

Programs and Projects Impact Assessment

Is Italy able to correctly assess infrastructure and investment projects, optimise expenses and duly meet the citizens' needs? Experiences and expectations.

July 2017 – update February 2018

The partnership agreement with the EU for the use of European Structural and Investments Funds is currently in full force. Italy is selecting the major works to be completed during the European seven-year programme 2014-2020. And there is a novelty: the agreement signed with the EU requires that we comply with the fundamental nexus between plan and project through self-assessment mechanisms, but it also identifies several result indicators for thematic goals, in terms of both value before the public expense and final target.

Other important public expenditure programmes, integrated in the Structural and Investments and Development and Cohesion funds, are preparing large liquid assets containers to fund and/or co-fund further measures promoting growth, including investment in public and public utility works.

*Is Italy capable of meeting the EU planning quality standards? In our country, the role of economic analysis and assessment of public investments has long been debated. However, **the experience of the Major Projects 2007-2013 revealed many critical aspects**: according to the European Commission experts, 90% of them featured an insufficient cost-benefit analysis, 70% showed **problems concerning the planning system or the assessment of the domestic market**, 50% of them had **environmental assessment shortfalls**.*

The starting point

The first law dealing with assessment, law no. 144/1999, has remained largely **unenforced**. Several **criticalities** have arisen also with legislative decree no. 228/2011, which compelled all central administrations to draw up sectorial guidelines and multi-year reports for the planning of interventions, in order to optimise planning procedures, enforce planning tools ex-ante “non marginal” investments and better plan public expenditure.

Now, the new set of rules on public contracts, approved with Legislative Decree no. 50/2016, sets forth a **new approach**: the “technical and economic feasibility project”, namely, the analysis of requirements as a starting benchmark to establish the usefulness and feasibility of a public work.

Analysis

- In the European Funds planning cycle 2007-2013, based on the information available at the closing date of the cycle, Italy’s regional governments and central administrative offices of the State envisaged **95 Major Projects (GP)**;
- 76 were notified to the European Commission (EC) during the planning period (that’s 77%) and **19 were subsequently suspended**;
- the **Major Projects approved by the European Commission**, thus authorised to use the European Structural and Investment Funds, are **55 (that’s 58% of the planned works)**;
- The overall value is **north of 17 billion Euros** (about 20% of the financial resources available for the 2007-2013 period and 35% of the European Funds, including national co-funding). **However, for some Major Projects, the cost has not been quantified**;
- For the Regional Operational Plan (POR) of the Campania region, the EC expressed its opinion only on half of the 20 Major Projects submitted to it;
- The analysis of the Major Projects unveiled, above all, the **difficulties** the promoting administrative offices had in **starting and swiftly completing the preliminary procedures** required to obtain the European Commission’s green-lighting of the funds;
- The Major Projects withdrawn from the economic planning featured **insufficient planning documents and an inadequate definition of the technical, administrative and procedural aspects supporting the candidature**.

The **Major Projects of Eastern European countries that benefited from the technical aid of the European Jaspers Programme** (support to projects and independent analyses of quality, information exchange and best practices) **have obtained different results**: the European Commission approved 371 out of the 438 submitted, while other Major Projects are undergoing the preliminary phase.

Urban renewal interventions in Sardinia, Sicily and Campania too were supported by the Jessica programme (Joint European Support for Sustainable Investment in City Areas): over the period 2007-2013 they led **Italy to the first place in terms of number of most successful initiatives and in attracting overall financial resources**.

A detailed breakdown.

Critical profiles

The limits of Italy’s Grandi Progetti (Major Projects)

For 53 of the 76 Major Projects notified to the European Commission for the regional convergence objective, there has been an analysis of the remarks made by the European Commission in the two months it had to either approve or reject the work, based on the Cost-Benefit Analysis (ACB), Planning System, State Aid, Financial Analysis and so on.

