: More developed regions; Tpt: Transport **% of the total investment mobilised as of October 2008\(^{55}\)

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\(^{54}\) Van Essen H, Brinke L and Skinner I (2012). Financing Instruments for the EU’s Transport Infrastructure.

4. PERFORMANCE REVIEW OF CURRENT EU FUNDING INSTRUMENTS: ACHIEVEMENTS AND ISSUES

KEY FINDINGS

- EU funds have not been as effective as expected in fulfilling transport policy priorities and, according to the ECA, they require better targeting.

- The current EU allocation of funds to transport seems to be insufficient. The CEF is not able to cover all the valuable applications it receives, while Cohesion policy instruments have been accompanied by a reduction of their budget despite the still existent EU’s regional imbalances.

- While the funding allocation of some instruments, such as the ESIF, is too much influenced by MSs towards national and regional priorities, the allocation of more sophisticated instruments, such as the EFSI and CEF, does not seem to be balanced across regions.

- The evaluation of projects and programmes funded by the EU often lack focus on results and impacts. Moreover, the evaluations conducted by the EC/EIB are often challenged by the ECA.

- Impact assessment analyses are often regarded by MSs as a hurdle to be overcome rather than a tool to select the best projects according to EU priorities.

- Administrative procedures keep on being an obstacle for the effective delivery of projects. The situation is even more critical in cross-border sections where procurement is a major issue.

- The capacity of MSs remains being critical to manage EU funding, especially under the shared management approach.

- Regarding coordination among funding instruments, there is still certain overlapping while examples of combination remain limited.

The goal of this section is to evaluate the overall performance of the EU funding instruments for transport previously identified, especially in the MFF 2014-20. To that end, a set of criteria have been selected. The analysis has been conducted on the basis of sources from EU institutions, academic literature, and international organisations. It has been also contrasted with some interviews conducted with experts, and with the analysis of three case studies.

4.1. Are the instruments rightly defined according to the EU policy goals?

EU funding instruments for transport are aimed at fulfilling a set of goals that may vary according to the specific characteristics of the instruments. These goals may be summarized in the fact that EU funding should produce added value, which may be understood as ‘the increased value resulting from Community action, and the extent to which intervention adds “value” to the interventions of other administrations, organisations and institutions’\(^\text{56}\). This ‘added value’ is produced when EU funding contributes to mitigate market failures, internalize externalities or reaching where MSs cannot or are not willing to get.

EU priorities are usually focused towards three main goals: (i) the promotion of an integrated market in the EU through the development of the TEN-T, especially by developing cross-border sections; (ii) the enhancement of economic and social convergence across the regions of Europe; and (iii) the fulfilment of a set of transport policy goals (digitalization, interoperability, decarbonisation, etc.). Moreover, for some funding instruments, especially the ones awarded under the framework of the EFSI, the EU requires to comply with the principle of additionality. It is worth to note that ‘efficiency’ is not a relevant criterion in the use of EU funds for transport.

4.1.1. Promoting the internal market through the completion of the TEN-T

The benefits of the TEN-T are expected to be large. A study entrusted by the Commission\(^{57}\) to determine the impact of TEN-T completion on growth, jobs and the environment concluded that if the TEN-T core network is ultimately completed, additional GDP growth of 1.6% will be realised in 2030, 7.5 million person-years of jobs will be generated cumulatively from 2017 to 2030, and 0.26 million tons of CO\(_2\) emissions will be saved in the transport sector. However, according to the Commission,\(^{58}\) in 2015 important objectives had not been achieved yet.

- One of the main criticisms to the right deployment of the TEN-T is that the right connection across EU countries is not developed at the expected pace. As national governments have the ultimate decision regarding investment policy, there exist the risk that the TEN-T is developed as a patchwork of networks promoted by the national interests of the MSs. The ECA\(^{59}\) points out that sometimes MSs do not necessarily understand EU objectives. This is the reason why cross-border projects are lagging behind the original plans of the EU.

- In its 2017 resolution,\(^{60}\) the European Parliament also showed disappointment about the fact that national infrastructure plans are too often conducted without reference to the TEN-T goals. To deal with this issue, it urged MSs to increase cooperation to prioritise projects aligned with the TEN-T objectives and likely to produce larger European added value. In addition, the ECA has pointed out that EU funds require better targeting.\(^{61}\) This institution noted that MSs often prefer to split EU aid across many projects rather than focusing on the ones with the greatest added value.

- Innovative financial sources have been also criticized for paying much more attention to fulfilling financial requirements rather than complying with EU goals. For instance, an evaluation entrusted by the Commission on the performance of the LGTT guarantee\(^{62}\) concluded that it was difficult to link the LGTT to its intended goals. Specifically, the study did not find indicators demonstrating that the LGTT had an important impact on the realisation of TEN-T priority projects.

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\(^{59}\) European Court of Auditors (2018) Towards a successful transport sector in the EU: challenges to be addressed.


\(^{61}\) European Court of Auditors (2018) Towards a successful transport sector in the EU: challenges to be addressed. Point 71.

Box 1: The Lyon - Turin project shows that, despite the availability of EU funding to the TEN-T, MS’s determination is crucial to deliver cross-border projects.

The high-speed railway connecting the cities of Turin and Lyon is a 270 km long cross-border line included in the Core Network of the TEN-T. The most important part of the line is a tunnel crossing the Alps that once built will be one of the longest in the world. The tunnel itself accounts to around one third of the total cost of the project. Given the high priority of the project for the EU, it was eligible to receive EU funding —in principle 40% maximum for the works and 50% for the studies. However, the EU has shown its positive disposition to increase its contribution beyond those limits. The project has not officially started yet given the strong opposition from some groups despite the large EU funding committed.

The strongest opposition is the one by the so called “No TAV movement” based in the Susa Valley within Piedmont that opposes the line on the grounds that the infrastructure is not necessary and does not provide “added value” according to article 3 of the CEF regulation. The project has been criticized on the basis of: its high costs, its environmental impacts and risk associated to the construction of the tunnel, the demand estimates, and the existence of a renovated line that provides a good service in the corridor. Actually, a report produced in 2012 by the French Court of Auditors questioned the realism of traffic predictions and costs, and recommended more detailed risk analysis.

The proposed project is one of the most conflicting topics in the Italian political debate nowadays. The project is supported by the League party, but it is very much opposed by the Five Star Movement, which is the coalition with Salvini’s party. In spite of that, on March 11, 2019, the Italian government agreed on the call for tenders launched for the French side.

