

Rossert, Bertrand

**Article**

## Contributing to regional development through project selection

EIB Papers

**Provided in Cooperation with:**

European Investment Bank (EIB), Luxembourg

*Suggested Citation:* Rossert, Bertrand (2000) : Contributing to regional development through project selection, EIB Papers, ISSN 0257-7755, European Investment Bank (EIB), Luxembourg, Vol. 5, Iss. 1, pp. 137-148

This Version is available at:

<https://hdl.handle.net/10419/44794>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# Contributing to regional development through project selection



**Bertrand Rossert**

## 1. Introduction

The EIB finances a large number of projects in support of EU policies including social and economic cohesion, that is to reduce regional disparities in income. Since 1995, the EIB Evaluation Department has looked at over 100 projects where the Bank has been involved, normally along the lines of a particular theme (e.g. impact of the Bank's projects in a specific sector or region). Inevitably, the information gathered is patchy because very few statistical series exist at a sufficient level of disaggregation to be used for ex-post project analysis. As any case-study work, their main value is to tell us whether a problem exists or not, rather than to assess the exact magnitude of the problem.

A series of evaluations has been structured around a regional development theme. In the most recent study of 17 projects, 14 of them had some positive impact on regional development and in over half of these cases, the impact was a strong one. Can the Bank improve on this, or at least maintain the same record? Clearly, this requires an understanding of the type of projects that contribute most to regional development. The purpose of this paper is to discuss what has been learned so far on this subject.

The paper is organised as follows. In the next section we discuss those features which distinguish regional development projects from any other sort of project. Section 3 picks up the theme of project delays. The EIB evaluation study mentioned above, confirming in many respect the conclusions of previous work, has identified this as the most common symptom of project difficulties in the less-developed regions of Southern Europe. What can be done by entrepreneurs to deal with the problems identified here? Section 4 discusses project implementation within a bargaining framework, and proposes a typology of projects based upon different investment strategies. Section 5 uses this framework to draw some policy implications for project selection and for developing the institutional environment in lagging regions.

## 2. What distinguishes regional development?

From the point of view of the European Commission, a less-developed region is primarily defined in terms of a significantly lower than average output or income per capita. This is typically the starting basis for policy makers, who then refine the picture: a less-developed region will typically have a high share of employment in agriculture, or suffer from long term unemployment. Less developed regions may also have a less dense infrastructure network, although this poses measurement issues. For instance, the length of roads or motorway per square kilometre is lower in less-developed regions, but not necessarily when the figure is expressed in per capita terms (see, for example, Pinelli, 1998). Less-developed regions also appear to be less innovative, whether innovation is measured by the number of patents or in total R&D expenditure per capita. As

---

*Bertrand Rossert is senior economist with EIB's Evaluation Department. This paper draws on the EIB operations evaluation reports listed with the references and more particularly on the one carried out with PA Consulting Group. All evaluation reports are available from the EIB on request.*

technical change comes from outside the region, less-developed regions are always one step behind the regions that originate new technologies.

This approach, however useful for the policy maker, is of limited interest to a would-be investor who considers implementing a project in a specific region. To distinguish financial supporters from the entrepreneurs who are responsible for getting projects done, we will call this latter group the “promoters”.

The project promoter and the policy-maker diverge in their approach on two key features. On the one hand, the policy-maker is interested in a broad and gradual approach to overall development, while the promoter is engaged in yes/no decisions, the problem being whether the region is *acceptable* for a new business. On the other hand, many of the factors that the macroeconomist pursuing regional development considers as economic weaknesses are seen, by the promoter, as advantages. For instance, low income per capita usually means that low wages are acceptable to a large fraction of the population and that employee turnover is likely to be low; limited population density and low industrial density often mean that land will be cheap; the need to import innovation from outside the region enables some firms to obtain, at least temporarily, a monopolistic advantage in the region.

*An elementary neo-classical model predicts that promoters will invest in less-developed regions, other factors being equal. In reality, agglomeration in more developed regions continues.*

This is the paradox: A lack of development creates conditions that are favourable to promoters. An elementary neo-classical model would predict that the promoter will elect to invest in the less-developed region. However, in reality, agglomeration in more developed regions continues to be a cumulative process.

