OPERATIONS EVALUATION

# Evaluation of EIB cohesion financing (2007 to 2018)

## Thematic report

October 2020

European Investment Bank
The EU bank

# Operations Evaluation

## Evaluation of EIB cohesion financing (2007-2018) – Thematic report

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**Evaluation of EIB cohesion financing (2007 to 2018) – Thematic report**


This is a publication of the EIB's Operations Evaluation Division, IG/EV.

This publication is related to the following ancillary publications:

- Evaluation of EIB cohesion financing (2007-2018) – Synthesis of project evaluations
- Evaluation of EIB cohesion financing (2007 to 2018) – Macroeconomic impact of EIB financing on the EU-28 regions

The Executive Summary of this report has been translated into French and German. It can be consulted at: https://www.eib.org/en/publications/evaluation-of-eib-cohesion-financing-thematic

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**Disclaimer**



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## Abbreviations and acronyms

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|---|---|
| **3PA** | Three Pillar Assessment |
| **CGE** | Computable general equilibrium |
| **COP** | Corporate Operational Plan |
| **EFSI** | European Fund for Strategic Investments |
| **EFTA** | European Free Trade Area |
| **EIB** | European Investment Bank |
| **EIBIS** | Annual EIB Group Survey on Investment and Investment Finance |
| **EIF** | European Investment Fund |
| **ESIF** | European Structural and Investment Funds |
| **EU** | European Union |
| **EU-EMS** | European Economic Modelling System |
| **GDP** | Gross Domestic Product |
| **GFCF** | Gross Fixed Capital Formation |
| **i2i** | Innovation 2000 Initiative |
| **ICT** | Information and communications technology |
| **IG/EV** | Operations Evaluation Division of the EIB Group |
| **JASPERS** | Joint Assistance to Support Projects in European Regions |
| **JESSICA** | Joint European Support for Sustainable Investment in City Areas |
| **KPI** | Key performance indicator |
| **MBIL** | Multi-beneficiary intermediated loan |
| **MFF** | Multiannual Financial Framework |
| **NUTS** | Nomenclature des Unités Territoriales Statistiques / Nomenclature of Territorial Units for Statistics |
| **PPS** | Purchasing Power Standards |
| **SME** | Small and medium-sized enterprise |
| **TEN** | Trans-European Network |
| **TEN-E** | Trans-European Network for Energy |
| **TEN-T** | Trans-European Network for Transport |
| **TFEU** | Treaty on the Functioning of the European Union |
| **TO** | Thematic objective |

## KEY TERMS

**3PA** Three pillar assessment framework (3PA) for assessing projects to be financed by the EIB against: (i) their contribution to EU policy, (ii) their quality and soundness, and (iii) the EIB technical and financial contribution.

**Cohesion** In the context of the European Union, cohesion refers to an overall objective of the European Union, and a policy area of shared competence between the European Union and the Member States, with the particular aim of "*reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions*" (TFEU, Article 174). Cohesion is a broad concept that encompasses *economic, social* and *territorial* cohesion. *Economic cohesion* can also be thought of as the process of *economic convergence* – i.e. the reduction of differences in the level of economic development among EU regions.

**Convergence** In the context of the European Union, convergence was a specific objective of EU Cohesion Policy in the 2007-2013 Multiannual Financial Framework (MFF). It aimed at speeding up the convergence of the least developed regions (to the EU average) by improving conditions for growth and employment through the increase and improvement of the quality of investment in physical and human capital, the development of innovation and of the knowledge economy, adaptability to economic and social changes, the protection and improvement of the environment, and administrative efficiency.

**Europe 2020 Strategy** The European Union's ten-year strategy for smart, sustainable and inclusive growth, launched in March 2010. To deliver on this objective, five targets have been set, covering employment, research and development, climate change and energy sustainability, education, and the fight against poverty and social exclusion. The Europe 2020 Strategy is used as a reference framework for activities at the EU, national and regional levels, including Cohesion Policy.

**Lisbon Strategy** Launched in March 2000, the Lisbon Strategy aimed at making the European Union the world's most competitive economy by 2010, and was structured around three pillars:

1. An economic pillar laying the groundwork for the transition to a competitive, dynamic, knowledge-based economy, with a strong emphasis on adapting quickly to changes in information technology and to investing in research and development.
2. A social pillar designed to modernise the European social model by investing in human resources and combating social exclusion. The pillar focuses on investment in education and training and active employment policies, making it easier for Europe to move to a knowledge economy.
3. An environmental pillar, which focuses on decoupling economic growth from the use of natural resources.

The Lisbon Strategy was succeeded by the Europe 2020 Strategy (2010).

**Less developed regions** In the context of the 2014-2020 MFF, EU regions (classified at NUTS 2 level) where gross domestic product (GDP) per capita is below 75% of the average in the EU-27 (measured in purchasing power parities (PPS) on the basis of Union data for 2007-2009).

**Low-growth regions** *The lagging regions report* of the European Commission defines less developed and transition regions as regions (with GDP per capita of up to 90% of the EU average) that did not converge to the EU average per capita GDP of Member States from 2000-2013. The GDP of less developed and transition regions, measured in purchasing power parity, remained below the EU average of 2013. Almost all of the less developed and transition regions are in Greece, Spain, Italy and Portugal.

**Low-income regions** *The lagging regions report* of the European Commission defines low-income regions as regions with GDP per capita in PPS below 50% of the EU average in

2013. This group covers several less developed regions in Bulgaria, Hungary, Poland and Romania.

**More developed regions** In the context of the 2014-2020 MFF, EU regions (classified at NUTS 2 level) where GDP per capita is above 90% of the EU-27 average GDP (measured in purchasing power parities (PPS) for 2007-2009).

**NUTS 2 level** The Nomenclature of Territorial Units (NUTS) classification subdivides the economic territory of Member States into territorial units, each with a specific code and name. It comprises three levels. Each Member State is subdivided into NUTS level 1 territorial units (major socioeconomic regions), each of which is subdivided into NUTS 2 (basic regions for the application of regional policies) and then NUTS 3 territorial units (small regions).

**Partnership Agreements** Agreements between the European Commission and individual Member States that set out the national authorities' plans on how to use funding from the European Structural and Investment Funds (ESIF) in the 2014-2020 MFF.

**Phasing-in regions** Phasing-in regions refer to 12 regions in the EU-15 (plus one in a new Member State) that have developed significantly over the last years to graduate out of Objective 1 support under the 2000-2006 MFF, but got priority status within the Regional Competitiveness and Employment objective under the 2007-2013 MFF.

**Phasing-out regions** Phasing-out regions refer to regions that would have been eligible for funding under convergence if the threshold of 75% of GDP per capita had been calculated for the EU at 15 and not at 25.

**Programme countries** Countries benefiting from macroeconomic assistance programmes in the period under consideration (from 2014 onwards): Cyprus (May 2013 to March 2016), Portugal (2011-2014), Greece (2010-2019).

**Public policy goals** The public policy goals reflect the highest goals of EIB lending, as enshrined in EIB Statutes and EU Treaties. They indicate the priority sectors where EIB financing is directed, and are associated with specific orientations in the Bank's corporate operational plans (signed amounts of financing from the EIB's own resources). The Bank currently has four main public policy goals: environment, infrastructure, innovation, and small and medium-sized enterprises (SMEs) and mid-cap finance, and two cross-cutting public policy goals: climate action and economic and social cohesion.

**Thematic objectives** There are 11 thematic objectives (TOs) to be supported by the ESIF under EU Cohesion Policy for the 2014-2020 MFF:

1. Strengthening research, technological development and innovation.
2. Enhancing access to, and use and quality of information and communications technology (ICT).
3. Enhancing the competitiveness of small and medium-sized enterprises.
4. Supporting the shift towards a low-carbon economy.
5. Promoting climate change adaptation, risk prevention and management.
6. Preserving and protecting the environment and promoting resource efficiency.
7. Promoting sustainable transport and removing bottlenecks in key network infrastructure.
8. Promoting sustainable and quality employment and supporting labour mobility.
9. Promoting social inclusion, combating poverty and discrimination.
10. Investing in education, training and vocational training for skills and lifelong learning.
11. Enhancing the institutional capacity of public authorities and stakeholders and efficient public administration.

The 11 TOs are linked to the Europe 2020 goals of *smart* (innovation, education, digital society agenda – TOs 1-3), *sustainable* (climate, energy and mobility agenda – TOs 4-7) and *inclusive* (employment and skills, fighting poverty and social exclusion agenda – TOs 8-11) growth.

**Transition regions** In the context of the 2014-2020 MFF, EU regions (classified at NUTS 2 level) where GDP per capita is between 75% and 90% of the average GDP per capita of the EU-27 (measured in purchasing power parities (PPS) on the basis of Union data for 2007-2009).

# Executive Summary

## About this evaluation

This report presents the findings from the evaluation of EIB cohesion financing, undertaken by the Operations Evaluation Division (IG/EV) of the European Investment Bank (EIB). The evaluation assesses how the EIB has supported less-developed regions and the reduction of regional disparities in the European Union, and with what results.

Financing projects that contribute to strengthening the economic, social and territorial cohesion of the European Union is one of the EIB's *raisons d'être*. By treaty, the EIB is charged with supporting the development of the internal market and the reduction of regional disparities in the European Union, notably by facilitating the financing of projects in less-developed EU regions.

EIB activities in support of the cohesion objective include financing, advising and managing financial instruments or funds. This evaluation focused on financing operations included under the Bank's cohesion key performance indicator (KPI), signed between 2007 and the end of 2018. This period covers the last two EU Multiannual Financial Frameworks (MFFs), 2007-2013 and 2014-2020, which have guided the EIB's approach to cohesion financing. This scope encompasses a portfolio of 2 111 operations for a signed amount of €262 billion.

The evaluation draws on a combination of quantitative methods (portfolio analysis, macroeconomic model of the impact of EIB cohesion financing, survey of EIB staff) and qualitative methods (interviews, document and literature reviews) to build a robust evidence base. In particular, a purposeful sample of 19 projects, illustrative of the diversity of products, countries/regions and sectors supported by EIB cohesion financing, was selected and rated individually for performance (relevance, effectiveness, efficiency and sustainability), EIB contribution and EIB project cycle management.

Overall, the evaluation found that the EIB's cohesion financing supports operations that are relevant to cohesion regions' needs, notably by supporting sustainable network infrastructure, the competitiveness of SMEs, and research, development and innovation (RDI). The portfolio of operations is expected to have a positive impact on economic growth in cohesion regions. The EIB's product offer is generally flexible enough to match the variety of clients' needs in these regions. For most of the period under review, the EIB has achieved its annual cohesion financing targets.

## Beyond a financing target, the EIB lacks strategic orientations for its cohesion financing

**Despite support for EU cohesion being one of its *raisons d'être*, the EIB currently lacks a high-level document setting out specific objectives for its cohesion support and how it, as the EU bank, aims to contribute to regional development and ultimately to the reduction of disparities between EU regions.** The only objective the Bank has set for itself in relation to cohesion is that of dedicating a share (in recent years 30%) of its annual volume of signatures to projects located in eligible regions (hereinafter referred to as "cohesion regions"). The Bank's narrative in relation to cohesion financing is incomplete: on the one hand, there is the target of mobilising a substantial financing sum each year, and on the other, the ultimate objective of reducing regional disparities, without setting out how and why this financing, dedicated to relevant sectors and geographies, is expected to contribute to regional development. Consequently, the Bank's internal and external narrative is limited to financial inputs, rather than results. The Bank does not articulate how, as the long-term financier of the European Union, it intends to mobilise its resources, experience and expertise for that purpose.

**In addition and linked to the above, the Bank has not developed its unique value proposition for cohesion.** Beyond harmonising its definition of cohesion-eligible regions with that of the European Commission, the Bank currently lacks a narrative on how it positions itself in the wider EU and international policy context in relation to, for example, the European Structural and Investment Funds (ESIF) and other international financial institutions, and what unique value added it brings.

**A clearly articulated orientation paper for cohesion would enable the EIB to identify and prioritise the investment needs and barriers to investment typically found in cohesion regions**, and hence improve its relevance and accountability. It would also enable the EIB to develop a more comprehensive narrative for its comparative advantage and complementarity with other EU and international policy instruments. Furthermore, the development of strategic orientations would signal the importance given by the EIB to this objective both internally and externally.

**Recommendation 1:** The EIB should develop an orientation paper that articulates how its cohesion financing is intended to contribute to the development of less-developed regions and to the reduction of disparities within the European Union. In particular, increasing trade-offs between achieving the financing objectives related to climate transition and to cohesion are expected under the upcoming MFF: the EIB should therefore describe how its cohesion objective ties in with other objectives, especially climate action.

In carrying out its task, the Bank is expected to facilitate the financing of investments in conjunction with assistance from the ESIF and other EU financial instruments. In its 2018 evaluation of structural programme loans, a product purposefully developed for blending EIB loans with ESIF, IG/EV found that the EIB's policy of applying a "cumul rule"[1] decreases the capacity of Member States or regions to fully mobilise the ESIF available to them. IG/EV recommended that the Bank reassess the pros and cons of applying its "cumul rule". The implementation of this recommendation has been put on hold until the new MFF architecture is decided. As MFF negotiations progress, the timing is opportune for this question to be considered again by the Bank.

**Recommendation 2:** The EIB should (re)consider the pros and cons of its policy of applying a "cumul rule" to structural programme loan operations, taking into consideration the borrower (whether a Member State or region), and their economic, financial, legal and regulatory environment, so that cohesion regions can make the most of combining ESIF and EIB co-financing.

## The EIB's product offer is fit for purpose for less-developed regions

**The EIB's procedures and product offer were found to be adequate to support operations located in targeted regions**. A wide range of financial options were made available to borrowers, enabling them to tailor the product to their needs and to changing market conditions. The evaluation found that within a selection of Member States, the EIB provided similar commercial conditions in cohesion and non-cohesion regions to clients of a similar nature (sovereign, sub-sovereign, corporates, financial institutions).

**Since 2015, the European Fund for Strategic Investments (EFSI) has enabled the Bank to enhance its supply of financing towards structural investment gaps in cohesion regions.** In response to a fall in investment in the aftermath of the 2008 financial crisis, EFSI enabled the Bank to increase its risk-bearing capacity and address a shortage of financing in countries predominantly made up of cohesion regions. The EFSI portfolio of cohesion clients clearly presents a higher level of risk compared to traditional cohesion clients. Overall, the EIB's efforts to increase EFSI-guaranteed business in cohesion regions has led to a (partial) shift of its cohesion portfolio towards operations expected to provide stronger additionality.

## The EIB has achieved its annual cohesion financing targets for most of the period under review, albeit with difficulties and the inclusion of non-EU countries

**The Bank has set itself a lending volume target, which is to dedicate a share of its financing to projects located in less-developed regions of the European Union.** The target share is determined based on previously observed business patterns. While the EIB's annual lending volumes were expected to and did increase over the evaluation period (2007-2018), the EIB has progressively reduced the share of business targeted for cohesion. This progressive reduction has three main causes: (i) the difficulty the Bank has had in maintaining the level of cohesion lending as a share of business following EU enlargement, (ii) the financial and

[1] Since 1994, the EIB has applied a "cumul rule" that limits the aggregated contribution of the ESIF and the Bank to 90% for EIB cohesion regions. By applying this rule, the EIB has sought to: (i) ensure a certain level of counterpart ownership and responsibility in the management and implementation of structural programme loans; and (ii) encourage an increase in the fiscal capacity of national or regional borrowers.

sovereign debt crises, which reduced the pipeline of projects available for financing in cohesion regions, and (iii) the emergence of new EIB lending priorities. The last two factors have also made it more difficult for the Bank to achieve the target in recent years: cohesion signatures were below the 30% target in 2015, 2016 and 2019.

This progressive reduction of the cohesion target during the period 2005 to 2013 should also be seen in the perspective of Protocol No 28 on economic, social and territorial cohesion, in which EU Member States "*reaffirm*[ed] *their conviction that the EIB should continue to devote the majority of its resources to the promotion of economic, social and territorial cohesion*." While the EIB Legal Directorate has confirmed that Protocol No 28 is not to be read to create legally binding obligations for the Bank, the EIB is currently not meeting Member States' expectations as expressed in this document.

**The evaluation has not found any explicit justification as to why operations located outside the European Union (in pre-accession and EFTA countries) count towards the cohesion KPI.** To determine a list of regions eligible for its cohesion financing, the EIB decided to largely harmonise its definition of eligible regions with that of the European Commission. This approach ensures that EIB-eligible regions include the less economically developed regions of the European Union, in line with Article 309(a) of the Treaty on the Functioning of the European Union (TFEU). However, since 2011, the cohesion KPI also encompasses lending to pre-accession and EFTA countries. Although no explicit justification is provided, it could be argued that pre-accession countries are included because supporting their economic development now prepares the way for stronger cohesion in the future, when they join the European Union. However, the EIB decision to also make operations in EFTA countries eligible under the cohesion KPI has no valid rationale.

> **Recommendation 3:** The cohesion eligibilities for non-EU countries should be clarified: the EIB should indicate whether the eligibility of operations in pre-accession countries under the cohesion KPI should be maintained, and if so, provide a rationale from an economic and political perspective for doing so. In addition, EFTA countries should be excluded from the list of eligible areas, so that it is clear and unambiguous that EIB cohesion financing prioritises less-developed economies in the European Union.

## EIB cohesion financing is expected to generate overall positive effects for poor EU regions

**Investments supported by EIB cohesion financing are estimated to have a positive impact on the GDP of less-developed EU regions and thereby contribute to reducing disparities between regions.** The evaluation team carried out a macroeconomic modelling exercise which found that projects financed by the EIB under its cohesion objective are estimated to increase the GDP of cohesion regions by up to 1.3% on average across regions. Overall, the investments supported by EIB cohesion financing benefit cohesion regions more than non-cohesion regions and therefore contribute to these regions catching up with the rest of the European Union. When comparing the estimated effects of investments supported by EIB financing, the evaluation found that the positive impact of investments supported by EIB cohesion financing on cohesion regions is larger than the impact of investments supported by EIB (non-cohesion) financing on non-cohesion regions. The poorest and economically stagnant cohesion regions[2] gain relatively more in terms of GDP than other cohesion regions, albeit with some of these regions (e.g. some regions in Bulgaria, Italy and Spain) consistently falling below average in terms of impact on GDP throughout the years. Several of these regions do not see a GDP increase that is commensurate with the amount of investment received.

**The EIB's cohesion financing is increasingly reaching weaker regions, but this trend masks disparities.** Amongst cohesion regions, the poorest regions of the European Union are increasingly accessing EIB financing. However, the poorest regions of Romania and Bulgaria are among the lowest beneficiaries of EIB cohesion financing per capita, and in proportion to the size of their economies. Similarly, the

[2] This denomination comprises the poorest EU regions (with GDP per capita in PPS terms below 50% of the EU average in 2013) and economically stagnant EU regions (less developed and transition regions that did not converge to the EU average between 2000 and 2013).

macroeconomic analysis found that the economic impact of EIB-supported projects was expected to be less pronounced in Bulgaria (unlike in the poorest regions of Poland and Hungary for example).

### The EIB is currently unable to accurately report on its cohesion financing activity and results at a regional level

**While the EIB defines its cohesion financing objective exclusively in geographical terms, it is unable to accurately report on its financing activity at the level of individual regions**. The evaluation found serious limitations of the data collected at appraisal and signature and then used for aggregate reporting against the EIB's cohesion KPI. First, the evaluation identified EIB cohesion signed amounts erroneously assigned to non-eligible countries and/or regions. Albeit very small, these errors were not random. How much an operation contributes to the cohesion KPI is based on the share of investments expected to be located in cohesion regions. For a multi-country or multi-region operation,[3] once its cohesion share of expected investments in cohesion regions has been estimated, this share is applied to the amounts for each country/region without checks for whether the country/region is eligible for cohesion financing. Second, information reported at appraisal and signature on the location of investments at the NUTS 2 level is to a large extent incomplete. For investment loans (for which the location of investments is known *ex ante*), 40% of contracts did not report any data on location at the regional level. Moreover, the evaluation found that the EIB lacks the data and systems that would enable it to report on how much total financing has actually been invested at the level of individual regions. At completion, the amount actually invested in each region is neither systematically documented in individual project completion documents for investment and framework loans, nor aggregated in any form of reporting. Even in the case of multi-beneficiary intermediated loans (MBILs), where detailed data on the geographical composition of the portfolio of final beneficiaries are available for each operation, they are not aggregated or used for reporting.

**At the moment, the EIB does not accurately capture or report on the results of its cohesion financing**. The sole criterion for an operation's eligibility under the cohesion KPI, and for the estimation of its contribution to regional development, is the share of investments expected to be located in cohesion regions. This investment-based approach provides a pragmatic and simple methodology for estimating a project's contribution to cohesion across sectors and products. However, it only takes into account financial inputs and does not account for results (outputs and outcomes) at regional level. In order to improve reporting on its contribution to cohesion, the Bank should explore the extent to which it can monitor and report on the results achieved in cohesion regions.

**Recommendation 4:** The Bank should strengthen its reporting systems:

a. First, it should be able to accurately report on total amounts that are (i) signed and (ii) actually invested at the level of individual regions.

b. Second, the Bank should thoroughly assess the feasibility of reporting project results disaggregated by geography, at NUTS 2 level.

**For the individual operations evaluated, the appraisal documents did not analyse the regional dimension of projects in depth,** beyond quantifying the share of investments located in eligible cohesion regions. The EIB appraisal procedures ensure that projects labelled as contributing to the cohesion KPI – like all EIB-financed projects – align with its public policy goals and national priorities, are of quality and are undertaken by clients with strong technical capacity. For projects where information on the location of investments was available at appraisal (investment loans, as well as some framework loans and MBILs), this evaluation found that appraisal documents for cohesion projects did not explicitly address regional development dimensions, and lacked a well-articulated narrative setting out the chain of results they were expected to deliver/contribute to, particularly at the level of specific regions, and how/why they were expected to contribute to the regions' development. A well-articulated narrative is essential for accountability, communication, direction and learning. It describes the objectives to be attained and fills the "missing middle" between the provision of

[3] Of all cohesion operations signed between 2007 and 2018 with available data at NUTS 2 level, 30% were multi-regional.

financial support and impact. In the internal survey of EIB staff, only 24% of respondents agreed or strongly agreed that the EIB has developed an adequate analysis of the investment gaps it can address in cohesion regions.

**Recommendation 5:** For any investment with a project location that can be identified upfront (i.e. all investment loans, as well as some framework loans and MBILs), project appraisal documentation should include a well-articulated narrative explaining how a project is expected to address market failures or suboptimal investment situations in the cohesion regions concerned, and deliver results that contribute to regional development.

## MANAGEMENT RESPONSE

Cohesion financing is deeply enshrined in the EIB Statute. Article 309 of the TFEU stresses that the Bank should facilitate the financing of projects for developing less-developed EU regions.

The Management Committee therefore welcomes the positive conclusions of the evaluation of EIB cohesion financing (2007-2018). The EIB's range of products for less-developed regions has been found fit for purpose and helps deliver overall positive results for these regions, reducing disparities within the European Union. The Management Committee appreciates the specific findings and positive conclusions on the relevance, effectiveness, efficiency and sustainability of EIB operations financing cohesion priority regions.

To further increase the impact of EIB financing in cohesion priority regions, the Management Committee agrees with the recommendations proposed in the Evaluation Report. An internal orientation paper will be developed, as well as a more articulated narrative supporting EIB intervention in cohesion regions. Furthermore, an assessment of the feasibility of strengthening the reporting systems and clear KPI definitions will be provided. The Management Committee is already committed to considering a proposal to the Board concerning the revision of the application of the cumul rule. This should contribute to further enhancing the complementarity and impact of EIB lending supporting EU Cohesion Policy in the next MFF.

The Management Committee would like to thank Operations Evaluation for the high-quality evaluation, based on extensive field work for individual operations and countries, thorough analysis of internal data and portfolios, macroeconomic modelling, and extensive consultation with the relevant EIB staff and services.

| Recommendations and Management Response |
|---|
| **R1 Recommendation 1** |
| R1. The EIB should develop an orientation paper that articulates how its cohesion financing is intended to contribute to the development of less-developed regions and to the reduction of disparities within the European Union. In particular, increasing trade-offs between achieving the financing objectives related to climate transition and to cohesion are expected under the upcoming MFF: the EIB should therefore describe how its cohesion objective ties in with other objectives, especially climate action.<br><br>Rationale: A high-level orientation paper for its cohesion financing would explain in which areas the EIB can provide added value in cohesion regions. It would take into account the EIB's operating environment and the EU Cohesion Policy framework, and define the EIB's comparative advantage and complementarity with other EU and international policy instruments in a comprehensive manner. It would identify and prioritise the investment needs and barriers to investment typically found in cohesion regions in order to improve the EIB's relevance and accountability. It would define how the Bank intends to combine its own resources with third-party resources (such as from the ESIF, decentralised financial instruments, mandates and advisory activities) to achieve its cohesion objective. Furthermore, the development of a dedicated orientation paper would signal the importance given by the EU bank to its cohesion objective both internally and externally. Finally, increasing trade-offs between achieving the financing objectives related to climate transition and to cohesion are expected under the upcoming MFF. On the one hand, a higher priority will be given to climate by both the EIB (commitment to align all financing activities with the principles and goals of the Paris Agreement) and the ESIF (more stringent co-financing rules for investments in climate and the environment). On the other hand, a need to address suboptimal investments in basic infrastructure in cohesion regions will persist. In this context, the Just Transition Mechanism provides a good opportunity for the EIB to help potentially affected regions mitigate the socioeconomic impact of climate transition. |

**Management response** Agreed

The Management Committee agrees that internal guidance in the form of an orientation paper on EIB cohesion activities (including advisory) will be beneficial, including a discussion on how they tie in with the climate action objective. Such a paper will take into account the new MFF and advancements of the EIB Group Climate Bank Roadmap. A dedicated task force with the relevant services will be established for this purpose and the Management Committee expects a paper to be presented to the Board of Directors in summer 2021.

**R2 Recommendation 2**

R2. The EIB should (re)consider the pros and cons of its policy of applying a “cumul rule” to structural programme loan operations, taking into consideration the borrower (whether a Member State or region), and their economic, financial, legal and regulatory environment, so that cohesion regions can make the most of combining ESIF and EIB co-financing.

Rationale: This recommendation was put forth by IG/EV in 2018, but its implementation has been put on hold until the new MFF architecture is decided. As negotiations for the upcoming MFF progress, the timing is opportune for the usefulness of the “cumul rule” to be considered again by the Bank.

**Management response** Agreed

The Management Committee considers that such a reassessment would be appropriate.

This recommendation will be implemented through a working group within the Knowledge Lab on cohesion, which will review the pros and cons and come back to the Management Committee with a note presenting conclusions and a proposal for decision by the Board of Directors, with a view to submitting the topic to the Board of Directors in December 2020.

**R3 Recommendation 3**

R3. The cohesion eligibilities for non-EU countries should be clarified: the EIB should indicate whether the eligibility of operations in pre-accession countries under the cohesion KPI should be maintained, and if so, provide a rationale from an economic and political perspective for doing so. In addition, EFTA countries should be excluded from the list of eligible areas, so that it is clear and unambiguous that EIB cohesion financing prioritises less-developed economies in the European Union.

Rationale: Although no explicit justification is provided, it could be argued that pre-accession countries are included because supporting their economic development now prepares the way for stronger cohesion in the future, when they join the European Union. However, the EIB decision to also make operations in EFTA countries eligible under the cohesion KPI has no valid rationale.

**Management response** Agreed

The Management Committee agrees on the need for this clarification. The Management Committee will take a decision on the eligibility of operations outside the European Union under the cohesion KPI by the end of 2020, with a view to submitting the topic to the Board of Directors in December 2020 and to ensure consistent implementation of the final decision in the operational plan.

**R4 Recommendation 4**

R4. The Bank should strengthen its reporting systems. First, it should be able to accurately report on total amounts that are (i) signed and (ii) actually invested at the level of individual regions, based respectively on EIB financing data at appraisal/signature and on total project investment cost at completion. Second, the Bank should thoroughly assess the feasibility of reporting project results disaggregated by geography, at NUTS 2 level.

Rationale: For some financing products (e.g. investment loans), information on the location of EIB-supported investments is available both at appraisal and at completion. At appraisal, reporting systems have to be strengthened to ensure that this information is systematically collected (when available) and checked for consistency (e.g. it should not be possible for EIB cohesion financing to be linked to non-eligible countries/regions). At completion, it needs to be ensured that this information is collected in individual completion reports, extracted from MBIL end-of-allocation reports, and aggregated in EIB reporting systems. Furthermore, in relation to its cohesion financing, EIB reporting currently focuses on the financing inputs (signed amounts) provided. This could be expanded by exploring how the Bank could report and communicate the results of individual projects at the level of NUTS 2 regions.

**Management response** Agreed

The Management Committee agrees that the EIB should have robust reporting systems. In line with the recommendation, the services will submit (on a date to be confirmed) to the Management Committee, for approval:

- measures to strengthen reporting systems of signed and invested amounts at regional level;
- an assessment of the feasibility of reporting results disaggregated by geography (at NUTS 2 level) and ensuing measures;
- an implementation plan for the proposed measures, agreed with IT where relevant.

**R5 Recommendation 5**

R5. For any investment with a project location that can be identified upfront (i.e. all investment loans, as well as some framework loans and MBILs), project appraisal documentation should include a well-articulated narrative explaining how a project is expected to address market failures or suboptimal investment situations in the cohesion regions concerned, and deliver results that contribute to regional development.

Rationale: A well-articulated narrative is essential for accountability, communication, direction and learning. It describes the objectives to be attained/issues to be addressed at different levels (macro, meso and micro), and fills the “missing middle” between the provision of financial support and impact.

**Management Response** Agreed

The Management Committee agrees that such a narrative will complement the presentation of projects supporting cohesion regions well. The narrative based on the information available at appraisal will be presented to the Board of Directors as from 2021.

# 1. ABOUT THIS EVALUATION

1. "*Cohesion is in the EIB's DNA.*" This phrase has long been used to signify the fundamental role the European Union's founding treaties assigned to the EIB. The EIB is charged with contributing to the development of the internal market and to the reduction of regional disparities in the European Union, notably by facilitating the financing of projects in less-developed EU regions.

**Box 1 – EIB support for cohesion: a task established by the TFEU**

TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION (TFEU)

*ECONOMIC, SOCIAL AND TERRITORIAL COHESION*

*Article 174*

In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the **strengthening of its economic, social and territorial cohesion**. In particular, the Union shall aim at **reducing disparities between the levels of development of the various regions** and the backwardness of the least favoured regions. […]

*Article 175*

[…] The Union shall also support the achievement of these objectives by the action it takes through the Structural Funds […], **the European Investment Bank** and the other existing Financial Instruments.

*THE EUROPEAN INVESTMENT BANK*

*Article 309*

**The task of the European Investment Bank** shall be to contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the internal market in the interest of the Union. For this purpose the Bank shall […] **facilitate the financing of the following projects in all sectors of the economy:**
(a) **projects for developing less-developed regions**;
(b) projects for modernising or converting undertakings or for developing fresh activities called for by the establishment or functioning of the internal market […];
(c) projects of common interest to several Member States […].[4]

TFEU PROTOCOL No 28 ON ECONOMIC, SOCIAL AND TERRITORIAL COHESION[5]

*THE HIGH CONTRACTING PARTIES,* […]

REAFFIRM their conviction that the European Investment Bank should continue to devote the majority of its resources to the promotion of economic, social and territorial cohesion, and declare their willingness to review the capital needs of the European Investment Bank as soon as this is necessary for that purpose.

2. How does the EIB, the EU bank, support less-developed regions and the reduction of regional disparities in the European Union? Has its financing helped achieve this objective in recent years? This evaluation seeks to answer these questions. Operations Evaluation (IG/EV), the independent evaluation function

[4] Projects belonging to categories (b) and (c) are to be of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States.

[5] Protocol (No 28) on Economic and Social Cohesion was first adopted in 1992 under the Maastricht Treaty, and amended to include "Territorial" cohesion in 2009 with the Lisbon Treaty.

of the EIB, has asked these questions in the past. But this evaluation, unlike previous ones,[6] looks at EIB cohesion financing in its entirety, from the strategy to the impact in the countries concerned. The evaluation deals with two principal issues, further specified in five evaluation questions.

**Table 1 – Evaluation questions**

| Criteria | Evaluation questions | Chapter of the report |
|---|---|---|
| | ***How* does the EIB approach its cohesion task:** | |
| Relevance | A. Is the EIB equipped to ensure its financing will enable less-developed EU regions to grow sufficiently to catch up with more developed ones? | Chapter 2 |
| | B. Is EIB activity tackling cohesion regions' needs? | Chapter 3 |
| | ***What* has the EIB delivered and achieved in helping to close regional gaps:** | |
| Effectiveness | C. Has EIB cohesion financing reached the less-developed regions? | Chapter 4 |
| | D. Have cohesion operations achieved the expected results? | Chapter 4 |
| Impact | E. Have EIB-supported investments in cohesion regions contributed to reducing regional disparities? | Chapter 5 |

3. This evaluation takes stock of what has been achieved under EIB cohesion financing activities, accounting for the resources invested. Besides explaining the variations in cohesion lending *volumes*, Operations Evaluation analysed the *results* obtained by the EIB through its cohesion financing. This evaluation also critically examines the design and implementation of cohesion financing to understand "what works" and the lessons that can be applied to future EIB cohesion financing under the next Multiannual Financial Framework (MFF).

