



# **SEETO priority projects rating methodology**

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## 1 Introduction

### 1.1 Purpose of the Rating methodology

The purpose of this paper is to present the agreed approach and common criteria that SEETO will use to rate the priority projects included in the SEETO Multi Annual Plan. The purpose of such a rating system is to provide Regional Participants (RPs) and potential external financiers with an objective and consistent view on the quality of the projects nominated by RPs as relevant for the implementation of the SEETO Comprehensive Network. It is anticipated that implementation of this rating system will improve project preparation skills in the SEETO region, raise the quality of projects presented in this forum for regional cooperation and enhance the credibility of the SEETO process with external parties.

### 1.2 Rationale for the Rating methodology

The objective of the project rating is to present the strengths and weaknesses of the individual investment projects according to the agreed criteria.

There are two types of priority projects:

- i) **Priority projects eligible for funding** – mature projects for which a comprehensive evaluation is available based on a completed feasibility study, and if available additional full set of project documentation, in accordance with EU procedures for Programming and Procurement Rules.
- ii) **Priority projects for preparation** - projects which require full project preparation and project evaluation to determine their feasibility. These projects are not ready for implementation but funding is required to carry out the necessary preparatory work.

The rating mechanism will only be applied on **the priority projects eligible for funding** that are mature enough to start. Priority projects that require preparatory activities will not be rated but will be included in the MAP for information purposes as a separate list indicating that resources for project preparation are required.

### 1.3 Background

The Five Year Multi-Annual Plan ("MAP") adopted by the SEETO Annual Meeting of Ministers includes the *"SEETO Comprehensive Network Priority Project List"* which itemises *"the most relevant projects proposed by Regional Participants"*<sup>1</sup>. The aim of the priority list is, *inter alia*, to highlight the projects to potential investors, particularly the International Financial Institutions ("IFIs") and the European Commission ("EC") in order to secure the funding necessary to implement the projects.

There are currently 35 investment projects on the priority list (MAP 2012) which is revised on a yearly basis. The list includes investment projects in all regional transport modes submitted by all Regional Participants. The total estimated implementation cost is around EUR 8.6 billion, with average cost per project of approximately EUR 246 million.

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<sup>1</sup> As stated in the MAP 2012, page 51

Consultations with external financiers and discussions among SEETO Steering Committee Members indicated a strong preference for a clear and transparent qualitative assessment of the priority projects listed in the SEETO MAP, in line with best international practice. This should make this important document even more useful for all SEETO stakeholders and enhance the credibility of SEETO as the regional forum for promoting the development of the regional transport network. Therefore, it is now proposed that the SEETO Steering Committee endorse this new transparent and user-friendly multi criteria system for rating the investment projects submitted by the Regional Participants.

This document describes *i)* some issues arising with the current system for including investment programmes in the MAP; *ii)* basic requirements for the new system; and *iii)* the new rating mechanism proposed for SEETO. The annexes contain details on proposed monitoring of projects on previous priority lists; the proposed application template for the Priority Projects and a brief description of rating and prioritisation methods used by other regional transport organisations which have been reviewed as part of the development of the SEETO system.

## **2 Issues Arising with the Current System**

The current list of priority projects includes investment programmes which are too large to be covered in one single project. Such programmes, dealing with the overall development of transport corridors, cannot be implemented in one single investment project and should be split into individual projects. The current priority list is also sometimes seen as the document listing all transport priorities of the Regional Participants. However, this can cause confusion if readers assume that the list also includes the local priority projects.

From the inception of SEETO, it was always intended that projects submitted by the SEETO Regional Participants would be prioritised and rated according to a well defined mechanism. In order to enable the Secretariat to evaluate the 145 projects submitted for the first MAP in 2005, consultants prepared a detailed technical note, titled "*Project Criteria and Prioritisation*". This evaluation manual comprised 16 criteria to be applied to all submitted projects but was unfortunately not used systematically.

The current system does not put enough emphasis on the actual stage of the proposed projects. In addition it neglects the Economic, Regional, Regulatory/Technical and Environmental Sustainability of the required investments.

As SEETO only deals with projects of regional importance, a large number of projects on the priority list are cross border projects or have a cross-border dimension. The current methodology, however, does not encourage the Regional Participants to improve the border crossing procedures. This can lead to expensive infrastructure funding which do not produce enough user benefits in the form of reduced travel times and increased accessibility to the regions/countries located at the heart of Europe.