Our case studies brought no confirmation of the traditional beliefs of policy-makers. Poor transport infrastructure was a problem in only one case, because the expected development of railtracks and of a harbour did not materialise (so the problem was more a lack of implementation of public sector infrastructure programme). The weak endowment in human capital was not seen as a particular problem because it can be resolved through training, or low wages. The general opinion of promoters is that the subsidies more than compensate for weak infrastructure and for weak human capital. There was no problem of access to the technology that was to be implemented, although the technologies selected are not necessarily the most efficient nor the most advanced. However, as our case studies are based on projects that were actually implemented, we have only met the promoters who decided that conditions were acceptable. This has introduced a bias. While these projects demonstrate that infrastructure or human capital weaknesses were not an absolute deterrent for some promoters, it is not possible to say whether other promoters have decided not to invest because the infrastructure network and labour market created major obstacles to a successful operation.

For those projects in our sample, a key issue for promoters was the fact that there is simply less business activity in a less-developed region. Firstly, this means that, as far as project implementation and business development is concerned, many organisations, especially local public ones, are low on the learning curve; they have come across a limited number of situations and they sometimes lack appropriate procedures (because new projects are so rare that they can be dealt with on a case by case basis, with much improvisation along the way). This also means that the promoter will lack benchmarks, as they will be few comparable businesses in the region; there will be little cross-fertilisation through hiring workers who have worked in the same industry before. There will also be

limited feedback to the promoter from subcontractors or consumers. This means that the project will be conspicuous, that interference from local interest groups, often relayed by the public administration will be more frequent and more invasive. For instance, sacking workers will be more difficult. In some cases, there will be (unwritten, implicit) constraints on choosing subcontractors outside the region.

Moreover, since innovation (whether market-related, technological or financial) is exogenous to the region, the promoter with a new technology will get less feedback than in a more developed region, as well as less help in case of difficulties. Innovation spillovers will essentially be one-way, with the promoter gaining little from his or her environment.

A second set of problems relates to vague or opaque award procedures for the allocation of subsidies (or authorisation procedures such as construction or environmental permits). Interest groups (land owners, workers, consumers, project neighbours, etc.) tend to consider a new project as a big opportunity, and they try to get a stake in the project. They get leverage on the project through the political interference in the subsidy and authorisation award process. A "bounty race" of some sort develops that would be much more restricted in an industrial area where a new project is "just another project". This is a special race, however. It is not the first one to arrive who wins all - everyone who reaches the bounty can take a share of it.

### **3. Project delays**

The goal of promoters is to realise the business objectives of a project within a reasonable timeframe and at an acceptable cost. Project difficulties result either in cost overruns or in delays, and the two do not necessarily go hand-in-hand. Cost overruns most directly affect the promoter (who then may or may not be able to pass the extra cost through to the consumer). The consequences of delays may sometimes be shared directly between the promoter and the local stakeholders in the project (workers, consumers, etc.), providing the institutional framework is sufficiently weak not to impose payment of damages by the promoter. It is clear that a project supposed to relieve congestion imposes a cost to future consumers when it is delayed. This may also happen with innovative projects, when a region misses out, for a while, on a crucial innovation. Finally, a delay in developing regional resources (such as oil) may have a higher opportunity cost on the region than on the promoter.

EIB evaluation studies have shown that project delays are especially prevalent in Southern Europe. While most project difficulties (and in particular disagreements between interested parties) translate into delays, projects in the South (or regional economies) adapt so that the delays result in limited cost overruns. However, delays do upset the project's financial structure; in extreme cases, the grace period on loans ends before the project is finished. Delays may result from inadequate project management by promoters; however, delaying tactics appear to be particularly common with public administrations in some less-developed regions.

#### **3.1 How are promoters led into delays?**

We have come across four broad types of problems that can bring a project to a stalemate. Firstly, there is a lack of appropriate design. Many projects fail through insufficient initial studies and poor technical or commercial design. Basically, all EIB evaluation studies have come across this phenomenon. Some projects also fail because restricted procurement has led to a contract being

awarded to a company that is unable to carry it out. Some projects also suffer from the delays of other projects (e.g. an industrial project may be affected by the delay or the cancellation of an infrastructure project). However, we have found no evidence of firms having difficulties in accessing state-of-the-art technologies; the problem is when to call on them and how to use them (with the appropriate manpower that is not always available locally). Technology is available, but information about it, and knowledge on how to use it, may not be.