### *Scope*

4. EIB Group activities in support of cohesion in the European Union can be summarised as financing, advising and managing financial instruments or funds[7] (as illustrated in Table 2 below).

**Table 2 – EIB Group activities relating to EU Cohesion Policy**

| Activity | 2007-2013 programming period | 2014-2020 programming period |
|---|---|---|
| Financing | Direct loans | |
| | Multi-beneficiary intermediated loans (MBILs) | |
| | Framework loans (including structural programme loans) | |
| | Equity-like investments | |
| Advising | Ad hoc advice and support for managing authorities and regional, national and EU institutions | |

6 Previous IG/EV evaluations focusing on cohesion include (i) The evaluation of structural programme loans and their contribution to EU Cohesion Policy, 2007-2016 (2018); (ii) The evaluation of EIB investment loans for economic and social cohesion in France, Portugal and the United Kingdom between 2000-2009 (2011); and (iii) The evaluation of economic and social cohesion in Objective 1 and Objective 2 areas in Germany, Ireland and Spain between 1995-2006 (2007).

7 For example, under Joint European Support for Sustainable Investment in City Areas (Jessica).

<table>
<tr><th colspan="3">Table 2 – EIB Group activities relating to EU Cohesion Policy</th></tr>
<tr><th>Activity</th><th>2007-2013 programming period</th><th>2014-2020 programming period</th></tr>
<tr><td rowspan="6"></td><td colspan="2">Technical expertise for EU regulations, acts and guidance</td></tr>
<tr><td colspan="2">Lending-specific technical assistance</td></tr>
<tr><td colspan="2">JASPERS (EIB)</td></tr>
<tr><td>Jasmine (EIF)</td><td rowspan="3">fi-compass (EIB)</td></tr>
<tr><td>Jeremie (EIF)</td></tr>
<tr><td>Jessica (EIB)</td></tr>
<tr><td rowspan="3">Mandate management</td><td colspan="2">Holding fund managers for urban development (EIB)</td></tr>
<tr><td colspan="2">Holding fund managers for enterprises (EIF)</td></tr>
<tr><td></td><td>Implementing EU-level instruments (SME initiative)</td></tr>
</table>

*Source: van der Zwet et al.[8], adapted by IG/EV*

5. The EIB only systematically measures its performance for its cohesion financing activity, by monitoring a key performance indicator (hereinafter referred to as the "cohesion KPI"). To provide a meaningful analysis, this evaluation focuses on activities included in this cohesion KPI, which looks at the EIB's financing (lending and equity investments) for cohesion-eligible regions. EIB activities that are not accounted for under the cohesion KPI are described where relevant, but not evaluated.[9] The evaluation covers the period 2007 to the end of 2018. The evaluation corresponds to the last two EU MFFs (2007-2013 and 2014-2020). These budgetary periods have guided the EIB's approach to cohesion financing. Figure 1 provides an overview of the total EIB cohesion portfolio, signed from the beginning of 2007 until the end of 2018. Total signatures contributing to cohesion, based on official EIB reporting, amount to €262 billion.

**Figure 1 – Overview of the EIB cohesion portfolio (2007-2018)**


*Source: EIB database. Computed by IG/EV.*

8 van der Zwet, A. et al. (2016) Research for REGI Committee – Review of the Role of the EIB Group in European Cohesion Policy.

9 This includes the EIB's non-financing activities, such as advisory support; management of EU-wide financial instruments (such as Joint European Support for Sustainable Investment in City Areas – Jessica); management of holding funds (notably undertaken by the EIF); and EIB financing activities in non-cohesion regions that may have positive spillover effects in cohesion-eligible regions.

### *Evaluation design*

6. The evaluation adopts a theory-based approach, in which IG/EV first outlines and then tests how EIB cohesion financing operations are expected to ultimately support the development of less-developed EU regions and the reduction of regional disparities. The intervention logic outlining this logic path is presented in Annex 2. A detailed framework is then used to support the choice of methods, and to structure data analysis and interpretation.

7. A combination of quantitative methods (portfolio analysis, macroeconomic model, survey) and qualitative methods (interviews, document and literature review) were used to build a robust base of evidence and to triangulate evidence. These methods are briefly described below, and in more detail in Annex 1.

- ***The portfolio analysis*** covers all EIB cohesion financing from 2007 to 2018, or 2 111 operations worth €262 billion that contributed to the cohesion KPI. This analysis was instrumental in determining the relevance of operations to regional priorities and needs, and the extent to which the signed financing actually reached the less-developed regions of the European Union.

- ***A macroeconomic model*** was used to estimate the impact of EIB cohesion financing on GDP, employment, productivity and investment in cohesion regions, as well as its spillover effects to non-cohesion regions.

- ***An internal survey*** targeted all EIB Operations (OPS) and Projects (PJ) staff involved either in the appraisal or monitoring of cohesion operations since 2007. The response rate was 35% (see Annex 1c). The survey notably helped to identify the specific characteristics of a cohesion operation, as well as the factors that influenced the EIB's volume of activity in support of cohesion.

- ***A literature review*** encompassed EU policy documents, EIB business plans and other documents framing the EIB's approach, procedures and reporting for its cohesion financing. Studies and academic articles were also used for the analysis of needs and constraints in cohesion regions, as well as challenges ahead.

- ***Five country studies***. IG/EV analysed EIB cohesion financing in depth in Italy, Poland, Portugal, Romania and Slovakia. In each country, IG/EV compared EIB cohesion financing activity to regional needs, and compared the interaction of the EIB's operations with those undertaken by the European Structural and Investment Funds (ESIF).

- ***A review of project completion documents***. For the five countries mentioned above, the evaluation team analysed the project completion documents of 335 cohesion-related operations. This comprehensive analysis provided material on the relevance, effectiveness and efficiency of cohesion operations.

- ***Nineteen individual operation evaluations***. A purposeful sample of projects was selected in the same five countries to illustrate the diversity of products and sectors supported by EIB cohesion financing. Although the projects cannot be considered a representative sample, these operations provide useful lessons on how cohesion financing has been embedded in the EIB project cycle. Each operation has been rated individually for performance (relevance, effectiveness, efficiency and sustainability), EIB contribution and EIB project cycle management.

- ***Interviews*** with over 200 stakeholders complemented the analysis. The interviews included EIB staff, clients and selected final beneficiaries, national and local authorities in cohesion areas and European Commission staff.

### *Limitations of the approach*

8. **The main challenge for this evaluation was how to address the very large scope of the EIB's cohesion financing.** Not only does the Bank's cohesion financing stretch across almost all EU Member States, but it also covers a large number of sectors and financial products. Furthermore, the 12-year timeframe (2007-2018) of the evaluation meant that it included two MFFs, which led to changes in EU policies. The evaluation team overcame this challenge by combining the largest possible levels of analysis (including a portfolio review and macroeconomic model) with a more in-depth look at operations in five countries (all completed operations and 19 in-depth project evaluations). The large scope also offered a unique opportunity to look beyond a specific sector, country or product, and assess the EIB's overall approach to the principal objective of cohesion lending.

9. **Another major challenge was the lack of available data at NUTS 2 level.**[10] The scale of missing regional-level data from the EIB system was considerable, as underlined in chapter 4.1. The evaluation team addressed this limitation by systematically reallocating each euro flagged as cohesion funding to eligible regions. By doing so, IG/EV has put together the most complete picture of EIB cohesion efforts that exists to date.

10. **Conducting an analysis of results entailed looking at completed projects.** This meant that the projects reviewed through in-depth evaluations were relatively old. These projects are therefore not fully reflective of the most recent approaches or processes adopted by the Bank for its current activities. The evaluation team addressed this challenge by complementing the project-level analysis with interviews and studies of current and future activities, while being cautious not to generalise findings beyond what is feasible based on the sample.

11. The Bank does not explicitly define objectives for its cohesion financing beyond targets for signed amounts, which complicated the assessment of the financing's effectiveness. A further issue encountered by the evaluation team was the Bank's incomplete justification for cohesion financing (beyond signature targets). On several occasions, it had to fill in gaps. For example, the intervention logic for the EIB's cohesion financing had to be reconstructed and expectations at portfolio level had to be defined. The absence of clearly formulated objectives for the Bank's cohesion financing limited some aspects of analysis, such as IG/EV's ability to conclude whether cohesion lending was complementary to the ESIF.

[10] The Nomenclature of Territorial Units (NUTS) classification subdivides the economic territory of Member States into three levels of territorial units, based on population thresholds. Each Member State is divided into NUTS 1 territorial units (major socioeconomic regions), each of which is subdivided into NUTS 2 units (basic regions for the application of regional policies) and then NUTS 3 units (small regions). The current NUTS 2016 classification lists 281 regions at NUTS 2 level, each with a population between 800 000 and 3 000 000.

# 2. RELEVANCE OF EIB'S APPROACH TO COHESION FINANCING

12. By treaty, the EIB is assigned the so-called "task" of facilitating the financing of projects for developing supporting less-developed EU regions and reducing disparities between the various EU regions. This chapter assesses the extent to which the EIB achieves this task. This analysis encompasses three main questions:

- What is the EIB's strategy to ensure its financing ultimately supports less-developed EU regions?
- Does the EIB adequately identify the projects that contribute to the development of these regions?
  Does the EIB adequately quantify by how much its projects contribute to the development of these regions?

13. Key messages

- The EIB lacks a strategy for its cohesion financing. The Bank does not specify how it intends to help less-developed EU regions or reduce regional disparities.
- The EIB's cohesion objectives are only expressed in terms of business lending targets: the cohesion KPI measures the share of EIB-supported investments in the cohesion regions.
- The approach ensures that targeted regions receive a dedicated share of financing, but it does not provide information about how these investments may improve regional development.
- Less developed EU regions are included in the cohesion KPI, but all European Free Trade Area (EFTA) countries are also included, which is incoherent with the cohesion objective.
- Over time, the EIB has progressively lowered its share of business earmarked for less-developed regions, while overall EIB lending has increased. Competing lending priorities partly explain the reduction, but economic crises and a refocus of cohesion-eligible regions towards new Member States have also made it difficult for the EIB to maintain a pipeline of projects in these regions (both in volume and in proportion to its overall EU portfolio).

## 2.1 EIB cohesion strategy: rationale and evolution

### *Lack of strategy*

14. **Financing cohesion in the European Union is one of the EIB's *raisons d'être*.** The Treaty of Rome (1957) created the EIB and tasked it with contributing to the balanced and steady development of the internal market, in part by taking actions to facilitate the financing of projects for developing less-developed EU regions.[11] Signatories of the treaty were "*anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions*".[12]

15. **But in response to the treaty, the EIB lacks a strategy that articulates how its cohesion financing is intended to (i) develop less-developed regions, or (ii) help reduce disparities within the European Union.** No document currently articulates how the EIB, as a long-term financier with specific experience and expertise, intends to position itself to provide investment for less-developed regions. In addition, contributing to the development of specific regions does not automatically imply that disparities with other regions will be reduced. The EIB does not articulate how it understands the concept of reduced regional disparities, and what the concept implies for the support it provides. The lack of an explicit approach for cohesion contrasts with the EIB's clearly formulated climate strategy (climate action

[11] Consolidated version of the Treaty on the Functioning of the European Union (2012), OJ C 326/180 (Treaty of Rome, Article 130; Treaty on the Functioning of the European Union, Article 309). The task of the EIB has been defined in the same way since its establishment by the Treaty of Rome (signed in 1957, entered into force in 1958).

[12] Treaty of Rome (1957), Preamble.

being the EIB's other cross-cutting objective[13]), which defines three "strategic action areas" that will contribute to keeping global warming below 2˚C and adapting to climate change.

16. **The narrative presented in the most recent Operational Plans includes only general references to the strategic importance of cohesion for the Bank or a general commitment to cohesion.** Although past Operational Plans have occasionally included high-level references to needs[14] and to "*the risk of regions being left behind*" (EIB Group Operational Plan 2020), the evaluation team did not identify a practical translation of these expectations into guidelines for operational staff. This contrasts with its clearly formulated climate strategy,[15] and with its newly-adopted Energy Lending Policy and Gender Strategy.[16]

17. **The EIB's objectives for cohesion financing can only be understood through its business target, which dedicates a share of its financing to projects located in less-developed regions of the European Union.** From 2007 to 2018, operational plans have consistently defined a key performance indicator (KPI) measuring annual loan signatures contributing to economic and social cohesion. The KPI is currently labelled as "signatures contributing to economic and social cohesion and convergence" (see Box 2). The indicator reflects the share of its investments the EIB should set aside for less-developed regions in the European Union.

18. **It is unclear how EIB cohesion financing is supposed to work with the ESIF.** The Single European Act[17] (1986) established that cohesion should be supported through dedicated structural funds, the EIB and other existing financial instruments (Article 130). The creation of structural funds recognised and institutionalised the need to combine grants with EIB loans. Such a combination can be interpreted in different ways: the coupling of efforts in similar areas, distributing work to cover the broadest spectrum of needs, the EIB taking over areas no longer addressed by the ESIF and vice versa. However, this evaluation could not identify, in either European Commission or EIB documentation, a clear definition of how EIB financing is expected to complement the ESIF (except for structural programme loans, see paragraph below). In addition, a comparison of EIB cohesion lending to ESIF financing volumes in the five chosen countries[18] and for selected projects[19] did not show an empirical trend (i.e. there was no clear pattern of EIB financing and ESIF working together in some sectors or covering areas that the other does not).

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[13] The EIB has for at least the last two decades consistently identified cohesion as one of its priority lending objectives/public policy goals. Cohesion was defined as a primary, self-standing lending priority from 2007 until 2011. In 2012, cohesion was reclassified from a self-standing to a cross-cutting objective (similar to climate action).

[14] For example, the Operational Plan 2013-2015 mentions in general terms that cohesion lending will target (among others) the roll-out of broadband technology and the development and expansion of energy networks.

[15] EIB Climate Strategy 2015, paragraph 7: "We have therefore set ourselves the mission to play a leading role, amongst financial institutions, in mobilising the finance needed to achieve the worldwide commitment to keep global warming below 2˚C and to adapt to the impacts of climate change."

[16] EIB Group Strategy on Gender Equality and Women's Economic Empowerment 2016, paragraph 9: "By integrating gender equality into the EIB Group's business model, the Strategy enhances the Group's catalytic role in supporting inclusive growth, increased employment and productivity."

[17] Single European Act (1986), Bulletin of the European Communities (1986), Supplement 2/86.

[18] This evaluation compared ESIF planned investments with EIB signed cohesion loans in the five countries subject to in-depth analysis, broken down by the thematic objectives of Europe 2020. This comparison was inconclusive, as the focus of ESIF and the EIB differed significantly from one country to another, and between the two programming periods (2007-2013 and 2014-2020).

[19] Several of the 19 operations analysed in depth provided occasional examples of complementarity between ESIF and EIB financing (mobilisation of ESIF grants to the extent allowed by co-financing rules, then mobilisation of EIB co-financing to the extent allowed by the EIB's internal "cumul rule"). However, these cases did not show any empirical trend for the optimisation of EU grants and EIB resources.

**Box 2 – Definition of the cohesion KPI over time**

**The formulation of the cohesion KPI has evolved over time:**

- From 2007 until 2010, the KPI referred to "Signatures targeting convergence regions in the EU-27".[20]
- From 2011 onwards, the geographic scope was expanded to include pre-accession countries. The change is reflected in the 2011-2013 Operational Plan, with the KPI labelled "Convergence – EU-27 and Pre-Accession". Because in EIB data systems pre-accession and EFTA countries are counted together, signatures in EFTA countries were also included under the cohesion KPI.
- From 2012 onwards, an explicit reference to cohesion was again included. The KPI refers to "**Signatures contributing to economic and social cohesion and convergence**".

**The cohesion KPI is a percentage**, calculated as follows:

- Numerator: signed amounts that have been labelled as contributing to the cohesion objective in the EU, as well as in pre-accession and EFTA countries.[21]
- Denominator: total signed amounts in EU, pre-accession and EFTA countries.

Looking back to the 2000-2006 MFF, Operational Plans have defined cohesion financing targets either as a percentage of EIB signatures funded with its own resources for certain types of lending products (until 2006), as the overall own resources lending volume (2009 to 2011), or as a percentage of own resources signatures (from 2007 to 2009, and after 2011 until the present day).

19. **Despite the lack of an explicit overall strategy for the combination of EIB cohesion and ESIF financing, the EIB has developed an effective financing product to facilitate ESIF absorption: structural programme loans.** In the period covered by this evaluation (2007-2018), such loan operations represented 12% of the cohesion financing amounts signed. The EIB's structural programme loans aim to secure the national or regional co-financing obligations under operational programmes, which set out how ESIF funds are expected to be spent. By providing financing at terms that are more advantageous than borrowers could have obtained from other financing sources, structural programme loans aim to kick-start, accelerate or bring back on track the operational programme implementation, thereby making a timely contribution to EU Cohesion Policy objectives.

20. **IG/EV's evaluation of structural programme loans and their contribution to EU Cohesion Policy (2007-2016) found that these loan operations were effective in kick-starting large investment plans and programme-based plans, and enabled projects to be deployed at a faster pace, thereby contributing to the achievement of cohesion objectives.** Nevertheless, the evaluation identified the EIB's policy of applying a "cumul rule" as a factor restricting the extent to which the EIB can support Member States or regions. The "cumul rule", applied by the EIB since 1994, limits the aggregated contribution of Bank and ESIF financing to 90% of total project investment cost for operations in EIB cohesion regions. The EIB's rationale for applying the "cumul rule" has been that it wants to ensure a certain level of counterpart ownership and responsibility in the management and implementation of structural programme loans, and encourage an increase in the fiscal capacity of national or regional borrowers. However, our evaluation of these loans found that the "cumul rule" had decreased the capacity of Member States and regions to fully mobilise the ESIF available to them. As a result, the evaluation recommended that the EIB should consider the pros and cons of its policy of applying the "cumul rule" to structural programme loan operations, taking into consideration the borrower (whether a Member State or region) and their economic, financial, legal and regulatory environment. When the SPL evaluation was discussed by EIB governing bodies (June 2018), EIB management acknowledged the importance of a possible review of the "cumul rule", but considered that such reassessment would be more appropriate once the new architecture of post-2020 MFF had been decided. As negotiations for

[20] Following the revision of the EU's Cohesion Policy framework under the MFF 2007-2013, the EIB stopped referring to cohesion as "regional development" in its Operational Plan 2006-2008, and added the term "convergence" in the Operational Plan 2007-2009 and onwards, to reflect its narrower focus on the newly defined category of convergence regions under the revised Cohesion Policy 2007-2013. Convergence regions had per capita GDP (measured in purchasing power parities) for 2000-2002 below 75% of the EU-25 average.

[21] Pre-accession countries include candidate countries (Albania, Montenegro, North Macedonia, Serbia and Turkey) and potential candidates (Bosnia and Herzegovina, Kosovo).

the upcoming MFF progress, the timing is opportune for the usefulness of the "cumul rule" to be considered again by the EIB.

**Box 3 – EIB's cumul rule**

The SPL evaluation published by IG/EV in 2018 explained that, since 1994, for regions classified by the European Commission as less developed, transition or under transitory measures, the EIB's policy has been to limit the combined amount of EIB loans and EU grants to 90% of the total investment cost. The ceiling for projects in developed regions is 70%. This "cumul ceiling for total Community support" is commonly referred to as the "cumul rule". The cumul rule has been adjusted on several occasions.[22] Its implementation has been subject to debate, and the principles put forth for and against the cumul rule can be summarised below.

| Principles in favour of the cumul rule | Principles against the cumul rule |
|---|---|
| • Promoters demonstrate their commitment to projects by participating in their financing with their current own resources (i.e. not only committing future own resources for repaying the SPL).<br>• Accession countries, in particular, have major investment needs, but also substantial budgetary issues. The cumul rule signals that some of these countries need to make an effort in terms of increasing their fiscal capacity in order to participate with their own financing. | • The Bank should treat all EU Member States and candidate countries equally.<br>• In the context of the financial crisis and the low absorption rates of European Structural Funds, the corresponding regulation provided for a possible increase in the European Union's grant contribution to 95% for Member States experiencing or threatened with serious difficulties with respect to their financial stability. In such instances, any EIB intervention is de facto excluded.<br>• The EIB is the only IFI that applies a (self-imposed) ceiling of 90% for combined ISPA (Instrument for Structural Policies for Pre-Accession)/EIB financing. Since 2000, the International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB) and the Nordic Investment Bank (NIB) have revised their Memorandum of Understanding with the European Commission to abolish the 90% ceiling. |

Beyond these principles, IG/EV's evaluation of the EIB's SPL product found that the application of the cumul rule limits the volume of support that the EIB provides to Member States' co-financing obligations through structural programme loans, and this has adverse consequences for both the borrower and the EIB as:

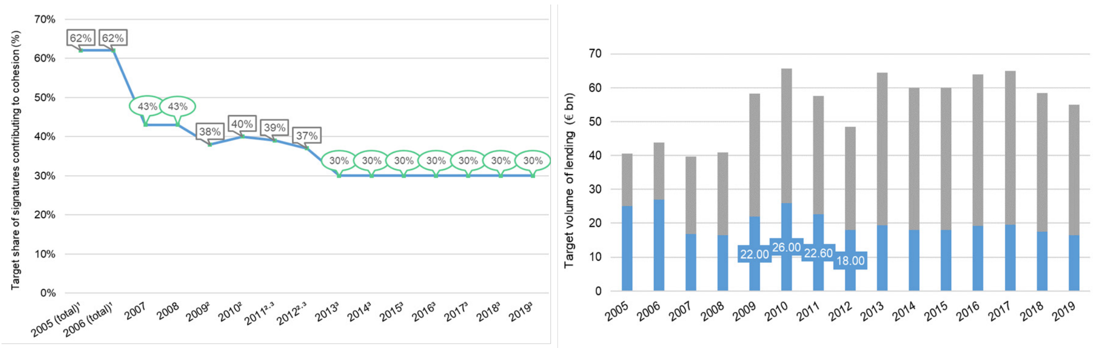
- The borrower will either have to draw on financing from other sources (most likely with less favourable conditions) in order to implement projects within its investment programme, or may decide not to implement the projects to the same extent or at all. In the case of the latter, the reduced financial capacity of the Member State or region will, according to experts, reduce the ability of Member States to fully implement the operational programmes.
- By not covering the entirety of the Member State or region's co-financing obligations, the Bank foregoes potential revenues and thereby hinders the cost coverage of its operations. For instance, in cases where the European Union's funding contribution accounts for 85% of the total project investment cost in a less developed region that is supported by an SPL, the EIB's loan would be limited to 5%, thus affecting the EIB's cost recovery, particularly for cases in which the total cost of the investment programme is relatively low and/or the Bank provides a high level of technical input.
    - Ultimately, a limitation on the volume of EIB co-financing via structural programme loans reduces the degree to which the Bank can carry out its "task" of facilitating the financing of investment programmes in conjunction with assistance from the Structural Funds and other EU financial instruments.

[22] In 2003, the EIB decided that it could increase the 90% ceiling to 100% for projects in the cohesion countries and Objective 1 regions of the EU on an exceptional basis. Since then, the cumul rule has been waived on several occasions. In order to improve consistency in the application of the waiver, in June 2012 the EIB also decided that the cumul ceiling could be increased to 100% for: (i) individual large schemes/projects, when duly justified and, if within the 90% cap, for the entire operation; and (ii) exceptional and only well-justified cases at the structural programme loan level, e.g. when convergence regions are experiencing or are threatened with serious difficulties with respect to their financial stability and are subject to macroeconomic supervision as per Regulation (EU) No 1311/2011.

### *Declining importance of the EIB's cohesion financing over time*

21. **The EIB has progressively lowered its target for financing less-developed regions (cohesion KPI).** While the EIB's annual lending volumes were expected to and did increase over the evaluation period (2007-2018), the EIB has progressively reduced the share of business targeted at cohesion. This drop in the annual lending target share was particularly strong following the two EIB capital increases decided in April 2009 and January 2013 (see left-hand side of Figure 2). In absolute terms, the expected cohesion lending volumes have remained stable since 2013 (at approximately €19 billion per year).

**Figure 2 – Evolution of the EIB's targets for cohesion lending**




COP target inferred by IG/EV

COP target defined as % of lending

Signatures contributing to cohesion (€ billion)

Total signatures within the European Union (€ billion)

*[1] 2005 and 2006: The target is defined as at least two-thirds of individual loans and 50% of global loans. Equivalent share computed by IG/EV.*
*[2] 2009, 2010, and 2011: The target is defined in absolute volumes. The percentage equivalent was calculated by IG/EV. For 2012, the target is defined both as a share and in absolute volumes. From 2013 onwards, the target is defined as 30% of total lending volumes.*
*[3] From 2011 onwards: the KPI also includes pre-accession and EFTA countries. On the right-hand side of Figure 2, the blue bars without a target volume equivalent have been estimated by IG/EV by applying the target percentage to total signature targets within the European Union. The corresponding volume is slightly underestimated as it does not include signatures in pre-accession and EFTA countries. EIB Operational Plans provide volume targets for lending within the European Union and outside the European Union, but do not break down lending outside the European Union further into categories (e.g. pre-accession, EFTA, other partner countries). It was therefore not possible for IG/EV to identify annual lending volume targets for pre-accession and EFTA countries or include them in the calculation above.*

*Source: EIB Operational Plans*

22. **From 2013 onwards, the cohesion target share remains at 30%.** The current target reflects past business volumes. Other than historical precedence (past signed volumes), this evaluation did not identify any clear reasons as to why the EIB has set and maintained its cohesion KPI at 30% since 2013. The cohesion target of 30% is higher than the weight of the corresponding regions in the EU GDP (21% on average since 2014), but lower than their weight in the EU population (38% on average since 2014).

23. **The progressive reduction of the cohesion target to 30% between 2005 and 2013 should be seen in the perspective of Protocol No 28 on economic, social and territorial cohesion**, in which EU Member States "*reaffirm*[ed] *their conviction that the EIB should continue to devote the majority of its resources to the promotion of economic, social and territorial cohesion.*"[23] While the EIB Legal Directorate has confirmed that Protocol No 28 is not to be read to create legally binding obligations for the Bank, the EIB is currently not meeting Member States' expectations as expressed in this document.

24. **The progressive reduction in the share of lending for cohesion has three main causes**: (i) the emergence of new EIB lending priorities, (ii) the difficulty the Bank has had in maintaining the level of

[23] Protocol (No 28) on Economic and Social Cohesion was first adopted in 1992 under the Maastricht Treaty, and amended to include "Territorial" cohesion in 2009 with the Lisbon Treaty.

cohesion lending as a share of business following revisions to the map of cohesion-eligible regions, and (iii) the financial and sovereign debt crises, which reduced the pipeline of projects available for financing.

- *The emergence of new EIB lending priorities weighed on the Bank's ability to maintain a large share of cohesion lending*. The new priorities started to emerge in 2003, as the Bank was requested by the European Council to prioritise investments to support trans-European networks (TENs) and research, development and innovation (RDI). At the time, the EIB services underlined that while there were no clearly "conflicting objectives", certain lending priorities had lower "cohesion" or "regional" content than others – at least under the existing definition criteria. The new lending priorities were accompanied by the first reduction of cohesion lending's share of EIB activity in 2004. The trade-offs resulting from new priorities were reiterated in 2017, in the analysis of factors behind the decline of EIB cohesion lending from 2012 to 2016. This analysis highlighted that projects in EIB cohesion regions tended to include a lower share of financing for climate action or innovation. The high and increasing significance of these other objectives risked cohesion lending becoming "a victim of prioritisation". A majority of the operational staff surveyed by IG/EV also said that priorities given to other objectives (such as innovation and climate) negatively affected the Bank's ability to generate business in cohesion regions.

- *Changes to the map of cohesion-eligible regions made it difficult for the Bank to maintain the share of cohesion lending.* The new map of cohesion regions under the 2007-2013 MFF included the EU Member States that joined the European Union in 2004 and 2007, but left out some regions in the original Member States that were previously eligible for EIB cohesion support, notably in France, Germany, northern Italy and Spain (see Box 3). Compared to the historical EIB lending to these newly eligible cohesion regions, the Bank considered the previous target of dedicating 70% of individual loans to regional development overly ambitious.[24] For this reason, the Bank decided to reduce cohesion lending from about 62% of business in 2006 to 43% in 2007.

- *The financial and sovereign debt crises also affected the EIB's lending.* During the current MFF, the twin crises have also impeded less-developed regions from developing an adequate pipeline of projects. These difficulties explain why, despite the expansion in the EIB's overall lending, the EIB maintained a prudent approach to the cohesion target, which remained at 30% of overall lending. The European Fund for Strategic Investments (EFSI) was created as a response to the situation (see the role of EFSI operations in the cohesion KPI in chapter 3.2).

## 2.2 EIB cohesion projects: identification and estimation of results

25. The objective of the EIB's cohesion financing is to support the development of less-developed regions as per Article 309(a) of the TFEU.[25] This chapter assesses how well the EIB identifies and quantifies the effect of projects that contribute to this objective.

### *Eligibility criteria consistent with the objective of supporting "less-developed regions", albeit with an exception*

26. **The EIB only counts investments located in "EIB cohesion regions" as contributing to its cohesion financing objective.** To determine a list of these eligible regions, the EIB decided to largely harmonise its definition with that of the European Commission under EU Cohesion Policy. Under the MFFs in 2007-2013 and 2014-2020, the European Commission classified NUTS 2 regions by their GDP per capita compared to the EU average. The EIB decided that several of these categories would be eligible for its cohesion support and be grouped together as "EIB cohesion regions":

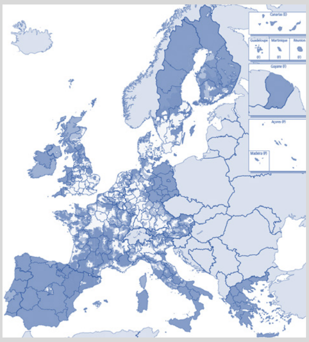
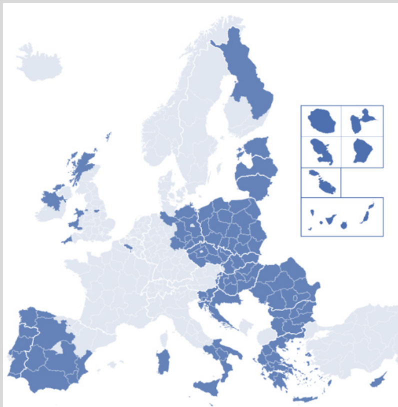
- EIB cohesion regions under the MFF 2007-2013 include three categories of EU regions (see Box 3).

[24] Source: Operational Plan 2004-2006.
[25] Less-developed regions as mentioned in Article 309(a) of the TFEU should not be confused with the category of NUTS 2 regions defined in the context of EU Cohesion Policy, 2014-2020 MFF.

- EIB cohesion regions under the MFF 2014-2020 include two categories of EU regions. As such, the EIB classifies all NUTS 2 regions with GDP below 90% of the EU-27 average as cohesion regions.

**This approach ensures that EIB-eligible regions include the less economically developed regions of the European Union, in line with Article 309(a) of the TFEU.**

**Box 4 – Evolution of eligibility criteria for EIB cohesion regions**

| **Regions eligible as "EIB cohesion regions" under consecutive MFFs** | **Corresponding eligibility maps** |
| --- | --- |
| During the 2000-2006 MFF, EU Cohesion Policy had a geographical focus: it primarily targeted specific regions that either "lagged behind" (Objective 1) or "faced structural difficulties" (Objective 2). Together, Objective 1 and Objective 2 regions constituted "assisted areas", and financing directed to operations partly or fully located in these areas counted as EIB support for cohesion. These areas covered 22% and 18% of the EU-15 population respectively. | EIB cohesion regions (MFF 2000-2006)  |
| From 2007 to 2013, the European Union's Eastern enlargement and the alignment of Cohesion Policy with the Lisbon Strategy led to changes in geographical eligibility rules, which meant that the whole of the European Union's territory and population could benefit from Cohesion Policy. In response, the Bank decided to consider operations partly or fully located in the newly defined convergence regions, as well as in phasing out or phasing in regions, as EIB cohesion lending, . Such regions accounted for more than 35% of the European Union's population.[26]<br><br>The two other Cohesion Policy objectives (Regional Competitiveness and Employment, and European Territorial Cooperation) were supported under other existing lending priorities, such as i2i, small businesses, environment and TENs transport (though EIB Operational Plans for 2009-2011, 2010-2012 and 2011-2013 make little to no explicit mention of such objectives). | EIB cohesion regions (MFF 2007-2013)  |

[26] Source: Operational Plan 2007-2009. Convergence regions refer to regions where per capita GDP (measured in purchasing power parities) for 2000-2002 was below 75% of the EU-25 average. Phasing-out regions refer to regions that would have been eligible for funding under convergence if the threshold of 75% of GDP per capita had been calculated for the EU at 15 and not at 25. Phasing-in regions refer to 12 regions in the EU-15 (plus one in a new Member State) that have developed significantly over the last few years to graduate out of Objective 1 support under the 2000-2006 MFF, but got priority status within the Regional Competitiveness and Employment objective under the 2007-2013 MFF.

