STRATEGIC INVESTMENT PACKAGES

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Abstract. Regional disparities are still growing in many countries, both developed and underdeveloped, despite significant effort made. It seems a standard approach based on direct subsidies or project-type support is insufficient. Recently, new schemes have appeared, based on the place based approach. These schemes are many times referred to as integrated territorial investments, which replace classic individual projects. Integrated approach not just combines intervention from different fields but also yields in higher rentability of investments. Higher level of integrated territorial investments is represented by strategic investment packages, which combine the advantages of large infrastructure projects and smaller regional projects. However, this type of investments require high level of co-ordination and scientific and political effort.

Keywords: regional disparity; integrated approach; sustainable development; project package

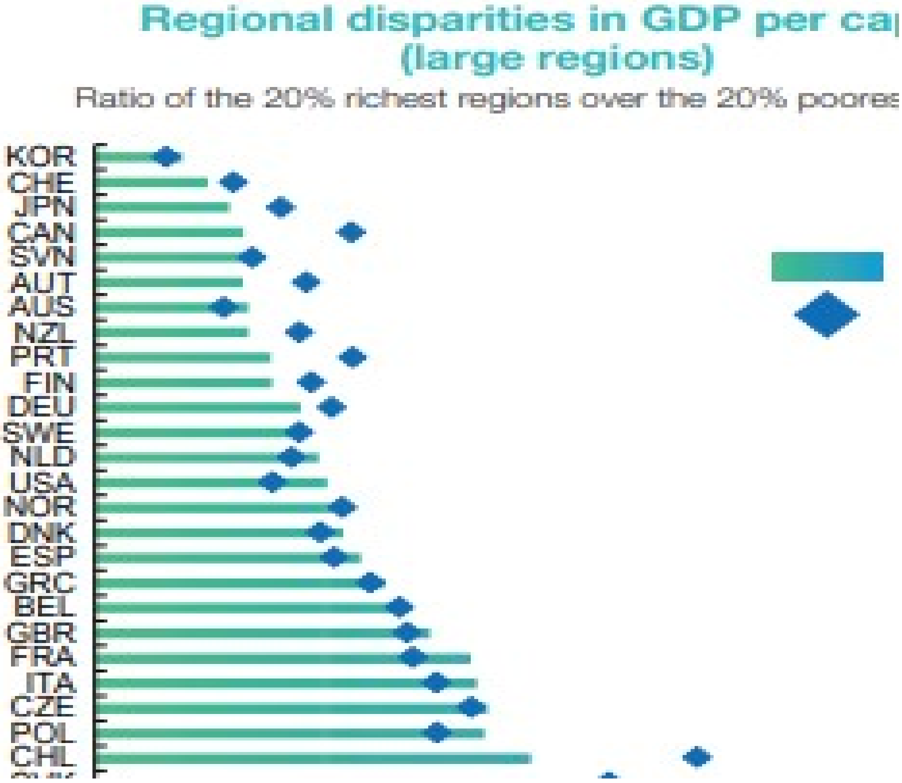
1. INTRODUCTION

The OECD study on regional development [1] shows that regional economic disparities have increased in half of OECD countries since 2008 (Figure 1). This means that economic growth after the 2008 – 2010 crisis has been spread unevenly. Certainly, it can never be spread fully evenly but constantly growing regional disparities result in social and economic inequalities. This brings unpleasant burden on public expenditures, which could otherwise be used for other purposes.

A standard approach to reduction of regional disparities is based either on direct subsidies to citizens or on public support to typical regional projects, like housing, local schools, tourism, local environmental and transport infrastructure, small and medium enterprises, etc. A scale of this kind of support, either financial or physical, is rather limited and has rarely delivered a substantial change in the regions concerned. Integrated approach applied in highly developed combines small scale regional measures with large scale ones, mainly large scale infrastructure. This helps to remove a typical obstacle to many interventions in the regions lagging behind, which is a negative cost - benefit ratio. However, such a combination is an issue which requires a science behind it. Another point are political consequences of such an approach, since it means eventually bringing together government and regional policies. This inevitably implies a superior programming level leaning on a wider philosophy.

Nowadays, sustainable development is considered to be a wider philosophy application of which leads to integrated investments balancing interests of all stakeholders in a given territory. But the issue is quite uneasy to tackle since the growth oriented economies still prevail and we are far from quality of life being superior and dominating over economic growth. Nordic countries are, perhaps, an exception from this rule, especially Finland whose model of ruling the society is very attractive.