Secondly, there is a lack of identification of stakeholders in a project. It is important to identify stakeholders and stakes and to establish how benefits and costs are shared across the social geography of the region. In a recent article, Jenkins (1999) shows that, without an integrated analysis of stakeholders (estimating how direct and indirect changes in income due to the project are distributed and how this conforms to the principal objectives of the project), one may fail to identify potential implementation problems. She provides the example of a hotel in Cyprus which, if built, would have led to a significant loss in income for the other hotels in the region. She concludes, "In a relatively small country like Cyprus, the political pressures that can be exerted by competing hoteliers are very strong. As a result, this hotel was the subject of controversy and has not been built to date" (Jenkins, 1999, p. 93).

Thirdly, there is a lack of appropriate identification of "implicit" property rights. There are "fuzzy" property rights, based on tradition and culture rather than on the law, but which may nevertheless be taken into account by the local administration. For instance, the local population may feel that they *own* the jobs created by the new project (1) or that no new project (e.g. a new rail crossing) can justify the destruction of recently built houses. Promoters sometimes fail to identify these implicit guidelines and the related enforcement mechanisms (i.e. the potential influence of some stakeholder groups on their projects).

*Delays arise because of lack of appropriate project design, lack of identification of project stakeholders and a lack of problem solving infrastructure.*

Fourthly, there is a lack of "problem solving infrastructure" for legal dispute resolution on the one hand, and specialised consulting on the other. Court actions take so much time that they can be ineffectual as a dispute resolution system on specific and detailed aspects of a project development. Then there are cases where a technical problem cannot be easily sorted out because the experts having the appropriate knowledge are not available in the region. When national or international specialists can eventually be mobilised, they often lack the background on the constraints of the local environment. A related aspect is that many projects have no, or hardly any, risk-management strategy. If an unplanned event occurs, there is rarely a contingency plan and so the schedule, and sometimes the entire project management goes astray. Contingency measures are pushed back in time until the planned end of the project; preventive measures are delayed until it is too late, i.e. until they become corrective measures.

### **3.2 Public sector responsibility for delays**

In many of the projects evaluated, public administration, often local administration, had a share of responsibility in delays. Private sector projects often perform better than public sector projects and under-performing private sector projects have, on a number of occasions, seen their action hindered by public authorities. The mechanisms leading the public sector and public administration to indulge in delays usually revolve around knowledge deficiencies and organisation failures.

---

*1) As long as a project is being built, employment required during construction is maintained. Therefore, sometimes, from the point of view of local politicians or local administration, the longer the project takes to be built, the better.*

*The mechanisms leading the public sector to indulge in delays usually revolve around knowledge deficiencies and organisation failures.*

One problem can be simply a lack of public sector management skills. These are often revealed by poor presentation of public sector projects. While these may be attributed to a lack of presentation skills, very often a poor presentation actually hides project weaknesses. For instance, presentation of the wrong sequence of events when explaining the various steps in project development are sometimes “rectified” by external project analysts (as they would do for, say, typos), when in fact, it constitutes a genuine promoter’s mistake in the necessary flow of events for the project.

There may also be confusion between forecasts and normative guidelines. Public administration is, by nature, influenced by politics and is, therefore, a place where positive and normative economics coexist. There are many instances where (e.g. demand) forecasts are not defined as what is likely to happen, but as what would be desirable to happen. There is, for instance, a near systematic bias (towards overestimate) in traffic forecasts by public sector transport companies. Problems start when cost-benefit analysis or profit forecasts are based on wishful thinking about demand. This often comes when budget is used as a negotiation tool to get projects approved. Here, there is a vicious circle between knowledge and institutional deficiencies.

The list of hindering mechanisms to the efficient operating of the public sector is long:

- Regulatory capture. This is Alice in Wonderland who, when asked by the Caterpillar who she is, replies “I - I hardly know, sir, just at present - at least I know who I was when I got up this morning, but I think I must have been changed several times since then”. This is what happens to local authorities when their objectives become confused with those of the local establishment or of pressure groups. This may be compounded by a feeling that private sector companies coming from outside the region are trying to get more out of the region than they put in (which sometimes happens). As a result, there is a tendency to try and force outside companies to spend more when implementing a project, and to complicate profit making.
- Risk aversion leading to inaction. Administrations often have the wrong incentives. It is more important to avoid mistakes than to take appropriate action, and there is no incentive to look for what is best rather than what is simply acceptable. Although it is not impossible to attack an administration for failure to act, this is much more difficult, and as they risk antagonising the administration in future, promoters rarely try it. On the contrary, an administration can be easily criticised or prosecuted for the actions it takes. Therefore, as a result of their risk-aversion, administrations are usually led towards failing to act when they fear to make the wrong decision. The incentive structure within public administration means that managers are often more used to making sure they spend their entire budget than on trying to save part of it, so there is no tight grip on costs. Similarly, the incentive structure is complacent about delays and, in some cases, delays push projects to the top of the political and administrative agenda, boosting the profile of the managers who take care of such a “national priority”. When neither costs nor timing are under strict control, efficient project management is virtually impossible. In this context, it is also difficult for a public administration to realise what really matters for a private sector project manager (e.g. that the right timing for the delivery of a building authorisation can be essential).
- Confusion between subsidy and authorisation procedures. Many public organisations use their budget as a negotiation tool. What is included in the budget is supposed to be authorised. One

way of fitting in the budget is to get a subsidy. Thus, there is very often the misleading characterisation of a subsidised project as one which deserves to receive all the required authorisations. When the budget process and the approval process get confused, loans to good projects make it possible to allocate grants to other projects, i.e. those that could not obtain a loan. This can occur either because loan money is fungible, or because the grant award process is so decentralised that it leads to principal/agent problems, the awarding authorities trying to maximise the grants received rather than trying to maximise the efficiency of the investment programme.

- *Poor budgeting.* As a project gets authorised by being on the budget, there is an incentive to put more projects than can be financed on the budget. Without binding multi-annual budgetary procedures, it is possible to start a project even if only the expenses due to be incurred in the first year of construction are covered. The confusion between budgetary and authorisation procedures also provides incentives to underestimate costs or timing, in order to get more projects authorised. In fact, a budget shortage is a bargaining tool to get more. Most local public administration in less-developed regions receive significant subsidies from outside the region. In many cases, past funding requirements influence future subsidy levels, and the more a region spends, the more it gets in future.

Organisational failure of public administration extends outside less-developed areas. There are many possible subsidy sources and the applications for funding are usually simultaneously put to several independent organisations (for example, the EU). As some applications are expected to be rejected, plans are often over-ambitious. Equally, there may be little co-ordination between public fund providers, who, in addition, pursue different agendas. As a result, their funding programmes may be inconsistent and so many of the items in over-ambitious programmes get subsidies. It is not, as is sometimes heard, that too much money is going to the regions, but that money is spread too thinly on too many projects. The implementation resources of the region are then overstretched, which leads to delays.

#### **4. Project development as a strategic game**

Dealing with these diverse features can usefully be seen in a strategic gaming context. The key point is that a new project appears as something of a windfall in the region. Stakeholders (workers, suppliers, customers, etc.) want to force the promoter to commit to giving them a substantial share of the revenues. There is rarely a full realisation by promoters coming to a less-developed region of the extent to which there will be bargaining over the resources put into a project and the revenues generated it.

##### **4.1 Incomplete bargaining**

*We can think of the game along the following lines: A mother wants to divide the pie between her children, but she can never get them all to sit at the table at the same time.*

In the same way theory speaks about incomplete contracts, it could be appropriate to talk about "incomplete bargaining", taking bargaining as a game where players simultaneously make offers until these are compatible and allowing, as "incompleteness", situations where the number of players making offers can vary (randomly or sequentially) from one round to the next.

We can think of the game along the following lines: A mother wants to divide a pie between her children but she can never get them all to sit at the table at the same time and tell what share of

the pie they want. As she does not like to be unfair to any child, she gets from each child the information about his or her preferences. However, if each of her four children wants a third of the pie, she has to start again. Common sense gives us hints as to how a solution will be reached: the pie might be getting cold, the children may be hungry, one of the children may be a domineering personality, the mother may threaten to put the pie away if the children do not agree, etc.

In slightly more formal language, we may think of player  $i$  bidding for a share,  $y_i$  of total resources  $R$ . If the sum is below  $R$ , then all players involved in this round get the share they asked for, with an amount  $R^*$  left over (with  $R^* = R - \sum y_i$ ). However, if the sum of all  $y_i$  is above  $R$  then nothing is distributed. This means that players may be able to block or delay the distribution of revenues by making sure that their bids are incompatible with others (2). Moreover, some players may not have participated in the round, but they exercise a veto on the outcome. They will ask for the game to continue and a new round will be organised.