## 3 Basic Requirements for the New System

### 3.1 Regional Priorities versus Local Priorities

Since SEETO only deals with transport issues of regional importance as a matter of principle, only projects implemented on the SEETO Comprehensive Network will be taken into consideration for the priority project list.

The priority list only includes projects located on the SEETO Comprehensive Network.<sup>2</sup>

### 3.2 Programmes versus Projects

At present some of the priority projects are in fact investment programmes covering the entire range of investments that need to be made on a transport corridor. In the new rating system, investment programmes should be broken down into relevant, feasible investment projects before they can be rated and subsequently incorporated in the list of priorities.

For the purpose of project rating, the following definitions are used:

- A **programme** is a set of projects developed for achieving full development of each SEETO Comprehensive Network corridor/route in each Regional Participant in extended period of time. A programme has only a general and not binding timetable.<sup>3</sup>
- A **project** is a larger individual investment implemented on a corridor or stretch of infrastructure in order to build, expand or improve. A project must have a pre-defined goal, timetable and resources.<sup>4</sup> There are different stages of the project cycle<sup>5</sup>. Only projects with completed feasibility studies will be rated according to this methodology.

Only Priority projects eligible for funding - i.e. those with completed feasibility studies will be rated and listed in the MAP. Priority projects for preparation will be listed separately in the MAP but not rated.

### 3.3 Number of Projects on the Priority List

SEETO members should put more emphasis on the quality of the proposed projects rather than on the number of projects proposed. Well developed projects with sound feasibility studies and a clear indication of relevance for the regional transport network stand a much greater chance of securing external financing and SEETO's reputation will be enhanced by this obvious focus on expediting the priority transport projects for the region.

<sup>2</sup> The SEETO Comprehensive Network is the same as the TEN-T network in the Western Balkans. However, an official decision by the European Council will be required to rename the network.

<sup>3</sup> This definition follows the definition used in the document "Preparing the Northern Dimension Partnership on Transport and Logistics", European Commission Directorate-General Move, June 2011

<sup>4</sup> This definition is the same as used in the document "Preparing the Northern Dimension Partnership on Transport and Logistics", European Commission Directorate-General Move, June 2011

<sup>5</sup> 1 - Project identified and ToR prepared; 2 - Prefeasibility Study completed; 3 - Feasibility Study completed; 4 - Design completed; 5 - Tender process completed; 6 - Finances allocated ; 7 - Works ongoing; 8 - Implemented

In addition, the impact of the global economic crisis has resulted in a substantial reduction in the capacity of the various Regional Participants to borrow to finance capital expenditure. A recent paper prepared for the stakeholders in the Western Balkan Investment Framework (WBIF) <sup>6</sup> concluded that the growth prospects for the Western Balkans regions have significantly deteriorated over the last three years, and – despite a short-lived recovery from 2010 to mid-2011 – remain gloomy in the short run. Governments will have to face high unemployment, which bears on public finances both through sluggish revenues and mounting needs for social protection. This limits the fiscal space on the (national) budget for further expanding infrastructure investments. It also notes that while public debt is comparably low in the Western Balkans, it has increased rapidly in the last few years. In addition, a combination of vulnerability to external shocks (e.g. exchange rate risks) and high aggregate tax rates in some Regional Participants that limit potential to increase taxes to service more debt mean that the fiscal space available for borrowing is reduced across the region. Hence the importance of focusing on those key investment projects that can deliver the most value in terms of their potential to ensure socio-economic development and greater integration into the EU transport network.

The new system to be implemented for the SEETO priority list will provide a greater focus on the quality of the projects submitted by the Regional Participants. The SEETO Secretariat will rate the quality of the individual investment projects proposed by Regional Participants and recommend those for inclusions into the MAP. The final decision on inclusion of projects rests with the SEETO Steering Committee.

### 3.4 Border crossing projects and the ones with a cross-border dimension

Delays at border crossings in the Western Balkans are repeatedly raised as a cause for concern by the business community and others who regularly utilise the transport infrastructure in the region. Thus border crossing projects that reduce delays and projects that generate significant benefits to users in more than one Regional Participant (projects with cross-border dimension) will be rated under the new system. It is important to note that in addition to physical facilities, administrative and institutional adaptations should be an important element of any border crossing project.