This work after description of sustainable development and integrated territorial investments focuses on inspiring examples of strategic investment packages in the United Kingdom, France and Sweden. Successful implementation of such investments is admirable and reflects high level of professional skills as well as highly developed capacities of public sector.



Source: OECD

Figure 1 Regional disparities in OECD countries

2. SUSTAINABLE DEVELOPMENT

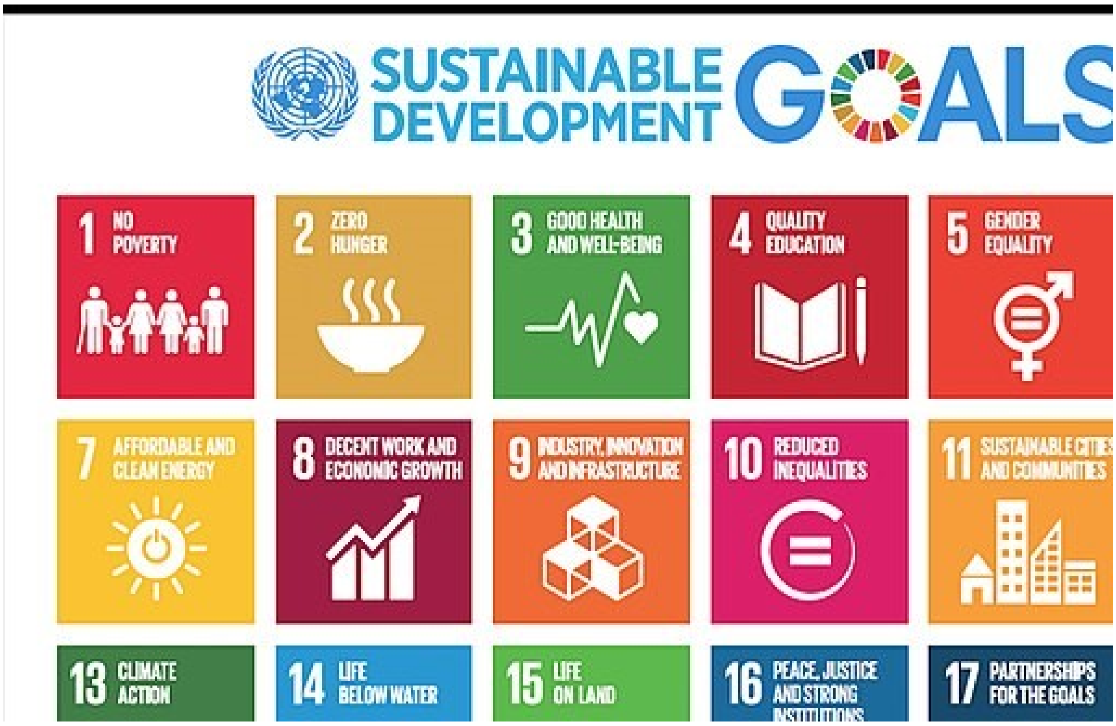
Sustainable development is at present an overall policy which is recognised as the right way forward in the current turbulent world. It is defined as a balance of three pillars: economy, social affairs and environment. The concept of sustainable development appeared in the 70´s and its main principle was that uncontrolled growth (of population, production, consumption, pollution etc.) is unsustainable in the situation of limited resources. This concept has for long been mainly linked to protection of environment. Various environmental movements tried to balance the power of industrial corporations, pointing out negative impacts of profit oriented economies. Thus, they in fact joined social movements aiming at the same goal.

United Nations conference in Stockholm in 1972 became the symbol of growing global interest in environment and development. Subsequently, United Nations Organisation (UNO) established in 1983 the World Commission on Environment and Development, which in its report „Our common future" adopted by the UNO General Assembly on 11 December 1987 launched a new era of socially and environmentally sustainable economic growth and brought to life a new term – sustainable development. United Nations Conference on Environment and Development in Rio de Janeiro in 1992 declared a strong support to sustainable development and adopted 4 fundamental documents:

- Rio Declaration on Environment and Development;
- Convention on Biological Diversity;
- Framework Convention on Climate change;
- Agenda 2021;

Agenda 2021 became a basis for national sustainable development strategies, elaboration of which was recommended by UNO. But it is now the Agenda 2030 of UNO [2], which is a flagship of sustainable development at international level. Agenda 2030 was adopted in September 2015 during the High level conference of the Heads of the UNO member states.