4.1.2. Enhancement of economic and social convergence

Cohesion policy is focused on promoting the economic and social convergence of European regions. This policy is also known as one of the Union’s most visible undertakings. According to Huguenot-Noël et al. (2017), Cohesion Policy is seen as a possible vehicle for championing European values, such as subsidiarity, the integration of migrants, the respect to the rule of law and the safeguarding of fundamental values. However, some issues are pointed out:

- In a report entrusted by the EU Parliament, Bachtl er and Polverani (2017) state that there is a growing agreement that **Cohesion Policy after 2020 must be reformed to respond to new demands and challenges**. Proposals include ‘introducing stronger linkages between the rules governing the allocation of funds and the achievement of existing and additional EU objectives, such as economic convergence, macroeconomic stability, social inclusion, employment, skills, innovation, climate change, energy, and environmental transition’.

- Some authors are also critical towards certain reforms conducted in the Cohesion Policy in the last MFF. Bachtler et al. (2016) mention that **cohesion policy has become overloaded with numerous objectives and reducing the importance of territory in the design and implementation of programmes**. The broadening of the policy has been accompanied by a reduction of its financial resources despite the EU’s regional imbalances owing to the Eastern enlargement and the financial, fiscal and economic crisis experienced in the last decade.

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4.1.3. Fulfilment of transport policy goals

One of the main goals of EU funding instruments for transport should be to encourage the fulfilment of EU policy goals. The ECA recommends that: "EU support should be prioritised for projects that are run in response to clearly established and properly assessed needs, are based on careful planning and offer demonstrable EU added value for the network (e.g. resolving major bottlenecks and missing links and establishing cross-border connections)". However, EU funding has not always been so effective in reaching transport policy objectives. For instance, ‘national railways apply over 11,000 different rules, which the European Union Agency for Railways has been entrusted to clean up’.

It is important to note that the final withdraw of these national rules is responsibility of the MSs and not the EU institutions.

The CEF program is likely the EU funding instrument more focused on fulfilling EU policy goals. ‘In transport, CEF has brought a clear added value, in particular for the completion of the TEN-T core network by 2030 and for the low-emission mobility ambition. Some railway and inland waterways infrastructure projects, which are long-term investments (with a lifecycle of 30 to 50 years), could not have been kicked off without the European public grant funding available under CEF. This is the case for the Brenner Base tunnel project, which will remove a key rail bottleneck in the EU between Austria and Italy’.

In addition, the CEF programme provides funding to new technologies for decarbonising transport such as alternative fuels, and their deployment along the transport infrastructure.

One major issue regarding transport policy is the right maintenance of infrastructure facilities. The ECA rose concern about the fact that maintenance budgets are often insufficient and have not kept up with the increasing scale of infrastructure and the ageing of crucial links, resulting in large maintenance backlogs. The European Parliament and the Council have also stressed the importance of paying due attention to transport infrastructure maintenance needs.

4.1.4. Additionality

One of the main operational objectives of EFSI is to provide additionality to other funding sources. According to Article 5 of the original EFSI Regulation, operations provide additionality when they address market failures or sub-optimal investment situations, and they could not have been carried out without EFSI support.

A survey conducted in an evaluation report of the EFSI conducted by the EIB found that the majority of operations (67% for the IIW) dealt with market failures since the projects supported would have had to be implemented with a reduced scope or at a slower pace in the absence of EFSI-backed financing. Equity type financing under the IIW was found to provide the highest additionality because 81% of these operations would have had to end or change their scale or timeframe in the absence of this support. However, a recent report conducted by the ECA was more critical about additionality. It pointed out that nearly a third of the IIW financed projects would have been undertaken even without EFSI support. Project promoters preferred EFSI financing because it was either cheaper or allowed longer tenures.

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68 Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the mid-term evaluation of the Connecting Europe Facility (CEF) SWD(2018) 44 final/2.
69 European Court of Auditors (2018) Towards a successful transport sector in the EU: challenges to be addressed. Point 88.
4.2. Are the funding allocation criteria balanced and reasonable?

This section evaluates whether the allocation criteria are appropriate in terms of the resources currently assigned, the allocation across countries and regions, the split among different priorities, and the use of the right criteria to select suitable projects.

4.2.1. Amount allocated

Developing the EU’s transport infrastructure requires considerable financial resources. The Commission states that: ‘the TEN-T core network alone will cost an estimated EUR 500 billion for the period from 2021 to 2030; if the comprehensive network and other transport investments are included, this amount increases to about EUR 1.5 trillion’

Transport has traditionally been the most important item of the ESIF (24% for 2007-2013 and 20% for 2014-2020). Almost fifty percent of the transport expenditure coming from the ESI Funds from 2007 to 2020 was allocated to roads. However the ECA mentions that: ‘since the 2008 economic crisis, reduced investment in transport infrastructure has held back the modernisation of the EU’s transport network, with average investment levels well below what is needed.’ This institution notes that there is a need for significant financial resources to achieve the TEN-T objectives on schedule.

Given the constrained availability of budgetary funds, increased private-sector resources in transport infrastructure is deemed essential.

A mid-term evaluation of the CEF programme stated that: ‘the size of CEF currently makes it possible to address only some of the identified market failures (e.g. bridging the funding gap with EU support) in all three sectors. Therefore, potential exists for unlocking further public and private investment if additional EU budget was made available to address more market failures’

CEF transport’s grant budget is €23.4 billion, including €11.3 billion reserved for the Member States eligible for cohesion funding. Between 2014 and 2016, following 11 calls for proposals for CEF Transport, 1,419 eligible transport proposals requested €47.0 billion in CEF funding, representing an oversubscription rate of 2.2 times the allocated budget. In total, €21.3 billion have been allocated to 604 projects, which account for 91% of the CEF Transport’s grant budget.

4.2.2. Allocation across countries and regions

According to some authors such as Bouvet and Dall’erba (2010) and Dellmuth and Stoffel (2012), national governments of Western European countries engage in vote-seeking activities by addressing EU funds into those regions where their position is weaker. Other authors, such as Kemmerling and

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73 European Court of Auditors (2018) Towards a successful transport sector in the EU: challenges to be addressed.
74 Ibidem
75 Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the mid-term evaluation of the Connecting Europe Facility (CEF) SWD(2018) 44 final/2.
77 Investing in European networks - The Connecting Europe Facility. Mid-term results, European Commission
Bodenstein (2006),80 showed how sub-national regions received more EU grants where left-wing parties were stronger or Eurosceptic parties were popular. A report conducted by Jedlička and Rzentarzewska (2014)81 showed that weaker economies, such as Romania and Bulgaria, receive fewer grants per capita from EU funds compared to more developed EU countries such as Estonia and Slovakia. However, this may be explained by assistance from other programmes such as the Common Agriculture Policy.