The TEN-T Guidelines define a *border crossing project* as a project which "requires actions/construction works on at least two sides of the border."

The new rating system will include a criterion evaluating the extent to which cross border projects reduce border crossing times. Projects including border crossings will describe the physical component and the institutional improvements leading to shorter border crossing times and waiting times.

The system will evaluate does the project generate significant user benefits for users from other Regional Participants or for users from outside the region.

<sup>6</sup> Outlook for Macro-Economic Development in the Western Balkans and Implications for the WBIF, IFI Coordination Office, May 2012

### 3.5 Sustainability

SEETO will place greater emphasises on the importance of sustainability as part of the new rating system.

Sustainability in this context includes following criteria:

- Economic: the direct benefits as measured by Economic Internal Rate of Return (EIRR).
- Regional: the project fosters regional cooperation in the transport sector.
- Environmental: the infrastructure improvements will not unduly damage the environment during construction or the operation of the facilities.
- Regulatory/technical: the investments will be long lasting and will not have to be repeated in the near and medium future. The regulatory set-up is such that the infrastructure will be operated and maintained effectively and efficiently.

The new rating system for the priority projects will include simple criteria covering the economic, regional, environmental and regulatory/technical sustainability.

### 3.6 Rating of Priority Projects

The criteria and the weighting for the new rating system are described in a chapter 4. The Secretariat will apply the agreed screening mechanisms in transparent manner to rate the projects submitted for the priority list. The projects will not be rated in comparison to each other, but each project will be appraised according to the same scale and weighting. The results of the rating of all submitted projects will be made available to SEETO SC members.

All projects submitted will be rated according to the agreed criteria. The new system to be implemented for the SEETO priority list will focus on the quality of the projects submitted by the Regional Participants.

The Steering Committee will take the final decision regarding the inclusion of a project onto the priority list in the MAP. The SEETO Secretariat will only rate the quality of the proposed project.

### 3.7 Non Availability of Data

The rating mechanism will include an implicit assessment of a project's readiness - the evaluation will be based on the information provided by the Regional Participants including those documents required by any international financier. The responsibility for the timely provision of adequate information in line with the agreed template rests with the Regional Participants. The tough schedule and demands of producing the MAP to the standard envisaged mean that deadlines for submission of information must be respected.

Criteria for which no information is provided by the agreed deadline will receive the minimum points in the evaluation.

### 3.8 Supporting documents to the priority projects list

It is very important for SEETO and the EC to have a clear overview of the network development in South East Europe and the way this latter complies with the development of the TEN-T network. It is, therefore, proposed that the SEETO Secretariat will prepare, in addition to the priority list, an annual Investment Report describing the progress made in completing the SEETO Comprehensive Network. This report will, *inter alia*, include progress of the on-going priority projects (from the previous priority lists) and the projects for which financing has been secured. For detail of this Investment Report see Annex1. The information compiled for both the priority list and the Investment Report will be used as inputs for the MAP.

The Secretariat will prepare an annual Investment Report describing, *inter alia*, the progress made with implementing the projects previously on the priority list for which financing was secured and implementation has commenced or even been completed and providing information on the projects for which financing has been secured and which are ready to start.

## 4 The New System of Project Rating

While there is a general agreement on the need for prioritisation, the procedure must not be too complicated and must not involve a cumbersome data collection process. With this in mind it is proposed to use a Multi-Criteria Analysis.