It consists of the 17 sustainable development goals (SDGs), broken down into 169 targets, evaluated by 247 global indicators. The 17 SDGs are often illustrated in a form of the set of coloured icons, now known as the SDGs logo (Figure 2).



Source: Conciliation resources, https://www.c-r.org/news-and-insight/how-well-are-we-doing-peace-and-sustainable-development-goals

Figure 2 Logo of SDGs

At the EU level, the New European Commission took SDGs on board in its key programme "The European Green Deal" [3]. The reference to Agenda 2030 in this document is clearly expressed as follows: "The Green Deal is an integral part of this Commission's strategy to implement the United Nations´ 2030 Agenda and the sustainable development goals."Nevertheless, The Green deal concentrates first of all on climate change, i.e. SDG 13, and sets the overall goal to achieve a climate neutrality of the European Union by 2050. In order to achieve this ambitious goal, The Green Deal calls for a wide transformation of society and rethink of policies for clean energy supply across the economy, industry, production and consumption, large-scale infrastructure, transport, food and agriculture, construction, taxation and social benefits.

At national level, Slovakia prepared "National Strategy of Sustainable Development" [4] that was approved by the Government in 2001. This document was prepared in 1999-2000 with assistance of United Nations Development Programme, using the bottom-up principle. This means that experts from different sectors, including academy, participated in drafting the national strategy as a document accepted by whole society. As for Agenda 2030 of UNO, using a highly democratic participatory process Slovakia integrated the 17 SDGs into six national priorities of Agenda 2030 approved by the Government (resolution 273/2018):

- Education for a life in dignity;
- Poverty reduction and social inclusion;
- Transformation towards a knowledge-based and environmentally sustainable economy in the face of changing demographics and global environment;
- Sustainable settlements, regions and landscape in the context of climate change;
- Rule of law, democracy and security;
- Good health.

3. LEGAL AND PROGRAMMING BASIS FOR INTEGRATED TERRITORIAL INVESTMENTS

3.1. EU funds

At the EU level, integrated territorial investments are embedded in the Regulation of European Parliament and Council of European Union 2021/1060 [5], in particular the article 28 “Integrated territorial Development” and the article 29 “Territorial strategies”.

At national level, Slovakia adopted the Act 121/2022 Coll. on Contributions from EU Funds. Paragraph 7 of the Act defines the institutions at central and regional levels and the scope of their competences in the process of preparation of integrated territorial development.

The Partnership Agreement 2021 – 2027 is the fundamental programme required by the regulation 2021/1060, which sets out the priorities the use of EU funds. Thematically oriented Operational Programmes, also required by the regulation, are then executive tools of the Partnership Agreement, with detailed description of objectives, activities and indicators. Slovakia decided to apply a single Operational Programme 2021 – 2027 in order to integrate priorities of different fields and open the doors to integrated territorial investments in the regions.

3.2. All resources

The above six national priorities of Agenda 2030 paved the way towards the “Vision and Development Strategy 2030”, which could be understood as an executive document of SDGS in Slovakia. Again, a highly democratic participatory process was used to formulate it. Therefore, we can say that the “Vision and Development Strategy 2030” is the document of whole society, although it was formally adopted by the Government (resolution 41/2021).

The most interesting feature of this document is the point of integration, this time of national policies with regional ones (Figure 3). That was possible thanks to apparent similarity of priorities of the National strategy for Regional and Territorial Development elaborated independently from the national priorities of Agenda 2030:

- Sustainable competitive environmentally oriented economy of regions
- Improvement of the quality of life and the development of nature and human capital
- Integrated (regional and territorial) development and infrastructure

Finally, integration of national and regional policies was anchored in the above mentioned Government resolution 41/2021, which defined the Vision and Development Strategy 2030 as the National Strategy for Regional Development in the sense of the Act 539/2008 Coll. on support of regional development.

Further to that, Agenda 2030, SDGs and Vision and Development Strategy 2030 were incorporated into the Methodology for preparation of Programmes for Economic and Social Development of Regions [6] whose annex V is titled even more explicitly – Integrated Territorial Investments.”

The Annex V expresses Integrated Territorial Investments in terms of integrated project packages and attaches to them four levels of integration:

- Strategic level - aiming to enforce synergies of various strategic frameworks by means of linking
  many investment priorities, measures and activities in order to implement a complex multi-sectoral strategy for a particular territory;
- Financing level – combination of various financial resources facilitating the co-ordination of investments in territories and optimising the use of individual resources;
- Territorial level – support of integration of strategies based on specifications and specific needs of communes/cities and regions, respecting the bottom-up principle;
- Implementing level – based on integrated activities in a territory, i.e. combination of different investments, activities and measures so as to apply a multi-resource approach aiming to implement more complex and more focused set of mutually interlinked integrated projects.