The CEF, except for the cohesion envelope, and other innovative funding approaches, such as the EFSI, do not assign resources by geographical area since they do it on a demand-driven basis. As was previously mentioned, the EFSI Steering Board set an indicative geographical diversification and concentration limit for the IIW. The share of investment in any three MSs together should not exceed 45% of the total EFSI portfolio by the end of the investment period.82

An EFSI evaluation report conducted by the EIB83 stated that, as of December 2017, vulnerable MSs and Cohesion countries, which have the largest and most persistent cyclical investment gaps, made up over 80% of volumes signed under EFSI normalised by the share of EU GDP. However, a report conducted by the ECA concluded that the geographic concentration of EFSI signed financing operations was not sufficiently balanced […] The countries with the highest EFSI uptake were those with the most developed and active National Promotional Banks and Institutions, thus suggesting a need to provide support, including technical assistance, to those that are less developed84. As it was already seen, it is worth noting that the evaluations carry out by EU institutions are sometimes challenged by those conducted by the ECA.

4.2.3. Allocation across different priorities

Fund allocation across different priorities has been criticised by some authors:

- Gergó (2018), for instance, mentions that although the EU sets strict criteria on the allocation of funds, central governments enjoy considerable freedom in choosing their spending priorities. As governments determine the final proportion of the EU funds across different objectives, fund allocation within a MS reveals domestic spending preferences.85

- In their turn, Smékalová et al. (2014), on the basis of an analysis of Poland and the Czech Republic, proved that lagging regions of the researched countries spend a higher percentage of EU funding on transport projects compared to more advanced regions. The transport investment in lagging regions is made mostly at the expense of RDI and human resources development signalling perhaps the inability of lagging regions to sustain projects with higher added value.86

Regarding allocation to strategical transport priorities, the following reports from EU institutions show that EU funding has not been very effective in reaching key priorities:

The inland waterways audit conducted by the ECA concluded that the funding allocated to reduce bottlenecks was much lower than the actual needs detected.

A report of the Commission pointed out that many cross-border rail links receive little EU financing just because they do not belong to the TEN-T Core or Comprehensive Networks. An interesting debate is held around the allocation of funds to TEN-T vs. other projects. An ex-post evaluation analysis conducted by the Commission for ERDF and CF in the MFF 2007-2013 recommended to achieve the right balance between TEN-T projects and those aimed at meeting local and regional needs. Projects outside TEN-T which help to reduce regional disparities may be regarded as much a source of EU added-value as those that contribute to the TEN-T, provided that they fit in the framework of transport strategies.

4.2.4. Criteria for project selection

Another crucial issue in the allocation of EU funding for transport is to what extent it is awarded to projects after a thorough impact assessment analysis using acknowledged techniques such as cost-benefit analysis (CBA). Kelly et al. (2015) conducted a study aimed at comparing the CBA ex-ante and ex-post of ten large transport projects in eight countries that had benefited from EU Cohesion and ISPA funding. On the basis of the projects analysed, this research shows the low role that decision making tools, such as CBA, have actually played in the decision making process. Impact assessment analyses, such as the aforementioned CBA, are often regarded as a hurdle that have to be overcome to obtain funding. The research recommended to improve the quality of ex-ante analysis, especially in fields such as risk analysis, capital cost estimation and demand modelling.

Box 2: Use of CF to improve airports in Poland demonstrates the importance of making a good selection of the projects

Within the OP of Infrastructure and the Environment, eight TEN-T Polish airports were upgraded and expanded with funding from the CF. None of the airports had capacity constraints. Small airports were not viable from the financial point of view, but the regional authorities supported them by providing indirect subsidies to the airline companies to keep connections. Their construction implied additional burden on regional budgets since regional authorities provided co-financing to the EU investments, and ended up bearing the costs of maintaining and operating these airports.

At the time the decision was taken, the proposed investments in new airports were not expected to attract enough traffic to be profitable. Moreover, the rationale for building these new airports was questioned given the fact that the cities where they were planned could gain fast rail connections with Warsaw and the largest airport in the country with a standard upgrade of the existing railway infrastructure. However, despite the fact that such investments were possible with EU funds and were supported by European transport policy, they were not conducted in the MFF 2007-2013.

91 The information in this Box has been summarized from Przemek K (2012) Flight on fancy: a case study on aviation and EU funds in Poland, CEE Bankwatch Network: Prague, Czech Republic.
The pressure to absorb EU funding led governments to develop the airports regardless of their social feasibility. Political and time pressure to develop the airports produced also some problems with nature protection and Natura 2000 sites. The decision was not the best one since EU funding should have been focused on improving public transport infrastructure to facilitate modal shift and serve the mobility needs of communities.

In a recent report, the ECA noted that ‘regular cost-efficiency checks were not one of the guiding principles in implementing transport projects. However, it also observed examples of good practice where projects were reassessed before each new programming phase to verify that they still addressed current needs’.

### 4.3. Is the governance approach well defined?

**Governance is a key aspect for the well-functioning of EU funding for transport.** There are, broadly speaking, three governance mechanisms to manage EU financial instruments: (i) jointly by the Commission and national authorities, which is called shared management; (ii) directly by the Commission; or (iii) indirectly by other authorities inside or outside the EU, such as the EIB, depending on the nature of the funding. Shared management is applied to ESI Funds. Other funding instruments for transport have moved over the last few years from direct management to indirect management. ‘Most EU funding (78%) for transport during the two programming periods from 2007 to 2020 falls under shared management. However, the share of funding managed directly by the Commission is increasing, from 13% for 2007-2013 to 31% for 2014-2020’.

The quality of the institutions of the MSs is a crucial aspect, especially in the shared management approach. Crescenzi et al. (2016) concluded that return from infrastructure investment in the EU is influenced by the performance of government institutions. A recent report produced by the Commission acknowledges that: ‘the capacity of Member States to manage such investments effectively and efficiently is one of the key factors contributing to their success’.

Given the different management and governance characteristics of each of the EU funding instruments, the following sections analyse the ESIF, the CEF and the EFSI.

#### 4.3.1. European Structural and Investment Funds

According to the Commission, shared management of ESIF is part of its richness since ‘it ensures that all interests are taken into account and that there is authentic cooperation at all levels. At the same time, this implies shared responsibility which must be underpinned by a sound and efficient institutional context, based on mutual trust, common principles and values’. However, shared management has also experienced some issues.

- **Problems have been encountered regarding complex regulatory and administrative management.** The 7th Cohesion Report acknowledged that, in order to boost economic development and the impact of Cohesion Policy across EU regions, the efficiency and transparency of public institutions must be improved.