### 4.1 Multi Criteria Analysis (MCA) and Weighting of Criteria for Evaluation

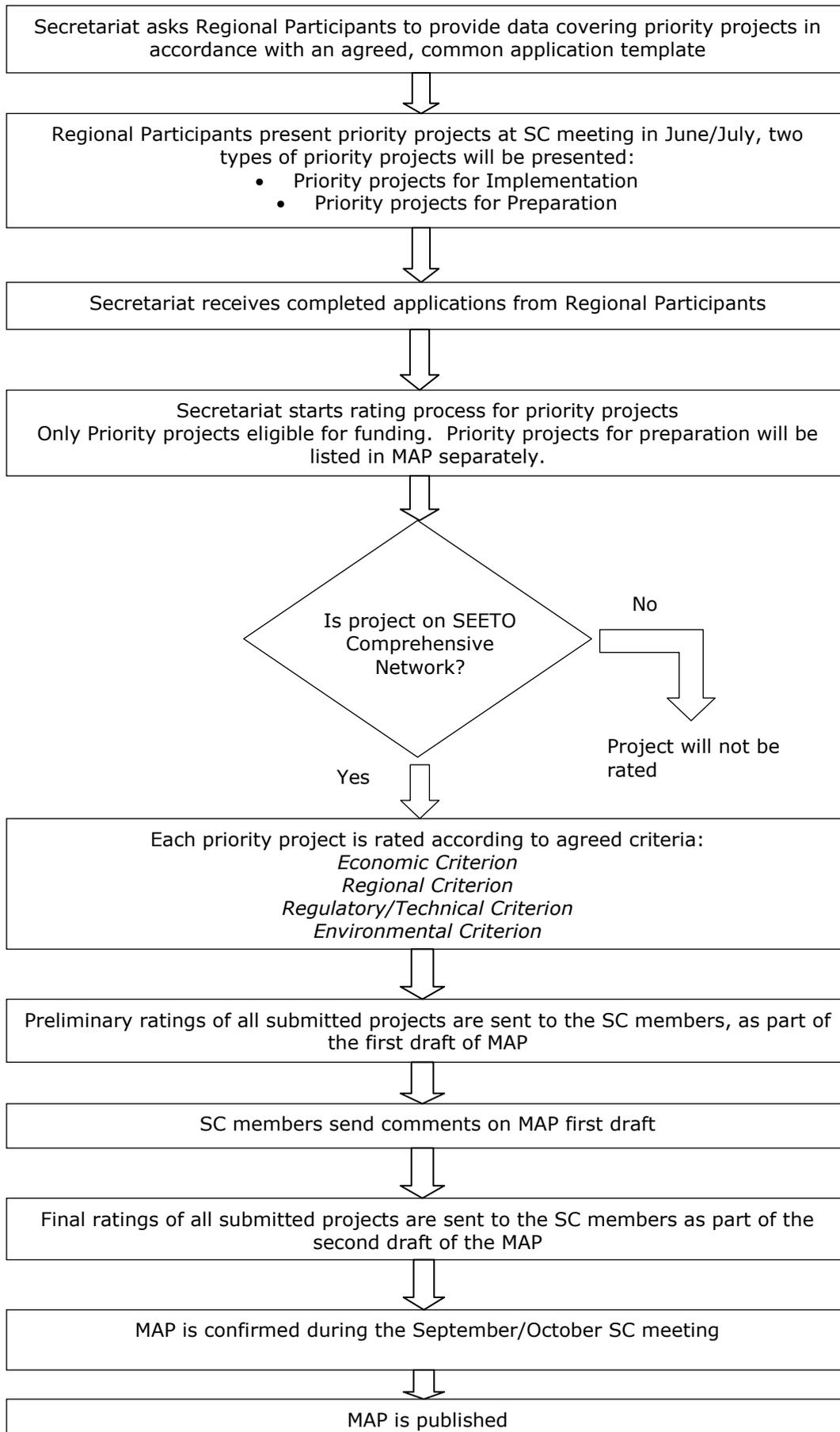
Multi-Criteria Analysis enables both quantitative and qualitative criteria to be considered in the project rating. But it also needs to be emphasised that MCA does not provide a definitive solution, rather a rational basis for decision-making.

The application of MCA ensures that the project economics' are not the only rating criterion while regional cohesion aspects environmental, policy, etc. can also be applied. MCA provides a logical approach where any criteria and their relative importance can be taken into account.

In order to simplify the evaluation process, it is proposed to use only four basic criteria, each with their specific weightings. Different scoring system will be applied on road and railway projects than on other transport modes projects (airports, seaports and IWW) as some criteria is not applicable on the latter group. Some of the criteria are divided into sub-criteria, as shown in the following table (detail description of each criteria is presented on page 11).

<b>Criteria</b>	<b>Points for road projects</b>	<b>Points for rail projects</b>	<b>Points for airport, seaport and IWW projects</b>	<b>Weighting</b>
Economic Sustainability	from 0 to 100	from 0 to 100	from 0 to 100	40%
Regional Sustainability				40%
Regional Participant priority	from 0 to 30	from 0 to 30	from 0 to 30	
Coordination between RP/MS countries	from -25 to 25	from -25 to 25	non applicable	
Technical standards	from -25 to 25	from -25 to 25	non applicable	
International user benefits	from 0 to 20	from 0 to 20	from 0 to 20	
Regulatory/technical sustainability				10%
Maintenance	from -75 to +75	from -75 to +75	non applicable	
Operation	from -25 to +25	non applicable	non applicable	
Environmental Sustainability	from -100 to +100	from -100 to +100	from -100 to +100	10%

The process for submitting investment projects and their subsequent rating by the SEETO Secretariat is outlined in the flowchart below.



