

# EIB lending for the Czech Operational Programme Transport 2007-2013

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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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The Operational Programme Transport 2007-2013 (OPT) is expected to provide EUR 5.8 billion for transport projects in the Czech Republic. Of this amount, up to EUR 1.3 billion should come from the EIB via the Structural and Cohesion Funds Transport Framework Facility for 2007-2013, with some 55 percent earmarked for investments in new motorway corridors and the rest for upgrades to existing rail corridors. Upon signing the loan contract in December 2007, the EIB said: „The loan forms part of the largest transport operation ever approved by the EIB in a Member State which joined the Union after 2004.“

Projects expected under this scheme include:

- Railways on Corridors III and IV from Prague in the direction of Linz and Nuremberg; and
- Motorways, including the new constructions on certain sections of the Prague's ring road R1, the R6 and R7 expressways, and the D1, D5, D11 and other motorways.

Some sections of these projects sections have already received bank financing, and upgrades to several sections of Class I roads throughout the country are also expected to receive financing.

The bulk of the loan has been separated into a number of tranches for individual projects which the EIB then approves (or not), following its own assessment, assessment of JASPERS, and negotiations with JASPERS and the Czech Ministry of Transport. While there are few details publically available about this process, it is worth exploring this loan in the context of the overall implementation of the OPT. It is no secret that the successful implementation of the OPT is in jeopardy. One reason for its likely failure is related to the preparation of the programmes, stemming from years of unsatisfactory strategic planning on the part of the Czech authorities. This is exacerbated by the fact that the Czech Republic is ranked by the European Commission among the three worst users of EU funds together with Romania and Bulgaria<sup>1</sup>.

This means that a considerable portion of Cohesion and Structural Funds that were approved by the government and pre-financed from state reserves will not be eligible for repayment later, because the Commission either will be unable to certify the entire spending or it will apply so called require corrective measure. Less EU money thus will be available for transport projects and a bigger burden placed on the state budget. So far corrections of about ten percent were implemented to a part of OPT projects. All told, financial mismanagement (the so-called 'n+2 rule' enables spending until 2015, so final data are still not there) may cause an increase in the state deficit of several billion euros<sup>2</sup>. The problem, then, is that the EIB sees no risks in financing such projects, in spite of critiques from the Commission and civil society, because the bank can rest assured that the EUR 1.3 billion loan will be paid back by the state

## Case study: the extension of the Prague metro line

The extension of Prague metro line A is another example of financial mismanagement in the OPT. The extension of the line was considered as less important than the construction of a fourth line, in order to reduce the load on the line that serves the heavily inhabited districts of the south with the city center. Nevertheless, the project got approved and is under construction now.

The project was approved by the Commission on January 2013, with EUR 290 million from Cohesion Funds for the EUR 717 million project. The EIB provided EUR 336

million already in December 2011, in addition to the OPT loan listed above. 2013, a number of problems were identified, with cost overruns of more than EUR 150 million and irregular tendering procedures discovered. As a precautionary measure, the Ministry of Transport provided much less money from the OPT than originally planned (EUR 296 million instead of EUR 452 million) in order to minimise the risk that the Commission would later question support for the project entirely. In spite of potential violations of the contract between the Prague municipality and the EIB, in December 2013 the Prague municipality agreed to ask the Bank for the last tranche of up to EUR 440 million for the project.

Moreover, despite evidence mounted against the project and its benefits for the city and its residents, a 2009 JASPERS assessment recommended providing money from the EU funds. JASPERS also argued that the costs per kilometre (EUR 121 million) were comparatively high<sup>3</sup>: costs of new metro lines in Warsaw are EUR 150 million, EUR 110 million in Thessaloniki and EUR 115 million in Lyon. Comparing Warsaw, Thessaloniki and Lyon was questionable though. The Prague project is six kilometres long and involves four stations, while the equally long section in Warsaw will have seven stations (one of which is a transfer station), the project in Thessaloniki is 9.5 kilometres long with 13 stations and the project in Lyon is more complex as it passes under the Rhone river.

JASPERS therefore did not account for the fact that more stations make a project more costly. In the Prague example, official documents show that the construction of metro stations is as expensive as digging a three-kilometre tunnel. So by comparison, it is clear that the costs for the extension of the Prague line A are far beyond acceptable economic practice at least in Europe.

### **Warning signals**

During the preparatory stages of the bulk loan for OP Transport there were clear signals that problems might arise during implementation. The Supreme Audit Office (SAO)<sup>4</sup>, which audits the management of state property and the performance of the national budget, has repeatedly identified mistakes amounting to billions of Czech crowns in transport investments in the Czech Republic over the years. SAO believes that the problems with the development of transport infrastructure in the Czech Republic are related to insufficient economic forecasting, cost increases and in some cases dubious procurement procedures<sup>5</sup>. As early as 2005, SAO auditors recommended “changes to the current decision-making system used in the Czech Republic for transport network development in order to ensure objective decision-making practices and reduce opportunities for biased and intuitive decisions regarding multi-billion investments”<sup>6</sup>. The European Commission also noted during negotiations in September 2007 that “there is still the problem of

an unclear medium-term strategy, specifically its key and non-investment steps”<sup>7</sup>.