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92 European Court of Auditors (2018) Towards a successful transport sector in the EU: challenges to be addressed. Point 85.
93 European Court of Auditors (2018) Towards a successful transport sector in the EU: challenges to be addressed.
96 Ibidem
97 European Commission, DG for Regional and Urban Policy (2017) My Region, My Europe, Our Future: Seventh report on economic, social and territorial cohesion
• **Administrative procedures seem to have an impact on the delivery of the projects.** The consultation made by a recent impact assessment report conducted by the Commission mentioned that TEN-T infrastructure related projects require multiple assessments to be conducted, making it necessary to obtain a high number of permits. MSs considered that there is room for improvement in areas such as simplification of procurement and permitting procedures, legal certainty and state aid control.

• According to the ECA: *the situation is amplified in cross-border projects, where procurement is a major issue* [...] There was no common legal framework for cross-border projects, and tendering documents, contracts and accounting systems differed from one Member State to the other [...] European coordinators were well placed to monitor what is, or is not, working along a corridor, but they also lacked the legal power to intervene. All these inefficiencies adversely affected the speed and success of project implementation.

• **The management of ESIF has been much influenced by the institutional framework of local and national governments.** Charron (2016) shows that both the autonomy of sub-national regions and the quality of their regional government play a role in securing EU funds. Petit de Gabriel (2010) highlights the excessive centralisation of the management of the cohesion policy in Spain, which implies double controls, lack of agility in the payments and excessive intervention of the Central Government in the regional competences. Other authors such as Bloom and Petrova (2013) and Medve-Bálint (2017) show that political interests seem to characterize fund implementation in the Eastern MSs. Zaman and Cristea (2011) concluded that the main problems of Romania to absorb ESIF have to do with the limited capacity of local and central authorities, the lack of medium and long-term strategies, and the lack of guides and good practices for the contracting authorities.

In order to deal with these issues, **the Commission has adopted over the last few years several actions to improve governance and administrative capacity in the management of the Cohesion policy** such as expert exchange systems across different countries in the implementation of ESI Funds, mechanisms to oversee transparency in public procurement, and the establishment of an e-library of good practices in public procurement. Even though the measures previously adopted have had certain impact, some problems still remain.

### 4.3.2. Connecting Europe Facility

The CEF programme is directly managed by the Commission with the assistance of INEA. Unlike the ESIF, the competitive nature of the CEF programme and the evaluation and selection mechanism in
place mean that projects unable to demonstrate the need for financial assistance in the form of grants will ultimately be discarded.

A recent report from the Commission on the CEF mid-term evaluation mentions that direct management has been effective in achieving a fast allocation of funds and very good budgetary execution. ‘The CEF budget is optimised thanks to the capacity of INEA to quickly adapt to manage redirected money unspent by certain actions, using it instead for financing new actions’\(^\text{106}\). The aforementioned report also mentions that ‘legal and administrative requirements for approving and implementing actions may impose disproportionate costs on smaller actions, for which simplified forms of support could be better adapted’\(^\text{107}\).

4.3.3. European Fund of Strategic Investment

The EFSI, which has a short history, has implemented a very flexible management procedure. The flexibility of EFSI to fund different projects through many types of financial products allowed for a large number and volume of potential financial operations. EFSI approval processes are smoother and more flexible than the approval processes of EU financial instruments under shared management.\(^\text{108}\)

According to the Commission staff working document establishing the investEU Programme, ‘the need for simplification, flexibility, and the fact that InvestEU Fund foresees several implementing partners exclude the possibility for external governance organised at a specific implementing partner level’\(^\text{109}\). The aforementioned document also mentions that ‘neither a completely decentralised nor a centralised system is desirable. The decentralized governance would just imitate the current fragmented governance for the existing instruments. A single governance for the whole InvestEU Fund would on the other hand be too general and would not cater for specific policy needs. Thus, the governance should be aligned with the proposed window-based structure of the InvestEU Fund. This would include an overall InvestEU Fund governance complemented by separate but interlinked governance arrangements at policy’\(^\text{110}\).

4.4. Is there a follow up of the fulfilment of the goals in the medium-long term? What are the results?

The amount of EU funding spent in transport projects means a lot of money for Europeans. As a consequence of that, evaluating the fulfilment of EU policy goals becomes a crucial issue. The ex-post evaluation of the ERDF and CF conducted for the period 2007-13\(^\text{111}\) concluded that very few programmes had a "focus on results", neither do they set clear goals for changes at the level of the region in order to track progress towards those goals. Similarly, the ECA argues that project monitoring is mainly output-oriented and fails to assess results and impacts in terms of economic development, new jobs, tourism, etc.\(^\text{112}\)

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\(^{106}\) Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the mid-term evaluation of the Connecting Europe Facility (CEF) SWD(2018) 44 final/2.

\(^{107}\) Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the mid-term evaluation of the Connecting Europe Facility (CEF) SWD(2018) 44 final/2.


\(^{110}\) Ibidem


\(^{112}\) European Court of Auditors (2018) Towards a successful transport sector in the EU: challenges to be addressed. Point 86.
A review conducted by the Commission based on ten case studies of EU co-financed projects between 2000 and 2013 concluded that ‘policy makers and project promoters were too optimistic in setting their targets about the effects in terms of socio-economic development, urban regeneration and other positive consequences that the implementation of the projects would have triggered on the local or regional context’

Box 3: The Figueres-Perpignan High Speed PPP shows that external factors may have a big influence on a project’s ultimate feasibility

The Figueres Perpignan rail section is a 44.5 km cross-border high-speed link connecting France and Spain in the Mediterranean Corridor. The project includes the construction of a tunnel longer than 8 km. The project was delivered through an international public-private partnership (PPP) tendered in 2003. The contract was ultimately awarded to the TP Ferro company owned by Eiffage and Dragados. This company reached the financial close in 2005. The cost of the line was about EUR 1.1 billion, being subsidized by the EU through the TEN-T line (the financial instrument previous to CEF), and the governments of France and Spain. The international section was inaugurated in 2009 even though trains started its operation in 2010 despite the fact that the line did not have continuity in the Spanish section till 2012.

In 2015, after few years of operation, the PPP bankrupted due to the lack of revenue. The traffic of passengers in 2015 was around 20% of the estimates while freight transport was around 15%. Several causes explain this fact. The first one is that some sections of the national networks, which were crucial for the success of the project, were ultimately delayed. The second one is the uncertainty over the development of the high speed network in France, especially between Montpelier and Perpignan. The third one is the lack of interoperability between this HS line and the Spanish conventional rail network with a bigger track width, which made freight traffic much less attractive because it lacked capillarity. The fourth one is the delay in having a liberalized market in the rail sector in both countries.

Given the situation of the project, a refinancing of the concession with State aid was proposed, but it was not accepted by the EU. In a recent statement the two governments agreed to take over operation of the international link if the contract is finished. This case demonstrates that the success of cross-border PPP projects does not just depend on themselves, but on the willingness of MSs to connect them to the national networks, and developing transport policy actions aimed at promoting the market. This is mainly a subsidiarity problem since the EU cannot intervene in aspects that are competence of the MSs.