EIB cohesion regions (MFF 2014-2020)

From 2014 to 2020, all EU regions were classified into three categories: less developed,[27] transition and more developed regions, depending on GDP per capita.[28] The EIB classified lending operations partly or fully located in less developed or transition regions (i.e. with a GDP per capita of less than 90% of the EU-27 average GDP) or in programme countries as EIB cohesion lending.

*Sources: EIB Operational Plans, DG REGIO (2007), Cohesion Policy 2007-2013 Commentaries and Official Texts. Brunazzo, M., (2016) "The history and evolution of Cohesion Policy", in Piattoni, S. and Polverari, L., "Handbook on Cohesion Policy in the EU" (2016).*

[27] The category of less developed regions, as defined in the 2014-2020 MFF, is not to be confused with the EIB's task to develop "less-developed regions" in Article 309(a) of the TFEU. Under the MFF 2014-2020, the EU category of less developed regions are those NUTS 2 regions with a GDP per capita below 75% of the EU-27 average GDP (measured in purchasing power parities on the basis of EU data for 2007-2009).

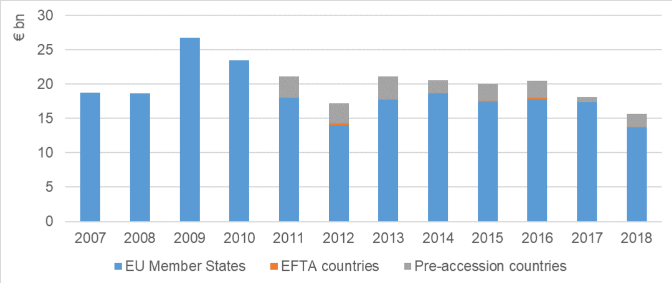
[28] Less developed regions: GDP per capita is less than 75% of the EU-27 average GDP. Transition regions: GDP per capita of 75%-90% of the EU-27 average GDP. More developed regions: regions with GDP per capita above 90%.

27. **The evaluation has not found any explicit justification as to why operations located outside the European Union (in pre-accession and EFTA countries) count towards the cohesion KPI.** From 2011 onwards, the EIB has expanded the geographic scope of its cohesion KPI to also include lending to pre-accession[31] and EFTA[32] countries. Although no explicit explanation exists for this decision, the inclusion of pre-accession countries is consistent with the long-term prospect of their integration into the European Union. By contrast, including all EFTA countries has no valid rationale, and is inconsistent with the cohesion objective. It is an extension of EIB procedures: planning and reporting on these countries has always been aggregated with planning and reporting for pre-accession countries. EFTA countries are not beneficiaries of Cohesion Policy, and although their share of cohesion signatures is very small (0.5% on average since 2011), there is no reason for them to be included in the Bank's cohesion KPI.

**Box 5 – EIB cohesion finance outside the European Union**

From 2011 onwards, financing to pre-accession and EFTA countries has counted towards the cohesion KPI. These countries benefited from about 12% of cohesion financing between 2011 and 2018. With a yearly average of €2.7 billion in the period 2011 to 2016, a decline to €771 million was observed in 2017, due to a large reduction in lending to Turkey.[29]

**Figure 3 – Net EIB cohesion lending (€ billion) in EU, EFTA and pre-accession countries (2007-2018)[30]**




*Source: EIB database. Computed by IG/EV.*

*A pragmatic location-based approach to identify operations that support growth in cohesion regions*

28. **The share of investments expected to be located in a cohesion region determines by how much an operation contributes to the cohesion KPI.** An EIB operation may finance investments fully or partially located in a cohesion region. EIB services estimate the share of investments expected to be located in a cohesion region at the appraisal stage, in slightly different ways depending on the nature of the operation.

- *Investment loans*: EIB services estimate what percentage of the total project investment cost is expected to be spent in eligible cohesion regions. This percentage is applied to the EIB loan amount, and reflects the operation's monetary contribution to the cohesion KPI.
- *Operations for which the specific investments and their location are unknown at appraisal (typically framework loans)*: In cooperation with clients, EIB services estimate the share of the project investment expected to be spent in cohesion regions, based on lists of projects or on previous similar operations.
- *Multi-beneficiary intermediated loans*, whereby the physical location of the final beneficiaries supported is usually unknown at appraisal. EIB services, together with financial intermediaries,

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29 In 2017, EIB lending to Turkey was 77% lower than it had been in 2016 due to the country's political situation coupled with the necessity to respect large exposure limits. Turkey accounted for an average of 66% of signatures in pre-accession countries.

30 The signed amounts shown in this graph are slightly different from those shown in Figure 1. While Figure 1 reflects official EIB figures reported on the KPI, this graph reflects the final net cohesion portfolio, i.e. having removed amounts in non-eligible regions, and having removed cancelled amounts.

31 After discussion with the services, IG/EV identified two potential reasons for including pre-accession countries in the cohesion KPI: (i) pre-accession countries are expected to ultimately join the European Union, therefore investments in these areas could have been considered to contribute to cohesion; (ii) the Operational Plan for 2009 mentioned that these countries faced similar effects from the financial and debt crises as less developed and transition EU regions.

32 EFTA countries are Iceland, Liechtenstein, Norway and Switzerland.

estimate the expected proportion of final beneficiaries located in eligible cohesion regions, based on previous operations.

29. **This location-based approach provides a simple and pragmatic methodology** for estimating a project's contribution to cohesion across sectors and products. It assumes that (i) any and (ii) only investments located in cohesion regions contribute to the development of these regions. Provided that information on the location of the planned investments exists or can be predicted, the margin for interpretation and error is theoretically limited. The results of the macroeconomic modelling simulation (described in detail in chapter 5) indicate that this approach works and identifies projects with positive growth effects on EIB cohesion regions. The model shows that investments supported by EIB cohesion financing are expected to increase the GDP of cohesion regions and to have a very limited impact on the GDP of non-cohesion regions. At the same time, the effect of investments supported by EIB *non*-cohesion financing (i.e. projects located outside cohesion regions) on cohesion regions is, on average, very limited and close to zero.

# 3. RELEVANCE OF EIB ACTIVITY IN EIB COHESION REGIONS

30. This chapter assesses the extent to which EIB support was geared towards the needs of less-developed regions. This analysis focuses on three questions:

- Did the financing **operations** flagged by the EIB as cohesion operations suitably address the regions' priority sectors and needs?
- Were EIB **procedures and product offers** adequate to support operations located in cohesion regions?
- Was **public financing** needed for the cohesion projects financed? Was EIB financing **additional** to the market?

31. Key messages

- In the five countries analysed in depth, the EIB's cohesion portfolio was geared towards the most prominent investment needs. The extent to which region-specific needs were addressed is to a large extent undocumented and is treated as a peripheral matter during the project design.
- For the individual operations evaluated, in cases where information on the location of investments was available, the appraisal documents did not analyse the regional dimension of projects in depth. EIB procedures and templates do not require setting out and quantifying the expected and actual results for the regions concerned.
- The EIB's product offer is generally flexible enough to match the variety of clients' needs in cohesion regions.
- EFSI has enabled the Bank to enhance its supply of financing to operations facing structural investment gaps in cohesion regions.
- The EIB's additionality was analysed for a sample of completed projects. For this sample, the EIB was good at addressing market failures found in relatively poor, peripheral or rural areas. The EIB's influence was mixed when it came to improving the scale, scope, structure, quality and/or timeliness of operations. The EIB provided additionality essentially through the financial conditions it offered, although less so through its technical contribution (but this last finding should be taken with caution).

## 3.1 Responsiveness of EIB projects to priorities and needs in cohesion regions

32. This chapter analyses how the EIB has addressed the key development constraints of less-developed EU regions. This analysis is broken down into two parts:

- In five selected countries (Italy, Poland, Portugal, Romania and Slovakia),[33] the evaluation examined whether the cohesion portfolio was geared towards sectors with significant investment needs identified in relevant policy documents, in research studies and reported by EU firms.
- In addition, the evaluation analysed whether the 19 projects evaluated in depth addressed policy and investor priorities within their sector of intervention.

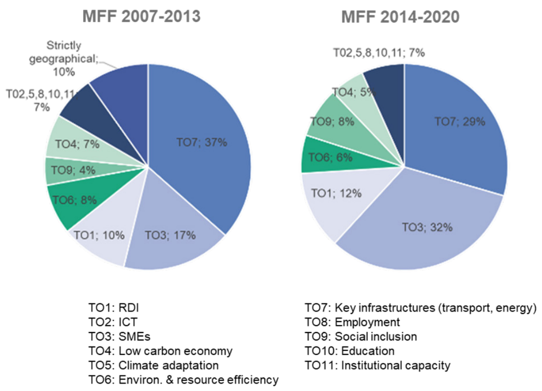
[33] The criteria used to select these countries are presented in Annex 1.e.

*In the cases analysed, EIB cohesion financing was well aligned with investment needs at the country level.*

33. **In the five selected countries, the EIB cohesion portfolio was geared towards sectors with the main investment needs.** The EIB cohesion portfolio is characterised by a strong focus on three main thematic objectives (TO) of Europe 2020,[34] and this focus has increased from one MFF to the next:

- TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures;
- TO3: Enhancing the competitiveness of SMEs;
- TO1: Strengthening research, technological development and innovation[35].

**Figure 4 – Distribution of EIB cohesion financing by thematic objective**




*Source: EIB data, computed by IG/EV*

34. **This thematic focus of EIB cohesion financing follows a similar pattern in the five countries analysed.** As such, it aligns well with investment needs identified in (i) Partnership Agreements between Member States and the European Commission, (ii) EIB Economics Department country analyses, and (iii) the annual EIB Investment Survey (EIBIS).[36] The five countries all include cohesion regions at various stages of development, but they show similar patterns in terms of their main investment needs:

- *Knowledge-based economy*. All five countries are classified as moderate or modest innovators in the European Innovation Scoreboard.[37] They struggle to attract highly skilled workers, often lack proper broadband/ICT infrastructure, and have difficulty providing finance for innovative companies. They often report a shortage of skilled workers in the EIBIS, and list a lack of skilled workers as the most prominent barrier to investment. Consequently, they need to invest in developing their workforce and in fostering links between industry and science through projects that improve ICT infrastructure and support R&D investments.
- *Transport*. With the exception of Portugal, the quality of roads in the countries analysed is far below EU standards.[38] Romania has one of the least developed transportation infrastructures in the European Union, in reach and quality. For this reason, transport investments were a top priority in all countries throughout the 2007-2013 and 2014-2020 programming periods. Firms included in the EIBIS regularly report a lack of decent transport as a significant barrier.
- *Energy*. All five countries need to reduce their dependency on energy imports and make their energy production more sustainable. Reports from the EIB Economics Department note the need for more investment in energy infrastructure, increased efficiency and better connections with neighbouring countries.
- *Waste and water management*. In all five countries, waste and water management still lack the investment needed to comply with EU legislation, particularly for circular economy projects.

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34 The cohesion operations within scope have in common their geographical focus on cohesion regions, but do not share the same specific objectives. In order to understand to which group of objectives they contribute, this evaluation has taken the thematic objectives (TOs) of EU Cohesion Policy 2014-2020 as a reference. Europe 2020 has guided EU policy and programming during most of the period covered by this evaluation, which has classified the entire cohesion portfolio 2007-2018 by the TOs of Europe 2020. This classification enables the portfolio to be presented by clusters of homogeneous objectives, rather than simply by sector.

35 Figure 4 includes broadband projects under TO1, as in EIB-eligible broadband infrastructure is included under the Knowledge Economy/Innovation public policy goals.

36 The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey that gathers qualitative and quantitative information on investment activities by small and medium-sized businesses and larger firms, their financing requirements and the difficulties they face. The latest version (2019) is available.

37 See European Innovation Scoreboard.

38 See EU Transport Scoreboard.

- *Access to finance*. All countries regularly reported the availability of finance as a barrier to investment. Studies in the five countries analysed (in particular the Survey on Access to Finance of Enterprises in the euro area (SAFE)[39] and the EIBIS) identify sub-groups of companies that face specific constraints to accessing finance, such as young or small companies that have difficulty mobilising the required collateral for loans or difficulties generating revenue quickly enough to start repaying loans. Access to finance was a particular problem in some countries during and after the financial crisis of 2008-2010. However, recent studies have found that the situation has improved, and that the gaps between countries' access to external sources of finance has shrunk. In 2016, the SAFE already began showing improvements in the availability of external sources of finance for small businesses.

35. Figure 4 also shows that **EIB cohesion financing focused less on employment, social inclusion and education (TOs 8, 9 and 10).** These areas are cited as important in the Partnership Agreements of Italy and Poland in particular, but so far those objectives have received limited EIB support. It should be noted that these objectives are supported by the ESIF, in particular by the European Social Fund (ESF).

36. **The individual evaluations of 19 operations enabled more in-depth analysis, and showed that the majority of operations analysed addressed policy and investor priorities within their sector of intervention.** Several projects analysed were dedicated to improving the reliability of energy supply and the energy mix, in regions characterised by obsolete energy infrastructures and high dependence on imports. Other operations focused on improving access to basic public services and economic activities in some of the poorest rural regions in the European Union. In the area of waste management, the EIB helped address a major need, which was the convergence of municipalities in cohesion regions to the EU Landfill and Waste Framework Directives. In the area of connectivity, in a country that has one of the lowest high-speed mobile broadband coverages in the European Union, the EIB helped mitigate the costs of enhancing broadband access in peripheral and sparsely populated regions. Finally, in the area of innovation, EIB support for regional universities paved the way for an increased share of RDI expenditure in the GDP of hosting regions.

37. **For credit lines with a cohesion component, this evaluation's assessment is more nuanced: the six credit lines reviewed were typically illustrative of standard MBIL products, with wide sectoral eligibility enabling a broad range of beneficiaries to be reached, but at the same time not firmly targeting specific investment gaps.** This evaluation found that these operations lacked the client or sector focus needed to really address the barriers to finance in the countries visited. In addition, the proportion of sub-loans supporting companies located in cohesion regions was estimated based on the financial intermediary's existing pipeline, but not converted into a contractual requirement or a dialogue that would incentivise the intermediary to make an extra effort towards specific cohesion regions.

### *While operations adequately addressed investment needs at a national level, limited attention was paid to the diverse and specific needs of the regions covered*

38. **Cohesion operations do not analyse or explain how they address the specific and diverse needs of the regions they cover.** About 30% of cohesion operations with available data at NUTS 2 level are multi-regional. In a given country, a single cohesion operation may therefore cover regions with significantly different development statuses.[40] It can reasonably be assumed that distinct development statuses come with distinct investment needs. However, for the projects evaluated in depth, the analysis

[39] The Survey on Access to Finance of Enterprises (SAFE) provides information on the latest developments in the financial situation of enterprises, and documents trends in the need for and availability of external financing. The survey is conducted twice a year. The European Central Bank conducts the survey once a year and covers euro area countries, and another survey covering all EU countries plus several neighbouring countries is performed in cooperation with the European Commission.

[40] In Bulgaria, the level of GDP per inhabitant in the richest cohesion region (Yugozapaden) was 2.7 times as high as that recorded in the cohesion region of Severozapaden. There was also a relatively large development gap between the cohesion regions of France, Hungary, Romania, Latvia and Poland. In each case, the richest cohesion region recorded GDP per inhabitant that was more than 1.5 times as high as that recorded in the region with the lowest GDP per inhabitant.

of region-specific needs was usually absent. Indeed, the MBILs and sectoral framework loans reviewed in depth had a multi-regional coverage, but included next to no information on the needs of the regions they covered, or on the potential challenges of ensuring that all the regions they targeted could mobilise resources. Detailed analyses that covered region-specific needs only existed for the operation that combined EIB and ESIF resources, and SPL operations in general; these analyses were undertaken by promoters at the request of the European Commission. IG/EV's 2011 cohesion evaluation came to similar conclusions and also pointed out the limited attention paid to projects' regional implications.

39. **For the individual operations evaluated, in cases where information on the location of investments was available, the appraisal documents did not analyse the regional dimension of projects in depth,** beyond quantifying the share of investments located in eligible cohesion regions. The EIB appraisal procedures ensure that projects labelled as contributing to the cohesion KPI – like all EIB-financed projects – align with its public policy goals and national priorities, are of quality and are undertaken by clients with strong technical capacity. The Bank's 3PA system rewards the extent to which projects contribute to the EIB's cross-cutting cohesion objective. As indicated in section 2.2, the identification of an operation's eligibility and potential contribution to cohesion is based solely on the location of investments. While this approach is pragmatic in its application (across sectors and products), and reasonable in estimating a project's potential contribution to overall growth (as indicated by the results of the macroeconomic simulation described in chapter 5), it does not incentivise staff to analyse how the operations financed are benefiting cohesion regions. In interviews, EIB staff confirmed that assessing a project as contributing to the cohesion KPI at appraisal was a "tick-box exercise" that carried only marginal importance.

40. Procedures and templates at appraisal do not require a narrative setting out and quantifying the expected results for the regions concerned. While what ultimately matters is who benefits from the investment, a well-articulated narrative, specifying the expected outcomes for the regions concerned, would enhance accountability, communication, direction and learning. It would describe the objectives to be attained/issues to be addressed, and fill in the narrative for the "missing middle" between financing inputs and impact.

41. **In addition, the quantification of results for the regions concerned is lacking.** The Bank has developed a "menu" of standard sector-specific indicators that individual projects are expected to deliver against/contribute to (complementary indicators of its 3PA). The next step in improving the EIB's results reporting would be to assess the feasibility of reporting project results, disaggregated by geography, at NUTS 2 level.

## 3.2 Fitness for purpose of the EIB product offer

***The EIB finance offer was generally flexible enough to adapt to a variety of needs and clients***

42. **The EIB offers a wide range of financial options to borrowers, allowing them to tailor the product to their needs and to changing market conditions**. With the exception of structural programme loans specifically dedicated for projects also supported by the ESIF (11.8% of cohesion signatures since 2007), the EIB offers the same range of products to cohesion and non-cohesion operations/clients. Interviews with the 19 clients selected for project evaluations, as well as previous evaluations undertaken by IG/EV,[41] reflected the EIB's ability to offer flexible and customised products that match borrowers' needs (loan size, flexible repayment, disbursement and allocation procedures). Framework loans and MBIL products, in particular, enable the EIB to serve sub-sovereign (regions, municipalities) and non-corporate clients at a manageable cost.

43. **Within a selection of Member States, the evaluation found that the EIB offered similar commercial conditions to clients in cohesion and non-cohesion regions**. Of the different pricing components of

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[41] EIB IG/EV, "Evaluation of Structural Programme Loans and their contribution to EU Cohesion Policy, 2007-2016" (2018).

its operations, price modulation is the area where the EIB can adjust its commercial conditions. IG/EV analysed whether, in six selected countries (Austria, Belgium, Italy, Poland, Portugal and Spain),[42] an operation labelled as cohesion was subject to a different price modulation than that applied to a non-cohesion operation. For clients of a similar nature within each country, no systematic difference was observed between the price modulation applied to cohesion and non-cohesion operations.

44. **However, in cohesion regions, investment is often constrained by non-financial factors which fall beyond the remit of the EIB.** Sovereign and sub-sovereign entities in Southern and Eastern Europe are often hampered in their ability to put together well-prepared projects and financing plans. Beyond finance,[43] projects also need technical and advisory help. Support provided by JASPERS or the European Investment Advisory Hub addresses such constraints.

45. **Cohesion regions also face regulatory and institutional constraints that affect confidence in the business environment.**[44] In countries like Romania, constraining legislative frameworks (municipal debt thresholds in particular) have so far hampered the EIB's ability to be more active in financing local investments. These constraints are beyond the EIB's remit. Several international financial institutions are active in that field and complement their financing with policies that push for structural reforms. The World Bank, for example, has developed a comprehensive framework for strengthening regional and national institutions for "lagging regions",[45] and the approach to transition of the EBRD includes support for structural and institutional transformation.[46] In the EU architecture, it is the European Commission that takes the lead in areas such as insolvency, public procurement and administration reform, through the "European Semester" or the third pillar of the Investment Plan for Europe, dedicated to the removal of regulatory barriers to investment. The EIB's contribution to the Commission's discussions under the "European Semester" is currently restricted to research studies. Beyond that, the EIB holds only limited discussions with the Commission on institutional barriers.

### *EFSI has enabled the Bank to enhance its supply of financing to operations facing structural investment gaps in cohesion regions*

46. **In response to a fall in investment in the aftermath of the 2008 financial crisis, EFSI enabled the Bank to increase its risk-bearing capacity and address a shortage of financing in countries predominantly made up of cohesion regions.** As a public investment bank, the EIB has to maintain a balance between its public policy objectives and commercial imperatives associated with its top-notch credit rating. The EIB's ability to engage in riskier operations with a potentially higher economic and social impact is defined within the remits of its prudential risk policy. In general, the EIB primarily mobilises its own resources in support of strong clients in cohesion regions. EFSI was launched in 2015 to address a fall in investment in the aftermath of the global financial and sovereign debt crises following a 15% drop in investment in the European Union relative to pre-crisis levels. Countries classified by the

[42] These countries were selected because they offered some balance between cohesion and non-cohesion regions for comparison purposes. In contrast, Romania and Slovakia, although among the countries studied in depth, were not included in this analysis as the vast majority of operations were located in cohesion regions.

[43] "*Absorption rates are conditioned by three main features: administrative capacity, i.e. ability of the Member State or regional authorities to prepare and manage the operational programmes, including their underlying projects; macroeconomic capacity, as limits on the transfer of EU Cohesion Policy funds were tied to the respective Member State's gross domestic product (GDP); and financial capacity, i.e. the ability of the Member State or region to co-finance the programmes and projects supported by the EU.*" Source: Katsarova, I. (2013), "The (low) absorption of EU Structural Funds", Library of the European Parliament.

[44] See European Commission, "Economic Challenges of Lagging Regions" (04/10/2017).

[45] See World Bank, "Growing United" (2018) and "Rethinking Lagging Regions: Using Cohesion Policy to Deliver on the Potential of Europe's Regions" (2018).

[46] See EBRD, "How we assess transition impact".

EIB Investment Report (2015, 2016) as “vulnerable Member States”[47] and “cohesion countries”[48] were strongly affected by a drop in investment following the crisis; these two groups of countries are predominantly or fully composed of cohesion-eligible regions. EFSI aimed to address a shortage of financing and thereby boost growth, employment and competitiveness by enabling the EIB Group to engage in riskier operations – which the market and the EIB would otherwise not have financed to the same extent – in cohesion regions, at a time when they were still recovering from the crisis.

47. **EFSI has indeed enabled the EIB to work with riskier clients in cohesion regions, in line with the spirit of the initiative.** Table 3 presents the breakdown of ratings for EIB borrowers with cohesion operations, depending on whether their operation was approved under or outside of EFSI since 2015. It clearly illustrates the higher level of risk of the EFSI portfolio of cohesion clients, as compared to traditional cohesion clients (57.2% of EFSI clients are non-investment grade or lower compared to only 26.2% of non-EFSI clients).

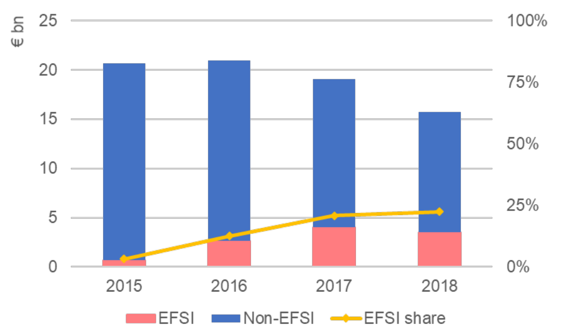
**Table 3 – Rating of EIB borrowers with cohesion operations approved since 2015, EFSI and non-EFSI**

| Borrowing rating | EFSI Cohesion | | Non-EFSI cohesion | |
|---|---|---|---|---|
| Prime | 1.0% | 11.9% | 0.2% | 34.8% |
| High grade | 4.4% | | 9.7% | |
| Upper medium grade | 6.4% | | 24.9% | |
| Lower medium grade | 28.6% | 82.4% | 38.3% | 63.2% |
| Non-investment grade speculative | 46.1% | | 12.2% | |
| Highly speculative | 7.7% | | 12.7% | |
| Ultra speculative | 1.9% | 3.4% | 1.1% | 1.3% |
| Default | 1.5% | | 0.2% | |
| No information | 2.3% | | 0.7% | |

*Source: EIB database, computed by IG/EV*

48. **The EIB’s efforts to increase EFSI-guaranteed business in cohesion regions has led to a (partial) shift of its cohesion portfolio towards operations expected to provide more additionality.** After an initially slow take-up of EFSI in less developed and transition regions, the amended EFSI Regulation made all projects located in these two categories of regions eligible for EFSI financing.[49] Since then, EFSI business in cohesion regions has gradually increased and stabilised at about €3.5 billion per year. It increased by 35% between 2016 and 2018, and represented about 23% of the EIB’s cohesion portfolio in 2018. About 45% of EIB OPS staff surveyed estimate that the inclusion of cohesion projects under the amended EFSI Regulation has positively affected business in those regions. While the volume of EFSI business increased in cohesion regions, it should be noted that the EIB’s traditional financing from own resources declined in a similar proportion (by 34% between 2016 and 2018). However, there is no evidence that demand for operations with a level of risk commensurate with the EIB’s own resource financing had significantly shrunk during this period. Instead, this partial shift

**Figure 5 – EFSI operations within the EIB cohesion portfolio (2015-2018)**




*Source: EIB database, computed by IG/EV*

[47] Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain. Among this group, Member States that were classified as programme countries (hence fully eligible for EIB cohesion eligibility; see key terms) were Cyprus, Greece, Ireland and Portugal. “Vulnerable Member States” suffered a sharp drop in investment following the crisis, with an investment-to-GDP ratio well below the long-term average up to and after the launch of EFSI.

[48] Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovakia. Cohesion countries also acknowledged a sharp fall in the investment-to-GDP ratio during the period 2007-2010, although it never actually fell below its 1999-2005 average. However, these countries still had significant investment needs as the level of capital per capita was and remains below the level of the EU-15.

[49] As per the amended EFSI Regulation. Since the beginning of 2018, all projects located in less developed and transition regions are eligible for EFSI support, provided they are in industries and services eligible for EIB support and adhere to the eligibility criteria defined in Article 6 of the original EFSI Regulation.

towards EFSI-guaranteed volume can be explained by the EIB's efforts to prioritise EFSI deals throughout the European Union, including in cohesion regions. If the assumption holds true that EFSI operations provide more additionality than traditional operations, this shift has enabled the additionality of the EIB's cohesion portfolio to be enhanced.

49. **The amended EFSI Regulation stressed that "*small-scale projects should not be deterred from applying for EFSI financing*".** This evaluation found no major difference in the size of EFSI deals signed in cohesion regions compared to traditional (non-EFSI) deals. Still, origination constraints limit EFSI projects in less developed economies. Interviews with EIB staff in OPS indicated that less developed economies lack sufficiently sophisticated and capitalised counterparts, and suffer from insufficiently prepared projects, which hampers the full potential deployment of EFSI in these regions.

### 3.3 Additionality of EIB operations in cohesion regions

50. This section analyses the extent to which the EIB provided additionality through its cohesion operations; or, in other words, if the financing of a public bank was needed to address the needs of cohesion regions.

51. **Like any public bank, the EIB should contribute something socially valuable that would not otherwise happen.** Building on recent internal EIB work on additionality, the evaluation used the framework below to assess the additionality of the 19 projects evaluated in depth: [50]

- It assesses *why* public financing is needed, i.e. whether EIB operations were designed to address suboptimal investment situations resulting from market failures.
- It assesses *what* difference the EIB financing made relative to the market alternative in terms of scale, scope, structure, quality and/or time.
- It assesses *how* the EIB made this difference in terms of the financial and non-financial support provided that went beyond what the market alternative could provide.

52. As this analysis only covered the 19 projects analysed in depth, it is purely illustrative and not representative of the overall cohesion portfolio. Where relevant, the assessment expands beyond these 19 projects to the overall cohesion portfolio.

#### *Overall, the sample of operations evaluated addressed market failures well*

53. **Several of the investment and framework loans analysed were highly relevant in addressing sources of market failure.**[51] While the contribution was not always explained in appraisal documents, several examples of operations addressing sources of market failure typically found in peripheral, rural or underserved regions could be identified:

- Positive externalities of broadband access for peripheral areas.
- Positive economic and social externalities of municipal infrastructure in rural or remote areas in the form of better enabling services and improved quality of life for residents.
- Increased market competition and reduction of market power through diversified sources of energy supply. Security of supply can also be considered as a public good.
- Positive externalities of the modernisation of solid waste management and treatment systems in the form of environmental and public health benefits through avoided pollution.
- Attenuation of the financial markets' failure to finance RDI due to limited access to and/or the higher cost of financing as a result of factors such as information asymmetries, lack of collateral and/or lack of track record.

[50] The performance of these operations was rated against the framework in place when they were approved (3PA). Further complementary analysis building on this framework was conducted to illustrate to what extent these operations provided additionality.

[51] The economic literature identifies various sources of market failures, which lead to inefficient allocation of goods and services. The main ones are the following: (i) public goods, for which agents have no incentive to invest, while their use without financial compensation leads to their gradual depletion, making the agents collectively worse off; (ii) market structure/imperfect competition; (iii) positive or negative externalities when agents fail to internalise the social benefit (or cost) of their actions and indirectly impose them on third parties external to the transaction; and (iv) information asymmetries where at least one of the agents involved in a transaction has incomplete or unreliable information.

54. **The extent to which MBILs addressed credit rationing is more nuanced.** The MBILs evaluated did not target specific groups of underserved companies. As such, they did not address structural market failures, but they did address cyclical market failures.

- The sample of projects reviewed included six MBILs that were not designed to target specific groups of finance-constrained companies. In these cases, the EIB did not provide additionality, as the sub-loans were allocated by these local banks to regular operations with traditional clients through existing in-house products. The appetite of intermediaries interviewed for more sector- or client-focused MBILs was limited, considering the challenge of mobilising a sufficient pipeline of projects. The feedback obtained from several of the intermediaries interviewed was that risk-sharing products were the most likely product to change lending behaviour towards specific groups of clients. Lastly, the ability of the selected intermediaries to reach out to peripheral regions was not consistently explained in the appraisal documents reviewed. However, IG/EV identified positive cases of partner banks offering very local, decentralised outreach to underserved areas.
- By contrast, the standard MBIL products analysed provided additionality through intermediary banks during and after the financial crisis of 2008-2010. In Portugal and Italy, EIB intermediated lending addressed cyclical market failures by enabling local banks to maintain a certain volume of sub-loans and transfer advantageous conditions in the context of credit constraint (see chapter 4.4). The additionality offered – by strengthening financial intermediaries' balance sheets during the financial downturn – was, however, not explicitly stated in project documents. In Poland, a country relatively unaffected by the credit crunch, such additionality was not so prominent.

55. **While the EIB's analysis of investment gaps and needs has expanded in the past five years, it is still perceived as insufficiently operational by EIB staff**. In the internal survey of EIB staff, only 24% of respondents agreed or strongly agreed that the EIB has developed an adequate analysis of the investment gaps it can address in cohesion regions. The majority of operational staff surveyed or interviewed during project evaluations found it challenging to convert the existing analyses of investment gaps into tailor-made operations. While these studies exist and their quality is improving (Economics Department country reports and EIBIS since 2016, recommendations made by the European Commission under the European Semester more recently), they are still perceived as insufficiently operational by EIB staff.

### *The EIB's influence on the scope, timing and quality of projects was more mixed*

56. To thoroughly analyse the additionality of EIB projects, a counterfactual would need to be constructed (presence vs. absence of EIB involvement in the operation) by the evaluators. This approach was not feasible for each of the projects analysed. Instead, IG/EV used qualitative feedback from the borrowers and promoters interviewed. The findings from these cases should therefore be treated with caution and cannot be generalised considering the non-representative nature of the sample analysed.

57. **Among the 19 operations analysed in depth, only anecdotal examples were found of EIB financing improving the ability to implement faster, larger or better operations.**

- Cases of investment loans were identified for which the price advantage and longer maturity offered by the EIB enabled the planned investments to be launched faster than initially planned. For example, one borrower stated that they would not have been able to run two major investments at the same time without the conditions offered by the EIB. In the context of the financial and economic crisis, two borrowers declared that the EIB operation largely influenced their ability to pursue investments which would otherwise have been delayed.
- One of the projects evaluated was an EIB framework loan to co-finance a large set of public investments with ESIF. This operation had a critical effect on the ability of the national authorities to unlock co-financing from the European Union, thereby safeguarding the timely deployment of the programme. This finding confirms a similar observation made by IG/EV for structural programme loans (an EIB product dedicated to co-financing Operational Programmes supported by ESIF).
- As far as MBILs are concerned, no hard data are available that would confirm whether intermediaries have lent more in volume because of EIB support than without it.