The most critical aspects that emerged were the following:

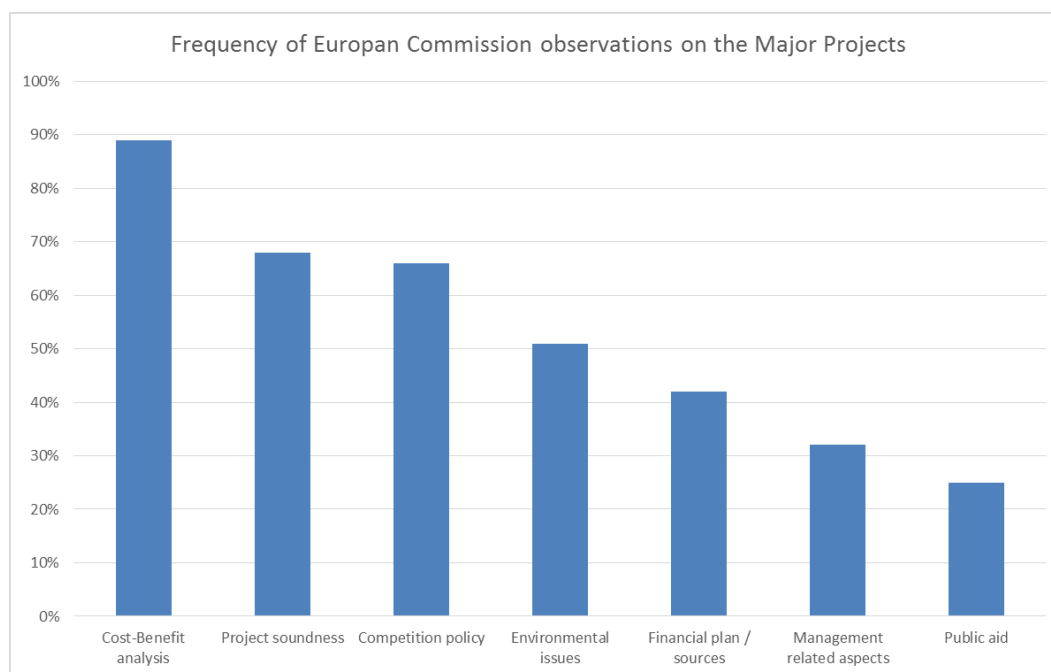
- 47 of the 53 Major Projects submitted showed **serious shortfalls in the Cost-Benefit Analysis**: 33 of them called for a closer examination of the demand analysis

- and 32 of them of the financial analysis;
- 36 projects showed **criticalities in the planning system**;
- 35 projects showed **problems concerning the domestic market**;
- In half the cases, the preliminary procedure showed **shortfalls in environmental assessment**;
- Less frequent, but still present (and sometimes having a greater impact on the Commission's overall assessment of the Major Project) are the **observations concerning the financial coverage of the project, the interventions management system and the presence of State aid**.

| <i>Type of observation made by the European Commission</i> | n. | % (n./53) |
|--|-----------|------------|
| Cost-Benefit Analysis | 47 | 89% |
| Analysis of options | 18 | 34% |
| Analysis of demand | 33 | 62% |
| Financial analysis | 32 | 60% |
| Economic analysis | 22 | 42% |
| Sensitivity and risk | 16 | 30% |
| Conversion factors | 22 | 42% |
| Major Projects planning system | 36 | 68% |
| Economic framework | 8 | 15% |
| Timeline | 23 | 43% |
| Investment costs | 25 | 47% |
| Description and breakdown of measures | 29 | 55% |
| Domestic market | 35 | 66% |
| DIR (CE) 2004/17 | 25 | 47% |
| DIR (CE) 2004/18 | 29 | 55% |
| REG(CE) 1370/2007 | 5 | 9% |
| Public-Private Partnership | 3 | 6% |
| Call for bids timeline | 11 | 21% |
| Environmental assessments | 27 | 51% |
| Environmental Impact Assessment | 23 | 43% |
| Strategic Environmental Assessment | 5 | 9% |
| Health Systems Impact Assessment | 3 | 6% |
| Natura 2000 | 13 | 25% |

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| | | |
|-------------------------------------|-----------|------------|
| Financial Plan | 22 | 42% |
| Funding Gap | 10 | 19% |
| Funding and EU contribution sources | 17 | 32% |
| Management-related aspects | 17 | 32% |
| Public-Private Partnership | 3 | 6% |
| Regulation and sector plans | 6 | 11% |
| Inter-institutional agreements | 4 | 8% |
| Management model | 9 | 17% |
| State Aid | 13 | 25% |
| Aid request | 3 | 6% |
| Clarification of acceptability | 11 | 21% |



Source: Technical Assistance Project: "Support to the implementation process of Major Projects within the 2007-2013 Planning, years 2011-2013, DPS/Invitalia Spa"

After this preliminary assessment during 2011-2013 on the appraisal report, in the actually monitoring system of the Major Project there is still **uncertainty**, because on the open cohesion database, the analysis done on December 2017 shows that **a high divergence between financing and payments** is persisting in their implementation phase, and **other misalignments may also occur in the future**.