Some academic papers have focused on ex-post evaluation of the results of the Cohesion Policy. In a research study aimed at determining its impact in the region of Algarve, Rocha Medeiros (2014) concluded that EU funds had quite positive impacts in the evolution of many territorial development-related indicators. However, the author reported that the bulk of the investments favoured the most populated urban settlements. The regional territorial cohesion was not achieved, as the less populated municipalities continue their territorial exclusion path in many key-development indicators such as unemployment, income, education, etc.

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113 CSIL, Ramboll Management, Significance BV and Tplan Consulting (2018) Ex post evaluation of major projects supported by the European Regional Development Fund (ERDF) and Cohesion Fund between 2000 and 2013.

In order to improve evaluations, the Commission proposes to define a set of indicators to enhance the monitoring of EU funding programs for the MFF 2021-27 such as: safe and secure mobility, contribution to interconnectivity and integration of markets, security of energy supply, enabling decarbonisation, contribution to cross-border cooperation in the field of renewable energy, contribution to the deployment of digital connectivity infrastructure, etc.  

Innovative EU funding instruments have also been submitted to preliminary evaluations. The EFSI has been evaluated by the EIB and by the ECA. According to the EIB, the EFSI is more focused on macroeconomic, EU-wide objectives. The assessment of the relevance and effectiveness of projects conducted by EFSI relies less on conventional evaluation approaches such as CBA or environmental impact assessment analysis.

Because of this problem, the new proposal for InvestEU suggest to implement indicators based on common policy goals, while the measurement tools for these indicators will be developed before the implementation of the new regulation. ‘Several of these indicators would mirror the corresponding impact indicators being developed under the structural funds so as to be able to measure the combined effort of the EU towards important policy priorities’.

Recently, the European Parliament conducted a study to review procurement practices of projects receiving EU funding. The case studies indicate that the EC/EIB’s involvement in tender procedures was largely limited. Some of the issues pointed out were that MSs can make more use of existing EU-level support for additional capacity development, and that they (MSs) need to enhance data collection to allow for ex-post analysis.

4.5. Are the different funding sources effectively coordinated?

Coordination among different EU funding sources is one of the ideas more frequently repeated in the reports evaluating EU funding instruments. The goal of a right coordination is to avoid overlapping and provide synergies across different EU funding instruments. A recent working document accompanying the proposal for a regulation of the European Parliament and of the Council establishing the investEU Programme literally says that: ‘there is also some criticism that the proliferation of financial instruments led to insufficient accountability and control. More importantly, final beneficiaries and financial intermediaries have become confused about the different solutions offered in terms of instruments and products. The post-2020 investment support scheme must therefore be focused, simpler and more transparent, while allowing for quick response to a changing market’.

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120 Papí J, Sanz M, Ackermann R and Blomeyer R (2018) EU-funded large-scale infrastructure: deficient project preparation and procurement processes?
4.5.1. Issues encountered and solutions proposed

Some problems of coordination among different EU funding instruments have been found out by different studies.

- The Commission\textsuperscript{122} has found \textbf{partial overlaps between CEF and ESIF} regarding rail projects located on the core TEN-T network.

- \textbf{CEF has been also criticized for not providing synergies between the three sectors (telecommunication, energy and transport)},\textsuperscript{123} even though the CEF regulation allows increasing funding rates by up to 10 per cent for actions with synergies between at least two of the sectors covered. This was caused by the differences in the sectorial policy objectives and the lack of flexibility of the legal and budgetary frameworks.

- The ECA found that \textbf{examples of combination between EFSI and ESIF and CEF grants remain limited}. The obstacles to the combination of ESIF grants and EFSI relate to the different legal bases of the instruments, including diverging eligibility requirements, reporting requirements, rules on state aid and public procurement. Combination between CEF grants and EFSI is challenged by different project eligibility criteria and the EIB’s mandate to prioritise high risk financing, not often found in public infrastructure projects\textsuperscript{124}.

- \textbf{Not many MSs opted for using their ESIF allocations through financial instruments.}\textsuperscript{125} To deal with this problem, the Commission has adopted measures to increase complementarity between EFSI and existing centrally managed financial instruments and to reduce the overlaps between them. For example, it is using EFSI to scale up, or to provide the riskier share of financing.

- \textbf{EFSI replace funding from other EU financial instruments, in particular in the field of transport}. The ECA also found: ‘a need for the Commission and the EIB to consider the potential future overlaps between operations under the EFSI Infrastructure and Innovation Window and the European Structural and Investment Funds financial instruments’\textsuperscript{126}.

In order to tackle these issues, EU institutions are proposing some measures.

- The ECA recommended to the Commission a common framework for monitoring and assessing the performance of EU financial instruments in catalysing investments across all areas of the EU budget. This definition should clearly indicate how the amounts mobilised by the EU and national public contributions are determined, possibly following the Organisation for Economic Co-operation and Development’s (OECD) guidelines on the subject\textsuperscript{127}.

- Following the previous recommendation, to improve coordination and avoid overlapping, the Commission is proposing for the next MFF common provisions for the regulation (CPR) of the seven EU funds (ERDF, CF, ESF+, EMFF, AMIF, ISF, BMVI) \textbf{within a single rulebook.}\textsuperscript{128} It should also facilitate synergies across different funds. The InvestEU Fund will offer a

\textsuperscript{122} Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the mid-term evaluation of the Connecting Europe Facility (CEF) SWD(2018) 44 final/2.

\textsuperscript{123} Ibidem

\textsuperscript{124} European Court of Auditors(2019) European Fund for Strategic Investments: Action needed to make EFSI a full success.

\textsuperscript{125} Ibidem

\textsuperscript{126} Ibidem

\textsuperscript{127} Ibidem

compelling opportunity to increase effectiveness and impact of ESI Funds for investment support in a given Member State through the use of a budgetary guarantee [...] Member States will have the possibility, on a voluntary basis, to channel part of their ESIF resources through the InvestEU Fund. For this purpose, the InvestEU Fund structure would include a Member State compartment under each window.

Despite the issues previously mentioned, some achievements have also been reached. Projects prepared with CEF support or supported in part with CEF grants have begun to benefit from EFSI. This was the case for the Grand Contournement Ouest de Strasbourg (A355) and the A6 Wiesloch Autobahn project.

4.5.2. Coordination with State aid rules

Some of the interviews held by the authors of this study highlighted the need to have more specific norms about State aid rules. Resources coming from the EU budget are considered ‘State resources’ if national authorities have discretion about their use. By contrast, if resources are managed directly or indirectly by the EU, including the EIB Group (both EIB/EIF), under a mandate from the Commission with no discretion on the part of national authorities, they are not considered State resources. The legal framework governing Union financial instruments, including the agreements with the entrusted entities, has been designed by the Commission with a view to ensuring consistency with State aid law.