A game of this type must continue until no-one wants to play any longer. It will not converge towards a solution unless some value of time, some "impatience", is built in (see Osborne and Rubinstein, 1990). For instance, the total resources,  $R$ , can reduce at each round due to a discount factor, or one player can commit *ex-ante* to withdrawing from the game after  $n$  rounds (this player usually gets everything), or each player must pay a fee to participate in a round. However, it is clear that if one player is impatient (say, the promoter) and one player is not (say, the local administration), the conventional result of bargaining theory applies: the most impatient loses. Osborne and Rubinstein (1990) point out that reaching a solution supposes not only that time is valuable, but that disagreement is the worst outcome and that the resources to be shared are desirable. These conditions are not necessarily fulfilled in the projects we have examined. For environmental groups or for direct competitors, not having a project built is not necessarily the worst outcome.

*The game is not renegotiation proof, and the strategy of the promoter should consist of making renegotiation unattractive.*

The game presented here is not renegotiation-proof and the strategy of the project promoter should consist in making renegotiation unattractive (for example, reducing the number of rounds would shorten the negotiation process). However, a renegotiation-proof outcome may not exist and, in some cases the best strategy of the promoter will be to withdraw from the game and abandon the project.

Confronted with this situation a number of promoters have elaborated what, with the hindsight permitted by *ex-post* analysis, appeared to be successful, sustainable strategies. One promoter identified *ex ante* all the stakeholders and then started negotiations with each of them individually. As the promoter expected to negotiate with all stakeholders, he was in effect negotiating at each stage on behalf of all the absent stakeholders, preserving their share of the revenues. This strategy was successful partly because all stakeholders were impatient: the promoter was offering to take over a plant in need of a turnaround and time was running out, at a potentially very large cost to local stakeholders. Making payoffs time-sensitive is an effective way of reaching an outcome.

Some promoters try to avoid contacts with the local environment as much as possible, asking for minimal building authorisations, committing funds only once these are obtained, and limiting their

---

2) At a theoretical level, this means that when delays occur, the proposed outcome is outside the core. As a result, designing solutions that are in the core is a way of avoiding delays. The issue, however, is how such solutions can be translated into practice.



contacts with locals to hiring staff and paying local taxes. This strategy of refusing to play the game as much as possible is effective with companies that do not rely crucially on any local input and is even more effective with companies that can easily change the technical design of their project (plans of a previous project built somewhere else are sometimes used for new permit applications in a different location, thus reducing sunk costs in the new project).

Some promoters identify those stakeholders likely to make extraordinary demands and try to negotiate as late as possible with them, i.e. when there is not enough resources available to meet such demands and when other stakeholders have much to lose in a collapse of the negotiations. Some promoters delay their project until the more greedy stakeholders face high costs if the project does not go ahead (e.g. from high congestion of existing facilities), but this strategy can backfire with bypass strategies being elaborated that make the project unattractive.

This is consistent with theory. Osborne and Rubinstein point out that for delays to occur, there must be multiple equilibria. A strategy for the promoter can therefore consist in cornering the stakeholders into take-it-or-leave-it offers, in other words eliminating all equilibria but two (one of which being *no project*). However, this possibility is not always open to the promoter. For example, a utility simply cannot make take-it-or-leave-it proposals, because the threat to leave is neither credible nor feasible.

#### 4.2 A typology of projects

*A simple two-by-two matrix with project size and sunk costs can capture important differences between projects.*

With the above in mind, our recent field studies suggest that a simple two-by-two matrix can be used to capture important differences between projects. This is shown in figure 1. The two dimensions of the matrix are size and sunk costs. Note that the size of a project here is defined by reference to investments in the region, rather than its particular industry. In each element of the matrix we can identify a particular type of venture. They are:

- **Mature Sector and Infrastructure.** These are large projects, often public institutions upgrading or expanding large infrastructure networks, or are large private projects in relatively stable and slow moving industries. Typically, the timeframe for change is not the main priority and project implementation is often behind schedule.
- **New Sectors.** These are large projects, but in more dynamic industries where change has to be carefully managed. They often relate to the introduction of an industry (or sub-industry) to a specific region. They need significant backing and often affect large sections of the local community.
- **Networks.** These are not large projects, yet are often joint ventures or the 'turn around' of an existing company. Joint-ventures regularly include foreign partners, who bring in new technology and skills to improve an existing company. Critical to the success of these projects is the relationship with all other stakeholders and interested parties.
- **Offshore.** The 'offshore' project is generally financed by a foreign company, which is looking to start a new venture in the region. These are often relatively small projects involving the set up of a new business. In a number of cases, the profits are also transferred "offshore".