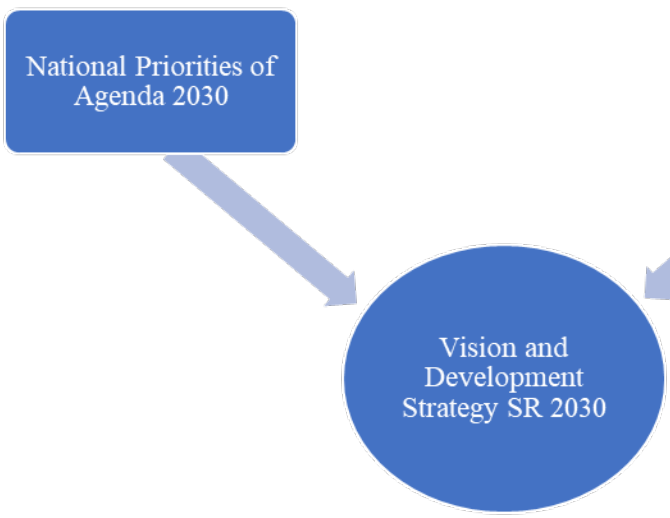


Figure 3 Integration of sectoral and regional priorities (own elaboration)

4. STRATEGIC INVESTMENT PACKAGES IN HIGHLY DEVELOPED COUNTRIES

The concept of strategic investment packages was demonstrated by the key experts from France, Sweden and United Kingdom during the event organised in 2018 in co-operation between the Office the Deputy Prime Minister for Investments and Informatisation of Slovakia and OECD (International Transport Forum). The event showed how governments can strategically address regional challenges through implementing integrated transport infrastructure investment with other measures, thus making strategic investment packages. The results of this event was summarised in the official OECD study [7].

Regional development is often hindered by low internal rate of return (IRR) of regional projects. IRR is based on the cost-benefit ratio of project parameters discounted over a long period, typically twenty or thirty years. Cost-benefit ratio is low due to low level of economic development of the regions lagging behind, incomplete infrastructure, low income of inhabitants etc.

But the concept of sustainable development leads to integrated package of projects that enables to sum up positive effects of individual sub-projects of a package. Final internal rate of return can be positive in such a case. Using the balance principle of sustainable development we could symbolically formulate such a case, as follows:

$$IRR = IRR_{economic} + IRR_{social} + IRR_{environmental} \quad (1)$$

However, current science has not yet delivered a methodology which could allow for summing of IRRs of the three pillars. There are efforts to include protection of environment (e.g. internalisation of external costs) or value of planet into the formula for IRR, but for the time being this is going on slowly. But as the OECD study [7] shows, integrated infrastructure investments show the way forward and can be a solution for the regions lagging behind, as described in the examples below.

4.1. Example of United Kingdom

Strategic regional spatial economic models in the United Kingdom transformed transport modelling and appraisal into a new and more complex framework. This approach removes a number of limitations of the conventional cost-benefit method. Instead, a gross domestic product (GDP)-based metric proves to be much more useful, as follows: if income and sales tax paid on the GDP generated by an integrated scheme exceeds its costs, then such an integrated scheme can be considered as funding itself and should therefore be approved.

United Kingdom´s examples of such an approach are “London cross-rail scheme” (Figure 4) and “High speed rail 2” (Figure 5).

Figure 4 London Cross-rail scheme

The inclusion of wider benefits in the appraisal of the London Cross-rail scheme strengthened the case for the project in a number of ways. It demonstrated that the project provided good value for money, with a cost-benefit ratio above 3.0.

Source: Department of Transport, UK (2017c)

Picture 5 High speed rail 2

The headline figures from the High speed rail 2 economic impact study showed the 0.8% GDP increase in 2037. Both the cities in the North and London would benefit, with activity moving away from locations in the east and south-west of the country.

4.2. Example of France

In France, a nice example of strategic investment package is the project “Grand Paris Express for Île-de-France” (Figure 6), which is a construction of new fast automatic metro lines in Paris. It is not designed to stop at every metro station as it is the case now but in crucial points where the new lines meet fast trains known as Train de Grand Vitesse (TGV). This concept perfectly brings together trans-national, national, regional and local transport. Synergical effects are then enormous as well as overall increase of comfort and quality of travelling for passengers.