Investment conducted by the EIB Group (both EIB/EIF) at own risk is considered private financing and does not constitute State aid in the meaning of Article 107(1) TFEU. However, if MSs provide guarantees or any other support to the EIB Group, investment is not at its full own risk. Since these guarantees involve State resources, they must comply with State aid rules. ‘EFSI support does not qualify as ‘State resources’ and is thus not State aid. In addition, EFSI resources are outside the scope of the FR. Therefore, the State aid consistency requirement of Article 140(2)(c) FR does not apply. There is thus no State aid control required for the deployment of EIB Group own resources covered by an EFSI guarantee.

The Financial Regulation (EU, Euratom) 2018/1046 provides however that EU financial instruments shall ‘not distort competition in the internal market and be consistent with State aid rules’. The legal framework governing Union financial instruments, including the agreements with the entrusted entities, has been designed by the Commission with a view to ensuring consistency with State aid law. Some of the interviews held by the author of this study highlighted the need to have more specific norms about State aid rules.

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5. CHALLENGES AND OPPORTUNITIES FOR THE FUTURE

KEY FINDINGS

- The need to improve infrastructure resiliency to climatic events, minimize the impact of transport on the environment, digitalize infrastructure, and provide widespread facilities to supply low-carbon energies will require larger funding resources for transport projects.

- Given the current demographic trend, special attention will have to be paid to issues in big cities and remote places that are steadily losing population.

- EU resources for transport projects may be affected by political pressures to reduce the EU budget and other budgetary priorities gaining importance (such as social aspects, immigration, and security).

- The implementation of tougher controls at the intra-EU borders for security reasons may constrain the effectiveness of cross-border relationships between EU countries.

- EU funding for transport may also be undermined by the lack of coordination among institutions, the inability to prove the added value of the projects funded, the difficulties of less developed regions to take advantage of complex financial mechanisms and the lack of willingness of MSs to promote cross-border sections.

- The EU still lacks a framework aimed at both safeguarding fair competition among transport modes through the internalisation of external costs, and ensuring the effective integration of different transport means, including emerging mobility forms such as car-sharing, ride hailing, scooter-sharing, etc.

This section identifies key challenges and opportunities that will likely influence EU transport funding in the future due to both worldwide disruptive changes in the transport sector, and the evolution of budgetary and political priorities in the EU.

5.1. Challenges and opportunities for transport policies: future trends

Passenger and freight transport flows in the EU have been relentlessly rising over the last few decades. The International Transport Forum (ITF) projections confirm that global mobility will continue growing over the next three decades. Passenger transport and global freight demand is expected to get three times bigger in 2050 compared to 2015. The Commission, in its turn, estimates that volumes in the EU will keep on growing, albeit at a slower pace than in the past. It projected an increase of 42% for passenger transport activity and 60% for inland freight between 2010 and 2050.

Transport infrastructure and services produce important benefits to people and economic activities. However, they also cause negative externalities such as GHG emissions, air pollution, congestion, accidents, and noise that give rise to large economic and social costs. In 2015, 53% of the energy consumed by the EU was imported at a cost of around EUR 400 billion. The EU is actually the greatest energy importer in the world. According to the Energy Union Package (2015) produced by the

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Commission and followed by the Low-Emissions Mobility Strategy, the transport sector needs a continued focus on tightening CO₂ emission standards for freight and passenger vehicles, and on implementing measures to increase fuel efficiency and reduce CO₂ emissions for all modes of transport.\textsuperscript{136}

\textit{In the last few years, mobility is experiencing a revolution driven by the impact of digitalisation, big data, artificial intelligence and new cleaner energy sources.} Applications from big data combined with machine learning techniques are contributing to provide more complete information about transport systems thereby helping public authorities and companies to better plan and program activities, and optimize processes in a much more dynamic way. Information technologies also contribute to a greater integration of different transport means through MaaS (Mobility as a Service) platforms that offer intermodal transport alternatives customized according to the preferences of the users (price, comfort, reliability, health, etc.). In addition to digitalization, new energy sources are also gaining momentum. The improvement of batteries along with \textbf{the growth of alternative fuels is steadily reducing the weight that fossil fuels had traditionally played to power transport means.}

With the aim to inform discussions about the role mobility policy measures should play in the future, the Transport Outlook periodically published by the ITF\textsuperscript{137} identifies disruptive trends as a combination of factors influencing costs, quality, costumers, regulation and resources. Some of the disruptions pointed out by this study are: the generalization of share mobility; the widespread use of autonomous vehicles; the proliferation of long-haul low cost carriers; energy innovations, especially in the aviation sector; the growth of e-commerce; 3D printing; new vehicles such as high capacity trucks or ultra-light rail systems; and, the change of international trade routes.

All these changes draw an uncertain future. In this respect, ITF mentions that: ‘uncertainties surround the pace of economic development, global trade and the price of oil. Uncertainties abound regarding travel behaviour and mobility patterns as well as technological progress and innovations. \textbf{The sheer multitude of variables and the enormous scope of increasingly fast-paced and disruptive change render the future of transport ever more difficult to foretell}’\textsuperscript{138}.

Following up on the ideas previously outlined, some future challenges and opportunities emerge regarding potential transport policy priorities in the EU:

- \textbf{The fight against climate change poses crucial challenges in the following years.} On the one hand, \textit{MSs will have to adopt measures to enhance cleaner mobility, or even reduce mobility}. On the other hand, \textit{additional funding may be necessary to make infrastructure resilient to climate change}, or to repair the consequences of extraordinary events caused by climatic hazards.

- \textbf{Moving towards a more sustainable transportation that minimizes its impact on the environment and biodiversity also implies great challenges related to energy production by renewable means, deployment of more sustainable fuels and engines, implementation of circular economy approaches across the life-cycle of transport-related products and services, etc.}

- \textbf{To make the rise of automation and connectivity really effective, it will be necessary additional investment to digitalize infrastructure}, ensuring that it remains in good condition over time and has good security standards. Moreover, \textit{new sources of energy will require widespread supply facilities}. All these trends imply the need of additional funding resources.

\textsuperscript{136} Ibidem
\textsuperscript{138} Ibidem
• Freight and passenger services based on the sharing economy mean a good opportunity to make a better use of underutilized assets. However, if these mobility forms are not rightly regulated and interconnected with traditional transport means, they may represent an important thread to competition and labour rights.

• Information and communication technologies, such as automation and MaaS, represent a good opportunity to make mobility more reliable and comfortable to users by allowing them to make a better use of their travel time in other activities. However, if fine-tuned mechanisms to internalize externalities are not adopted, the increase of demand caused by greater automation and connection may produce negative effects such as greater pollution, congestion and urban sprawl.