The assessment

In order to **optimise the planning approach** and to implement the ex-ante planning tools in the single “non marginal” investments, so as to **better plan public expenditure**, legislative decree no. 28 of 2011 has introduced, for the Ministries, the obligation to:

- **«guarantee the rationalisation, transparency and efficiency of the expense** allocated for the completion of public and public utility works» through «ex ante and ex post assessments».

The central administrative offices of the State subcontract, manage and run the larger works (10 million Euros, versus an average sum of 1.7 million for other contracting parties), which currently entail more problems in terms of costs and timing.

- **draft multi-year planning documents (DPP), in according with specific guidelines** to include and **make «consistent all plans and programmes** for public works» for which each Ministry holds competence.

The Prime Minister’s Decree of 3 August 2012 subsequently envisaged, for each Ministry, the drafting of the multi-year planning document and its guidelines and set up a working group at the Prime Minister’s Office, which drew up a vademecum to support the several administrations in drafting both guidelines and the DPP. The handbook was forwarded to all Ministries on 14 April 2014.

What really happen in the Ministries

A first check-up, conducted (2013-2014) in six Ministries, revealed that:

- the personnel does not seem to have the expertise required to draft guidelines and multi-year planning documents
- the need for internal training is a priority, given the operational effectiveness of the assessment units of each Ministry
- it is crucial to handle the circulation of information so as to assess the capex

during the entire lifecycle of the programme/plan/project

- more consistency is needed in adjusting internal procedures and structures according to the new assessment requirements

More than six years after the issuing of the decree, **there is no widespread use of multi-year planning documents, except the Ministry of Infrastructure and Transport** with the first version of guidelines (December 2016), but without its direct application on the multiyear planning document.

Conclusions

A crucial moment for the correct planning of a public work is **devising its feasibility**.

Solid analyses are needed in the main areas of the preliminary economic-financial analysis: analysis of demand, management and financial sustainability, role of public contribution, risks analyses and finally, social-economic impact measures for the relevant territory.

After a critically has been reported, **financial assessments** are subject to **constant adjustments**, even after the public contract or grant is entered into, and that’s not a reliable benchmark for the assessment of a measure’s sustainability.

The tools for an ex-ante evaluation of projects in Italy call for guidelines that actually make them mandatory and enforceable.

Regulation has sometime been characterised by **intermittent functioning**, by an **incomplete implementation**, by the lack of effective sanctions for agencies that do not complete the requested assessment procedure.

The apt **technical-economic tools provide insufficient support to local administrative offices** in carrying out planning and management supervision.

Observations

- The process for the fulfilment public works can be **improved** by taking into consideration the methods and instruments success-

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fully used in other cases.

- Useful guideline items (requirements analysis, result and execution indicators) are included in the **Partnership Agreement** between Italy and the European Commission for the use of Structural and Investment Funds (seven-year period, 2014-2020) and in the **Investment Projects Cost-Benefit Analysis Guide** published by the Directorate-General for Regional and Urban Policy in December 2014
- France, Germany, United Kingdom, the Netherlands and Sweden widely use **Cost-Benefit Analyses** for the technical-economic assessment of the pre-feasibility of public investments and/or public utility works
- The observed countries feature **public domain guidelines** and in most cases provide the basic values to be used in the Cost-Benefit Analysis (scenarios, main assessment benchmark quantities, such as social discount rate, value of time, shadow prices and wages, externalities)
- **Choices and results** following the assessment are **transparent**
- **Collective bargaining and participation with the territories** ensure lawfulness, transparency and access rights to the several subjects. The **creation of the context** around infrastructure projects can **reduce conflicts and guarantee the feasibility of the work, increasing infrastructure quality** and enhancing coordination between sector policies and programmes.

The dossier

Analyses the role of assessment in programming, planning and devising public policies promoting investments, through the examination of:

- the European context
- the critical aspects of Major Projects planned for the 2007-2013 period
- the Italian regulation currently in force
- possible approaches that may better seize the opportunities in using the resources.

The full version of the dossier is also available on UVI web site:

[https://www.senato.it/application/xmanager/projects/leg17/attachments/documento/files/000/028/520/DA03 -
_La_valutazione_degli_investimenti_publici_DEF.pdf](https://www.senato.it/application/xmanager/projects/leg17/attachments/documento/files/000/028/520/DA03_-_La_valutazione_degli_investimenti_publici_DEF.pdf)

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