The GPE (Grand Paris Express) project was introduced by President Nicolas Sarkozy in April 2009. The economic objective of the project was to increase the attractiveness of the entire Île-de-

France region by improving the transport links and hence increasing the size of the agglomeration. The GPE is an ambitious, transformative project for Île-de-France. To calculate the net present value of the investment, the Société du Grand Paris proposed to add an assessment of the wider economic benefits resulting, inter alia, from agglomeration effects.

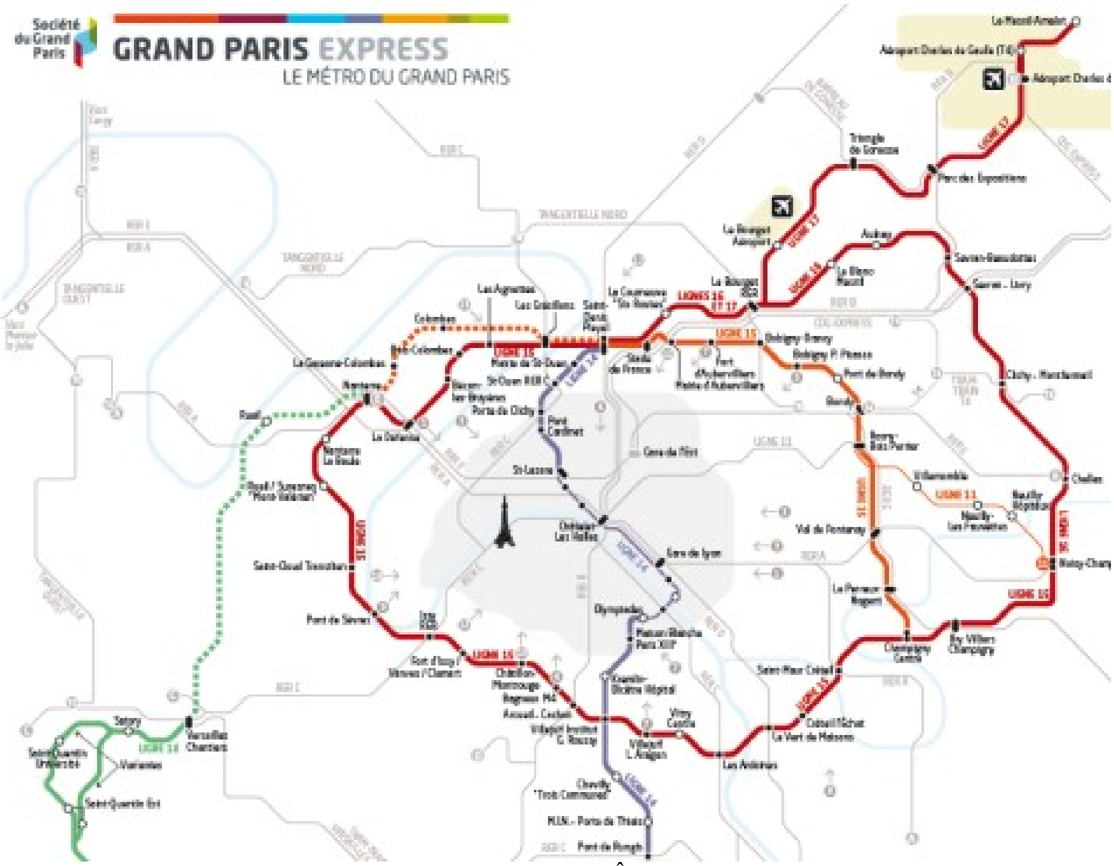


Figure 6 Grand Paris Express for Île-de-France

This assessment was then added to the standard cost-benefit analysis which has been conducted for all transport investment projects in France since the 1960s. The assessment of wider economic benefits by the Société du Grand Paris was inspired by the work carried out in the United Kingdom, in particular the methodology adopted by the Department for Transport.

When wider economic benefits are excluded from the calculation the rate of return on the project derived from such net gain is lower than 4%, the criteria set out for public projects in France. When wider economic benefits are considered, the ratio increases to 1.05, which implies that the benefits of the project exceed its cost, thus increasing the attractiveness of the project.