• According to Eurostat, urban population in Europe will keep on growing over the next few decades, reaching a share of around 80% by 2050. However, some towns and villages in scarcely populated areas are not any longer attractive for people to live and economic activities to settle down.

• The Energy Union Package of the EU promotes a drastic reduction of carbon in the transport sector, which consumes more than 30% of final energy in Europe. However, the lack of a common and harmonized framework (including regulation of taxes, prices, subsidies, etc.) for different energy sources in Europe and across different modes threatens to distort market competition.

• Despite the advantages of reaching a greater interoperability across EU countries, transport systems have historically been developed to meet national needs. ‘Administrative barriers and technical, operational and procedural differences between Member States pose an important obstacle to the objective of EU-wide interoperability’

• Transport safety, especially in the road sector, has been relentlessly improving over the years. However, there is still a long way ahead till reaching the zero fatality objective addressed by the EU.

5.2. Challenges and opportunities for European funding of transport projects

Given the numerous uncertainties faced by the EU, the «White Paper on the Future of Europe» proposed five potential scenarios aimed at envisioning what Europe would like to be in the future. The White Paper has prompted the production of other documents focused on specific aspects such as the «Reflection Paper on the Future of EU Finances» that establishes different priorities in line with the five scenarios outlined by the White Paper. The “carry on scenario” envisages to maintain the volume of the actual budget with lower investment levels for the regions. The “doing less together scenario” proposes to reduce the budget volume by supporting only cohesion countries and cross-border cooperation. The “some do more scenario” maintains the overall budget volume, but promotes pooling funding instruments beyond the EU budget through trust funds or assigned revenues. The “radical redesign scenario” proposes a lower budget volume supporting only poorest

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regions and cross-border cooperation, but reinforcing priorities such as smart transportation. The “doing much more together” scenario implies more EU funding for everything including territorial cooperation and urban dimension.

According to the previous scenarios, some challenges and opportunities related to the future of EU finances appear for the right implementation of EU funding for transport projects:

- **The growing pressure from some groups and parties to limit MSs contribution to the EU may lead to the doing less scenario, which will reduce the global volume of the EU budget**, thereby impacting on the potential amount of resources devoted to transport priorities such as the completion of the TEN-T.

- **Given the evolution of the priorities in the EU, transport-related investments might experience greater competition with other budgetary items considered more sensitive to EU interests.** This might be the case of social actions, or items aimed at improving security or dealing with immigration.

- **The lack of a common and standardized methodology to prove the added value of EU funding instruments for transport, and the problems to set an effective governance to monitor and coordinate them, may hinder their credibility, thereby constraining the possibility of achieving EU policy priorities.**

- **The growing concern of MSs on immigration and terrorism may entail tougher controls at their intra-EU borders, thereby obstructing the effectiveness and openness of cross-border inter-relationships across EU countries.**

- **Innovative financing sources**, such as guarantees and loans provided by the EFSI, have the opportunity of multiplying transport investment in the future. However, the sophistication of these mechanisms **may favour more developed countries and regions against less developed ones** with lower capacity to benefit from them.

- **The growing amount of transport related institutions and actors across the EU landscape may lead to lack of coordination among policies and priorities.**

- **The lack of incentives that some MSs have to promote cross-border links with other MSs has been one of the greatest issues in the development of the TEN-T up to date.** If additional measures are not adopted in the future to enforce MSs to promote cross-border sections, the TEN-T remains at risk of never being finalised.
6. RECOMMENDATIONS

**KEY FINDINGS**

Regarding **EU funding priorities** for transport projects, this study recommends:

- Raising the amount of funding allocated to transport needs, especially CEF and CF.
- Increasing the amount allocated to adapt infrastructure to future mobility needs (connected and automated vehicles, infrastructure for low carbon energy sources, etc.)
- Prioritizing measures aimed at facilitating integration and interoperability.
- Prioritizing metropolitan areas facing severe transport problems and remote areas that are steadily losing population.
- Allowing the ESIF to allocate resources to ensure the right maintenance of infrastructure.

Regarding **organisational improvements**, this study recommends:

- Conditioning EU funding to MS to the prioritization of cross-borders sections.
- Defining more flexible approaches to combine resources coming from different priorities and instruments.
- Setting a minimum common evaluation framework to all transport projects receiving EU support.
- Establishing clear guidelines for innovative instruments within InvestEU.
- Simplifying and homogenizing the administrative procedures.

Regarding **governance and broad policy reforms**, this study recommends:

- Establishing independent supervision (at either the EU or the national level) of the common evaluation framework for all transport projects receiving EU funds.
- Constituting a single EU Transport Agency.
- Providing guidance to less developed regions and countries to modernize their institutions.
- Promoting a greater harmonization of charging, taxation and subsidy approaches across different transport modes and countries.

This section provides a set of recommendations and potential actions to be considered in the next MFF 2021-2027 divided into two groups: future developments relevant to EU funding in transport projects, and organisational improvements at the level of the EU institutions.

### 6.1. EU funding priorities for transport projects

The recommendations regarding future EU funding developments for transport projects are the following ones:

- This study recommends to raise the amount of funding allocated to transport needs, particularly regarding the CEF and CF programmes. Given the relevance of the transport sector for the development of the EU and the proper functioning of the internal market, the current allocation proposal for MFF 2021-27 to meet transport requirements appears to be insufficient to address the investment needs in the following years.
• This study recommends an increasing use of EU funding instruments in deploying infrastructure for future mobility needs such as connected and automated vehicles, infrastructure for low carbon energy sources (electricity charging, etc.) and resiliency to unexpected events caused by climate change. New transport challenges demand new infrastructure investments that will undoubtedly be strategic for the competitiveness of Europe in the future.

• This study recommends to give an even larger priority to measures aimed at facilitating integration and interoperability among transport systems in Europe by for instance allowing higher co-financing rates to those projects. Despite decades trying to achieve a seamless transport system in Europe from the physical, technical and commercial perspective, interoperability and integration among different transport modes remain being an issue. These measures may also include actions such as fostering MaaS platforms, promoting single ticketing, encouraging synchronomodality, or establishing standardised qualifications for rail operators valid at the EU level. This recommendation is in line with the amendment of the European Parliament to the legislative resolution on streamlining measures for advancing the realisation of the TEN-T.143

• This study recommends giving greater priority to actions addressing EU objectives in metropolitan areas facing severe transport problems such as air pollution, congestion, lack of social integration, etc., and guaranteeing the right connectivity to remote areas that are steadily losing population. As it was shown in the previous sections, the share of population living in cities is steadily growing up. In addition, most of the transport challenges faced nowadays regarding pollution, congestion, etc. are concentrated in urban areas. In spite of that, EU funding has traditionally given higher priority to interurban corridors compared to cities. The flip side of the previous point is that some isolated areas in Europe are steadily seeing how their population falls over the years, thereby losing opportunities in the future. Actually, the European Parliament recently recommended implementing co-financing rates up to a maximum of 70% to meet the needs of remote, insular and outermost regions.144 Projects in these areas should not be very costly since they will mostly focus on actions aimed at ensuring a more sustainable mobility in cities and safeguarding accessibility in declining regions.