Criteria	Points awarded	Comments		
<b>Economic Criteria (40%)</b>				
Economic Internal Rate of Return (EIRR)	<b>For roads, seaports and airports:</b> ≥12%: 100 points Between 10% and 12%: 50 points Between 8% and 10%: 30 points ≤8%: 0 points	<b>Rating Criteria for EIRR (%)</b>		
		>12% (100)	11 projects in MAP 2012	
	10%-12% (50)	6 projects in MAP 2012		
	8%-10% (30)	1 projects in MAP 2012		
	<8% (0)	3 projects in MAP 2012		
<b>Regional Criteria (40%)</b>	<b>For railways and inland waterways:</b> ≥8%: 100 points Between 6% and 8%: 50 points Between 4% and 6%: 30 points ≤4%: 0 points			
	Project is included in operational documents endorsed by the Government (Ministry of Finance, if applicable): 30 Project is included in national transport plan/strategy: 15 Public consultations have been positively carried out- The relevant stakeholders are involved: 7 points The project is not priority for the Government but for transport agencies: 0 points	<ul style="list-style-type: none"> <li>Operational documents include: Public investment plan/programme, National development plan, IPA operational programme for a regional development;</li> <li>Inclusion of the project in National transport Master Plans/strategies or in sectoral strategies;</li> </ul>		
	If project include border crossing, what type of coordination between Regional Participants or with neighbouring Member States takes place?	Commitment to improve border crossing infrastructure and procedures: 25 points No coordination on border crossing infrastructure and procedures: -25 points	Commitment – written confirmation from both Governments or ongoing negotiations among Governments on the border procedures	
	If cross border road or railway project: Are the same technical standards applied in both Regional Participants or in neighbouring Member States?	Yes, the same standards will be applied: +25 points No, there is no plans to apply the same standards in future: -25 points	Example – rail signalling standards, tolling systems, road category..	

Does the project generate significant user benefits for users from other Regional Participants or for users from outside the region?	Proportion of international traffic $\geq 10\%$ : 20 points Proportion of international traffic 2% to 10%: 10 points Proportion of international traffic $\leq 2\%$ : 0 points	Provision of the results of any demand/traffic forecast study of feasibility study, including international traffic (scenario with project implemented and without desirable)
<b>Regulatory/technical criteria (10%)</b>		
Will the road and railway infrastructure be maintained in future?	Yes, there is a dedicated fund or budget line for the maintenance of roads or railways: 75 points Yes, there will be a dedicated maintenance programme for the road or railway sector: 0 points Yes, but there is no dedicated programme or fund: -75 points	
Will the road and railway infrastructure be operated effectively and efficiently?	<b>For roads:</b> Concessionaire model will be applied or adopted plan for public operation and maintenance will be in place: 25 points No concession model will be applied and no plan for operation and maintenance will be in place: -25 points	
<b>Environmental Criteria (10%)</b>		
What are the environmental effects of the project?	Contribution to the re-balancing of transport modes in favour of the most environmentally friendly one: 100 points Positive effects or in case of possible environmental negative effects, the project foresees adequate mitigation measures: 50 points An environmental impact assessment has been carried out: 25 points No environmental impact assessment has been carried out: -50 points No mitigation measures are foreseen in case of potential negative effects: -100 points	

## Annex 1: Monitoring the Priority List from Year to Year

As already mentioned earlier, the Secretariat will prepare an annual Investment Report. It will have the following content:

- a statement for each project on previous priority lists whether *a)* financing has been secured; *b)* the project is currently being implemented or implementation has been completed; *c)* the project has been dropped from the priority list (including the reason why has it been deleted from the list); or *d)* the project is still on the current priority list;
- a summary list of completed and ongoing projects on the SEETO Comprehensive Network during the reporting period, including their description.

## Annex 2: Common Template for Priority Projects Applications

Note: all answers have to be backed up by relevant documentation (letters, studies, etc.).