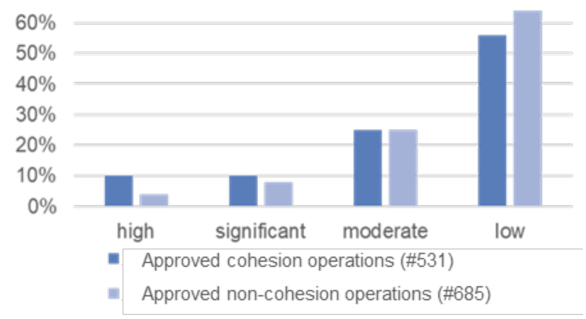
*The EIB's financial contribution was the most important element of additionality in cohesion regions, while the EIB's technical contribution was low*

58. **Clients interviewed said that the EIB's financial conditions provided the most additionality.** For nearly all of the 19 operations reviewed, borrowers declared they were unable to raise loans as advantageous as the ones offered by the EIB in terms of interest rates, tenors and volumes. The pricing offered by the Bank was viewed as extremely competitive in the years following the outbreak of the financial crisis, which enabled the EIB to play an important countercyclical role in the most credit-constrained countries. In a context of abundant liquidity, the EIB's financial contribution has recently eroded, but its combination of rates and maturities remains unmatched by competitors. Interviews with the EIB's geographical divisions indicate that the Bank's eroding price competitiveness is hampering its ability to sign deals in Eastern Europe, or to implement MBILs for which the intermediary is unable to match the obligation of transferring a financial advantage while making a financial return. In the internal survey of staff, more than 60% of OPS staff said that the EIB's reduced price competitiveness was hampering business.

59. **On the other hand, for the projects reviewed, the EIB's financial facilitation[52] was less of a factor.** This is contrary to the expectations set in many of the project appraisal documents reviewed. Furthermore, the appraisal documentation does not provide sufficient explanation as to why positive effects were expected. The project completion documents usually do not provide an analysis of the impact the EIB financing had on a project. Only anecdotal evidence of the EIB's "stamp of approval" that could attract other financing was cited.

60. **Finally, for the vast majority of the 19 cases reviewed, the EIB's technical contribution was expected to be low or absent.** For the 19 projects examined, the promoters interviewed confirmed their limited need for EIB technical expertise. In several cases, the EIB's technical contribution expected at appraisal was more ambitious than reported by promoters. In the few cases where the technical contribution materialised, it related to enhanced methods for analysing environment-related risks (ensuring the operation complied with EU environmental directives), transfer of know-how to environmental authorities or improved project risk assessment.

**Figure 6 – Expected technical contribution since 2016 (EU portfolio, cohesion vs. non-cohesion)**




*Source: EIB database, computed by IG/EV*

61. A similar observation can be made for the overall portfolio of cohesion operations approved since 2016 (oldest available dataset on this aspect, see above). But this information should be treated with caution. As far as the overall cohesion portfolio is concerned, the EIB's current methodology for rating its technical contribution does not adequately capture the effect of advisory/technical activities offered through other mandates. This evaluation is therefore unable to identify if a low expected technical contribution means: (i) the lack of a need; (ii) a need addressed prior to project approval by other dedicated initiatives, such as JASPERS, Jessica or the Advisory Hub; or (iii) a need addressed by a parallel technical assistance operation undertaken by the EIB Group.

[52] Under the 3PA, the assessment of the EIB's financial facilitation aims to evaluate how the EIB increases the efficiency of other stakeholder support. Financial facilitation may result from providing innovative products, or from complementing other financiers: attracting other private sector financing, or leveraging public sector financing (from national or EU budget and financial instruments, for example).

# 4. EIB COHESION FINANCING: MAGNITUDE AND RESULTS

62. This chapter analyses the extent to which the EIB has attained its objective of financing projects that support the development of cohesion regions. This analysis tracks the chain of effects of EIB cohesion financing.[53] It verifies the extent to which cohesion financing approved by the EIB has actually been converted into signatures (KPI), has been disbursed into the economy and has financed projects that have achieved their objectives. The ultimate effect of this financing on developing cohesion regions is examined in chapter 5 (macroeconomic analysis).

63. Key messages

- The EIB has achieved its annual target for cohesion lending for most of the period under review. However, despite being less ambitious in recent years, the cohesion target has been more difficult to achieve. Signatures were below the 30% target in 2015, 2016 and 2019.
- The evaluation found serious limitations in the reliability of data informing investments received by each region. While the EIB's accounting approach provides a good estimate of the total volume of an operation signed in support of the cohesion KPI, reporting on amounts signed in each region contains some errors.
- In particular, information reported at appraisal and signature on the location of investments at NUTS 2 level is to a large extent incomplete. Moreover, for multi-region/country operations, the approach for estimating the share of financing for cohesion leads to a systematic misestimate of the volumes that have actually been signed in each region. Reporting on the actual location of disbursements at NUTS 2 level at project completion is also incomplete, meaning that the EIB is currently unable to accurately report on the amounts actually invested in each NUTS 2 region.
- The evaluation found that in several Member States, EIB cohesion financing represents an increasing share of regions' GDP under the current MFF, particularly in Greece.
- The low-income regions of the European Union are increasingly benefiting from cohesion finance, with notable exceptions: Bulgaria and Romania, which are among the poorest regions in the European Union, are falling behind in terms of cohesion financing per capita and as a share of their economy.

## 4.1 Systematic errors and gaps in the data for investments by region

64. **The geographic location of the investments supported is the sole criterion that determines whether a project is eligible for the EIB's cohesion financing KPI.** However, except for its operations in the transport sector,[54] the EIB currently does not have geo-referencing data systems of approved, signed, disbursed and invested amounts. This lack of information significantly curtails the Bank's ability to quickly and accurately quantify and report on how much it has invested in any given region. The systematic (rather than random) nature of the errors described below indicates that they can be addressed through improvements in EIB data systems and processes.

### *Systematic errors in the data for investments approved and signed per region*

65. There are two possible ways of extracting a cohesion portfolio from the EIB data systems:
    1. By filtering operations through the relevant eligibility codes (i.e. including all operations labelled as cohesion-eligible at appraisal).
    2. By filtering operations through their location (i.e. including all operations identified as located in cohesion regions at appraisal, regardless of the eligibility codes).

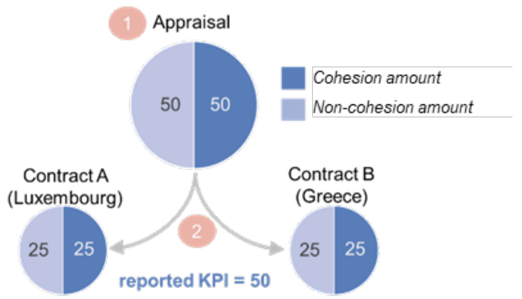
[53] The intervention logic of EIB cohesion financing reconstructed by the evaluation team is presented in Annex 2.
[54] For operations in the transport sector, the EIB services have developed a Geographic Information System (GIS) that identifies the exact location of each transport project.

66. **The evaluation team applied these two methods and found discrepancies in the resulting portfolios.** Two issues were identified: (i) the EIB's approach leads to differences between the amount of cohesion financing reported and that which actually goes to each region, and (ii) mistakes were spotted in the application of cohesion eligibilities by staff. These issues are analysed below.

67. **First, the geographical reporting of the amount approved and signed in each cohesion region is partly inaccurate.** An operation's cohesion percentage (the proportion of investment costs located in a cohesion region) is estimated at the appraisal stage. This proportion is then automatically applied to all subsequent contracts falling under the operation, whatever the actual location of these contracts ("cascading down" approach). The extent to which a contract contributes to the cohesion KPI is calculated by applying the formula: [contract amount in euro] * [cohesion percentage estimated at appraisal].

68. As an illustrative example of this "cascading down" approach, consider a €40 million RDI loan for a company anticipating investments in both Luxembourg (non-cohesion) and Greece (cohesion-eligible).

**Figure 7 – Example of "cascading down" approach for determining an operation's contribution to the cohesion KPI**




*Source: Produced by IG/EV*

1. The proportion of investment costs located in a cohesion region is **estimated** at the appraisal stage of an operation. At appraisal, it is expected that 50% of the investments will be located in Luxembourg, and 50% in Greece. As shown in Figure 7, based on this expectation, 50% of €40 million → €20 million is labelled as cohesion, and the remaining €20 million is not labelled as cohesion.

2. This same proportion is then **automatically applied** to all subsequent contracts, whatever their actual location. In Figure 7, the loan is split into two contracts, contract A for investments in Luxembourg (€20 million) and contract B for investments in Greece (€20 million). In this case, the cohesion percentage will be applied to both contracts: 50% of €20 million → €10 million will be labelled as cohesion financing in contract A located in Luxembourg, and 50% of €20 million → €10 million will be labelled as cohesion financing in contract B located in Greece.

69. **This "cascading down" approach works for determining the total volume of an operation that can be accounted for the cohesion KPI.** In the above example, the €20 million accounted for the cohesion KPI corresponds to the amount signed in the cohesion-eligible area, Greece. This approach is pragmatic in the case of investment loans, for which the signed amount dedicated to cohesion was found to be broadly identical between the appraisal and signature stages. It is also pragmatic when the specific investments to be financed are not known at appraisal, or at signature (typically MBILs and framework loans). Only the allocation phase will determine where the supported investments are located. In such cases, the EIB's approach is a pragmatic compromise for estimating the extent to which an operation contributes to the KPI at signature.

70. **However, the downside to the "cascading down" approach is that it creates inaccuracies for geographical reporting.** Whenever a cohesion operation has multi-region/country coverage (as in Figure 7), the cohesion amount reported to each single region/country becomes inaccurate.

- The EIB's cohesion portfolio does not fully incorporate signatures in cohesion regions (in the above example, the EIB only reports as cohesion half of the contract signed in Greece and not the full amount).
- More problematically, the EIB's cohesion portfolio includes countries that have no cohesion-eligible regions (Luxembourg in the above case).

71. **Such inaccuracies are reflected in EIB data systems and publicly available Statistical Reports,** which present finance provided to countries without any cohesion-eligible regions as contributing to the cohesion target, as shown in Table 4. The evaluation was only able to systematically spot such

inaccuracies for countries entirely ineligible for cohesion loans (such as Luxembourg, the Netherlands and Sweden). Quantifying the inaccuracies in countries partially eligible for cohesion funding would require an in-depth investigation.

**Table 4 – Cohesion financing reported in countries without any cohesion-eligible regions (2014-2018, € million)**

| Country | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Coh. | Total | Coh. | Total | Coh. | Total | Coh. | Total | Coh. | Total |
| Finland | 20 | 1 039 | 24 | 1 626 | - | 2 220 | 11 | 1 311 | 30 | 1 785 |
| Luxembourg | - | 50 | - | 320 | 6 | 62 | - | 20 | - | - |
| Netherlands | - | 2 194 | - | 2 079 | 5 | 2 565 | 1 | 2 175 | - | 1 947 |
| Sweden | 1 | 1 411 | 2 | 1 590 | 5 | 1 688 | 10 | 2 343 | 17 | 1 732 |

*Source: EIB Statistical Reports*

72. **Second, mistakes were made by individuals in the application of cohesion eligibilities.** Such mistakes consist either in mislabelling operations that are not eligible, or in not labelling operations located in eligible countries and/or regions. The incorrect inclusion of non-eligible countries is partly reflected in Table 4, while the omission of eligible amounts is reflected in Table 5. The four countries presented in this table are fully eligible for cohesion; however, non-cohesion amounts are reported in EIB Statistical Reports. Such mistakes may be the result of manual errors or misinterpretation of internal guidelines. As such, about a quarter of survey respondents replied that EIB guidance on how to apply cohesion eligibilities is insufficiently precise.

**Table 5 – Non-cohesion financing reported in countries fully eligible for cohesion (2014-2018, € million)**

| Country | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Non-Coh. | Total | Non-Coh. | Total | Non-Coh. | Total | Non-Coh. | Total | Non-Coh. | Total |
| Bulgaria | - | 610 | - | 65 | - | 467 | 18 | 250 | - | 103 |
| Estonia | 13 | 252 | 24 | 32 | - | 430 | 1 | 111 | - | 7 |
| Latvia | 5 | 108 | 6 | 210 | - | - | 1 | 109 | 3 | 14 |
| Lithuania | 11 | 80 | 74 | 474 | - | 215 | 1 | 11 | 8 | 311 |

*Source: EIB Statistical Reports*

73. **The size of the errors described above may be small, but it demonstrates the inability of the EIB to report accurately on the amount and geographic distribution of its cohesion support.** It has not been possible to quantify the precise extent of such errors due to the lack of data on operations' location at NUTS 2 level (see below).

### *Incomplete data at NUTS 2 level*

74. **Although the physical location of investments determines a project's eligibility for cohesion financing, the amounts approved and signed per region are to a large extent undocumented in the EIB database.** For the portfolio of cohesion operations located within the European Union (€224 billion related to 1 957 operations), 64% of contracts did not include any information at NUTS 2 level. The information was not always provided in appraisal documents, and generally not reported in the EIB database, making it impossible to accurately aggregate the amounts approved and signed per region. The EIB is therefore currently unable to accurately report on the amounts approved and signed per region. MBILs and framework loans are not expected to always provide such data, because they support investments that are not always known at approval or at signature. By contrast, investment loans should be approved and then signed based on comprehensive information on the planned investments; however, 40% of investment loans within scope did not report the location of investments at NUTS 2 level. Among the 1 286 investment loan contracts examined, the EIB database lacked information on the investment location at the NUTS 2 level for 510 contracts (€50 billion). This lack of information for NUTS 2 regions was also noticeable in the sample of 19 operations evaluated in depth. Ten were investment loans, only half of which provided a breakdown of investments by NUTS 2 region in their appraisal documents.

75. **At completion, the actual location of investment loans and framework loans is not systematically reported either.** The actual percentage of cohesion lending at completion is only systematically reported for MBILs.

- Project completion documents do not always indicate the actual contribution to cohesion by taking into account, for example, changes in the regional location of investments and/or cancellations. Out of all the project completion documents analysed in five countries, 159 related to investment loans. Only 66 of the 159 investment loans made reference to the contribution of the operation to cohesion or convergence, and only 13 quantified the cohesion percentage at completion.[55] Similarly, out of the ten investment loans subject to in-depth evaluation, three did not provide any information on the regional breakdown of investments in their completion documents, four provided partial information, and only three provided an update of the cohesion share at completion.
- For MBIL operations, data on final beneficiaries include their location by NUTS 2 region. This information enables the distribution of allocations to be aggregated by NUTS 2 region, resulting in the actual cohesion share at completion being reported.

76. In response to the data limitations, the evaluation team has significantly cleaned up the cohesion portfolio (see Annex 1.a). The purpose was to ensure that all signed amounts labelled as cohesion could be linked to eligible regions. The analysis presented in the next chapter builds on this more accurate dataset.

## 4.2 Evolution of cohesion signatures and disbursements over time

### *The cohesion target has become more difficult to achieve*

77. **The EIB achieved its annual target for cohesion lending for most of the period under review.** Actual cohesion signatures consistently exceeded the target from 2007 to 2013, but a steep decline is observed from 2012 to 2015, largely in line with the reduction of the target itself (see chapter 2.1). The share of cohesion signatures declined to an all-time low of 28.2% in 2015 and 28.8% in 2016.[56] Available data for 2019 indicate a drop just below the 30% target, to 29.8%.[57] In terms of volumes, yearly cohesion signatures also followed a slightly negative trend over time (from a peak of €29.8 billion in 2009 to a minimum of €15.7 billion in 2018).

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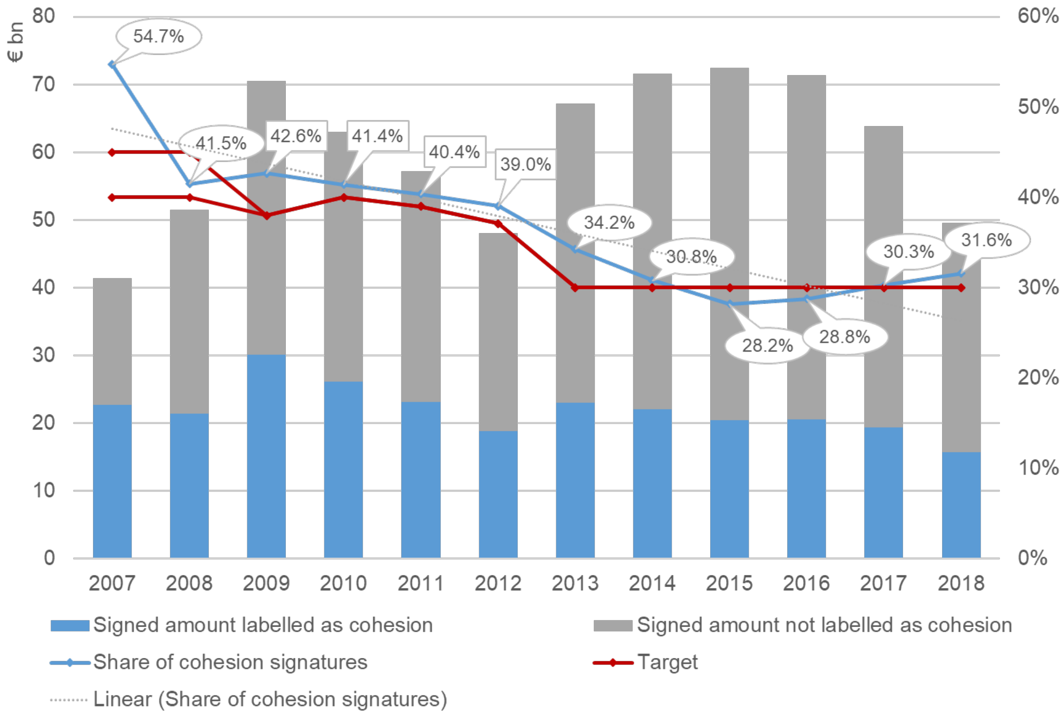
[55] For these 13 operations, the percentage expected at appraisal was achieved in two cases, lower in five cases and higher in six cases.

[56] Signed amounts labelled as cohesion and hence the level of achievement of the KPI have been determined by IG/EV. These figures may be slightly different to corporate reporting due to adjustments made to operations post year-end, e.g. restructurings, cancellations or increases in loan amounts.

[57] Source: EIB's corporate performance data, not verified by IG/EV.

**Figure 8 – Signed amounts contributing to cohesion (target and achieved)**[58]




*Source: EIB Financial Reports, EIB Operational Plans. Chart produced by IG/EV.*

78. **A combination of macroeconomic and policy factors has made it more difficult for the Bank to achieve its performance target in recent years**.

- The EIB's total and cohesion lending dropped in some Member States (such as Portugal) from 2011 onwards. The Bank's ability to generate deals suffered most in less developed regions, where the public authorities had debt and budget limits.
- Public investments, especially in infrastructure, have been put on hold. Infrastructure typically attracts large amounts of EIB cohesion financing. In some of the EU-13 Member States,[59] the backlog is linked to limited project development and implementation capacity.
- Abundant liquidity has eroded the EIB's price competitiveness in recent years. According to the survey of EIB staff, abundant liquidity has created difficulties in maintaining the expected volume of EIB business, including for cohesion regions (see section 3.3).
- The map of areas eligible for cohesion funds has been redrawn. Regions which contain the capital cities of most EU-13 Member States were no longer eligible to receive cohesion funds under the 2014-2020 MFF (see Box 2). As a result, the volume of EIB financing that could be counted towards the KPI declined. In many of these countries, the capital regions are the main "engines" of the economy. Poland, the largest beneficiary of EIB cohesion financing, is an example.
- Finally, the reclassification of the EIB's cohesion objective from a self-standing objective to a cross-cutting objective in 2012 led to an interpretation among some EIB staff that the Bank would reject cohesion projects which would not also qualify for its self-standing policy goals (Environment, Infrastructure, Innovation, SMEs). This perception may have deterred operational staff from engaging in such projects since 2012. However, IG/EV has not obtained any evidence that specific cohesion projects were rejected internally on the grounds that they did not meet any other policy goal.

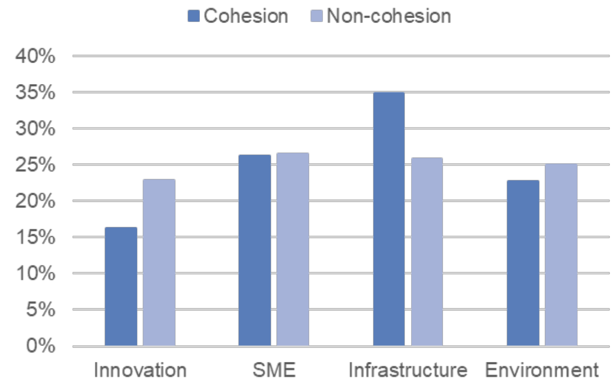
58 Signed amounts labelled as cohesion and hence the level of achievement of the KPI have been determined by IG/EV. These figures may be slightly different to corporate reporting due to adjustments made to operations post year-end, e.g. restructurings, cancellations or increases in loan amounts.

59 EU-13 Member States joined the Union from 2004 onwards (Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Malta, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia).

### *Similar public policy goal coverage of cohesion and non-cohesion operations, with the exception of climate action*

79. **No systematic differences are observed regarding the distribution of financing by public policy goal between cohesion and non-cohesion operations in the European Union.** The cohesion portfolio has a slightly higher concentration in infrastructure (approximately 35%) than the non-cohesion portfolio (approximately 26%).

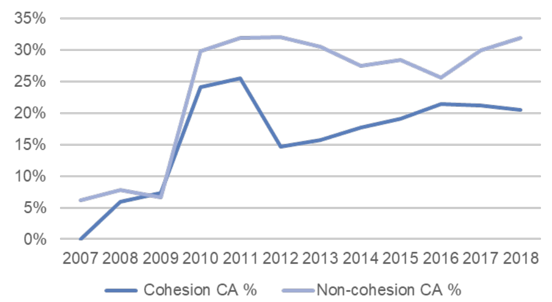
**Figure 9 – Distribution of cohesion and non-cohesion financing by public policy goal (2007-2018, %)**




*Operations signed between 1/1/2007 and 31/12/2018. Source: EIB database. Computed by IG/EV.*

80. **On the other hand, cohesion operations have a lower climate action share than non-cohesion operations** (17% of the signed cohesion amount was labelled for climate action, compared to 25% for non-cohesion lending over 2007-2018). For the sub-group of EU-13 Member States, the share of climate action is even lower, at 11% for the period 2007-2018. However, the share of climate action has increased over time, both for EIB cohesion lending overall, and for the EU-13. This lower share of financing for climate action can be partly explained by the prioritisation of investments in basic infrastructure combined with a lack of political commitment and appropriate incentives (at EU, national and regional levels) for higher shares of green investments,[60] underdeveloped relevant legal frameworks, and a lack of knowledge and awareness, particularly regarding climate change adaptation.[61]

**Figure 10 – Share of climate action in cohesion and non-cohesion financing (2007-2018, %)**




*Operations signed between 1/1/2007 and 31/12/2018. Source: EIB database. Computed by IG/EV.*

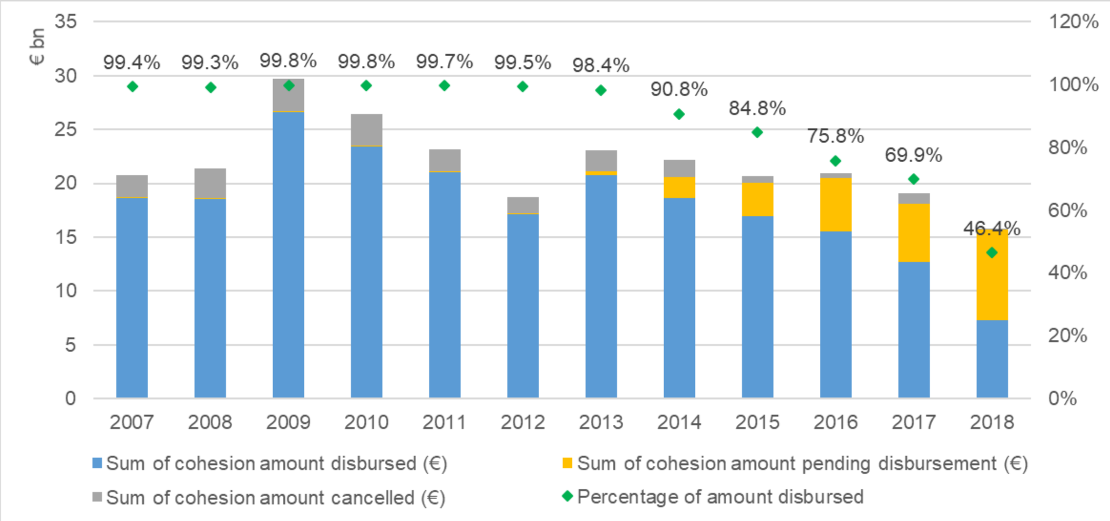
### *Disbursements in the EIB cohesion portfolio are in line with those in the non-cohesion portfolio*

[60] For example, under the 2014-2020 MFF, less developed regions had to earmark only 12% of their European Regional Development Fund (ERDF) funds for TO4 – Transition to a low-carbon economy. Transition regions had to earmark 15%, and more developed regions 20%. Despite this earmarking, independent research suggests that actual allocations for clean and efficient energy transition remain modest: on average, 9.7% of all infrastructure-relevant EU funding measures go to renewable energy sources, energy efficiency, electricity infrastructure and storage, and research and innovation focusing on the low-carbon economy. Source: "Funding climate and energy transition in the EU: the untapped potential of regional funds: Assessment of the European Regional Development and Cohesion Funds' investments in energy infrastructure 2014-2020", Climate Action Network Europe, April 2020.

[61] "*If the relevant legal frameworks for climate change adaptation in a Member State are unclear or underdeveloped, it is more difficult to integrate these issues into […] Partnership Agreements. A lack of knowledge and information is the main reason why climate change adaptation is not a priority. Awareness – especially amongst politicians and policy makers – of climate change threats, potential climate change impacts and associated damage costs needs to increase. Clarity and knowledge on the costs of adaptation measures and associated benefits […] can be a powerful catalyst for action.*" Source: "Methodologies for Climate Proofing Investments and Measures under Cohesion and Regional Policy and the Common Agricultural Policy", A report for DG Climate, August 2012.

81. **The level of disbursement of the EIB cohesion portfolio amounted to €217 billion, which represents 90% of the net cohesion signed amount (excluding cancellations).** Most contracts signed before 2013 have been fully disbursed, while contracts signed from 2013 onwards were disbursed gradually and reached 46% in 2018. When looking at the disbursement ratio by type of product, the disbursement rate ranges from 79% for structural programme loans to 96% for MBILs. The evaluation did not observe any systematic differences between the level of disbursements (and cancellations) of the EIB cohesion portfolio and the non-cohesion portfolio.[62]

**Figure 11 – Cohesion operations: cancellation and disbursement (€ billion and %)**




*Cancellations and disbursements by year of contract signature, for cohesion operations signed between 1/1/2007 and 31/12/2018. Source: EIB database. Computed by IG/EV.*

## 4.3 Geographical distribution of cohesion signatures in the EU[63]

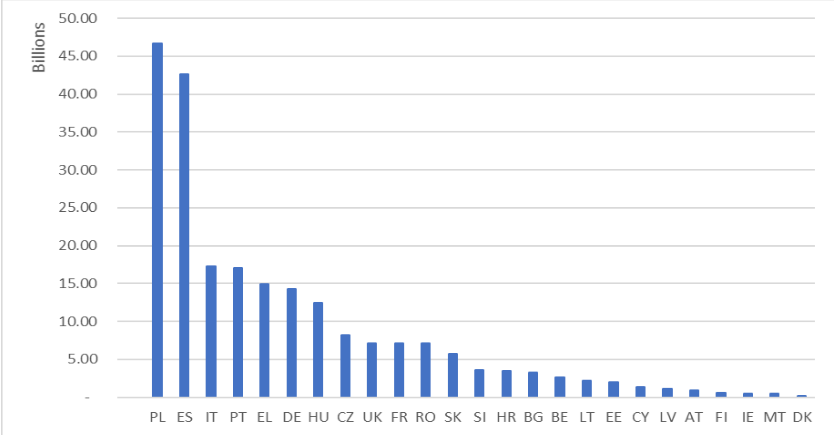
82. **The EIB systems did not enable the evaluation team to determine with certainty how much financing each cohesion region received.** It wanted to look at the extent to which cohesion financing was distributed among eligible regions according to needs. However, NUTS 2 data were missing for 64% of the financing amounts in the portfolio. Therefore, the evaluation team worked primarily with country-level data and used two different methods to assign the unlabelled amounts to specific cohesion regions (see Annex 1.a).

[62] Disbursement rate (disbursed/signed minus cancellations) of 89.8% for cohesion operations within scope and 88% for non-cohesion operations over the same period. Cancellation rate (cancelled/signed) of 7.7% for cohesion operations and 7.0% for non-cohesion operations.

[63] Some of the EIB's finance labelled as "cohesion" goes to pre-accession and EFTA countries. The analysis presented below focuses on EU Member States only. Operations located outside the European Union have been excluded from further analysis, which resulted in approximately €18 billion being removed.

83. **EIB cohesion financing reached all Member States with eligible cohesion regions,** although net signed amounts varied significantly from one Member State to another, as shown in Figure 12 below.

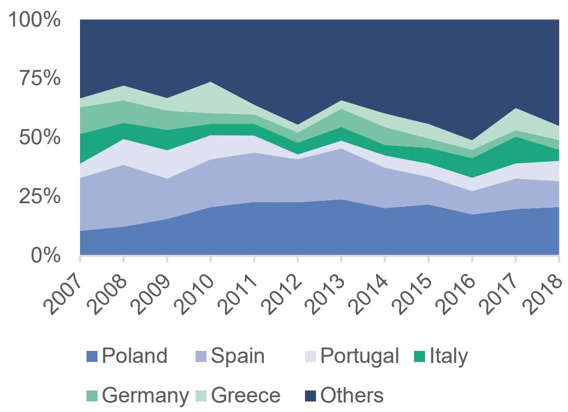
**Figure 12 – Cohesion amount signed by Member State (€ billion)[64]**




*Cohesion operations signed between 1/1/2007 and 31/12/2018. Net amount excluding cancellations. Source: EIB database. Computed by IG/EV.*

84. **The top beneficiaries remained identical under the two MFFs.** The top six beneficiary Member States (cohesion regions in Poland, Spain, Portugal, Italy, Germany and Greece) accounted for 63% of net cohesion signatures from 2007 to 2018. Poland and Spain are the top beneficiaries under the two MFFs, with more than €40 billion each over the period). Poland's share increased to approximately 20% of all cohesion signatures in 2018 (from 11% in 2007), while Spain, Italy and Germany saw their share decline throughout the period. The EIB is demand-driven and does not set pre-established concentration ceilings or targets for specific countries or regions, unlike the European Commission, which focuses its cohesion-related efforts on the regions furthest below the EU average GDP per capita.[65]

**Figure 13 – Top beneficiaries of EIB cohesion financing over time (%)**




*Shares of cohesion volume signed between 1/1/2007 and 31/12/2018. Excluding cancellations. Source: EIB database. Computed by IG/EV.*

85. **Financing amounts signed per capita vary greatly among cohesion regions, with some Member States consistently at the low end.**

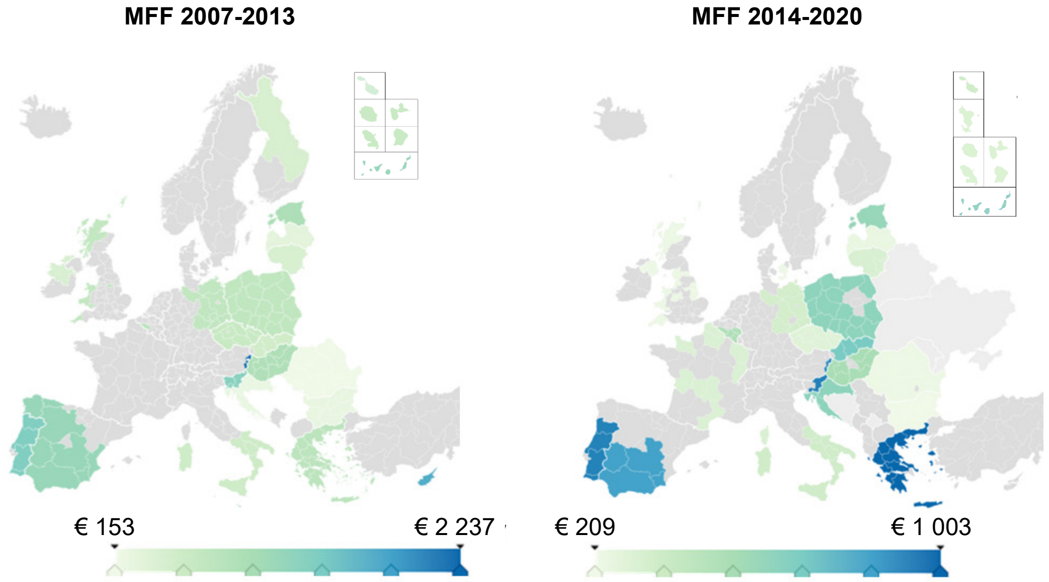
- During the period 2007-2013, the cohesion regions that received the highest amounts of financing per capita were located in Austria (€2 237), Cyprus (€1 702) and Portugal (€1 340). At the other end of the spectrum, the cohesion regions of Bulgaria and Romania received €235 and €153 per capita, respectively.
- During the period 2014-2018, the gap between the highest and lowest recipients of cohesion financing per capita narrowed. Cohesion regions in Greece and Portugal received the highest

[64] Due to data limitations at NUTS 2 level (64% of contracts did not include any information at NUTS 2 level), the information presented in the maps does not distinguish total signed amounts received by individual cohesion regions. Instead, total cohesion financing can only be presented at the level of Member States.