• This study recommends considering the possibility of allowing the CF and ERDF to allocate resources to ensure the right maintenance and operation of transport infrastructure in developing regions where governments are not able to address those needs by themselves, and the maintenance works prove to be beneficial for the society. Infrastructure maintenance is a big issue in less developed regions with strict budgetary constraints. Maintaining infrastructure facilities in good condition may produce even larger benefits than new projects in terms of energy consumption and safety. Higher co-funding rates should be allowed for these undertakings as long as they contribute to improve safety rates.

6.2. Organisational improvements

This section focuses on potential reforms concerned to organisational improvements that may contribute to make funding instruments more effective in complying with EU policy goals. The recommendations in this respect are the following ones:

144 Ibidem
This study recommends to adopt tougher measures to encourage MSs to give greater priority to cross-border projects. Despite all the measures put into effect by the EU to promote strategic cross-border sections, the progress of those connections is lagging behind the expectations of the Union mostly because some MSs prioritize national interests rather than connecting to other EU countries. In order to tackle this problem, EU institutions may consider actions such as conditioning the provision of EU funding to MSs to the effective prioritization of certain cross-borders sections; or setting as prerequisite for providing EU funding for transport projects, the right coordination of national and regional transport plans with TEN-T priorities.

This study recommends to define more flexible approaches in order that some projects may benefit simultaneously from resources coming from different priorities (ICT, energy, environmental, social) or even different instruments insofar as they contribute to multiple objectives. In this respect, the European Parliament145 has already proposed that co-financing rates should be higher for projects addressing multiple goals. In the current era, it is difficult to address transport projects without considering at the same time energy, environmental, digital or even social aspects such as immigration and refugees. Most of the current undertakings related to transport involve at the same time several objectives. For the successful implementation of this approach, a good coordination among different instruments and institutions becomes crucial.

This study recommends to set at least a minimum common evaluation framework, both ex-ante and ex-post, applicable to all transport projects receiving EU support. This framework should be focused on efficiency, and wellbeing of the EU inhabitants, rather than on managerial aspects hardly understandable by the society. Currently, different EU funding instruments have different ex-ante and ex-post evaluation mechanisms for the projects they finance. While it is understandable that each instrument is concerned about different aspects, a minimum common framework appears necessary.

This study recommends to set clear guidelines for innovative instruments within InvestEU to help decision makers — both EU, national and regional ones — identify the suitability of the options available to each specific project. The idea of using EU budgetary funds to leverage investment resources is a good way of multiplying their ultimate impact on the Union’s citizens. The future InvestEU programme should play a key role in the financing of transport projects. However, given the variety of options included within this programme, the development of InvestEU should be accompanied by measures to provide guidance to less developed EU countries and regions on the use of sophisticated project delivery approaches and financial instruments.

This study recommends to make an effort to simplify and homogenize the administrative procedures for awarding and monitoring EU funds. As this study has mentioned, the regulations governing the funds up to date are very complex and, as a consequence of that, impose heavy bureaucracy on all the agents involved. A similar recommendation is provided regarding the rules governing State aid, which should be more clear and easy to interpret. A transport agency, such as the one described in the next section, may contribute to implement simpler administrative procedures and monitor that the rulebook provisions are respected.

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6.3. Governance and broad policy reforms

This section focuses on governance proposals and broad policy reforms that may improve the effectiveness and efficiency of EU funding instruments for transport projects. The recommendations in this respect are the following ones:

- This study recommends to consider the possibility of imposing independent supervision (at either the EU or the national level) of the common evaluation framework previously mentioned to make sure that large transport projects comply with sufficient requirements to be eligible. This is particularly relevant for ESIF instruments, which are nowadays criticized for being somehow directed by MSs towards their priorities not necessarily aligned with EU goals.

- This study recommends to consider the possibility of constituting a single EU Transport Agency including all transport modes so as to promote greater cooperation and homogenization across them. The EU has created some transport-related agencies, such as the European Union Agency for Railways (ERA), the European Union Aviation Safety Agency (EASA) and the European Maritime Safety Agency (EMSA) that nowadays contribute to setting and homogenizing technical standards across the EU. However, these agencies have played a minor role regarding economic and policy aspects such as the evaluation of projects, or the definition of transport priorities. This new agency may assume greater responsibility regarding policy recommendations, ex-ante and ex-post independent evaluation of projects, defining criteria for the internalisation of externalities, etc.

- This study recommends to reinforce actions aimed at providing guidance and support to less developed regions and countries throughout the projects’ life cycle: planning, procurement, financing, construction, operation, etc., and help them promote the modernization of their institutions to make them more aware of EU policy goals. Actually, the European Parliament already proposed that ‘the Union shall make available technical assistance, advisory services and financial assistance for the implementation of the Regulation and the facilitation of the implementation of projects of common interest at each stage of the process’146. A great share of EU funding is addressed to less developed regions and countries that are not always able to absorb funds because they lack experience, or do not have a pipeline of projects good enough to be eligible. This issue may become even worse as complex innovative financial instruments offered by InvestEU are expected to acquire greater relevance. Moreover, one of the greatest obstacles for implementing innovative transport policy measures aimed at shaping the future is the great inertia that some national and regional institutions have to change their traditional views regarding transport priorities, thereby hindering the implementation of innovative approaches. To tackle this issue, the EU may promote education programmes that should be mandatory to high level officials in-charge of managing EU funding.

- Finally, this study recommends considering a greater harmonization of charging, taxation and subsidy approaches across different transport modes and countries in Europe to level the plain field, and provide the right incentives to internalize externalities. To promote a competitive, clean and integrated transport system in Europe, it is not only necessary to invest in transport infrastructure facilities, but it is also crucial to enhance policy reforms to encourage the good functioning and fair competition of transport services.

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This study provides an analysis of the most important EU funding instruments currently available for transport project with the aim to evaluate the extent to which they are fulfilling strategic EU policy goals. Based on a thorough assessment of the overall performance of these instruments (through previous reports, interviews and case studies), and after identifying main opportunities and challenges they will face in the future, the study proposes a set of recommendations on how to improve their effectiveness and contribution to EU added value in the future.