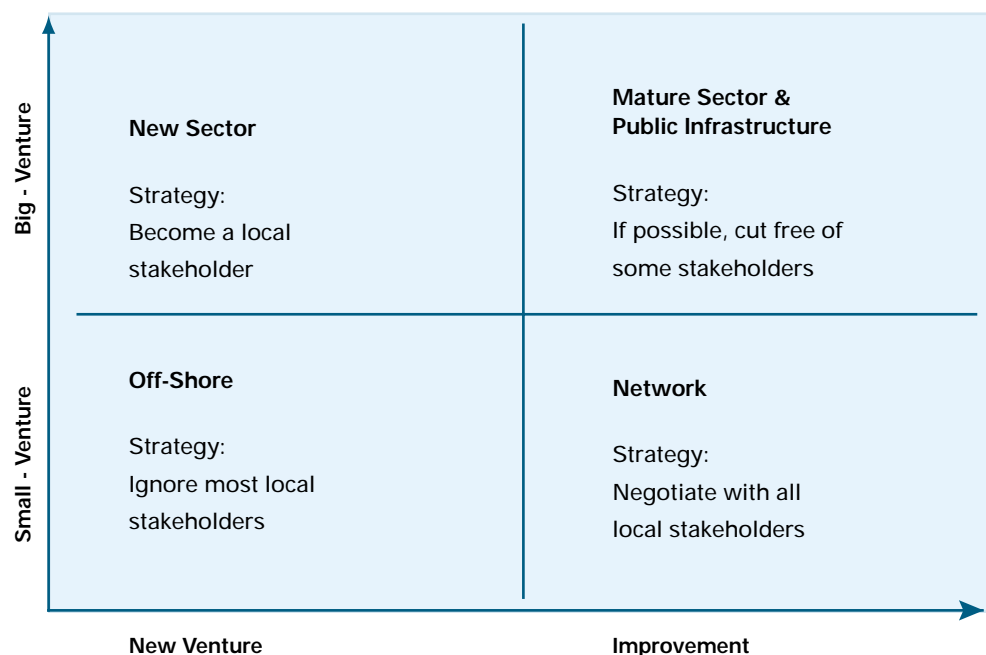
The successful strategies for inserting a project in the social geography of the region appears to vary for these four project types. The promoter of a big project that complements existing facilities in a well-established sector (e.g. infrastructure) will be forced to accept many of the stakeholders' demands. For example, there may be no alternative to a rail company upgrading a line (and exit strategies are impossible). This leaves the rail business very exposed to extraordinary demands by stakeholders. The only option is to try to cut some stakeholders out of the picture.

*The effectiveness of a project as a vehicle for regional development can be mapped on the same topology.*

Conversely, the promoter of a big project in a new sector is in a position to modify the environment in his favour and to make "take-it-or-leave-it" proposals. When a car company proposes to create a car manufacturing sector in a country, the possibility of withdrawing is real for a long time, even when construction has started.

The promoter of a small new project can try to remain isolated from the local environment. However, if the project will modify an existing operation then it is better to try to be fully integrated in order to have a complete view of the forthcoming negotiations with the local shareholders, i.e. to be negotiating actively rather than passively reacting to stakeholders' demands as they come.

**Figure 1.**



One more conjecture can be added to this analysis - innovation - which seems to be a possible third dimension of the matrix. For instance, in a mature sector, projects with low innovation content appear more successful, while in the offshore quadrant of the matrix the opposite seems to be true. A certain impact from innovation is to be expected, because spillovers that result from innovation in a region, could be described as unavoidable side-payments, changing the nature of the game being played. The difficulty, however, lies in the identification of innovation. Is innovation an improvement on what exists in the region, or anywhere else, or elsewhere on average? In any case, our sample is so far too limited to allow further analysis.

## 5. Policy implications

While a promoter must define a strategy that is in-line with the characteristics of his or her project, the effectiveness of a project as a vehicle for regional development can also be mapped on the above topology.