[65] While all EU regions are eligible for support under EU Cohesion Policy, for the 2014-2020 MFF 51% of available funds were earmarked for the less developed regions category (27% of EU population) and 11% for transition regions (12% of EU population). More developed regions (61% of EU population) were allotted 16%, while the remaining funds went to other initiatives. Source: European Commission.

amounts of financing per capita (€1 003 and €927, respectively), while Romania (€223) and Bulgaria (€210) remain comparably underserved.

**Figure 14 – Cohesion signatures per capita (€)**

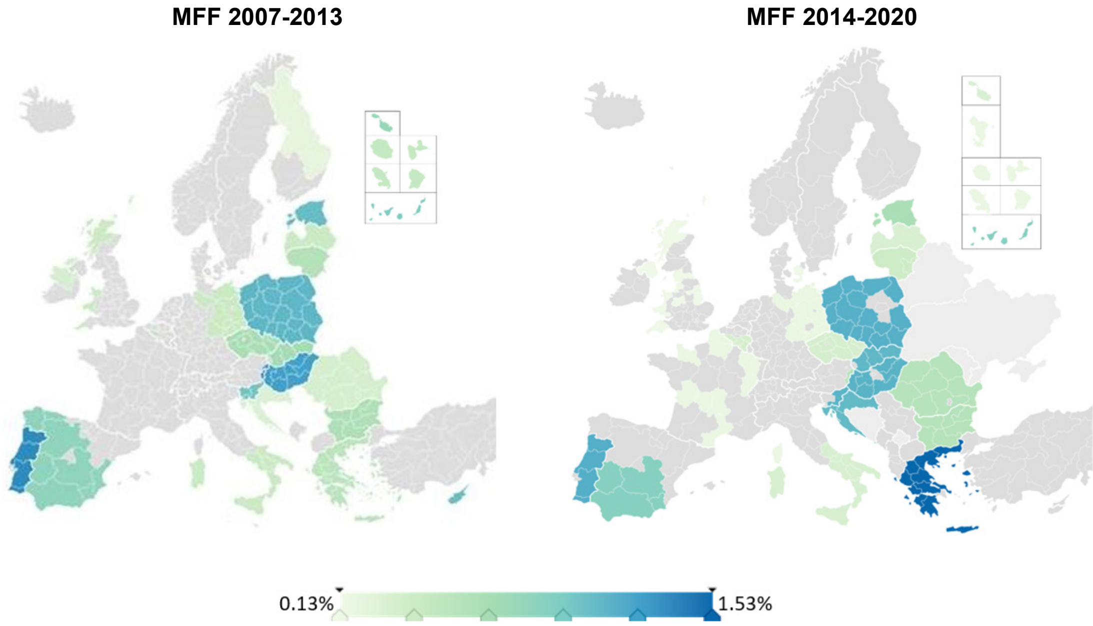



*Net signed cohesion amount per capita (€) for cohesion operations signed between 1/1/2007 and 31/12/2018.*
*Cohesion amount per capita: total cohesion financing signed during the MFF in a Member State divided by the average population of that Member State living in cohesion regions during the same period.*
*Financing for Croatia includes signed amounts from 2011 onwards, when it became eligible as a pre-accession country.*
*Source: EIB database. Computed by IG/EV.*

86. **In several Member States, EIB cohesion financing represents an increasing share of cohesion regions' GDP under the current MFF.**

- During the period 2007-2013, EIB cohesion financing accounted for the highest share of cohesion regions' GDP in Portugal, Austria and Hungary (more than 1.3% of their cohesion regions' GDP over the period, as shown in Figure 15 below). By contrast, cohesion financing represented a relatively small share of the GDP of Member States that had recently joined the European Union, such as Croatia and Romania (below 0.4% of their cohesion regions' GDP).
- For the period 2014-2018, EIB cohesion financing increased as a share of cohesion regions' GDP in Greece, Portugal and Poland. Greece stands out with cohesion financing accounting for more than 1.5% of its eligible regions' GDP. Bulgarian and Romanian regions saw the share of cohesion financing in their economy increase compared to the previous MFF.

**Figure 15 – Cohesion signatures relative to cohesion regions' GDP (%)**




*Net cohesion amount signed between 1/1/2007 and 31/12/2018, in proportion to cohesion regions' GDP (%).*
*Calculation: total cohesion financing signed during the MFF in a Member State divided by total GDP of all cohesion regions combined within this Member State during the same period.*
*Source: EIB database. Computed by IG/EV.*

87. **The EIB's cohesion financing is increasingly reaching weaker regions.** Under the 2007-2013 MFF, the three categories of regions eligible for EIB cohesion financing (convergence, phasing-out and phasing-in regions) received a share of cohesion funding broadly in line with the size of their economy (see Table 6). Under the 2014-2020 MFF, less developed regions benefited from a higher share of cohesion financing than their weight in the "cohesion economy" of the European Union (see Table 6).[66]

88. **The share of EIB cohesion financing for "catching-up" regions is also higher than their relative weight in the "cohesion economy"**, as illustrated in Table 6 below. Low-income regions in new Member States receive twice as much EIB cohesion support compared to their relative weight in the "cohesion economy". However, this trend masks disparities: the low-income regions of Poland and Hungary pull this group's share upward, while low-income regions in Romania and Bulgaria are among the lowest

**Box 6 – Catching-up regions**

In 2015, the European Commission introduced the "Lagging regions" initiative (currently referred to as the "Catching-up regions" initiative) to examine the factors holding back growth and investment in less developed regions. The initiative categorised lagging regions into "low-income" regions and "low-growth" regions. Low-growth regions have been EU Member States for decades, while low-income regions are located mostly in EU Member States that joined in and after 2004.


*Source: European Commission DG REGIO*

66 "Cohesion economy": computed by adding the average GDP of each cohesion region in the EU (average computed for the years during which the region has been eligible since 2007).

beneficiaries of EIB cohesion financing in proportion to the size of their economies.

| Table 6 – Cohesion financing received in proportion to cohesion regions' economy (%) | | |
|---|---|---|
| | Share of cohesion regions' economy | Share of net cohesion financing received |
| MFF 2007-2013 | | |
| Convergence | 70% | 74% |
| Phasing out | 14% | 11% |
| Phasing in | 16% | 15% |
| MFF 2014-2020 | | |
| Less developed | 47% | 67% |
| Transition | 53% | 33% |
| Catching-up initiative | | |
| Low growth | 26% | 35% |
| Low income | 7% | 13% |
| Other EU regions | 67% | 52% |

*Source: EIB database. Computed by IG/EV.*

### 4.4 Results of EIB cohesion projects in selected countries

89. Apart from explaining the variations in cohesion financing *volumes*, this evaluation aims to analyse the *results* obtained by the EIB through its cohesion financing. This evaluation reviewed the available project completion documentation for all cohesion operations signed between 2007 and 2018 in five countries (Italy, Poland, Portugal, Romania and Slovakia). This analysis covered project completion documents for 335 operations (200 loan operations and 135 intermediated lending operations). Annex 5 presents the portfolio of operations reviewed and a detailed analysis. This analysis is based on self-reporting by the EIB services. IG/EV did not validate this information.

#### *Positive results of intermediated lending operations in cohesion regions*

90. **The actual proportion of sub-loans received by companies located in cohesion regions was in line with estimates, except in Italy.** In Italy, this expectation was relatively low (15.4% dedicated to cohesion) when compared to the economic and population share of cohesion regions in its territory;[67] the actual allocation of MBILs to companies located in its cohesion regions was even lower than this prudent estimate. By contrast, expectations set for the four other countries were in line with cohesion population metrics,[68] and actual coverage was broadly in line with expectations. These expectations are estimated based on the existing portfolio of, or past experience of working with, the financial intermediaries. However, they are not converted into contractual requirements. A deviation vis-à-vis expectations set at appraisal does not influence the contractual relationship with the intermediaries; the cohesion percentage does not steer dialogue with the intermediary. By contrast, the selection of intermediaries with a strong branch network in cohesion regions can favourably influence the outreach. This was observed for two operations evaluated in depth in Romania and Italy.

91. **In the five countries analysed, the EIB successfully delivered in terms of proportion of signed amounts actually allocated to SMEs and mid-caps**; allocations were made in a timely manner. In all five countries, the proportion of allocations dedicated to SMEs and mid-caps reached at least 90% and was on average higher than expected at appraisal.

92. **Intermediated lending operations provided added value in terms of transfer of financial advantage, and such advantage was stronger during and after the 2008-2010 financial crisis.** The magnitude of financial advantage transferred to companies in terms of interest rate rebate varied from one market to another, and over time. On average, over the 2007-2018 period, the actual financial

[67] Cohesion regions represent 33% of the Italian population, 40% of its territory and 22% of its GDP.
[68] On average, for the period 2007-2018, cohesion regions represented 93% of the population in Poland, 72% in Portugal, 88% in Slovakia and 94% in Romania.

advantage transferred by intermediaries was higher than contractually committed and above the minimum target usually set for such operations. This transfer was particularly high in Portugal and Romania in the years that followed the financial and budgetary crisis.[69] In this environment, the Bank provided a strong countercyclical response to the crisis. In Italy, the levels of financial advantage granted via the EIB peaked in 2011 and 2012, coinciding with the peak of the public debt crisis. In contrast, the transfer of favourable maturities from intermediaries to their clients was limited. The maximisation of this transfer is not a contractual requirement; however, contrary to what the Bank expects from the MBIL product, data indicate that the investments supported in cohesion regions were, on average, of a relatively short economic lifecycle.

93. **Recent EIB studies[70, 71] corroborate the finding that the EIB's intermediated lending provided a countercyclical response following the financial crisis of 2008-2010.** Although not bearing a cohesion focus, these studies found that EIB credit lines had a significant positive effect on companies' growth and investment during the crisis. The impact of EIB lending on employment, fixed assets and leverage was estimated to be higher in Central, Eastern and South-Eastern Europe and Southern Europe (coinciding with cohesion regions) than in Western and Northern Europe.

### *Results of framework and investment loans for cohesion regions: a limited dataset*

94. Within the cohesion portfolio, the completed operations, for which actual results can be analysed, are relatively old. For these operations, the 3PA, with its sector-specific complementary indicators, was not yet applicable.[72] The project completion documents reviewed usually provided project-specific – and often qualitative – information on the results of operations. The absence of sector-specific indicators for these operations has two consequences: (i) data on the outputs and outcomes of each operation cannot be aggregated by sector and/or by geography, and (ii) the overall performance of cohesion operations cannot be easily compared to that of non-cohesion operations.

95. With these limitations in mind, the analysis of project completion documents indicated that:

- 92% of all cohesion operations analysed in the five countries fully or mostly delivered the expected outputs.[73]
- About 79% of operations delivered their expected outputs within the budget set at appraisal. Time efficiency was moderate, as only 57% of operations delivered the expected outputs within the timeline set at appraisal.[74]
- Disaggregating the findings by EIB public policy goal revealed variations: operations under the innovation goal had the highest share of disbursements, were the most time-efficient in delivering expected outputs and had a very strong ERR, while operations under the environment goal had a lower share of disbursements and delivered a lower share of expected outputs, with less time-efficient delivery of outputs. Operations under the infrastructure goal presented a relatively high delivery of expected outputs, albeit with a little less than half delivered within the timeframe set at appraisal.

96. Only an in-depth evaluation can indicate how operations performed and why. **As such, in all ten investment loans evaluated in depth, the expected outcomes were mostly or completely achieved.** A common feature of these operations was the relatively strong technical capacity of the promoter, and the maturity of the projects supported, which to a large extent explained the satisfactory

69 In Portugal, the spread on ten-year government bonds vs. German bunds reached some 1 100 bps in 2012-2013, and although it gradually fell in the following years, it remained relatively high until 2016.

70 EIB, Economics Working Papers 2020/04, "Making a difference: Assessing the impact of the EIB's funding to SMEs".

71 EIB, Economics Working Papers 2019/09, "The impact of EIB lending support for SMEs in Central and Eastern Europe".

72 Since then, the Bank has developed a "menu" of standard sector-specific indicators that individual projects are expected to deliver against/contribute to (complementary indicators of its 3PA).

73 Based on the 171 out of 200 operations for which there was sufficient information to carry out the analysis.

74 Some flexibility has been built into this assessment, and those operations that were within 10% of the budget/project end date set at appraisal have been included in the category "in line with appraisal estimate".

implementation and achievement of results. The physical sustainability of these projects has been largely ensured as the promoters were technically experienced and have mobilised resources for maintenance of the supported infrastructure. In contrast, one of the framework loans evaluated suffered from frequent changes and slow progress in implementation, due to the limited institutional capacity of the programme management authorities and imperfect transposition and enforcement of EU regulations. These challenges on the side of the public entity penalised the overall performance of the operation.

# 5. EIB IMPACT ON REDUCING REGIONAL DISPARITIES

97. This chapter examines the macroeconomic impact of the investments supported by EIB cohesion financing between 2007 and 2018. The purpose is to examine whether investments supported by EIB cohesion financing contribute more to economic growth in cohesion regions than in the rest of the European Union.[75] If this is the case, then, everything else being equal, it can be concluded that these investments indeed contribute to reducing disparities between regions.[76] The analysis builds on a regional economic modelling tool tailor-made for this evaluation.[77] The model does not measure the *actual* effects of the investments supported by EIB cohesion financing. Instead, it *simulates* and *compares* how the economy would evolve in 2010-2050 in two different scenarios: when investments supported by EIB cohesion financing occur ("the policy scenario") and when they do not occur ("the baseline scenario").[78] Any deviations in GDP, employment and investment between the two scenarios represent the net effects of the investments supported by EIB cohesion financing.[79] The detailed methodology and full results are available in Annex 6.

98. Key messages

- The investments supported by EIB cohesion financing increase the GDP of cohesion regions and have a very limited impact on the GDP of non-cohesion regions. Thus, everything else being equal, the investments supported by EIB cohesion financing contribute to these regions catching up with the rest of the European Union.
- The poorest and economically stagnant cohesion regions (defined by the European Commission as "low-income" and "low-growth" regions, respectively) gain relatively more in terms of GDP than other cohesion regions. However, a few specific "low-income" regions fall consistently and substantially below the cohesion regions' average in terms of impact on GDP. In addition, several "low-growth" regions do not see a GDP increase commensurate with the amount of investment received.
- The impact of the investments supported by EIB non-cohesion financing on cohesion regions is, on average, very limited and close to zero.

99. The chapter is organised as follows:

- The first section examines the effects of the investments supported by EIB cohesion financing on the economy of cohesion regions.
- The second section analyses the indirect effects of these investments for non-cohesion regions.
- The third section investigates the effects of the investments supported by EIB non-cohesion financing on the economy of both cohesion and non-cohesion regions.

100. The main hypothesis tested is that investments supported by EIB cohesion financing boost GDP in cohesion regions and do so relatively more than in the rest of the European Union.

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75 The chapter covers 136 cohesion regions, among which 95 regions have always been cohesion regions throughout the two MFFs (2007-2013 and 2014-2020) within the scope of this evaluation, and the other 41 regions have been cohesion regions in one of the two MFFs only.

76 The term "region" refers to the NUTS 2 classification throughout the chapter.

77 The evaluation relies on the European Economic Modelling System (EU-EMS), a regional economic modelling tool. The modelling exercise was undertaken specifically for this evaluation in cooperation with the Netherlands Environmental Assessment Agency (PBL) and in consultation with the Joint Research Centre (JRC) of the European Commission.

78 Since the focus of the present study is to measure the effects of investments supported by EIB cohesion financing in the medium and long term, the results are shown by 2025-2030, 2035-2040 and 2045-2050 only.

79 The EIB is never the sole provider of financing for investment projects, which are always co-financed by private or other public investors. As such, the variable of interest is not EIB cohesion financing, but EIB-supported investments, which encompass financing from the EIB and other private or public financiers.

## 5.1 Effects of investments supported by EIB cohesion financing on cohesion regions

101. This section examines the impact of investments supported by EIB cohesion financing on the macroeconomic evolution of 136 cohesion regions.[80] The analysis also investigates the relative impact for the different categories of cohesion regions ("low-income", "low-growth" and other cohesion regions). Finally, it examines if the regions receiving more investment experience a larger impact on GDP.

***Do cohesion regions gain from investments supported by EIB cohesion financing?***

- **On average, the overall impact on GDP across all cohesion regions is positive and sizeable.**

102. The following table summarises the results of the analysis:

**Table 7 – Investments supported by EIB cohesion financing: effects on cohesion regions with respect to the baseline scenario**

| | | 2025-2030 | 2035-2040 | 2045-2050 |
|---|---|---|---|---|
| Number of cohesion regions | With a positive impact on GDP with respect to the baseline scenario | 134 | 130 | 128 |
| | With a negative impact on GDP with respect to the baseline scenario | 2 | 6 | 8 |
| Impact on GDP with respect to the baseline scenario (on average across cohesion regions) | | +1.3% | +1.0% | +1.0% |

*Source: PBL-IG/EV*

103. **Almost all cohesion regions experience a higher level of GDP with respect to the baseline scenario thanks to the investments supported by EIB cohesion financing operations signed in 2007-2018.**[81] The impact peaks in the period 2025-2030: on average, 1.3% is added to the GDP of cohesion regions. The positive impact on the level of GDP is stronger in the short to medium term compared to the long term, because in addition to the structural effect, a demand effect boosts GDP growth. As the assets built thanks to the investments supported by EIB financing gradually depreciate and withdraw from the economy, the total impact declines over time, from +1.3% on average by 2025-2030 to around +1.0% by 2045-2050.

104. **One should note the great variation of the impact on GDP across cohesion regions.** For instance, by 2025-2030, the impact on GDP ranges between –0.02% and +6.9% depending on the region. Apart from the volume of investment received, this variation is attributable to the characteristics of the regional economies and various other factors which are beyond the scope of this study.

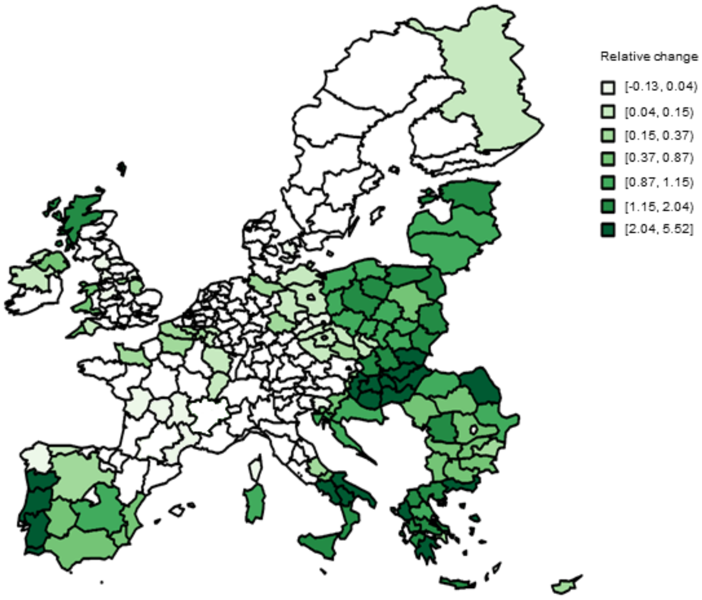
105. The following figure illustrates the impact of investments supported by EIB cohesion financing on cohesion regions' GDP by 2045-2050:

[80] As explained in chapter 4, the evaluation identified some inconsistencies in the data present in the EIB database. These inconsistencies make it difficult to precisely analyse the EIB financing received by each region. However, the nature and purpose of the macro-modelling are different from the portfolio analysis. The goal is not to report on the inputs provided by the EIB or the outputs delivered, but rather to assess the sign and the magnitude of the impacts. This task does not require the same degree of precision as the portfolio analysis. Some of the data in the dataset built for the macro-modelling involved estimation of the missing data. However, this estimation was done in an unbiased manner. So, as is always the case with this type of exercise, it is the direction and the magnitude of the effects that matters, and not the degree of precision of the results. Annex 1 provides the details of the data preparation.

[81] The period 2007-2018 refers to the contracts signed by the EIB. The disbursements under these contracts – whether by the EIB or co-investors – could also be made after 2018.

106. As the map shows, **cohesion regions – with a few exceptions – clearly gain in terms of GDP from the investments supported by EIB cohesion financing in comparison to the scenario where these investments do not occur.** The regions in the south and east of the European Union (Hungary, Poland, Romania, Greece, southern Italy, Spain and Portugal) – the principal recipients of EIB cohesion financing – experience the largest gains with respect to the baseline.

**Figure 16 – How would the GDP of each cohesion region change (% change with respect to the baseline GDP) by 2045-2050 thanks to the investments supported by EIB cohesion financing?**




*Source: PBL-IG/EV.*
** The simulation includes the United Kingdom as an EU member.*
*How to read this graph: by 2045-2050, the GDP of the Sicily region is between 1.15% and 2.04% higher with the investments supported by EIB cohesion financing than it would have been without them.*

107. **Almost all cohesion regions have a higher GDP with respect to the baseline scenario because the investments supported by EIB cohesion financing increase their stock of capital**, which enables them to grow faster. Notably, cohesion regions which are expected to have higher levels of capital per capita (Western Europe) typically gain less. Furthermore, by construction of the model, investments directed to some sectors, such as education, increase the endowment of cohesion regions in human capital and therefore raise the total factor productivity. Thus, investments made in cohesion regions put the economy on a higher growth path both by increasing the stock of capital and by increasing total factor productivity.

108. **To sum up, EIB cohesion financing has supported investments which, on average, are expected to boost the GDP of cohesion regions with respect to a baseline scenario.** These investments genuinely foster the economic growth of the cohesion regions, helping these regions catch up with the rest of the European Union, other things being equal. While the GDP of cohesion regions is indeed higher than in the baseline scenario, the effective reduction of the gap with the rest of the European Union depends on the impact of investments supported by EIB cohesion financing on non-cohesion regions. This issue is considered in section 5.2 below.

109. **The results in terms of employment per region are very much in line with the results in terms of GDP.** The regions that gain the most in terms of GDP from the investments supported by EIB cohesion financing experience the most pronounced increase in the aggregate wage bill (or employment) with respect to the baseline scenario.

***Do "low-income" and "low-growth" cohesion regions gain more than other cohesion regions?***

- **The poorest and economically stagnant cohesion regions (defined by the European Commission as "low-income" and "low-growth" regions, respectively) gain relatively more in terms of GDP than other cohesion regions.**

110. This subsection analyses whether the weakest cohesion regions experience a higher impact on their regional GDP with respect to the baseline scenario. For this analysis, the model focuses on the regions defined by the European Commission as "low-income" regions and "low-growth" regions (typology also

used in section 4.3).[82] The following table shows the results for the group of the weakest regions of the European Union, compared with other cohesion regions:

| **Table 8 – Investments supported by EIB cohesion financing per cohesion region category: effects with respect to the baseline scenario** | | | | |
|---|---|---|---|---|
| | | **2025-2030** | **2035-2040** | **2045-2050** |
| Poorest or "low-income" cohesion regions | With a positive impact on GDP with respect to the baseline scenario | 19 | 19 | 19 |
| | With a negative impact on GDP with respect to the baseline scenario | 0 | 0 | 0 |
| | Average impact on GDP across regions | +2.4% | +1.9% | +1.9% |
| | | | | |
| Economically stagnant or "low-growth" cohesion regions | With a positive impact on GDP with respect to the baseline scenario | 28 | 28 | 28 |
| | With a negative impact on GDP with respect to the baseline scenario | 0 | 0 | 0 |
| | Average impact on GDP across regions | +2.2% | +1.7% | +1.7% |
| | | | | |
| Other cohesion regions | With a positive impact on GDP with respect to the baseline scenario | 87 | 83 | 81 |
| | With a negative impact on GDP with respect to the baseline scenario | 2 | 6 | 8 |
| | Average impact on GDP across regions | +0.7% | +0.6% | +0.5% |

*Source: PBL-IG/EV*
** The simulation includes the United Kingdom as an EU member.*

111. **The group of cohesion regions that belong to the categories "low-income" and "low-growth" experience, on average, a much larger impact on GDP with respect to the baseline scenario than other cohesion regions.** For the group of "low-income" regions, the investments supported by EIB cohesion financing add, on average, up to 2.4% to GDP across regions with respect to the baseline scenario. For "low-growth" regions, the corresponding impact is, on average, 2.2% with respect to the baseline scenario by 2025-2030.

112. Ranking the cohesion regions by the magnitude of impact on regional GDP, "low-income" and "low-growth" regions are systematically in the top ten as shown in the following table:

[82] The definition is provided in the European Commission's "Competitiveness in low-income and low-growth regions – The lagging regions report", 10 April 2017:

- "Low-growth regions" cover less developed and transition regions (regions with GDP per capita up to 90% of EU average) that did not converge to the EU average between the years 2000 and 2013 in Member States with a GDP per head in PPS below the EU average in 2013.
- "Low-income regions" cover all regions with a GDP per head in PPS below 50% of the EU average in 2013.

**Table 9 – Top ten regions by impact of the investments supported by EIB cohesion financing on GDP with respect to the baseline scenario**

| 2025-2030 | | 2035-2040 | | 2045-2050 | |
|---|---|---|---|---|---|
| Region | Impact (in %) | Region | Impact (in %) | Region | Impact (in %) |
| **North Great Plain**** | 6.9% | **North Great Plain**** | 5.4% | **North Great Plain**** | 5.5% |
| **South Transdanubia**** | 6.8% | **South Transdanubia**** | 5.4% | **South Transdanubia**** | 5.5% |
| **South Great Plain**** | 6.5% | **South Great Plain**** | 5.0% | **South Great Plain**** | 5.2% |
| **Epirus*** | 6.1% | Central Hungary | 4.7% | **North Hungary**** | 4.4% |
| **North Hungary**** | 5.5% | **North Hungary**** | 4.4% | Central Hungary | 4.3% |
| Central Hungary | 5.1% | **Epirus*** | 4.3% | **Epirus*** | 4.2% |
| **Alentejo*** | 4.3% | **Alentejo*** | 3.5% | **Alentejo*** | 3.5% |
| East Slovakia | 3.9% | Central Transdanubia | 3.2% | Central Transdanubia | 3.2% |
| Central Transdanubia | 3.9% | West Transdanubia | 3.1% | East Slovakia | 3.1% |
| **North Aegean*** | 3.8% | East Slovakia | 3.0% | West Transdanubia | 3.0% |

*Source: PBL-IG/EV*
*Low-growth and low-income regions are in bold.*
** "Low-growth" regions.*
*** "Low-income" regions.*

113. **Six to seven "low-income" or "low-growth" regions are consistently among the top ten regions in terms of impact.** Looking at the top 20 regions by impact does not alter the picture: in 2045-2050 for instance, there are five "low-income" and 11 "low-growth" regions among the top 20. Furthermore, for 31 out of 47 "low-income" or "low-growth" regions, the impact on GDP is higher than the average impact for the cohesion regions by 2045-2050.[83] The range of impact is large throughout all the periods: 6.9% is added to the GDP of the Hungarian cohesion region North Great Plain by 2025-2030 with respect to the baseline scenario. The impact becomes only slightly lower throughout the subsequent periods. Beyond the Hungarian case, the impact is also very large for several other "low-income" or "low-growth" cohesion regions. For instance, by 2025-2030, the 11 Greek cohesion regions from the "low-growth" category gain between 1.4% and 6.1% of GDP with respect to the baseline scenario.

114. **The reason for the large impact on "low-income" regions is straightforward. These regions typically have a low level of capital per capita and therefore grow from a lower base.** The same amount of investments supported by EIB cohesion financing increases their stock of capital relatively more and boosts GDP in these regions much more compared to the baseline scenario than is the case in regions better endowed in terms of capital per capita.

115. **Nevertheless, some cohesion regions belonging to the "low-income" or "low-growth" categories benefit relatively less than cohesion regions in general.** For instance, the five "low-income" regions in Bulgaria fall consistently and substantially below the cohesion regions' average in terms of impact on GDP throughout the years. This is also the case for the Italian regions of Abruzzo and Molise and the Spanish regions of Andalusia, Murcia and the Canary Islands.[84] The difference in impact between cohesion regions situated, for instance, in Hungary and in Bulgaria is explained by the differences in the sector allocation of the investments supported by EIB cohesion financing. More specifically, the proportion of EIB cohesion financing allocated to productivity-enhancing sectors is much higher in the Hungarian regions than in the Bulgarian regions. For instance, while the total volume of investments supported by EIB cohesion financing in Hungary is 4.4 times higher than for Bulgaria, the volume of investments allocated in the "Professional, Scientific and Technical Activities" sector is 82 times higher in the Hungarian cohesion regions than in the Bulgarian ones.

[83] For 2040 and 2030 this is the case for 32 and 31 "low-income" and "low-growth" regions, respectively.
[84] For instance, in 2030 the GDP of Abruzzo is 0.5% higher than in the baseline scenario, but for the 136 cohesion regions the GDP is 1.3% higher and the GDP for the "low-growth" category (to which Abruzzo belongs) is 2.2% higher than in the baseline scenario.

***Do cohesion regions which receive more investment supported by EIB cohesion financing also gain more?***

- **The cohesion regions that see their GDP increase the most with respect to the baseline scenario are generally those that receive the largest amount of investment supported by EIB cohesion financing, with a few exceptions.**

116. **The correlation between the volume of investment received by a cohesion region and the impact on its GDP with respect to the baseline scenario fluctuates around 0.4 in 2045-2050.** However, once the volume of investment is weighted by the regional GDP, the correlation increases to 0.88. Thus, the regions that receive comparatively more – relative to the size of their economy – tend to see a higher increase in their GDP with respect to the baseline scenario. Nevertheless, there are exceptions to this rule. These exceptions are due to cross-regional differences in factors not related to the EIB investment support: sectoral structure of regional economies, regions' openness, economic geography (centre versus periphery), access to technology and factor endowment, among many others. To account for these region-specific factors and their interdependencies, a spatial general equilibrium analysis – like the one undertaken here – is indispensable.

117. **By 2025-2030, among the top 20 recipients of investments supported by EIB cohesion financing – unweighted by GDP – seven are among the top 20 with the largest increase in their GDP with respect to the baseline scenario.** However, for nine of the top 20 recipients, the impact on GDP is below the average of the 136 cohesion regions (i.e. less than +1.3%). For Andalusia, in particular, the impact is only +1.1% added to GDP with respect to the baseline scenario, despite the region being the top recipient of investments supported by EIB cohesion financing. When weighting by regional GDP, the impact for the Spanish region of Extremadura and the Bulgarian region of Severoiztochen is relatively low with respect to the volume of investment received.

118. **By 2045-2050, among the top 20 recipients of investments supported by EIB cohesion financing, six are in the top 20 of the largest impact on GDP.** For six of the top 20 recipients, the impact on GDP is below the average of the 136 cohesion regions, including significantly below for two regions in Poland, two in Spain and one in Greece. When taking into account the size of the economy, the analysis shows that three Bulgarian regions (placed within the top half of recipients), add less to their GDP with respect to the baseline scenario when compared to the average of cohesion regions. The volume of investment is not the only explanation for the higher gain of some cohesion regions. Another aspect is the allocation of investments to specific sectors. Thus, Hungary is not only the top recipient of EIB cohesion financing in proportion to GDP, but also the Member State that allocates a major share of investments received to economic sectors (e.g. education) which – by construction of the model – enhance productivity.

### 5.2 Effects of investments supported by EIB cohesion financing on non-cohesion regions

119. Alongside the direct effects produced in the cohesion regions that receive investment, there are indirect effects of investment on non-cohesion regions (indirect gains or losses of GDP with respect to the baseline scenario). These effects are of three types:

- **Trade links.** The first type of indirect effects refers to the gain or loss for a non-cohesion region from trade with cohesion region recipients of EIB cohesion financing. When firms in a cohesion region make EIB-supported investments, they might purchase the inputs outside the region (or even outside the country). This extra demand would boost production and investment in non-cohesion regions/countries where these inputs are produced. These regions/countries would then benefit from a positive trade effect.
- **Capital inflows (or outflows).** This indirect effect corresponds to the financial flows from and to non-cohesion regions: outflows from non-cohesion regions to finance EIB-supported investments in cohesion regions – whether through the EIB or from private sources[85] – and inflows corresponding to the repayments.

