Remarks of the Auditor General of Estonia Mr Janar Holm about the audit “Funding and implementation of the Rail Baltic project in Estonia in 2014–2019”:

Dear readers,

Rail Baltic is the biggest infrastructure project during the history of the independent Estonia both in terms of cost and scale. Approximately a quarter of the total length of the 870-kilometre railway from Tallinn to the border between Lithuania and Poland, which will cost 5.79 billion euros according to initial estimates, will be in the territory of Estonia. The preparation and implementation of the project has been ongoing to a bigger or lesser extent since 1994, somewhat more actively for the last decade.

The planning and management of major projects is always difficult. This is due to the scale of the project as well as the polarising disputes that always go with such projects, numerous unexpected occurrences in the different stages of the project and the mutual amplification of such occurrences. The complexity of the Rail Baltic project is increased by the participation of three states in the project, different interests and a complicated management system where, as indicated by the audit, responsibility can sometimes become muddled.

Contingencies – whether objective or arising for superficial planning – are an organic part of major projects. So you should always be prepared for contingencies, as they are expected. Not welcome, but unavoidable. As a rule, there are at least three patterns that characterise major projects. The first is that the majority of contingencies that occur during the project are not good for the budget. The second one is that major projects don’t tend to get completed before the planned deadline. They are completed considerably later than initially planned, which means that the benefits of the project are also postponed. And the third pattern is that in the first stage of the project, the leaders of the project are brimming with confidence and certain that the project will be completed by the deadline and it will cost just as much as planned. Even if there are sings that clearly suggest the opposite. But in the initial stage of the project, it is always possible to claim that the increased costs can be covered by cutting the costs of the next stages and the lost time can be made up for by accelerating the next stages. But reality bites in the next stages – they also have some contingencies in store.

Due to the extreme complexity and countless risks of a major project, it’s important that the action plan and funding are planned carefully and in as much detail as reasonable and possible for the entire period of the project. If circumstances change, the project’s action plan and budget have to be reviewed and adjusted. Not for the sake of planning, but to ensure that the project is manageable and it’s goals can be achieved by the planned deadline and with the planned costs.

Does the Rail Baltic project differ from other projects? It appears that it doesn’t – delays have occurred in the implementation of activities and the cost forecasts of some activities have increased. For example, the analysis indicated that the activities for which Estonia is responsible have exceeded or are about to exceed the deadlines planned in the funding agreements by more than two years on average. The Ministry of Economic Affairs and Communications insists that every effort will be made to complete the project by 2026 as planned and to find ways of saving money. Although some steps have been taken in this direction, the circumstances identified during the audit indicate that the cost of the activities is likely to exceed the initial forecasts and the completion of the project by the deadline is not realistic – until now, most of the previously set deadlines have not been met.

It was a surprise to the National Audit Office that the Rail Baltic project is only planned by four-year periods. This means that the project documentation does not include an action plan and budget that cover the entire period. The cost specified in the cost-benefit analysis of 2017 is considered in the case of the final price. 433.9 million euros has been spent and is planned to be spent on the development of the Estonian part of the project from 2010 to 2023, which comprises *ca* one-third of the estimated cost of the Estonian part of the Rail Baltic project highlighted in the cost-benefit analysis. A clearer budget forecast has not been prepared for the rest of the project, i.e. an estimated two-thirds of it. The problem is not that the Government has not approved these budget forecasts – they also don't exist as parts of the project documentation.

In the audit, the National Audit Office suggested preparing clearer budget forecasts and funding scenarios of Rail Baltic until the end of the project and present them as annexes to the budget forecast, but the response of the Ministry of Economic Affairs and Communications was surprising. In the opinion of the Ministry, planning the financial side of the project for more than four years is unlawful and possibly also in contravention of the Constitution.

The Ministry adds that the four-year planning period stipulated in the Budget Act is not random, but based on the facts that planning highly specific funding needs and sources for longer periods is difficult because of changes in critical circumstances and that the Constitution does not permit depriving future compositions of the Riigikogu of the opportunity to plan the budget.

There isn't a single legal act, not to speak of the Constitution, that prohibits long-term planning. The preamble to the Constitution still includes the objective to guarantee the preservation of the Estonian people and the Estonian culture through the ages, not just for the four-year period of the state budget. Long-term development plans are still prepared. The Constitution does not obstruct prudential and reasonable behaviour.

The Ministry adds in its letter that the existence of the money by 2024 and thereafter is guaranteed by the fact that in 2017 the Riigikogu assumed the obligation to complete the construction of Rail Baltic irrespective of what the rate of the specific self-financing of Estonia is. As a conclusion, it adds that finding the funds for the establishment of Rail Baltic is within the competence and the obligation of the Riigikogu composition of the respective years. Time will tell whether the Riigikogu has understood the matter in the same manner and obediently finds the money in the future irrespective of how much the Ministry of Economic Affairs and Communications needs for progressing with the project.

The National Audit Office advises the Riigikogu to demand from Ministry of Economic Affairs and Communications a project plan for the entire project period with the obligation to specify it when the circumstances change. We have to agree with the Ministry of Economic Affairs and Communications that planning is difficult, because we don't know how much and on which conditions we can receive support from the European Union in the new funding period from 2021 to 2027. But this doesn't mean we cannot prepare budget forecasts.

Another problem is that we don't have scenarios that could be followed if the implementation of the project ended up costing more than planned or if the European Union funding was lower than the expected 85%. The support of the European Union may decrease if the Member States decide to change the requirements for co-funding the facility or terminate the facility altogether in the negotiations concerning the funding period, or if the decision made upon the assessment of funding applications is to allocate less support than expected. The project may also end up costing more if the activities agreed in the funding agreements cannot be implemented within the agreed scope and schedule and/or with the agreed budget.

If the Ministry of Economic Affairs and Communications proceeds from the fact that the Riigikogu has assumed the obligation and must find the money necessary for funding Rail Baltic no matter how much it costs, then it should present the respective risk scenarios to the Riigikogu.

The risks must be managed and there must be an action plan in place in case the above happens. We must not place ourselves in the situation where the Ülemiste passenger terminal, Pärnu passenger terminal and a couple of viaducts have been built, but there is no railway between them and no money to build it. It would be irresponsible to claim then that the Riigikogu assumed the obligation and must find the money. The scenario where Rail Baltic ends in Riga, coming from the heart of Europe, is also something we don't really want to think about. In this case, the territory between Riga and Helsinki would be an isolated wasteland, a province.

We need extremely strong political will and support to ensure that this will not happen to Estonia. The National Audit Office already emphasised in its overview of 2017 that geopolitical considerations have always been at the centre of the decisions made about Rail Baltic.

We cannot just sit around and hope that nothing will derail the train. The train has to have a driver who understands that they must drive, that they are responsible, and they must see the journey ahead and any risks that may lie in wait.

The joint audit of the Estonian, Latvian and Lithuanian supreme audit institutions of the management of the Rail Baltic project will be completed soon. It will give an idea of what will happen if there are too many drivers pulling at the levers, each of them trying to steer the train in a different direction.

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