4.3. Example of Sweden

In Sweden, a new high speed rail line connecting Stockholm with Göteborg and Malmö is being developed (Figure 7). It is called a project of the century. The investment proposal was first assessed in a process that included a standard cost-benefit analysis and a number of supplementary analyses. The ratio between the net present value and investment cost in the standard cost-benefit analysis was calculated at -0.6, meaning that the investment is not socially profitable. However, Swedish experts realised that a standard cost-benefit analysis applied on large investments might fail to include some impacts. A significant concern in this case was the impact on the location of households (and, by extension, of the labour force). Various models are now being made to include these effects into the calculations of cost-benefit ratio.

Figure 7 High Speed Railways between Stockholm and Göteborg/Malmö

4.4. Suggestions for Strategic Investment Packages in Slovakia

Suggestions for strategic investment packages in Slovakia are based on two basic facts:

- Slovakia is suffering from huge regional differences between the region around the Capital city of Bratislava and the rest of the country;
- Backbone motorway and railway infrastructure is incomplete and.

Building backbone transport infrastructure and removal of regional disparities can thus go hand in hand and bring us to the suggestions for strategic investment packages in Slovakia (Figure 8).

The network of transport corridors shown on the Figure 8 is part of the trans-European network, which is a backbone of the European Union.

The first suggested strategic investment package is concentrated around the Bratislava metropolitan centre. It could be extended to Vienna, taking into account geographical proximity of the two capital cities.

The second suggested strategic investment package in the central Slovakia vertically connects northern motorway D1 and southern expressways R1 and R2. This would result in a very positive impact on economy of this region. Let us recall an unpleasant fact that bringing expressways to the city of Banská Bystrica in the central SLovakia lowered GDP and caused the drain of qualified labour to Bratislava. In international terms, north-south corridor via central Slovakia forms a very competitive transport corridor in Europe.

The third suggested strategic investment package is based on the Integrated Rail Transport System in the Eastern Slovakia, which is the project currently being developed.

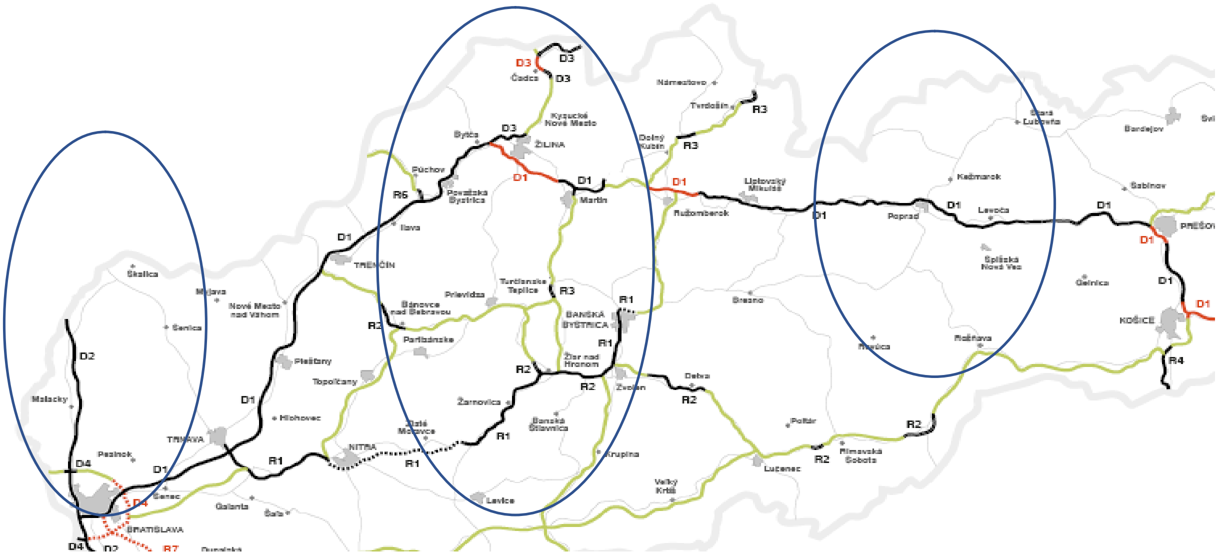


Figure 8 Possible example of strategic investment packages in Slovakia (own elaboration)

CONCLUSION

This article is of a strategic value. It aims to attract attention to regional disparities and propose a solution for their removal. The proposed solution is based on sustainable development philosophy applied in the region in question and its implementation by means of strategic investment packages. Three strategic investment packages are proposed for Slovakia in the key agglomerations connected to the trans-European transport network. To implement them in the future, a further effort will be needed to elaborate a methodology on the detailed specification of the key agglomerations as well as on the definition of individual projects which in a sustainable and integrated manner form strategic investment packages.

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