[85] In order to finance its operations, the EIB borrows on the capital markets from the pool of savings outside the cohesion regions, whether from non-cohesion regions of the European Union or outside it.

- **Foregone investment opportunities.** This third indirect effect does not refer to what actually occurs, but to what does *not* occur due to the existence of the EIB cohesion financing. It corresponds to foregone investment opportunities in non-cohesion regions. When a fraction of savings in non-cohesion regions is diverted towards projects in cohesion regions, these savings do not finance investments in these non-cohesion regions, which therefore suffer a loss of GDP with respect to the baseline scenario (without co-financing investments in cohesion regions).

120. This section analyses the importance of these indirect effects, in particular in relation to the direct effects for cohesion regions.

***Do non-cohesion regions gain from investments supported by EIB cohesion financing?***

- **The impact on GDP for non-cohesion regions is, on average, close to zero. Indirect effects occur, but on a much smaller scale than direct effects.**

121. The following table presents the effects of investments supported by EIB cohesion financing for non-cohesion regions:

**Table 10 – Investments supported by EIB cohesion financing: effects on non-cohesion regions with respect to the baseline scenario**

| | | 2025-2030 | 2035-2040 | 2045-2050 |
|---|---|---|---|---|
| Number of non-cohesion regions | With a positive impact on GDP with respect to the baseline scenario | 125 | 3 | 2 |
| | With a negative impact on GDP with respect to the baseline scenario | 10 | 132 | 133 |
| Impact on GDP with respect to the baseline scenario (in %, average across non-cohesion regions) | | +0.05% | –0.05% | –0.09% |

*Source: PBL-IG/EV*

** The simulation includes the United Kingdom as an EU member.*

122. **The impact peaks by 2025-2030, in which the vast majority of non-cohesion regions benefit from a positive impact on GDP ranging from –0.2% to +0.4% with respect to the baseline scenario, with an average across regions of +0.05%.** This confirms the existence of positive indirect effects: non-cohesion regions do benefit from the investments supported by EIB cohesion financing through trade leaks and capital flows. This is also the case for non-cohesion regions in Member States with no cohesion regions, through cross-border trade and capital flows. However, these gains are on average very limited and with little variation around the mean.

123. **By 2035-2040, for almost all non-cohesion regions the total GDP impact is not significantly different from zero.** These results are in line with expectations, as the demand effect induced by the EIB investment support fades away in the medium to long term. The total GDP effect ranges from –0.3% to +0.3%, with an average of –0.05%. By 2045-2050, the impact on GDP is negative for almost all the non-cohesion regions, ranging between –0.3% and +0.2%, and with an average of –0.09%. Once again, the order of magnitude of the impact on GDP with respect to the baseline scenario is very limited and with little variation around the mean. This impact on GDP can be explained by the fact that positive indirect effects – which arise from the interaction with cohesion regions – gradually become weaker. A bulk of capital repayments has been made in previous periods, and gains from trade with cohesion regions are lower as the GDP gains for cohesion regions themselves become less pronounced. By contrast, foregone opportunities still translate into lower GDP. The balance of positive and negative indirect effects cancel each other out in every period, hence the total impact on GDP with respect to the baseline scenario is very close to zero. Indirect effects for non-cohesion regions are, in general, much weaker than direct effects for cohesion regions. This also explains the order of magnitude of the impact of investments supported by EIB cohesion financing on non-cohesion regions.

124. **In summary, the indirect impact on the GDP of non-cohesion regions – slightly positive on average by 2025-2030, slightly negative on average in following years – is very limited and far smaller than the direct impact on the GDP of cohesion regions.** The investments supported by EIB cohesion financing mainly benefit cohesion regions, and are therefore estimated to contribute to the reduction of disparities with the rest of the European Union, all else being equal.

## 5.3 Effects of investments supported by EIB non-cohesion financing on cohesion and non-cohesion regions

125. **EIB financing dedicated to cohesion in the EU, pre-accession and EFTA countries has, in recent years, fluctuated around 30% of the total signatures for the corresponding areas.** The other 70% has been directed to investments in non-cohesion regions. However, these investments can also impact the economies of cohesion regions through trade and financial flows. Thus, this evaluation also looked at the impact of the investments supported by the EIB in non-cohesion regions on cohesion regions.

The following table summarises the results:

**Table 11 – Investments supported by EIB non-cohesion financing: effects on cohesion and non-cohesion regions with respect to the baseline scenario**

| | | 2025-2030 | 2035-2040 | 2045-2050* |
|---|---|---|---|---|
| Number of cohesion regions | With a positive impact on GDP with respect to the baseline scenario | 90 | 7 | 1 |
| | With a negative impact on GDP with respect to the baseline scenario | 5 | 88 | 94 |
| Average impact on GDP with respect to the baseline scenario (in %) | | +0.06% | –0.03% | –0.07% |
| | | | | |
| Number of non-cohesion regions | With a positive impact on GDP with respect to the baseline scenario | 175 | 173 | 172 |
| | With a negative impact on GDP with respect to the baseline scenario | 1 | 3 | 4 |
| Average impact on GDP with respect to the baseline scenario (in %) | | +0.5% | +0.4% | +0.36% |

*Source: PBL-IG/EV*
** The simulation includes the United Kingdom as an EU member.*
*The scope of cohesion regions is not the same as in the rest of the section; cohesion regions are restricted to those that have always been defined as such under both MFFs.*
*** The impact is nil for one cohesion region by 2045-2050.*

126. **The investments supported by EIB financing in non-cohesion regions mainly benefit non-cohesion regions.** The cohesion regions' average gain or loss from the latter is marginal. It also means that the impact of EIB financing on cohesion regions comes mainly from investments supported by EIB cohesion financing: the indirect effects from EIB non-cohesion financing are, on average, marginal.

127. **Non-cohesion regions clearly benefit from these investments:** the effects on the regional GDP are positive for almost all of them in every period and the GDP is, on average across regions, always higher than in the baseline scenario.

128. **For cohesion regions, by contrast, the indirect effects on GDP from the investments supported by EIB financing in non-cohesion regions are mixed.** By 2025-2030, the majority of cohesion regions indirectly benefit from those investments through the trade channel. In subsequent periods, the impact on GDP turns slightly negative. The order of magnitude of these effects – whether positive or negative – is close to zero in every period (below 0.1% deviation from the baseline scenario).

129. **It is worth noting that the impact of EIB cohesion financing on cohesion regions is much bigger than the impact of non-cohesion financing on non-cohesion regions.** One explanatory factor could be that the level of capital per capita in non-cohesion regions is generally higher than in cohesion regions. Thus, the same level of investment support increases the GDP with respect to the baseline scenario relatively less in non-cohesion regions that are more capital-endowed and more capital-intensive.

# 6. Conclusions and recommendations

130. **The overall conclusion of this evaluation is that the EIB's cohesion financing supports operations that are relevant to cohesion regions' needs, and that are expected to have a positive impact on their economic growth.** However, while supporting cohesion is one of the EIB's core tasks, the Bank lacks a high-level document which clearly sets out the intentions and direction for its cohesion financing, explaining its priorities and unique role, as the EU bank, in contributing to regional development and ultimately to the reduction of disparities between regions in Europe. In the absence of clearly articulated strategic orientations, it is not possible to assess whether the projects supported are the *most* relevant, in countries, regions, sectors or with financial products that bring the *most* added value. In addition, the Bank lacks a narrative on how it positions itself in the wider EU and international policy context in relation to, for example, the ESIF and other international financial institutions.

## 6.1 Beyond a financing target, the EIB lacks strategic orientations for its cohesion financing

131. **Despite support for EU cohesion being one of its *raisons d'être*, the EIB currently lacks a high-level document** setting out specific objectives for its cohesion support and how it, as the EU bank, aims to contribute to regional development and ultimately to the reduction of disparities between EU regions. The sole explicit objective of the Bank in relation to cohesion is that of dedicating a share of its annual financing activity to less-developed EU regions. As a result, the Bank's internal and external narrative is limited to financial inputs, rather than results. At a strategic level, the Bank does not articulate how, as the long-term financier of the European Union, it intends to mobilise its financing, experience and expertise for that purpose, and what unique value added it brings. At operational level, the Bank does not provide services with sufficient guidance to help them strengthen their narrative about how operations contribute to the cohesion objective.

132. **Furthermore, the Bank has not developed its unique value proposition for its cohesion financing.** Beyond largely harmonising its definition of cohesion-eligible regions with that of the European Commission, the Bank currently lacks a narrative on how it positions itself in the wider EU cohesion policy framework in relation to, for example, the ESIF. There are no explicit expectations as to whether and how EIB cohesion financing is expected to be complementary to ESIF (e.g. whether they work together in similar sectors, or whether they target different sectors). Similarly, the EIB lacks a narrative on how it positions itself in relation to other international financial institutions in terms of potential complementarity or competition. The World Bank in particular has developed and regularly updates its narrative for supporting cohesion regions[86]; it has become a technical partner of choice for the European Commission, in the framework of the "Catching-up Initiative".[87]

133. **The rise of new EIB lending priorities is likely to generate trade-offs with the cohesion financing objective.** Less advanced regions tend to generate pipelines of projects with a lower share of financing for climate action or innovation compared to more developed regions. In addition, several cohesion regions rely heavily on fossil fuels or energy-intensive industries, and will undergo a profound economic and social transformation as a result of climate transition.

R1. The EIB should develop an orientation paper that articulates how its cohesion financing is intended to contribute to the development of less-developed regions and to the reduction of disparities within the European Union. In particular, the orientation paper should describe how the EIB's cohesion objective ties in with other objectives, especially climate action.

[86] See in particular the World Bank's "Growing United" report (2018) and "Rethinking Lagging Regions: Using Cohesion Policy to Deliver on the Potential of Europe's Regions" (2018).

[87] The Commission and World Bank experts on the ground have provided tailored support to pilot EU regions since 2018, in partnership with national authorities. This support is aimed at helping these regions design and implement a solid action plan for economic transformation, including a series of measures for structural reforms in order to improve the local investment environment. Example of Commission and World Bank pilot support; example of joint communication.

Rationale: A high-level orientation paper for its cohesion financing would explain in which areas the EIB can provide added value in cohesion regions. It would take into account the EIB's operating environment and the EU Cohesion Policy framework, and define the EIB's comparative advantage and complementarity with other EU and international policy instruments in a comprehensive manner. It would identify and prioritise the investment needs and barriers to investment typically found in cohesion regions in order to improve the EIB's relevance and accountability. It would define how the Bank intends to combine its own resources with third-party resources (such as from ESIF, decentralised financial instruments, mandates and advisory activities) to achieve its cohesion objective. Furthermore, the development of a dedicated orientation paper would signal the importance accorded by the EU bank to its cohesion objective both internally and externally. Finally, increasing trade-offs between achieving the financing objectives related to climate transition and to cohesion are expected under the upcoming MFF. On the one hand, higher priority will be given to climate by both the EIB (commitment to align all financing activities with the principles and goals of the Paris Agreement) and the ESIF (more stringent co-financing rules for investments in climate and the environment). On the other hand, a need to address suboptimal investments in basic infrastructure in cohesion regions will persist. In this context, the Just Transition Mechanism provides a good opportunity for the EIB to help potentially affected regions mitigate the socioeconomic impact of climate transition.

134. **In carrying out its task, the Bank is expected to facilitate the financing of investments in conjunction with assistance from the ESIF and other European Union financial instruments.** In its 2018 evaluation of structural programme loans, a product purposefully developed for blending EIB loans with ESIF, IG/EV found that the EIB's policy of applying a "cumul rule"[88] lessens the capacity of Member States or regions to fully mobilise the ESIF available to them. IG/EV recommended that the Bank reassess the pros and cons of applying its "cumul rule". EIB management indicated that "such reassessment would be more appropriate once the new architecture of post-2020 MFF is decided". However, the recommendation has not, as of yet, been followed through.

R2. The EIB should (re)consider the pros and cons of its policy of applying a "cumul rule" to structural programme loan operations, taking into consideration the borrower (whether a Member State or region), and its economic, financial, legal and regulatory environment, so that cohesion regions can make the most of combining ESIF and EIB co-financing.

Rationale: This recommendation was put forth by IG/EV in 2018, but its implementation has been put on hold until the new MFF architecture is decided. As negotiations for the upcoming MFF progress, the timing is opportune for the usefulness of the "cumul rule" to be considered again by the Bank.

### 6.2 The EIB has achieved its annual cohesion financing targets for most of the period under review, albeit with difficulties and the inclusion of non-EU countries

135. **The Bank has set itself a lending target, which is to dedicate a share of its annual lending activity to projects located in less-developed EU regions.** The target share has been determined based on previously observed business patterns. Over the evaluation period (2007-2018), the annual target share for EIB cohesion lending decreased (from 40-45% at the beginning of the period, to 30% from 2013 onwards), although the EIB's total annual lending increased overall. Its progressive reduction has three main causes: (i) the difficulty the Bank has had in maintaining the level of cohesion lending as a share of business following EU enlargement, (ii) the financial and sovereign debt crises, which reduced the pipeline of projects available for financing in cohesion regions, and (iii) the emergence of new EIB lending priorities.

[88] Since 1994, the EIB's policy has been to apply a "cumul rule" that limits the aggregated contribution of the ESIF and the Bank to 90% for EIB cohesion regions. By applying this rule, the EIB has sought to: (i) ensure a certain level of counterpart ownership and responsibility in the management and implementation of structural programme loans; and (ii) encourage an increase in the fiscal capacity of national or regional borrowers.

136. **The EIB has achieved its annual lending target in support of cohesion for most of the period 2007-2018, except for 2015 and 2016,** when cohesion signatures were slightly below the 30% target. Available data suggest that the target has not been met for 2019.

137. **The progressive reduction of the cohesion target to 30% between 2005 and 2013 should be seen in the perspective of Protocol No 28 on economic, social and territorial cohesion**, in which EU Member States "*reaffirm*[ed] *their conviction that the EIB should continue to devote the majority of its resources to the promotion of economic, social and territorial cohesion*."[89] While the EIB Legal Directorate has confirmed that Protocol No 28 is not to be read to create legally binding obligations for the Bank, the EIB is currently not meeting Member States' expectations as expressed in this document.

138. **The evaluation has not found any explicit justification as to why operations located outside the European Union (in pre-accession and EFTA countries) count towards the cohesion KPI.** To determine a list of regions eligible for its cohesion financing, the EIB decided to largely harmonise its definition of eligible regions with that of the European Commission. This approach ensures that EIB-eligible regions include the less economically developed regions of the European Union, in line with Article 309(a) of the TFEU. As such, at the beginning of each MFF, the EIB revises the list of EU regions eligible for cohesion in line with the classification of EU regions by the European Commission. However, beyond the classification of EU regions used by the European Commission, since 2011, the EIB cohesion KPI also encompasses lending to pre-accession and EFTA countries.

R3. Cohesion eligibilities for non-EU countries should be clarified: the EIB should indicate whether the eligibility of operations in pre-accession countries under the cohesion KPI should be maintained, and if so, provide a rationale from an economic and political perspective for doing so. In addition, EFTA countries should be excluded from the list of eligible areas, so that it is clear and unambiguous that EIB cohesion financing prioritises less-developed economies in the European Union.

Rationale: Although no explicit justification is provided, it could be argued that pre-accession countries are included because supporting their economic development now prepares the way for stronger cohesion in the future, when they join the European Union. However, the EIB decision to also make operations in EFTA countries eligible under the cohesion KPI has no valid rationale.

### 6.3 The EIB's product offer is fit for purpose for less-developed regions

139. **The EIB's procedures and product offer were found to be adequate to support operations located in targeted regions**. A wide range of financial options were made available to borrowers, enabling them to tailor the product to their needs and to changing market conditions. The evaluation found that within a selection of Member States, the EIB provided similar commercial conditions in cohesion and non-cohesion regions to clients of a similar nature (sovereign, sub-sovereign, corporates, financial institutions).

140. **Since 2015, EFSI has enabled the Bank to enhance its supply of financing towards structural investment gaps in cohesion regions.** In response to a fall in investment in the aftermath of the 2008 financial crisis, EFSI enabled the Bank to increase its risk-bearing capacity and address a shortage of financing in countries predominantly made up of cohesion regions. The EFSI portfolio of cohesion clients clearly presents a higher level of risk compared to traditional cohesion clients. Overall, the EIB's efforts to increase EFSI-guaranteed business in cohesion regions has led to a (partial) shift of its cohesion portfolio towards operations expected to provide stronger additionality.

[89] Protocol (No 28) on Economic and Social Cohesion was first adopted in 1992 under the Maastricht Treaty, and amended to include "territorial" cohesion in 2009 with the Lisbon Treaty.

### 6.4 EIB cohesion financing has been directed towards sectors with investment needs, but region-specific needs were peripheral

141. **The portfolio of cohesion projects signed since 2007 has been directed toward sectors with investment needs**, through the required alignment of operations with the EIB's public policy goals. EIB appraisal procedures ensure that projects labelled as contributing to the cohesion KPI – like all EIB-financed projects – align with its public policy goals, are of quality and are undertaken by clients with strong technical capacity. In the five countries analysed in depth, the EIB's cohesion portfolio was geared towards the most prominent investment needs. The extent to which region-specific needs were addressed was, however, to a large extent undocumented and treated as a peripheral matter during project design.

### 6.5 EIB cohesion financing is expected to generate overall positive effects for poor EU regions

142. **Investments supported by EIB cohesion financing are estimated to have a positive impact on the GDP of less-developed EU regions and thereby contribute to reducing disparities between regions.** The evaluation team carried out a macroeconomic modelling exercise which found that projects financed by the EIB under its cohesion objective are estimated to increase the GDP of cohesion regions by up to 1.3% on average across regions with respect to the baseline scenario. Overall, the investments supported by EIB cohesion financing benefit cohesion regions more than non-cohesion regions and therefore contribute to these regions catching up with the rest of the European Union. When comparing the estimated effects of investments supported by EIB financing, the evaluation found that the positive impact of investments supported by EIB cohesion financing on cohesion regions is larger than the impact of investments supported by EIB (non-cohesion) financing on non-cohesion regions. The weakest regions of the European Union[90] gain relatively more in terms of GDP than other cohesion regions, albeit with some of these poorest regions (e.g. some regions in Bulgaria, Italy and Spain) consistently falling below average in terms of impact on GDP throughout the years. Several of these regions do not see a GDP increase that is commensurate with the amount of investment received.

143. **The EIB's cohesion financing is increasingly reaching weaker regions, but this trend masks disparities.** Amongst cohesion regions, the poorest regions of the European Union are increasingly accessing EIB financing. However, the poorest regions of Romania and Bulgaria are among the lowest beneficiaries of EIB cohesion financing per capita, and in proportion to the size of their economies. Similarly, the macroeconomic analysis found that the economic impact of EIB-supported projects was expected to be less pronounced in Bulgaria (unlike in the poorest regions of Poland and Hungary for example).

### 6.6 The EIB is currently unable to accurately report on its cohesion financing activity and results at a regional level

144. **While the EIB defines its cohesion lending objective exclusively in geographical terms (signed volume dedicated to eligible NUTS 2 regions), it is unable to accurately report on its financing activity at the level of individual regions**.

145. **First, the evaluation identified EIB cohesion signed amounts erroneously assigned to non-eligible countries and/or regions.** Albeit very small, these errors were not random. The EIB does not trace the exact amount of an operation signed in each region. For each operation, the share of financing for cohesion regions is estimated at appraisal. This percentage is then applied to all contracts signed within the operation, without checks for whether these signed amounts are linked to countries/regions eligible for cohesion financing. This poses a particular problem for multi-region or multi-country operations that include both cohesion and non-cohesion regions. In such cases, a share of financing in non-cohesion regions is labelled as "cohesion financing". This leads to errors in EIB cohesion financing

[90] This denomination comprises the poorest EU regions (with GDP per capita in PPS terms below 50% of the EU average in 2013, defined by the European Commission as "low-income regions") and economically stagnant EU regions (less developed and transition regions that did not converge to the EU average between 2000 and 2013, defined by the Commission as "low-growth regions").

reporting: amounts erroneously assigned to non-eligible countries/regions, and underestimation of the amounts reported for eligible cohesion countries/regions.

146. **Second, the evaluation found major data gaps for signed activity.** Close to 40% of investment loan contracts signed between 2007 and 2018 with a cohesion component had missing data for the region(s) where the operations were located, despite the fact that this information should be known at appraisal and signature.

147. **Finally, the evaluation found that the EIB lacks the data and systems that would enable it to report how much total financing has actually been invested at the level of individual regions.** For the sample of 335 operations analysed, the evaluation found that at completion, the total amount actually invested (total project investment cost, not just EIB support) in each cohesion region is largely undocumented, except for MBILs. Even in the case of MBILs, where detailed data on the geographical composition of the portfolio of final beneficiaries is available for each operation, it is not aggregated or used for reporting.

148. **The EIB applies a pragmatic location-based approach to identify an operation's eligibility and potential contribution to cohesion.** The sole criterion for an operation's eligibility under the cohesion KPI, and for the estimation of its contribution to regional development, is the share of investments expected to be located in cohesion regions. This approach assumes that (i) any and (ii) only investments located in cohesion regions contribute to the development of these regions. The results of the macroeconomic modelling simulation indicate that an approach based on the location of the investments supported is a good proxy for the positive growth effects of EIB cohesion financing. This approach provides a pragmatic and simple methodology that can be applied across sectors and products.

149. **Nevertheless, at the moment the EIB does not accurately capture or report on the results of its cohesion financing**. The location-based approach described above enables reporting on financial inputs but does not account for cohesion-specific results. The sample of 335 completed operations reviewed usually provided project-specific – and often qualitative – information on results, as sector-specific indicators that can be aggregated across operations[91] were not yet applicable. In as far as was possible based on the available data, the evaluation found that the majority of operations reviewed either fully or mostly delivered their expected results. However, the evaluation was unable to identify the specific results for the regions concerned, because EIB procedures and templates do not require the expected and actual results to be set out and quantified at regional level. It is worth noting, for example, that information on employment figures (jobs created or maintained) were, for the operations reviewed, based on non-verified estimates. Under complementary indicators, the Bank has now introduced sector-specific indicators that are expected to facilitate better ex-post aggregate reporting. In order to improve reporting on its contribution to cohesion, the Bank should explore the extent to which it can monitor and report on the results achieved in cohesion regions.

R4. The Bank should strengthen its reporting systems. First, it should be able to accurately report on total amounts that are (i) signed and (ii) actually invested at the level of individual regions, based respectively on EIB financing data at appraisal/signature and on total project investment cost at completion. Second, the Bank should thoroughly assess the feasibility of reporting project results disaggregated by geography, at NUTS 2 level.

Rationale: For some financing products (e.g. investment loans), information on the location of EIB-supported investments is available both at appraisal and at completion. At appraisal, reporting systems have to be strengthened to ensure that this information is systematically collected (when available) and checked for consistency (e.g. it should not be possible for EIB cohesion financing to be linked to non-eligible countries/regions). At completion, it needs to be ensured that this information is collected in individual completion reports, extracted from MBIL end-of-allocation reports, and aggregated in EIB reporting systems. Furthermore, in relation to its cohesion financing, EIB reporting currently focuses on the financing inputs (signed amounts) provided. This could be expanded by exploring how the Bank could report and communicate the results of individual projects at the level of NUTS 2 regions.

[91] Which is currently the case under the complementary indicators of the 3PA.

150. **For the individual operations evaluated, appraisal documents did not analyse the regional dimensions of operations in depth**, beyond quantifying the share of investments located in eligible cohesion regions. The EIB appraisal procedures ensure that cohesion projects align with its public policy goals. For projects where information on the location of investments was available at appraisal (investment loans, as well as some framework loans and MBILs), this evaluation found that appraisal documents for cohesion projects did not explicitly address regional development dimensions, and lacked a well-articulated narrative setting out the chain of results they were expected to deliver/contribute to, particularly at the level of specific regions, and how/why they were expected to contribute to the regions' development. The assessment of the specific and diverse needs of the regions covered was usually tenuous, if not absent. In fact, the potential effect of cohesion operations on specific regions is usually not part of the EIB's appraisal process. In the internal survey of EIB staff, only 24% of respondents agreed or strongly agreed that the EIB has developed an adequate analysis of the investment gaps it can address in cohesion regions.

R5. For any investment with a project location that can be identified upfront (i.e. all investment loans, as well as some framework loans and MBILs), project appraisal documentation should include a well-articulated narrative explaining how a project is expected to address market failures or suboptimal investment situations in the cohesion regions concerned, and deliver results that contribute to regional development.

Rationale: A well-articulated narrative is essential for accountability, communication, direction and learning. It describes the objectives to be attained/issues to be addressed at different levels (macro, meso and micro), and fills the "missing middle" between the provision of financial support and impact.

# Annex 1 – Methodological approach

This annex describes the approach taken by the evaluation team to collect and analyse the information that constitutes the evidence base of the report.

The evaluation adopts a theory-based approach, whereby IG/EV first outlines and then tests how EIB cohesion financing operations are expected to ultimately support the development of less-developed EU regions and reduce regional disparities in the European Union. The intervention logic outlining this path is presented in Annex 2. A detailed framework is then used to support the choice of methods, and to structure data analysis and interpretation.

A combination of quantitative methods (portfolio analysis, macroeconomic model, survey) and qualitative tools (e.g. interviews, document and literature review) were used to build a robust evidence base and triangulate evidence. Each tool is covered in a section of this annex.

**Portfolio review**
2 111 operations

**Macroeconomic modelling** of the impact of EIB cohesion financing

**Internal survey** (OPS and PJ)
143 responses / 405 recipients (35%)

**Policy and literature review**
(EU Cohesion Policy documents, EIB internal documents and OPs)

**Five country case studies**:
Italy, Poland, Portugal, Romania, Slovakia

**Review of completion documents for 335 operations**

**19 in-depth evaluations** of completed operations (10 investment loans, 6 MBILs, 3 framework loans)

**80 interviews,** 200 participants
(EIB staff, counterparts, European Commission)

Table 12 below provides a summary of the data collection and analysis methods for each of the evaluation questions presented in Table 1.

**Table 12 – Summary of data collection and analysis methods per evaluation question**

| | Evaluation questions | | | | | | |
|---|---|---|---|---|---|---|---|
| | **EQ1** | **EQ2** | **EQ3** | **EQ4** | **EQ5** | **EQ6** | **EQ7** |
| 1. Document review | | | | | | | |
| • Legal and policy documents | ✓ | | | | | ✓ | ✓ |
| • Policy, academic and other evaluation studies; EIB operational documents and processes | ✓ | ✓ | ✓ | ✓ | | | |
| 2. Interviews | | | | | | | |
| • EIB services | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| • European Commission staff, other Cohesion Policy stakeholders | | | | | | ✓ | ✓ |
| 3. Portfolio analysis | | ✓ | | ✓ | ✓ | | ✓ |
| 4. Survey of EIB services | ✓ | | ✓ | | | | |
| 5. Country-level analysis for selected countries/regions | | | | | | | |
| • Analysis of regional needs: Partnership Agreements, EIB Economics Department studies/surveys, regional development documents, etc. | | ✓ | | ✓ | | | |
| • Analysis of project completion documents for selected TOs/sectors of intervention | | | | ✓ | | | |
| • Analysis of EIB financing in comparison to ESIF financing | | | | | | | ✓ |
| 6. Project evaluations (encompasses project documentation review, on-site visits, and interviews with promoters, etc.) | | ✓ | | ✓ | | ✓ | ✓ |
| 7. Macroeconomic analysis (with PBL) | | | | | ✓ | | |
| 8. Analysis of EU regional disparities | | | | | ✓ | | |

*Source: IG/EV*

## a) Portfolio review

For the purpose of this evaluation, IG/EV reconstructed the portfolio of the EIB's own resource signed amounts that counted towards the cohesion KPI between 1 January 2007 and 31 December 2018. The portfolio has been built so that it reflects the definition of the Bank's cohesion KPI that applied during an operation's year of signature, meaning that for operations prior to 2011, only lending to eligible regions in EU Member States has been counted under the cohesion KPI, whereas after 2011, lending to all regions in pre-accession and EFTA countries has also been included.[92]

The data were extracted by IG/EV from the EIB's databases using queries based on the complete list of cohesion-related eligibility codes that have been used by the Bank since 2007 (93 codes). The resulting portfolio is therefore as comprehensive as the system allows.

The portfolio has been built up from contracts that contribute to the cohesion KPI (signed amounts in support of cohesion). Therefore, it does not include information on operations with a cohesion component that did not result in contracts between 2007 and 2018 (i.e. cancelled before signature).

[92] The portfolio review includes financing to all regions in pre-accession and EFTA countries, as per the definition of the KPI. However, the analysis throughout the report focuses on financing in the EU cohesion regions.

The data extracted from the system were rigorously checked to ensure completeness and accuracy. In response to data limitations (see chapter 4.1), IG/EV has extensively cleaned the cohesion portfolio. EIB data systems currently do not have any form of geo-referencing of approved, signed, disbursed and invested amounts. This significantly curtails the Bank's ability to quickly and accurately quantify and report on how much it has invested in any given region. The systematic (rather than random) nature of the errors described above indicates that they can be addressed through improvements in EIB data systems and processes. IG/EV's data processing consisted of the actions listed in Table 13 below.

**Table 13 – Corrections to the cohesion portfolio applied by IG/EV**

| Issues | Corrective actions |
|---|---|
| 1. Application of a cohesion amount to non-cohesion countries/regions | • Removed contracts fully (100%) located in ineligible countries and/or regions.<br>• Reallocated amounts linked partly (less than 100%) to ineligible countries/regions to cohesion-eligible countries/regions. |
| 2. Incorrect application of cohesion eligibility codes | • Removed contracts fully (100%) located in ineligible countries/regions.<br>• Added contracts located in eligible countries/regions that had not been labelled as non-cohesion. |
| 3. Data gaps for NUTS 2 regions | • For MBILs with allocation lists: signed amount distributed based on actual allocated amount at NUTS 2 level.<br>• For non-MBIL operations and MBILs without allocation lists: estimated the distribution of signed amounts between regions using population weights. |

To the extent possible, the evaluation team took actions to ensure that the cohesion portfolio only included operations in eligible EU cohesion regions. The first step consisted of removing cancelled operations: of the €262 billion signed, approximately €20 billion was cancelled over the period 2007-2018. The cancellation rate over the period under evaluation was approximately 8% (until 2014, the average cancellation rate was 10%). The next step consisted of removing operations located in ineligible countries and/or regions. Within EU operations, the exclusion of signed amounts labelled as "cohesion" but located fully outside of cohesion regions resulted in €3 billion (33 contracts related to 24 operations) being removed from the cohesion portfolio. The final step consisted of adding operations located in EU cohesion regions – which had not, however, been identified as such – to the extent that it was possible to identify such operations based either on country location (in cases where the entire country was eligible) or on information on NUTS 2 location. This resulted in about €3 billion (35 contracts related to 28 operations) being added to the cohesion portfolio. The corrected net cohesion portfolio therefore amounted to approximately €242 billion, with a composition that included only operations located in countries and/or regions eligible for EIB cohesion support at the time of signature (for the operations for which data on NUTS 2 regions were available). This final portfolio was then used for the analysis.

### *Mapping the thematic objectives of Europe 2020*

The cohesion operations within scope have in common their geographical focus on cohesion regions, but do not share the same specific objectives. Each of the contracts in the portfolio adopts a specific pathway to contribute to the development of the regions concerned. In order to understand and assess the extent to which these operations achieve their specific objectives, IG/EV had to define an approach for grouping these operations into homogeneous clusters. These clusters enabled the relevance and performance of a group of operations to be assessed to a well-defined outcome.

In order to define these clusters of homogeneous operations, IG/EV took the thematic objectives (TOs) of EU Cohesion Policy 2014-2020 as a reference. The Lisbon Strategy (2000) was the reference framework for the 2007-2013 MFF. The reasoning behind IG/EV's decision to only refer to the Europe 2020 Strategy as the key policy framework is that Europe 2020 was agreed in 2010, and has therefore guided policy and programming during most of the period covered by this evaluation. Furthermore, the TOs of EU Cohesion Policy 2014-2020, organised in the framework of smart, sustainable and inclusive growth of Europe 2020 and the so-called priority themes of the Lisbon Strategy, are very similar and overlap to a large extent.

IG/EV mapped all cohesion operations within scope against the TOs, using the Bank's sector-related eligibility codes for the operations in the portfolio. A total of 212 codes were mapped to ten of the 11 TOs. A different approach was followed for TO11 (see below).

The matching was done by analysing the definitions of each TO and their associated investment priorities (as set out in the Common Provisions Regulation). In cases of doubt, IG/EV analysed project documentation to refine its understanding of the sectors or areas of intervention covered.