- Short description of the project (location, goals the project aims to achieve, technical components, etc.)
- What is the expected Economic Internal Rate of Return (EIRR)
  - **For roads, seaports and airports:**
    - $\geq 12\%$ : 100 points
    - Between 10% and 12%: 50 points
    - Between 8% and 10%: 30 points
    - $\leq 8\%$ : 0 points
  - **For railways and inland waterways:**
    - $\geq 8\%$ : 100 points
    - Between 6% and 8%: 50 points
    - Between 4% and 6%: 30 points
    - $\leq 4\%$ : 0 points
- What confirmation by government that project is priority for Regional participant?
  - Project is included in operational documents endorsed by the Government (Ministry of Finance, if applicable)
  - Project is included in national transport plan/strategy
  - Public consultations have been positively carried out, the relevant stakeholders are involved
  - The project is not priority for the Government but for transport agencies
- If cross border road or railway project: What type of coordination between countries and/or rail managers takes place?
  - Commitment to improve border crossing infrastructure and procedures- There is agreement from all countries that border crossing times should be reduced to less than 30 minutes. All countries are interested in establishing a joint commission dealing with the issue.
  - No coordination on border crossing infrastructure and procedures
- Does the project generate significant user benefits for users from other Regional Participants, or for users from outside the region?
  - No

- Yes, proportion of international traffic  $\geq 10\%$
- Yes, proportion of international traffic 2% to 10%
- Yes, proportion of international traffic  $\leq 2\%$
- Will the infrastructure be maintained in future?
  - Yes, there is a dedicated fund or budget line for the maintenance of roads or railways
  - Yes, there will be a dedicated maintenance programme for the road or railway sector
  - Yes, but there is no dedicated programme or fund
- Will the infrastructure be operated effectively and efficiently?
 

**For roads:**

  - Concessionaire model will be applied or adopted plan for public operation and maintenance will be in place
  - No concession model will be applied and no plan for operation and maintenance will be in place
- Does the proposed project cross an environmentally sensitive area?
  - Contribution to the re-balancing of transport modes in favour of the most environmentally friendly one
  - Positive effects or in case of possible environmental negative effects, the project foresees adequate mitigation measures
  - An environmental impact assessment has been carried out
  - No environmental impact assessment has been carried out
  - No mitigation measures are foreseen in case of potential negative effects

### Annex 3: Methods for Rating and Prioritisation used in Other Regional Transport Organisations

This chapter describes how other regional transport initiatives supported by the EC rate and prioritise projects.

#### EuroMed

EuroMed comprises ten countries in North Africa and the Middle East. EuroMed uses a Multi Criteria Analysis with six main criteria and a series of sub-criteria. The evaluation criteria were chosen so that they could be applied across all countries and across all transport sectors. New criteria were not invented and the basis was the prioritisation methodology of a previous High Level Group for the definition of transport corridors in the region. The chosen main criteria are shown in the table below:

Main Criteria	Weight
General criteria: regional integration	20%
Technical criteria	15%
Social criteria	15%
Policy-based criteria	15%
Economic criteria	15%
Environmental criteria	20%

The criteria are applied rather rigidly and some points are allocated according to the type of project (new construction versus rehabilitation, etc.) and type of infrastructure (road versus rail, etc.).

Overall, the EuroMed countries submitted 83 projects to be considered for the priority list of which 20 projects were selected. This priority list has not changed since 2008.

#### TRACECA

The Transport Corridor Europe Caucasus Central Asia ("TRACECA") comprises 13 countries of Eastern Europe, the Caucasus and Central Asia. For the selection of priority projects, it uses a Multi Criteria Analysis which is almost the same as EuroMed's. The TRACECA member countries submitted 39 projects to be considered for the priority list, of which 12 projects were selected.

#### NORDIM

The Northern Dimension Partnership on Transport and Logistics ("NORDIM") comprises 11 countries of Northern Europe. It does not prioritise the projects submitted by its member countries, but it ranks them according to a Multi Criteria Analysis. Therefore, NORDIM does not have a priority list, but a list of projects which the member countries want to implement.

NORDIM uses seven main criteria in the evaluation which are further divided into 26 minor criteria. All main criteria have the same weighting.

The rating of the projects is very strict and the resulting list clearly highlights the projects which achieve the highest ratings and should, therefore, be considered a priority. In total, there are 76 projects on the project list. However, NORDIM also includes non-physical projects on this list and some projects have been submitted under various headings.