The Ministry of Transport was further criticised for its unsystematic approach to the approximately EUR 33 billion, seven-year transport investment schedule (then known as the ‘Timetable of Transport Infrastructure Construction’)<sup>8</sup>. Approved in September 2007, the schedule failed to properly assess projects based on economic, social and environmental criteria. The only factor considered in the document was whether each project was ready and had been discussed as required by the Construction Act. Since then attitudes towards spending have not changed significantly, and this is why after several years of implementing the OPT, serious problems have led to the near financial and operational collapse of the programme.

The socioeconomic assessment of the OPT concluded that: “The document lacks an integrated approach to transport planning, mainly on the regional level (the level close to the NUTS II level). In addition, the OPT fails to define criteria for the selection of various projects for funding. It does not give sufficiently clear priority to the reconstruction and upgrading of the existing road infrastructure (which is highly recommended in terms of environmental impacts and economic impacts, construction and maintenance costs).”

### **An indicative project list**

The OPT 2007-2013 includes an indicative list of projects to be financed from the EU funds. Many individual projects were added to the list without a proper evaluation of the possible alternatives, the economic efficiency, transport significance and impacts on the environment. There was also no indication as to the priority of each project nor the expected sequence of the project’s implementation. The European Commission made it clear to the Czech authorities that the approval of the OPT does not imply that financing for the entire list can be taken as granted. For large projects financed by Cohesion Funds the Commission decides on contributions on a case-by-case basis. Thus EU funding could be jeopardised if a project fails to meet EU requirements.<sup>9</sup>

### **Infringing on the transposition of the EIA Directive**

The Czech Republic also did not properly transpose the EIA Directive (2011/92/EU) and thus an infringement procedure was initiated in April 2013. The problems with transposition caused further confusion to the implementation process, as the Commission was hesitant to approve some projects and only actually approved those where the EIA procedure was concluded before the current version of the directive came in to force. As such, there were significant delays in drawing Cohesion Funds and in late 2013, the Ministry of Transport tried to negotiate

last minute changes to the OPT document that very probably will not be approved by the Commission.

## Conclusions

The EIB must not approve loans for whatever project that a large borrowing authority suggests, because if the project fails, the burden will be shouldered by the taxpayer. Particularly in places like the Czech Republic, where the planning, approval and construction of infrastructure projects and the use of EU funds has been associated for many years with corruption, the bank must account for the true benefits of projects in the public sector. The case of the Prague metro highlights that the extension of the given line was less important than the construction of a fourth line, in order to reduce the load and enable rehabilitation on the line that serves the heavily inhabited districts of the south with the city center. In supporting the extension project, the EIB supported the outgoing heads of the municipality, whose corrupt ways were infamous and led to the burden now resting on the shoulders of Prague's taxpayers.

There is much that the EIB can do in order to improve its record of financing amidst the poor quality of decision-making in the CEE region, especially with regards to infrastructure spending. This particular example shows that the EIB should significantly improve its quality control mechanism for evaluating their investments and to prevent corruption or the mismanagement of funds.

## Endnotes

<http://zpravy.e15.cz/domaci/ekonomika/cesko-vezvlada-cerpat-penize-z-eu-hur-je-na-tom-jen-rumunsko-a-bulharsko-981212>;

<http://www.dotacni.info/cr-se-snazi-zrychlit-cerpani-z-fondu-eu-neni-ale-pozde/>

In the middle of the OPT period, the certification of project spending by the Commission was stopped for more than a year. After evaluating 25 percent of projects implemented by 31 March 2012, the Commission implemented the 10 percent corrective financial measures on the spent money.

<http://aktualne.centrum.cz/domaci/kauzy/clanek.phtml?id=798048>

The Supreme Audit Office is an independent body auditing the economic use of state-held assets and the performance of the state budget. Its latest report on the financing of Czech roads and motorways, including the use of money from structural funds through the OP Infrastructure, concluded that it took a very long time – eight years on average – to complete preparatory work on transport projects from zoning decision documentation to the issuing of a building permit. The audit focused on 435 projects developed between 2004 and 2007 and found that the estimated cost increased by CZK 76 billion, or 22 percent, and more than half of the projects had a 46 percent increase in estimated cost. Only 32 percent of projects stuck to their original completion dates. SOA audit no. 07/04: Funds for selected projects under road construction and renovation programmes, 2007.

“In the majority of cases, the programme financing system failed to provide an efficient, economic and meaningful use of funds. This resulted in financial problems for many projects, even beyond the preparatory stage. Project implementation had to be suspended or postponed or projects had to be divided into several phases”. SAO audit no. 07/04: Funds for selected projects under road construction and renovation programmes, 2007.

SAO audit protocol No. 04/25: Traffic infrastructure development in Central Moravia and Ostrava cohesion regions, 2005.

Minutes from a meeting on the draft Operational Programme Transport held by the EC and Czech representatives, led by the Deputy Minister of Transport on September 20, 2007.

Timetable of Transport Infrastructure Construction in 2008-2013. Resolution of the government of the Czech Republic no. 1064 of September 19, 2007.

Record from negotiations about the draft document of the Operational Programme Transport between the European Commission and the Czech party, lead by the deputy minister of transport, September 20, 2007.