For TO 11 (institutional capacity and efficient public administration), a different mapping method was used. The reason for this is that this objective is not explicitly reflected in the structure of the Bank's public policy goals and eligibility codes, because the Bank does not *finance* projects with the explicit objective of improving administrative capacity.[93,94] To identify which operations support TO11, the evaluation team checked if an operation was categorised under NACE section O (Public Administration and Defence; Compulsory Social Security). It identified 19 projects that reported against this NACE code, and further checked their content and objectives in order to confirm their contribution to TO11.

Once the mapping was complete, the evaluation team assigned the cohesion amounts of each operation in the portfolio to each relevant TO. To do so, it applied the distribution key indicated in the EIB database for eligibility codes (percentage of contribution to a given eligibility) to the corresponding TOs. After all the codes and amounts had been matched, the remainder of the contract amounts that had not been matched with any TO were identified as "strictly geographical" components.

The following caveats need to be kept in mind:

- The purpose of this exercise was to be able to describe the EIB cohesion portfolio in terms of TOs, rather than to add these objectives to EIB cohesion projects and assess them against them. This is because (a) EIB projects were not designed with these TOs in mind, and hence (b) the match between EIB eligibilities and TOs is not perfect.
- Many projects for broadband network infrastructure had eligibility codes relevant to knowledge economy activities (e.g. innovation-enabling infrastructures) rather than broadband network-specific codes, and were therefore linked to TO1 (R&D) rather than TO2 (ICT).
- All operations falling under the EIB's SME public policy goal were matched to TO3 (SME support). However, this goal refers to SMEs *and* mid-cap finance.
- The Bank's support towards the climate action objective is reflected in more than one TO, primarily TO4 (shift towards a low-carbon economy in all sectors), TO5 (climate change adaptation, risk prevention and management) and to some extent TO7 (promoting sustainable transport and removing bottlenecks in key network infrastructures). In practice, eligibility codes relevant to renewable energy sources and energy efficiency were matched with TO4. Eligibility codes concerning natural disaster prevention and alleviation were matched with TO5. Finally, operations supporting sustainable transport were matched to TO7 (as it encompasses, for example, the development of low-carbon transport systems).
- Eligibility codes and amounts for the EIB's cross-cutting objective of climate action were removed from the analysis so as to avoid double counting between TOs. This implies that the analysis only reflects a part of the contribution of EIB cohesion financing to climate action, i.e. the part that was directly matched to TO4, TO5 and some parts of TO7 (sustainable transport – that does not mean that all of TO7 is linked to climate action), but leaves out cross-cutting aspects.[95]

[93] Some of the Bank's activities at large do aim at improving administrative capacity support, e.g. technical and advisory support.
[94] E-government projects are an exception. These were categorised under TO2.
[95] For example, for infrastructure operations in support of sustainable transport, it is possible that the project percentage matching with TO7 (sustainable transport, 25%) is lower than the percentage matching with the cross-cutting climate action indicator (e.g. 40%) due to the way the latter is calculated.

## b) Macroeconomic analysis

To assess the impact of EIB-supported investments on reducing regional disparities, the evaluation team used a macroeconomic model. This was done in collaboration with the Netherlands Environmental Assessment Agency (PBL), using the European Economic Modelling System (EU-EMS).

The objectives, methodology and results of this analysis are presented in Annex 6.

## c) Survey

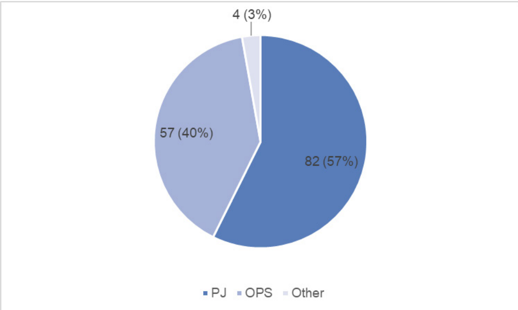
The evaluation team conducted a survey of EIB operational services (OPS and PJ staff involved in the appraisal of cohesion operations) with the aim of exploring:

- The EIB's approach in support of the cohesion objective.
- The EIB's achievements in cohesion regions.
- Usefulness of project completion documents regarding cohesion financing.

The survey was carried out over a three-week period (28 August to 16 September 2019) using the CheckMarket survey platform. Before the survey was launched, it was piloted with a group of ten EIB staff members that were part of the target group.[96] The survey comprised 20 questions.

The invitation to complete the survey was sent to 405 current EIB staff members who are or were involved in cohesion operations as OPS or PJ officers. Staff were identified through the screening of all appraisal factsheets for all cohesion operations within the scope of the evaluation (close to 2 000 operations). The survey received 150 answers, of which 143 substantive,[98] representing a response rate of 35%. Of these, 126 respondents reached the end of the survey while 17 provided only a partial response. Figure 17 shows the distribution of respondents per directorate.

**Figure 17 – Distribution of survey respondents per directorate[97]**




*Source: Survey, question 1*

## d) Policy and literature review

The literature review for this evaluation included policy and legal documents as well as academic and other studies. It was primarily used to reconstruct the EIB's intervention logic in cohesion, to scope and structure the evaluation, and to identify possible explanatory factors for the evaluation findings.

*The review of policy and legal documents* provided an understanding of the context, legislative framework and hierarchy of objectives within which the EIB is expected to contribute to cohesion. It was used to develop the intervention logic of the EIB's financing activities in support of cohesion (Annex 2) and to define the evaluation framework (Annex 3). The review also informed evaluation questions and ensured that the evaluation team kept up to date with ongoing policy developments in order to put forth relevant recommendations in the context of the upcoming MFF.

The review of policy, academic and other studies was furthermore used to identify investment needs and the associated capacity of less developed and transition regions (including their evolution over time). The review included European Commission and EIB documents (e.g. EIBIS) and previous evaluations undertaken in the context of EU Cohesion Policy. The information obtained from this review primarily

[96] In August 2019, prior to launching this survey, the evaluation team verified that the survey fully complies with EIB data protection rules and EU regulations related to confidentiality and data protection and obtained the relevant approvals from the EIB Data Protection Officer.

[97] The category "Other" refers to former PJ and OPS officers who currently work in other EIB Directorates. In the analysis, these respondents were assimilated to the former directorate in which they worked (two PJ and two OPS staff).

[98] Seven respondents indicated that they had not been involved in appraisal and/or monitoring of an operation with a cohesion component since 2007.

supported the analysis of the definition of operational targets, internal processes and policies, product offer, and activities for the origination and structuring of operations.

## e) Country case studies

The evaluation team conducted an in-depth analysis of EIB cohesion financing activity at country level, focusing on cohesion regions within five selected countries. The case studies entailed an exploration of how EIB products are able to cater to the capacities of less developed and transition regions.

In line with available resources, the evaluation team carried out five such case studies in Italy, Poland, Portugal, Romania and Slovakia.

These countries were selected to reflect the following criteria:

- Level of EIB cohesion financing volume (signed and disbursed), in order to ensure the evaluation covers a sufficiently large share of cohesion financing over the period, while also reflecting a variety of experiences; together, the five countries represent 40% of the EIB's cohesion financing.
- Diversity of economic situations of regions (inclusion of both low-growth and low-income regions, inclusion of least developed and transition regions), in order to take into account the various development statuses and dynamics of regions.
- Whether or not a country was included in previous cohesion evaluations conducted by IG/EV, in order to avoid a duplication of efforts.

Poland, Portugal and Italy are major recipients of EIB cohesion funding in terms of the volume of funds signed.[99] Poland's signatures represented close to 20% of overall EIB cohesion signatures between 2007 and 2018, Portugal's 7% and Italy's 8%. For Poland and Portugal, EIB cohesion financing is an important input when looked at in terms of gross fixed capital formation (GFCF) – with the share of EIB cohesion financing over 5% of the cohesion regions' GFCF – with cohesion regions in both countries showing positive developments. For Italy, the share of EIB financing in relation to GFCF is less than 3.5%. Changes in regional GDP for cohesion regions in Italy compared to the EU average have been largely negative since the early 2000s.[100]

Romania and Slovakia are mid-level recipients of EIB cohesion funding, with Romania's signatures representing 3% and Slovakia's 2% of overall EIB cohesion signatures. For Romania, EIB cohesion financing as a share of the cohesion regions' GFCF varied between 3.5 and 5%. For Slovakia the ratio was over 5%. Cohesion regions in both countries showed no change in terms of regional GDP compared to the EU average since the early 2000s.

The country studies encompassed the following (desk-based) activities:

- Needs analysis: literature review of investment needs and capacity constraints in cohesion regions within the selected countries (e.g. review of Partnership Agreements and other national or regional development strategies, client surveys and country analyses by the EIB's Economics Department, studies by the European Commission or other stakeholders, policy and academic studies).
- In-depth portfolio review of EIB operations (financing and non-financing) and comparison with needs identified in the needs analysis.
- Comparison of EIB cohesion financing volumes with ESIF financing: extraction and analysis of data from the ESIF Open Data Portal in order to review how the EIB's cohesion efforts compare to ESIF efforts at country level, in terms of their respective intensity over time (in absolute and relative terms), and their potential complementarity or alignment.

[99] Cohesion regions in Spain and Germany, the other two large recipients of EIB cohesion funding between 2007-2017, were evaluated in 2007 as part of the EIB evaluation on investment loans for social cohesion and are therefore not included in the sample.

[100] Changes in regions' statuses have been assessed based on the average regional GDP between 2000-2002 and 2014-2016. These averages reflect the data points that are used to inform the definitions of regions' statuses for the 2007-2013 and 2021-2027 MFFs.

## f) Review of project completion documents

In the five countries for which a country case study was prepared (Italy, Poland, Portugal, Romania and Slovakia), the evaluation team reviewed the available project completion documentation for all operations included in the portfolio. In total, it reviewed project completion documents for 335 operations (200 loans and 135 intermediated lending operations).

The objective of the review was to be able to comment on the relevance, effectiveness and efficiency of operations.

Because the operations included in this analysis were completed prior to 2016, the format of the project completion documents differed from the current format. In particular, there was no systematic reporting against outcome indicators. Only outputs were available.

Prior to analysing the output information contained in the project completion documentation, the evaluation team carried out an assessment of the completeness of the data contained therein. There were some data limitations: only 44% included information on expected and delivered outputs; 42% specified the extent to which the project outputs were delivered, albeit without providing the baseline; and 14% did not include sufficient information to carry out an assessment of the delivery of the outputs, and were therefore excluded from the analysis. In most cases, the completion documentation did not provide such information in a systematic format. Where no quantitative information was provided, the documents reviewed provided a qualitative assessment, stating whether outputs were fully delivered or whether some parts were not delivered.

*Output delivery:* In order to categorise whether an operation delivered all, most or few outputs, the evaluation team used the Bank's assessment as a basis. Project completion documents did not provide such information in a systematic format: only 44% included baseline and end-line information on expected and delivered outputs, enabling the extent to which expected outputs were delivered to be verified. 42% of project completion documents specified the extent to which the project outputs were delivered, albeit without providing the baseline. The remaining 14% of project completion documents did not include sufficient information to carry out an assessment of the delivery of the outputs, and were therefore excluded from the analysis. Thus, the majority of reports provided a (mostly qualitative) assessment, stating whether outputs were fully delivered or whether some parts were not delivered and enabling the evaluation team to make use of the assessment.[101]

*Consistency of operations with pre-established objectives:* The score assigned in project completion documents for Pillar 1 was used. This score uses a four-point scale, from low to high consistency with EU objectives.

*Time efficiency*: The evaluation classified operations depending on whether they delivered in line with, or slower than, the project end date estimated at appraisal. Some flexibility has been built into this assessment, and operations that were within 10% of the project end date set at appraisal have been included in the category "in line with estimate at appraisal". This classification was combined with the extent to which operations delivered (see below).

| **Time efficiency** | Outputs fully or mostly delivered | Few outputs delivered |
|---|---|---|
| Delivery in line with project end date estimated at appraisal | | |
| Delivery slower than project length estimated at appraisal | | |

[101] An example of a project classified as having fully delivered its outputs would be "Number of installations by the end of 2012 was 3 355. At appraisal it was forecast to have 3 313 installations by the end of 2014. Therefore, this target had already been exceeded by end-2012." An example of a project classified as having mostly delivered its outputs would be "Some project components have been delayed or implemented at a reduced scale." Both of these have been interpreted as a positive result. An example of a project classified as having delivered few outputs would be "The absorption of the EIB's funds has been particularly low at €12.9 million instead of the planned €75 million". None of the projects was found to have delivered no outputs.

*Cost efficiency*: The evaluation classified operations depending on whether they delivered at a cost that was either in line with, lower, or higher than estimated at appraisal. Some flexibility has been built into this assessment, and operations that were within 10% of the budget set at appraisal have been included in the category "in line with estimate at appraisal". This classification was combined with the extent to which operations delivered (see below).

| **Cost efficiency** | Outputs fully or mostly delivered | Few outputs delivered |
|---|---|---|
| Final project costs lower or in line with estimate at appraisal | | |
| Final project cost higher than estimate at appraisal | | |

## g) Individual operation evaluations

The evaluation team selected 19 operations from the five countries that were studied in detail (Italy, Poland, Portugal, Romania and Slovakia) to carry out in-depth evaluations. The summary of operations' characteristics (country, financial product, sector, etc.) is provided in Annex 4, and the rating grid adopted and their performance are presented in a separate synthesis report.

### *Selection of the operations*

The 19 operations were selected to collectively illustrate the diversity of products and sectors covered by the EIB through its cohesion financing. They were not randomly selected and do not constitute a representative sample of the portfolio. The selection was made from the 364 operations in the 2007-2018 cohesion portfolio based in cohesion regions in the five countries that had been completed. For the purpose of the evaluation, operations were considered completed where:

- Contracts had a disbursement rate of 80% or more (disbursed amount compared to signed amount, deducting any cancellations).
- And where financial operations showed as fully disbursed and allocated (using the "last allocation date").
- Or where the remaining operations had project completion documents recorded in the EIB database.

The following criteria were used to select a subset of 19 operations from the 364 operations:

- Alignment to the portfolio's distribution by thematic objective and financial products with regard to the overall portfolio and within each of the five focus countries – to capture varied experiences for different combinations of sectors and products.
- Operations with large disbursement volumes – to ensure that a reasonably large volume of the EIB's operations is evaluated for accountability purposes.
- Operations that were completed relatively recently – to ensure relevance of findings.
- Exclusion of operations in sectors that are about to be evaluated by IG/EV in 2019 (urban transport) – to make the most efficient use of available resources.
- To the extent possible, inclusion of operations which received advisory services from the EIB, in order to shed light on interactions between lending and advisory activities.

The distribution of the 19 operations by financing product is presented in the table below.

| | IT | PL | PT | RO | SK | Total |
|---|---|---|---|---|---|---|
| Framework loan | 1 | 1 | 0 | 1 | 0 | **3** |
| Investment loan | 2 | 2 | 3 | 2 | 1 | **10** |
| MBIL | 1 | 1 | 1 | 1 | 2 | **6** |
| **Total** | **4** | **4** | **4** | **4** | **3** | **19** |

***Approach***

As part of the in-depth individual evaluations of selected operations, IG/EV reconstructed the expected result chains of the 19 operations. Each individual evaluation built on a review of internally available documentation, including pre-appraisal and appraisal documents, monitoring and completion documents, and financial data extracted from the EIB database. The evaluation team also undertook an ex-post analysis of the Three Pillar Assessment scores, in relation to Pillar 1 (contribution to EU and EIB priorities) and Pillar 3 (EIB contribution). The evaluation team also undertook field visits to all the operations. Prior to the field visits, IG/EV systematically met with the EIB staff involved in each operation.

***Evaluation criteria and rating grids***

Each operation has been rated individually in terms of relevance, effectiveness, efficiency, sustainability, EIB contribution and EIB project cycle management using a number of sub-criteria. Separate rating grids were developed for each of the financial products under evaluation: one for MBILs, one for investment loans and one for framework loans.

## h) Interviews

To validate and cross-check information from the sources described above, the evaluation team conducted semi-structured interviews with 216 stakeholders: EIB staff, European Commission and EU delegations' staff, EIB clients and project promoters, and final beneficiaries of those projects. The majority of these interviews were carried out face-to-face.

**Table 14 – Number of interviewees per category**

| Category | Interviewees |
|---|---|
| EIB staff | 75 |
| Clients/promoters | 94 |
| Final beneficiaries | 38 |
| European Commission and EU delegations | 7 |
| National authorities | 2 |
| **Total** | **216** |

Interviews with EIB services working on strategy and operations were used primarily to analyse the adequacy of the EIB's processes and policies in responding to regions' needs and producing results. Interviews with EIB services working on defining and monitoring the cohesion KPI were used to better understand the reasons behind its changing scope and evolution over time. Finally, interviews with EIB services and European Commission staff (particularly DG REGIO) helped to gather information on the perceived additionality and EU-level value added of EIB cohesion financing.

# Annex 2 – Intervention logic of EIB cohesion financing

This evaluation aimed to establish the relevance and performance of the EIB's cohesion financing in helping to reduce disparities between the levels of development in the various EU regions. In order to assess these aspects, the evaluation team needed to understand what EIB cohesion financing aims to achieve. To do so, IG/EV reconstructed the intervention logic for cohesion financing. The intervention logic is a set of statements and assumptions showing:

- What EIB cohesion financing aims to achieve.
- How EIB operations are expected to achieve their results (causal links, assumptions, risks).
- Interactions between EIB cohesion financing and other operations (including the EIB's non-financing activities and third-party activities).

In the absence of an explicit EIB strategy or equivalent for cohesion (see chapter 2.1), the evaluation team relied on EU Cohesion Policy to create the intervention logic for EIB cohesion financing. This exercise built on discussions held with selected members of the Reference Group (25 October 2018), during which IG/EV presented its approach and a preliminary outline of the intervention logic.

### *Narrative*

Overall, the logic behind the EIB's cohesion financing is the following:

- ***EIB inputs, activities and outputs:*** the EIB mobilises its financial, human and organisational resources to provide financing for eligible projects in cohesion regions. EIB internal procedures ensure that these projects are of quality, consistent with and contribute to EU Cohesion Policy objectives as well as the EIB's own priorities (currently reflected in its public policy goals and thematic priorities). The Bank's financing share is offered through a variety of financial products, such as investment loans, equity and quasi-equity, framework loans, multi-beneficiary intermediated loans (MBILs) and guarantees. EIB financing is provided either directly for specific investment projects, or indirectly through, for example, financial intermediaries, specialised investment funds, or public authorities that implement multi-project investment schemes.
- ***EIB outcomes:*** EIB co-financing unlocks the ability of private or public counterparts to finance their planned investment schemes, enables financial intermediaries to expand their lending to target beneficiaries, or provides a supply of equity in certain sectors and geographies. For the EIB's activities to achieve these outcomes, it is assumed that borrowers have the capacity to mobilise the EIB products offered to them.
- ***Promoter inputs and activities:*** third-party resources complement EIB financing; they may be of private or public origin, including from ESIF as in the case of structural programme loans, a type of framework loan. These combined resources enable promoters to undertake their investment schemes. These schemes are characterised by enhanced scope, speed and quality in comparison to what they would have been in the absence of EIB support.
- ***Outputs of cohesion projects***: the investment schemes co-financed by the EIB in cohesion regions deliver outputs, which vary considerably depending on the sector covered and the location where the operation takes place (see Figure 19, for example). In the context of this evaluation, IG/EV has grouped the multitude of outputs and corresponding outcomes into homogeneous clusters of objectives; these clusters mirror the thematic objectives of EU Cohesion Policy (approach explained in the next section). For these outputs to materialise, it is assumed that promoters have the capacity to implement schemes according to plans.
- ***Outcomes of cohesion projects:*** investment schemes respond to demands which are assumed to address specific investment needs/gaps in cohesion regions. These investment gaps, which prevent less developed and transition regions from catching up with the more developed EU regions, can be identified in national or regional strategies, or may be reconstructed from policy and academic studies, studies by the European Commission or other stakeholders, or from client surveys and country analyses conducted by the EIB's Economics Department. The Partnership Agreements signed between Member States and the Commission usually provide for detailed needs analyses, which are then used to identify the priorities for which ESIF may be an appropriate support mechanism. In order for EIB cohesion financing to address investment gaps in cohesion regions, it is assumed that EIB projects are supported by a solid analysis of the needs in the regions concerned.

- ***Impact of EIB cohesion financing:*** the key objective of EU Cohesion Policy is to reduce disparities between the levels of development of the various regions and the backwardness of the least favoured regions. The cohesion projects co-financed by the EIB ultimately support job creation, competitiveness, economic growth, improved quality of life and sustainable territorial development. The main assumption that needs to hold for EU cohesion objectives to be achieved is that smart, sustainable and inclusive growth should happen at a faster pace in cohesion regions than in the rest of the European Union, in order for this growth to be conducive to reducing disparities between regions in Europe.

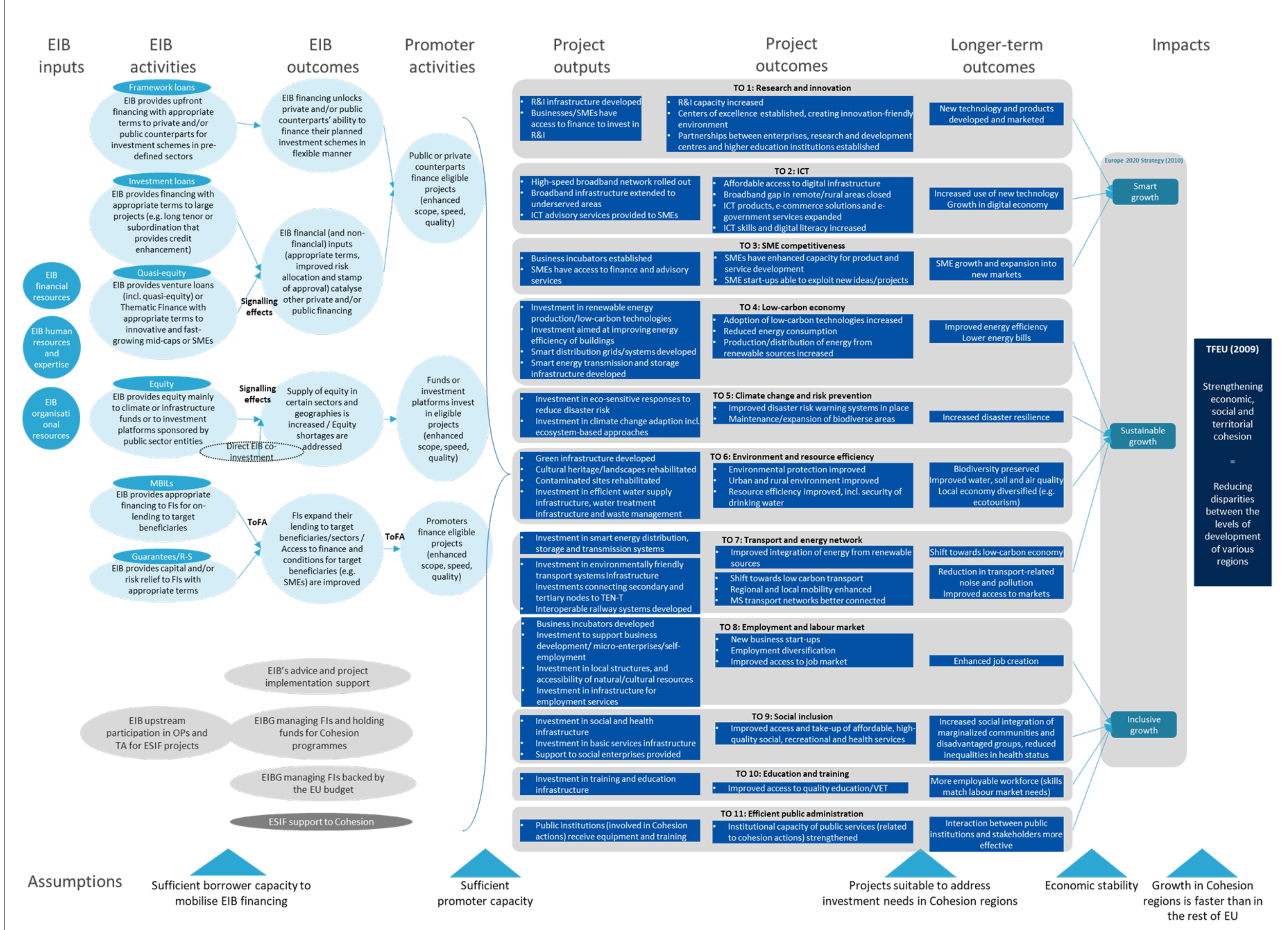
### *Graphical representation*

Representing the chain of effects of EIB cohesion financing is challenging for one main reason: the 2 111 operations within scope have in common their geographical focus on cohesion regions, but do not share the same specific objectives. Each of the contracts in the portfolio adopts a specific pathway to contribute to the development of the regions concerned. In order to understand and assess the extent to which these operations achieve their specific objectives, IG/EV had to define an approach for grouping these 2 111 operations into homogeneous clusters.

In order to define these clusters of homogeneous operations, IG/EV took the thematic objectives (TOs) of EU Cohesion Policy 2014-2020 as a reference. The Lisbon Strategy (2000) was the reference framework for the 2007-2013 MFF. The reasoning behind IG/EV's decision to only refer to the Europe 2020 Strategy as the key policy framework is that Europe 2020 was agreed in 2010, and has therefore guided policy and programming during most of the period covered by this evaluation. Furthermore, the TOs of EU Cohesion Policy 2014-2020, organised in the framework of smart, sustainable and inclusive growth of Europe 2020 and the so-called priority themes of the Lisbon Strategy, are very similar and overlap to a large extent.

Annex 1.a elaborates on IG/EV's method for linking the cohesion amounts of all contracts within scope to the TOs of EU Cohesion Policy 2014-2020. By establishing a link between EIB cohesion financing operations and TOs, IG/EV will then be able to understand the extent of the EIB's support towards the various priorities defined in the framework of EU Cohesion Policy, and ultimately for Europe 2020. This link will also help in understanding how the Bank's efforts align with the needs identified in Partnership Agreements, and national and regional investment plans at local level (these documents usually being framed in line with Europe 2020 objectives).

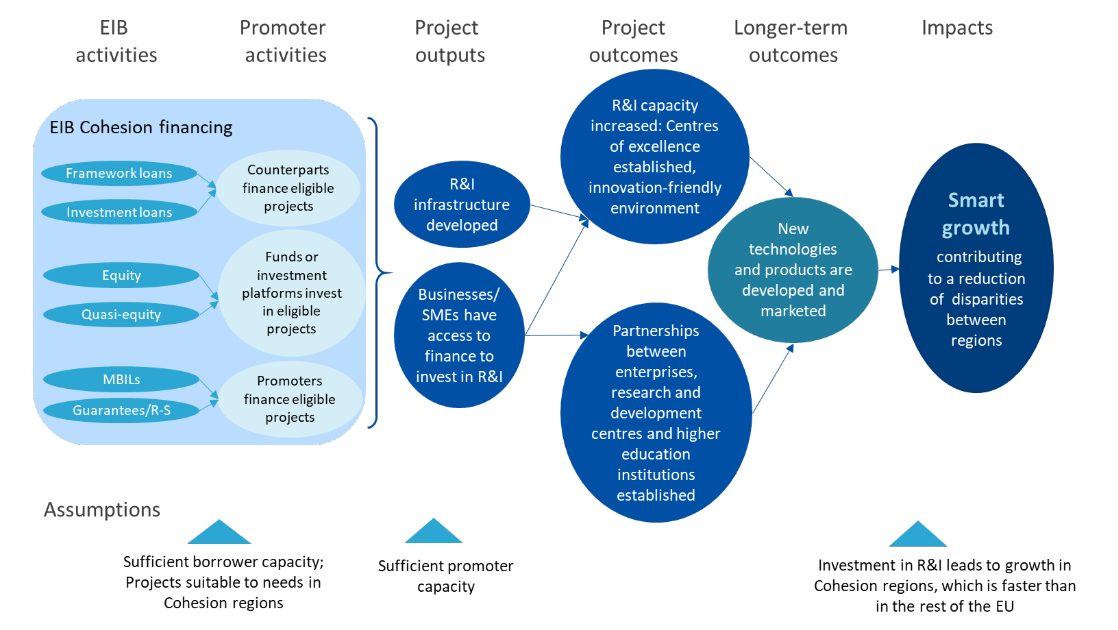
**Figure 18 – Intervention logic of EIB cohesion financing: graphical representation**




*Source: IG/EV*

Figure 19 below illustrates the intervention logic at the level of a specific TO. It follows the same reasoning as the overall intervention logic presented above, the difference being that it describes each sector in more detail. It is thus able to demonstrate how the various TOs are expected to contribute to smart, sustainable and inclusive growth. It builds on IG/EV's review of EU Cohesion Policy documents and background studies.

Figure 19 – Intervention logic of EIB cohesion financing: zoom into thematic objective 1 (Research and innovation)




*Source: IG/EV*

IG/EV has developed more detailed project-level intervention logics for those operations evaluated in depth.

# Annex 3 – Detailed evaluation questions

This evaluation builds on a set of questions that aims to focus and provide structure to the analysis. A detailed framework is then used to frame the analysis, i.e. identify information needs, support the choice of methods, and structure data analysis and interpretation. The evaluation team has used this framework to organise and cross-reference findings. In the main report, however, these findings are presented following a more message-driven structure.

<table>
<tr><th colspan="3">Relevance</th></tr>
<tr><td colspan="3"><u>Relevance of the EIB's approach to cohesion financing</u><br><br>EQ1 – To what extent has the EIB's approach for defining (eligibilities) and measuring (KPI) its efforts in support of cohesion been relevant to supporting growth in less developed and transition regions and ultimately contributing to "reducing disparities between the levels of development in the various EU regions"?<br><br><u>Justification</u><br>IG/EV understands that EIB cohesion objectives are defined as the combination of geographical efforts (a certain volume of activity should be dedicated to certain regions) and thematic efforts (public policy goals reflect thematic priorities). However, in practice, the EIB made the decision to count only its operations in cohesion regions (for the 2007-2013 MFF, convergence, phasing-in and phasing-out regions, and for the 2014-2020 MFF, less developed or transition regions) as contributing to its cohesion objective. Current eligibilities and the definition of its KPI imply that the Bank only measures the share of EIB financing that goes to the less well-off regions of the European Union.</td></tr>
<tr><th>Judgment criteria</th><th>Indicators</th><th>Analysed in chapter…</th></tr>
<tr><td rowspan="2">1a. The EIB provides an explicit justification in strategic documents on how it intends to undertake its "task" defined in the TFEU and how it aims to align to the reference EU frameworks (Europe 2020, 2007-2013 and 2014-2020 MFFs).</td><td>Identification of clear statements that the EIB aims to support cohesion/achieve growth in the less-developed regions (and not just provide financing), and explanation of how this support is different from what the EIB does in the rest of the European Union</td><td rowspan="2">2.1</td></tr>
<tr><td>Identification of "how" the EIB aims to achieve the above, how it aligns with the reference EU frameworks and what it adds to other existing instruments (EIB's expected contribution)</td></tr>
<tr><td rowspan="4">1b. The EIB definition of cohesion regions enables EU regions considered as "less-developed regions" as per Article 309(a) to be clearly identified under the 2007-2013 and 2014-2020 MFFs (no "less-developed region" is left out).</td><td>Identification of the Bank's rationale for defining what it counts as "less-developed regions" as per Article 309(a) under the 2007-2013 and 2014-2020 MFFs</td><td>2.2</td></tr>
<tr><td>Evolution of the distribution of the amounts signed in the different categories of eligible "EIB cohesion priority regions" under both MFFs (European Commission eligibility map, programme countries, pre-accession, EFTA, etc.)</td><td>4.3</td></tr>
<tr><td>Rationale provided by the EIB for including EFTA and pre-accession countries</td><td>2.2</td></tr>
<tr><td>Share of EFTA and pre-accession countries in the EIB cohesion portfolio</td><td>4.3</td></tr>
<tr><td>1c. The EIB's approach for defining eligibilities is adequate for selecting projects that contribute to the cohesion objective (no project that</td><td>Analysis of the evolution of the eligibilities system for cohesion operations over time (from cohesion being a sufficient eligibility to cohesion combined with sector eligibilities)</td><td>2.1</td></tr>
</table>

| | | |
|---|---|---|
| contributes is left out, and no project that does not contribute is included). | Comparison of sub-sector distribution in cohesion regions (and focus on selected countries) vis-à-vis the rest of the European Union | 4.2 |
| | Analysis of literature on the effects of investment in non-cohesion regions (more developed EU regions) on the growth of cohesion regions (no project that contributes to cohesion is left out from the way the EIB identifies its efforts) | 3.1 |
| 1d. The current level of the KPI (30%) – which has not changed since 2013 – is adequate to support growth in cohesion regions at a pace that is conducive to reducing disparities with the levels of development of more developed EU regions. | Share of EU economy (GDP) represented by cohesion regions and pace of growth, for both MFFs | 4.3 |
| | Identification of the Bank's rationale for setting the level of the KPI target (% or amount where applicable) | 2.1 |

**Relevance of the EIB's activity to needs and capacity**

**EQ2 – To what extent are the EIB's products and sectors of intervention in less-developed and transition regions fit to address their specific needs and capacity constraints?**

Justification

If the aim of cohesion financing is to help those regions that lag behind move to the next level of development, this question aims to understand how the EIB addresses their key development constraints. These needs are notably defined in Partnership Agreements between Member States and the European Commission. For selected Member States, the evaluation analyses the extent to which EIB cohesion financing is aligned to the needs notably identified in these Partnership Agreements. In addition, the evaluation considers countries' investment needs as identified in internal EIB documents and research (e.g. EIB Economics Department studies/surveys) and external initiatives (e.g. Vienna Initiative). For selected operations, the evaluation team carried out an ex-post assessment of Pillar 1.