On the basis of our sample of about 40 cases (3), it appears that many “Offshore” projects (i.e. small new ventures relying very little on the region) and “Mature” projects (i.e. large projects in old-established sectors such as. infrastructure) have a limited observable impact on regional development. Small projects that improve on existing operations and are well integrated in the local environment (“Network” projects) appear to have a more direct impact, when observed after a few years of operations. Large projects that create a new economic sector in a region (“New Sector” projects) and thus a series of related opportunities, also appear to have a rather immediate impact on regional development.

Developing “Offshore” or “Mature” projects may be less justifiable on a pure regional development basis, at least with a short term objective in mind. There could be some justifications for support. For example, a hydroelectric scheme in a less developed region may have a limited impact on the economic development of the immediate region but will contribute to the development of sustainable energy resources at country or EU level and could be financed on this basis.

*Variety matters. Financing only one type of project creates an unbalanced regional economy with questionable growth prospects.*

These results, however, have been obtained from a limited number of case studies. They have to be combined with the conclusions of previous evaluation studies. These tell us that variety matters. Financing only one type of project creates an unbalanced regional economy with questionable growth prospects. How could a region develop with no infrastructure? On a practical level, who would want to live there (in other words, how can human capital be increased)? “Mature” projects can be seen as a necessary condition for regional development to take place. There are also dynamics at work. Some small isolated (“Offshore”) projects may subsequently be developed into more integrated operations, thus enhancing the economic development impact of the project on the region.

Given that delays, especially in Southern Europe, represent a symptom of project difficulties and of disagreements between stakeholders, external fund providers could have a useful role in reducing tolerance for project delays through loan and grant contract conditions (e.g. imposing a full project audit to all projects that are more than two years late). Imposing an independent audit on projects would be a way of enforcing accountability for these delays.

The reason for combating delays does not lie in their impact on profitability, which is usually limited, but in the fact that they reveal other more fundamental problems in the local environment of the firm. Since the deficiencies of public authorities have been identified as a problem, a training programme aimed at the public sector towards improved efficiency and sound project and risk management would be desirable in a number of cases. The impact of the public sector is not purely a quantitative issue of how much the State or the region is prepared to put in, but also a qualitative issue of how well-organised this intervention is.

---

3) Not surprisingly, the matrix provides a poor explanation of situations where corruption is believed to have occurred. In the absence of any formal proof to that effect, this analysis cannot be carried any further.

Finally, many delays are connected to public support/grants that can, to a certain extent, be negotiated. Negotiation can take place because rules are complex and lack transparency. In most cases, it is simply impossible, *ex post*, to work out the level of public support received by a project (granted by a number of local, national and European authorities with hardly any consistency and co-ordination). Therefore, there is a need in Europe for simplification, better transparency and full consistency of subsidy regimes. This should also be a requirement of competition policy.

*Geography and rate of return are insufficient predictors of the impact of a project. As a consequence, project selection is critical.*

What we can say without any doubt is that geography and rate of return are insufficient predictors of the impact of a project. A satisfactory rate of return is necessary but not a sufficient condition for a project to have a positive impact on regional development. As for geography, it is not even necessary for a project to be located in a less developed region to have an impact on regional development. As a consequence, project selection is critical.

## References

- EIB Operations Evaluation Report with DECON (1998). "Evaluation of 10 Operations in the Telecommunications Sector in EU Member States".
- EIB Operations Evaluation Report with S.E.E.E. *et al.* (1998). "Contribution of Major Road and Rail Infrastructure Projects to Regional Development".
- EIB Operations Evaluation Report with BMF Services S.A *et al.* (1998). "An Evaluation Study on Industrial Projects Financed by the European Investment Bank under the Objective of Regional Development".
- EIB Operations Evaluation Report with Carl Bro International Ltd *et al.* (1999). "Evaluation of 17 Water Projects Located around the Mediterranean".
- EIB Operations Evaluation Report with PA Consulting Group (forthcoming). "EIB Contribution to Regional Development: A Synthesis Report on the Regional Development Impact of EIB Funding on 17 Projects in Portugal and Italy".
- Jenkins, G.P. (1999). "Evaluation of stakeholder impacts in cost-benefit analysis, Impact Assessment and Project Appraisal", *Journal of the International Association for Impact Assessment*, 17 (2), pp. 87-96.
- Osborne, M. & Rubinstein, A. (1990). *Bargaining and Markets*, Academic Press, San Diego Cal.
- Pinelli, D. (1998). "Regional Competitiveness Indicators". European Commission, DG16, unpublished study by Cambridge Econometrics.