EIB cohesion regions have various development statuses and dynamics. Currently, the EIB merges less developed and transition regions. Within those EU regions whose level of development is significantly lower than the EU average, the Commission has defined targeted actions for sub-groups of regions, namely low-growth regions (which experience a persistent lack of growth) and low-income regions (which are far below the EU average GDP per capita). This evaluation will analyse how the EIB has adapted its products and way of working to the different development levels of cohesion regions.

| Judgment criteria | Indicators | Analysed in chapter… |
|---|---|---|
| 2a. The distribution of the EIB's financing in cohesion regions (or in countries) is aligned with the needs identified in their corresponding Partnership Agreements, in internal EIB research, and in relevant analyses under other initiatives. | • Identification of country- or region-specific needs | 3.1 |
| | • Identification of eligibility and weighting methods for Pillar 1 (as applicable to cohesion regions) | 3.3 |
| | • Distribution of EIB cohesion financing in selected countries, per TO | 3.1 |
| | • Comparison of EIB cohesion financing to identified needs in selected countries | 3.1 |
| 2b. The EIB's products, financial terms and options give due consideration to the specific needs of less developed and transition regions, and low-growth and low-income regions. | • Analysis of cancellations in cohesion regions: features compared to non-cohesion portfolio in the European Union, potential explanatory factors | 4.2 |
| | • Identification of specific provisions for the project cycle management of operations located in cohesion regions, in procedures manuals | 3.1 |

| | | |
|---|---|---|
| 2c. At all stages of the project cycle, the EIB's approach for working with or in cohesion regions is tailored to their specific capacity (the EIB deploys an adequate analysis of capacities, provides mitigation measures and appropriate supporting activities, and has a learning process). | • Identification of specific guidance for EIB staff covering cohesion regions on how to support cohesion objectives | 3.1<br>3.2 |
| | • Identification of specific provisions for the project cycle management of operations located in cohesion regions, in procedures manuals | |
| | • Description of mitigating measures provided by the EIB in response to local conditions (for projects evaluated in depth) | 3.2 |

## Effectiveness

**Evolution of KPI target (signatures)**

**EQ3 – What factors explain the evolution of the cohesion KPI over the period 2007-2018?**

Justification

This question aims to explore the factors that explain the Bank's performance in relation to the cohesion KPI. Despite being a major priority for the Bank, EIB cohesion financing has followed a downward trend over the last ten years – although during the last few years (2017-2018) the cohesion share stayed relatively stable at around 30% of signatures.

The evaluation also takes into account the multiplicity of intermediate and long-term objectives, which in some cases might prove difficult to achieve jointly. For example, an equity-efficiency trade-off might exist between cohesion and innovation. While a cohesion objective converts into a fair geographical distribution of efforts and the development of capacities, especially in regions where there are few, an innovation objective may lead to prioritising investments in regions that are already on the innovation frontier, for efficiency and effectiveness gains.

Finally, in order to reinforce the take-up of EFSI in less developed and transition regions, the amended EFSI Regulation enlarged the list of sectors eligible for EFSI support, to also include projects located in less developed and transition regions and in sectors eligible for EIB support.[102] This evaluation examines the effects this amended EFSI Regulation may have on EIB cohesion lending, as well as factors that might explain what is currently perceived as the limited uptake of EFSI support in less developed and transition regions.

| Elements of analysis | Indicators | Analysed in chapter… |
|---|---|---|
| Potential external factors that may explain the evolution of the cohesion KPI | • Identification of the part of the portfolio potentially influenced by changes in the legislative framework (by type of product, type of client or promoter) | 2.1<br>4.2 |
| | • For this part, evolution of approved amount and signatures over time, compared to timing of change in legislative framework | |
| | • Identification of the part of the portfolio potentially influenced by changes in EU thematic objectives (by type of product, type of client or promoter) | |
| | • Identification of the part of the portfolio potentially influenced by the multiannual cycle (see also SPL evaluation) | |
| Potential internal factors that may explain the evolution of the cohesion KPI | • Analysis of modulation (upward/downward) applied to operations in cohesion regions (and comparison with non-cohesion regions) | 3.2 |

[102] As per the amended EFSI Regulation, since the beginning of 2018 all projects located in less developed and transition regions are eligible for EFSI support, provided they are in industries and services eligible for EIB support and adhere to the eligibility criteria defined in Article 6 of the original EFSI Regulation.

| | | |
|---|---|---|
| | • Identification of a rewards system for staff to reach cohesion lending volumes and sign high-quality projects that contribute to cohesion objectives | 3.1 |
| | • Evolution of volume of EFSI-flagged operations in cohesion regions over time | 3.2 |

**Delivery and results**

**EQ4 – For selected project and countries/regions, to what extent has EIB cohesion financing achieved its expected results?**

Justification

In addition to trying to explain the variations in cohesion lending volumes, IG/EV has analysed the results obtained by the EIB through its cohesion lending. In selected countries, this analysis builds on the review of project completion documents for selected sectors. This analysis is conducted more in depth for selected projects subject to individual evaluations. The evaluation team also carried out an analysis of the extent to which the EIB's project cycle is conducive to, or inhibits its ability to contribute to cohesion objectives, including how disbursements compare with signed amounts and reasons behind cancellations. Potential reasons might relate to the EIB's project cycle management (pricing, contractual conditions such as covenants, rejection of projects by the EIB), to client constraints (inability to take on more debt or absorb funds) or to clients accessing preferred alternatives (related to the question of additionality).

| Judgment criteria | Indicators | Analysed in chapter… |
|---|---|---|
| 4a. Disbursement ratio and cancellation ratio in cohesion regions are no different from those in other more developed regions. | • Disbursement ratio and cancellation ratio for EIB cohesion operations | 4.2 |
| | • Disbursement ratio and cancellation ratio for EIB non-cohesion operations for the same period | 4.2 |
| 4b. Country analysis: for selected countries, and in those countries for TOs selected based on Partnership Agreements, the level of completion of projects is satisfactory (this analysis builds notably on a review of project completion documents). | • Review of quality of project completion documents<br>• Level of project completion for completion documents analysed<br>• Significance of outcomes achieved as regards local policy objectives | Annex 5 |
| 4c. Project analysis: for the operations subject to individual evaluation, assessment of performance (delivery, outputs, outcomes), as well as interaction with other EIB activities, with ESIF, and with national investments. | *Evaluation grid specific to each project* | |

**Impact**

**EQ5 – To what extent has EIB cohesion financing contributed to growth in less-developed regions, which is conducive to reducing disparities between EU regions?**

Justification

The impact of EIB cohesion financing on growth in cohesion regions is analysed through macroeconomic modelling, comparing GDP growth in cohesion regions "with" and "without" EIB financing.

| Judgment criteria | Indicators | Analysed in chapter… |
|---|---|---|
| 5a. GDP growth in cohesion regions has been higher with EIB financing than it would have been without EIB financing. | • Source: Macroeconomic modelling | 5 |
| 5b. EIB cohesion financing is in sectors that are likely to have a | • Source: Macroeconomic modelling | 5 |

| | | |
|---|---|---|
| structural impact on the EU economy. | | |

| EIB additionality | | |
|---|---|---|
| **EQ6 – To what extent has EIB intervention provided additionality?**<br><br><u>Justification</u><br>This question mainly builds on individual project evaluations. It assesses ex-post the extent to which the Bank has addressed market failures by originating financial and non-financial benefits in support of the projects analysed. EIB financial contribution identifies the value added provided by the EIB loan in relation to the alternative sources of funding available to the borrower. EIB technical facilitation relates to increasing the efficiency of other stakeholder support (signalling effects for other lenders; leveraging third-party resources including European Commission funds; financial structuring and advice). EIB technical contribution relates to any non-financial contribution, which may take the form of improvements in the technical, economic or financial aspects of the projects financed (improved quality), or improved management practices of the authority and/or promoters. | | |
| **Judgment criteria** | **Indicators** | **Analysed in chapter…** |
| 6a. For the project sample, the EIB has provided additionality, as it addressed market failures for the projects in which it has been involved. IG/EV understands that this includes the following sub-criteria:<br>• EIB operations address suboptimal investment situations resulting from market failures.<br>• EIB support influences the investment activity undertaken (in terms of scale, scope, structure, quality and/or time) to alleviate the suboptimal investment situation.<br>• EIB support complements what is available from other sources of financing. | • Identification of market failures: review of arguments provided in appraisal documents<br>• Ex-post pillar 2<br>• Ex-post pillar 3 (EIB financial contribution, financial facilitation, technical contribution) | 3.3 |

## Annex 4 – List of 19 projects evaluated in depth

| Country | Financial products | | EIB public policy goal | Sector | Share of operation's signed amount dedicated to EIB's cohesion objective |
|---|---|---|---|---|---|
| Italy | Framework loans, Investment loans, MBILs | 1 | Energy (incl. TEN-E) (INFRASTRUCTURE) | **SECTION D: ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY** | 51% |
| | | 2 | Knowledge Economy (INNOVATION) | **SECTION C: MANUFACTURING** | 30% |
| | | 3 | Protection of Environment and Sustainable Communities (ENVIRONMENT) | **SECTION D: ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY** | 50% |
| | | 4 | SMEs | **SECTION Z: GLOBAL LOANS, LOANS FOR SMEs, LOANS FOR SMEs AND MID-CAPS, LOANS FOR MID-CAPS** | 30% |
| Poland | Framework loans, Investment loans, MBILs | 5 | Knowledge Economy (INNOVATION) | **SECTION M: PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES** | 70% |
| | | 6 | SMEs | **SECTION Z: GLOBAL LOANS, LOANS FOR SMEs, LOANS FOR SMEs AND MID-CAPS, LOANS FOR MID-CAPS** | 80% |
| | | 7 | TEN-T (INFRASTRUCTURE) | **SECTION H: TRANSPORTATION AND STORAGE** | 100% |
| | | 8 | Urban Renewal and Regeneration (INFRASTRUCTURE) | **SECTION H: TRANSPORTATION AND STORAGE (65%)**<br>**SECTION F: CONSTRUCTION (35%)** | 100% |
| Portugal | Investment loans, MBILs | 9 | Energy (incl. TEN-E) (INFRASTRUCTURE) | **SECTION D: ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY** | 100% |
| | | 10 | Energy (incl. TEN-E) (INFRASTRUCTURE) | **SECTION B: MINING AND QUARRYING (72%)** | 84% |

| Country | Financial products | | EIB public policy goal | Sector | Share of operation's signed amount dedicated to EIB's cohesion objective |
|---|---|---|---|---|---|
| | | | | **SECTION H: TRANSPORTATION AND STORAGE (28%)** | |
| | | 11 | Protection of Environment and Sustainable Communities (ENVIRONMENT) | **SECTION E: WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES** | 100% |
| | | 12 | SMEs | **SECTION Z: GLOBAL LOANS, LOANS FOR SMEs, LOANS FOR SMEs AND MID-CAPS, LOANS FOR MID-CAPS** | 80% |
| Romania | Framework loans, Investment loans, MBILs | 13 | Energy (incl. TEN-E) (INFRASTRUCTURE) | **SECTION D: ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY** | 100% |
| | | 14 | ENVIRONMENT | **SECTION A: AGRICULTURE, FORESTRY AND FISHING** | 100% |
| | | 15 | Renewable Energy and Energy Efficiency (ENVIRONMENT) | **SECTION D: ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY** | 100% |
| | | 16 | SMEs | **SECTION Z: GLOBAL LOANS, LOANS FOR SMEs, LOANS FOR SMEs AND MID-CAPS, LOANS FOR MID-CAPS** | 90% |
| Slovakia | Investment loans, MBILs | 17 | Knowledge Economy (INNOVATION) | **SECTION J: INFORMATION AND COMMUNICATION** | 91% |
| | | 18 | SMEs | **SECTION Z: GLOBAL LOANS, LOANS FOR SMEs, LOANS FOR SMEs AND MID-CAPS, LOANS FOR MID-CAPS** | 70% |
| | | 19 | SMEs | **SECTION Z: GLOBAL LOANS, LOANS FOR SMEs, LOANS FOR SMEs AND MID-CAPS, LOANS FOR MID-CAPS** | 80% |

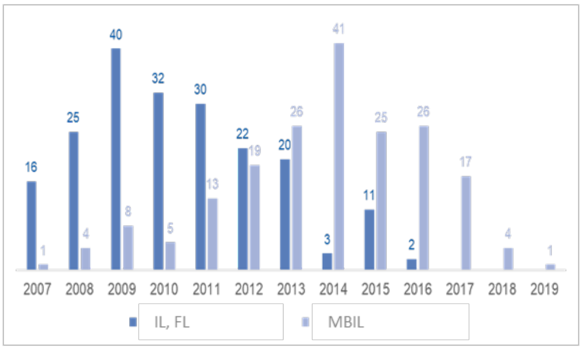
# Annex 5 – Performance of the cohesion portfolio in five countries

Besides explaining the variations in cohesion financing volumes, this evaluation aims to analyse the results obtained by the EIB through its cohesion financing. The completed operations, for which actual results may be analysed, are relatively old. No aggregate data exists on their outputs and outcomes.

In this context, a pragmatic decision was made to analyse the results of cohesion operations by reviewing all the available project completion documentation for completed operations in the five countries subject to in-depth analysis (Italy, Poland, Portugal, Romania and Slovakia). The following section presents the performance (effectiveness, efficiency) of all completed cohesion operations that were signed between 2007 and 2018 in these five countries. All available completion documents produced by the Bank for these operations have been analysed. This analysis is based on self-reporting by the services. IG/EV did not independently validate this information.

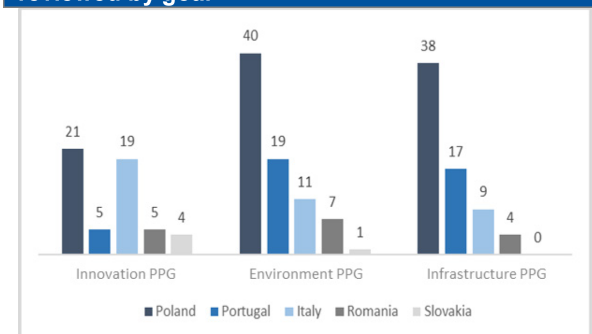
The analysis is structured by EIB public policy goal (PPG).

**Figure 20 – Project completion documents reviewed by year of signature**




*Source: IG/EV review of project completion documents*

**Figure 21 – Project completion documents reviewed by goal**




*Source: IG/EV review of project completion documents*

## a) Performance of EIB cohesion portfolio under innovation goal

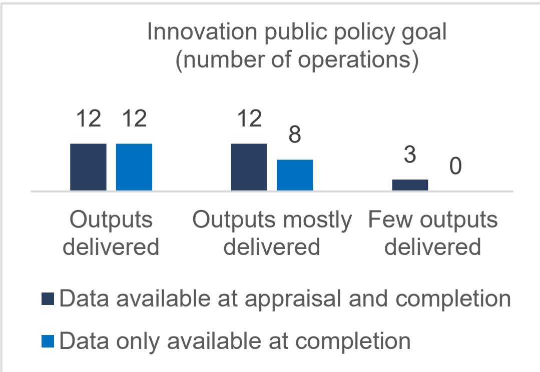
The intervention logic for the innovation goal is represented in the table below. The innovation goal covers thematic objectives 1 and 2 of Europe 2020. This analysis is based on three individual project evaluations and project completion documents for 54 operations (21 in Poland, 19 in Italy, five in

Romania, five in Portugal, and four in Slovakia). 47 out of 54 included sufficient data to allow the operation to be included in this assessment.[103]

| Outputs | Intermediate outcomes | Longer-term outcomes | Impact |
|---|---|---|---|
| • R&I infrastructure developed<br>• Finance to invest in R&I made available to businesses<br>• High-speed broadband network rolled out<br>• Broadband infrastructure extended to underserved areas | • R&I capacity increased<br>• Centres of excellence established, creating innovation-friendly environment<br>• Partnerships between enterprises, research and development centres and higher education institutions established<br>• Affordable access to digital infrastructure<br>• Broadband gaps in remote/rural areas closed<br>• ICT products, e-commerce solutions and e-government services extended<br>• ICT skills and digital literacy increased | • New technologies and products developed and marketed<br>• Growth in digital economy<br>• Increased use of new technology | • Smart growth |

**Almost the full signed amount of EIB cohesion financing was disbursed**. The difference between signed and disbursed amounts for the completed operations in the five focus countries that fall under the innovation goal is less than 1% (€8.65 billion of EIB financing was signed, and €8.61 billion of this was disbursed).

**The large majority of operations successfully delivered (all or most) expected outputs**. 94% completed operations either fully or mostly delivered expected outputs; 6% delivered fewer than the expected outputs. The picture for the three individually evaluated operations that fall under the innovation goal is even more positive. three fully delivered the expected outputs (provision of new technology and replacement of communication equipment; strengthened R&D facilities and capabilities; improved R&D infrastructure).




of

All

old

**The majority of operations delivered their outputs at the expected,[104] or at a lower than expected cost.** 78% of operations[105] delivered the expected outputs (all or most) for the same or lower cost when compared to the cost estimate at appraisal, and 2% delivered fewer outputs than expected at the same or lower cost when compared to the cost estimate at appraisal. 15% of operations delivered the expected outputs (all or most) at a higher cost when compared to the cost estimate at

| **Cost efficiency** | Outputs fully or mostly delivered | Few outputs delivered |
|---|---|---|
| Final project cost lower or in line with estimate at appraisal | 78% | 2% |
| Final project cost higher than estimate at appraisal | 15% | 4% |

[103] Prior to analysing the information contained in project completion documents, IG/EV carried out an assessment of the completeness of the data contained therein. Half (27) of the project completion documents falling under the innovation goal included baseline and end-line information on expected and achieved outputs, enabling the extent to which outputs were delivered to be verified. Slightly over one-third (20) of the project completion documents reviewed specified the extent to which the project outputs were delivered, albeit without providing the baseline. The remainder (seven) did not include sufficient information to carry out an assessment of the delivery of the outputs.

[104] Some flexibility has been built into this assessment, and operations that were within 10% of the budget set at appraisal have been included in the category “in line with estimate at appraisal”.

[105] For 47 out of 54 operations reviewed, completion documents included sufficient data to allow the operation to be included in this assessment.

appraisal, and 4% of operations delivered fewer than expected outputs at a higher cost when compared to the cost estimate at appraisal.[106]

**The large majority of operations delivered their outputs within the timeframe set at appraisal.**[107] 89% of operations delivered the expected outputs (all or most) within the timeframe set at appraisal, and 6% of operations delivered fewer than the expected outputs within the timeframe set at appraisal. 4% of operations delivered their expected outputs (all or most) more slowly when compared to the expectation at appraisal.[108]

| **Time efficiency** | Outputs fully or mostly delivered | Few outputs delivered |
|---|---|---|
| Delivery in line with project end date estimated at appraisal | 89% | 6% |
| Delivery slower than project length estimated at appraisal | 4% | 0% |

While the percentage of operations that experienced cost overruns for the innovation goal – irrespective of the delivery of outputs – is slightly higher when compared to (i) the average for the 200 operations included in this analysis; and (ii) the non-cohesion portfolio for 2007-2018 (in both instances 19% vs. 15%), the percentage of operations that had time extensions is considerably lower when compared to (i) the average for the 200 operations included in this analysis; and (ii) the non-cohesion portfolio for 2007-2018 (in both instances 4% vs. 37%).

**For the individually evaluated operations, the expected outcomes were achieved (fully or mostly).**[109] For example, the strengthened R&D facilities and capabilities from some operations resulted in the development of new knowledge and innovative technologies, methodologies and products. In addition, the provision of new technology and the replacement of old communications equipment under another operation led to improvements in the coverage of broadband data services and power savings. Furthermore, the installation of new equipment led to a reduction in $CO_2$ emissions, with power savings of 40% compared to the old equipment.

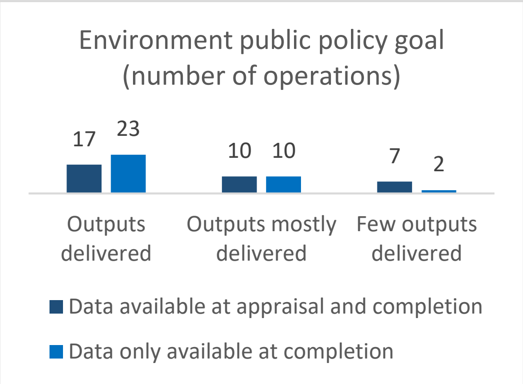
[106] Sum of percentages may be lower or higher than one due to rounding.
[107] Some flexibility has been built into this assessment, and operations that were within 10% of the project end date set at appraisal have been included in the category "in line with estimate at appraisal".
[108] Sum of percentages may be lower or higher than one due to rounding.
[109] As indicated above, the format of the project completion documents reviewed does not allow for systematic reporting against outcome indicators. For this reason, only material collected from the individual evaluations could be exploited in an aggregate manner.

## b) Performance of EIB cohesion portfolio under environment goal

The environment goal covers thematic objectives 4, 5 and 6 of Europe 2020. This analysis is based on four individual project evaluations and project completion documents for 78 operations. 69 out of 78 included sufficient data to allow the operation to be included in this assessment.[110]

| Outputs | Intermediate outcomes | Longer-term outcomes | Impact |
|---|---|---|---|
| • Investment in renewable energy production/low-carbon technologies<br>• Investment aimed at improving energy efficiency of buildings<br>• Smart distribution grids/systems developed<br>• Investment in eco-sensitive response to reduce disaster risk<br>• Investment in climate change adaptation<br>• Green infrastructure developed<br>• Cultural heritage/landscapes rehabilitated<br>• Contaminated sites rehabilitated<br>• Investments in efficient water supply infrastructure, water treatment infrastructure and waste management | • Adoption of low-carbon technologies increased<br>• Reduced energy consumption<br>• Production/distribution of energy from renewable sources increased<br>• Improved disaster risk warning systems in place<br>• Maintenance of biodiverse areas<br>• Environmental protection improved<br>• Urban and rural environment improved<br>• Resource efficiency improved, including security of drinking water | • Improved energy efficiency<br>• Lower energy bills<br>• Increased disaster resilience<br>• Biodiversity preserved<br>• Improved water, soil and air quality<br>• Local economy diversified (e.g. ecotourism) | • Sustainable growth |

**About 90% of the signed amounts of EIB cohesion financing was disbursed.** €10.3 billion of EIB financing was signed, and €9 billion of this was disbursed. This difference relates to cancellations in Portugal (19% of the signed amount), Poland (11%) and Italy (10%).




**The majority of operations successfully delivered the expected outputs.** 87% of completed operations delivered (fully or mostly) the expected outputs, with 13% delivering fewer than the expected outputs. The picture for the individually evaluated operations that fall under the environment goal is even more positive: all four delivered (fully or mostly) the expected outputs (e.g. modernisation and expansion of municipal waste management systems and installation of wind energy production facilities).

[110] Prior to analysing the information contained in project completion documents, IG/EV carried out an assessment of the completeness of the data contained therein. Slightly under half (34) of the project completion documents falling under the environment goal included baseline and end-line information on expected and achieved outputs, enabling the extent to which outputs were delivered to be verified. Slightly under half (35) specified the extent to which the project outputs were delivered, albeit without providing the baseline. The remainder (nine) did not include sufficient information to carry out an assessment of the delivery of the outputs.

**The majority of operations delivered their outputs at the expected,[111] or at a lower than expected cost.** 73% of operations delivered the expected outputs (all or most) for the same or at a lower cost when compared to the cost estimate at appraisal, and 12% of operations delivered fewer than the expected outputs for the same or at a lower cost when compared to the cost estimate at appraisal. 14% of operations delivered the expected outputs (all or most) at a higher cost when compared to the cost estimate at appraisal, and 2% of operations delivered fewer outputs than expected at a higher cost when compared to the cost estimate at appraisal.[112]

| **Cost efficiency** | Outputs fully or mostly delivered | Few outputs delivered |
|---|---|---|
| Final project cost lower or in line with estimate at appraisal | 73% | 12% |
| Final project cost higher than estimate at appraisal | 14% | 2% |

**Fewer than half of the operations delivered their outputs within the timeframe set at appraisal.**[113] 41% of operations delivered the expected outputs (all or most) within the timeframe set at appraisal, and 9% of operations delivered fewer than the expected outputs within the timeframe set at appraisal. 45% of operations delivered their expected outputs (all or most) more slowly than when compared to the expectation at appraisal, with 5% delivering fewer than the expected outputs more slowly.

| **Time efficiency** | Outputs fully or mostly delivered | Few outputs delivered |
|---|---|---|
| Delivery in line with project end date estimated at appraisal | 41% | 9% |
| Delivery slower than project length estimated at appraisal | 45% | 5% |

While the percentage of operations that experienced cost overruns for the environment goal – irrespective of the delivery of outputs – is largely in line with the average when compared to (i) the 200 operations included in this analysis; and (ii) the non-cohesion portfolio for 2007-2018 (in both instances 16% vs. 15%), the percentage of operations that had time extensions is considerably higher when compared to (i) the average for the 200 operations included in this analysis; and (ii) the non-cohesion portfolio for 2007-2018 (in both instances 50% vs. 37%).

**For most of the individually evaluated operations (three out of four), the expected outcomes were achieved (fully or mostly).[114]** For example, operations resulted in increased electricity production from renewable energy sources, a reduction in $CO_2$ emissions, and less waste landfilled without previous treatment. The success of the reviewed operations strongly depended on the achievements of the supported programmes, and in cases in which these were poorer than programmed, the anticipated outcomes were not achieved. For example, for the operation that combined EIB financing with EU funds, actual demand for some intervention areas was lower than had been anticipated at appraisal stage.

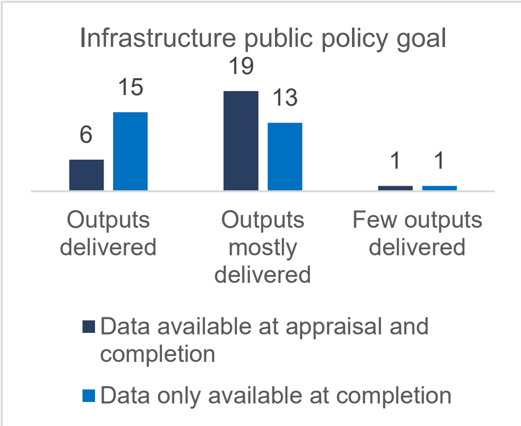
[111] Some flexibility has been built into this assessment, and operations that were within 10% of the budget set at appraisal have been included in the category "in line with estimate at appraisal".
[112] Sum of percentages may be lower or higher than one due to rounding.
[113] Some flexibility has been built into this assessment, and operations that were within 10% of the project end date set at appraisal have been included in the category "in line with estimate at appraisal".
[114] As indicated above, the format of the project completion documents reviewed does not allow for systematic reporting against outcome indicators. For this reason, only material collected from the individual evaluations could be exploited in an aggregate manner.

## c) Performance of EIB cohesion portfolio under infrastructure goal

The infrastructure goal covers thematic objective 7 of Europe 2020. The population covered by this analysis encompasses six individual project evaluations and project completion documents for 68 operations. 55 out of 68 included sufficient data to allow the operation to be included in this assessment.[115]

| Outputs | Intermediate outcomes | Longer-term outcomes | Impact |
|---|---|---|---|
| • Investment in smart energy distribution, storage and transmissions systems<br>• Investment in environmentally-friendly transport system infrastructure<br>• Investments connecting secondary and tertiary nodes to TEN-T<br>• Interoperable railway systems developed | • Improved integration of energy from renewable sources<br>• Shift towards low-carbon transport<br>• Regional and local mobility enhanced<br>• Member States' transport networks better connected | • Shift towards low-carbon economy<br>• Reduction in transport-related noise and pollution<br>• Improved access to markets | • Sustainable growth |

**Over 93% of the signed amount of EIB cohesion financing was disbursed**. €16.7 billion of EIB financing was signed, and €15.6 billion of this was disbursed. This difference relates to cancellations in Poland (10% of the signed amount) and Portugal (4%).




**The large majority of operations successfully delivered (all or most) expected outputs**. 96% of completed operations either fully or mostly delivered the expected outputs; 4% delivered fewer than the expected outputs. The picture for the individually evaluated operations that fall under the infrastructure goal is even more positive. All six projects delivered (fully or mostly) the expected outputs (e.g. improved motorway infrastructure, refurbishment and expansion of energy transmission networks and repowering of a pumped storage hydropower plant).

| Cost efficiency | Outputs fully or mostly delivered | Few outputs delivered |
|---|---|---|
| Final project cost lower or in line with estimate at appraisal | 86% | 4% |
| Final project cost higher than estimate at appraisal | 10% | 0% |

**The majority of operations delivered their outputs at the cost expected,[116] or at a lower than expected cost.** 86% of operations delivered the expected outputs (all or most) for the same or at a lower cost when compared to the cost estimate at appraisal, and 4% of operations delivered fewer than the expected outputs for the same or at a lower cost when compared to the cost estimate at appraisal. 10% of operations delivered the expected outputs (all or most) at a higher cost when compared to the cost estimate at appraisal.

[115] Prior to analysing the information contained in the project completion documents, IG/EV carried out an assessment of the completeness of the data contained therein. Slightly over one-third (26) of the project completion documents falling under the infrastructure goal included baseline and end-line information on expected and achieved outputs, enabling the extent to which outputs were delivered to be verified. Slightly under half (29) specified the extent to which the project outputs were delivered, albeit without providing the baseline. The remainder (13) did not include sufficient information to carry out an assessment of the delivery of the outputs.

[116] Some flexibility has been built into this assessment, and operations that were within 10% of the project end date set at appraisal have been included in the category "in line with estimate at appraisal".

**A little less than half the operations delivered their outputs within the timeframe set at appraisal**[117]**.** 49% of operations delivered the expected outputs (all or most) within the project end date estimated at appraisal, and 2% of operations delivered fewer outputs within the end date estimated at appraisal. 47% of operations delivered their outputs (all or most) more slowly than expected, and 2% delivered fewer outputs in a slower timeframe.

| **Time efficiency** | Outputs fully or mostly delivered | Few outputs delivered |
|---|---|---|
| Delivery in line with project end date estimated at appraisal | 49% | 2% |
| Delivery slower than project length estimated at appraisal | 47% | 2% |

While the percentage of operations that experienced cost overruns for the infrastructure goal – irrespective of the delivery of outputs – is low when compared to (i) the average for the 200 operations included in this analysis; and (ii) the non-cohesion portfolio for 2007-2018 (in both instances 10% vs. 15%), the percentage of operations that had time extensions is considerably higher when compared to (i) the average for the 200 operations included in this analysis; and (ii) the non-cohesion portfolio for 2007-2018 (in both instances 49% vs. 37%).

**In all individually evaluated operations, the expected outcomes were achieved (mostly or fully).**[118] For example, the motorway infrastructure built under one transport operation resulted in a reduction in travel time and accidents, and the creation of internal and cross-border transmission capacity under another operation reduced congestion and improved security of energy supply, contributing to the convergence of zonal prices and a reduction in energy not supplied. Similarly, other energy operations improved the security of energy supply and the capacity for meeting the national demand for natural gas, so providing more affordable gas prices for all users.

## d) Performance of EIB cohesion portfolio under SMEs goal

This analysis of EIB support for SMEs in cohesion regions builds mainly on completion documents for 135 operations (corresponding to 193 contracts signed between 2007 and 2018 and completed as of May 2019, in the five selected countries (Italy: 84 contracts, Poland: 52 contracts, Portugal: 21 contracts, Slovakia: 20 contracts, Romania: 13 contracts)). These results are complemented with findings from the more in-depth evaluations of six MBIL operations (one in Italy, Poland and Portugal, and two in Slovakia).

The intervention logic of MBIL operations is presented in the table below.

| **Input** | **Outputs** | **Outcomes** | **Impact** |
|---|---|---|---|
| • EIB approves MBILs in support of sound financial intermediaries | • EIB signs and disburses loans to financial intermediaries, which are then allocated to eligible companies | • Increased access to finance: the funding conditions obtained by eligible companies enable them to undertake their investments | • Economic growth, job creation and improved company fundamentals |

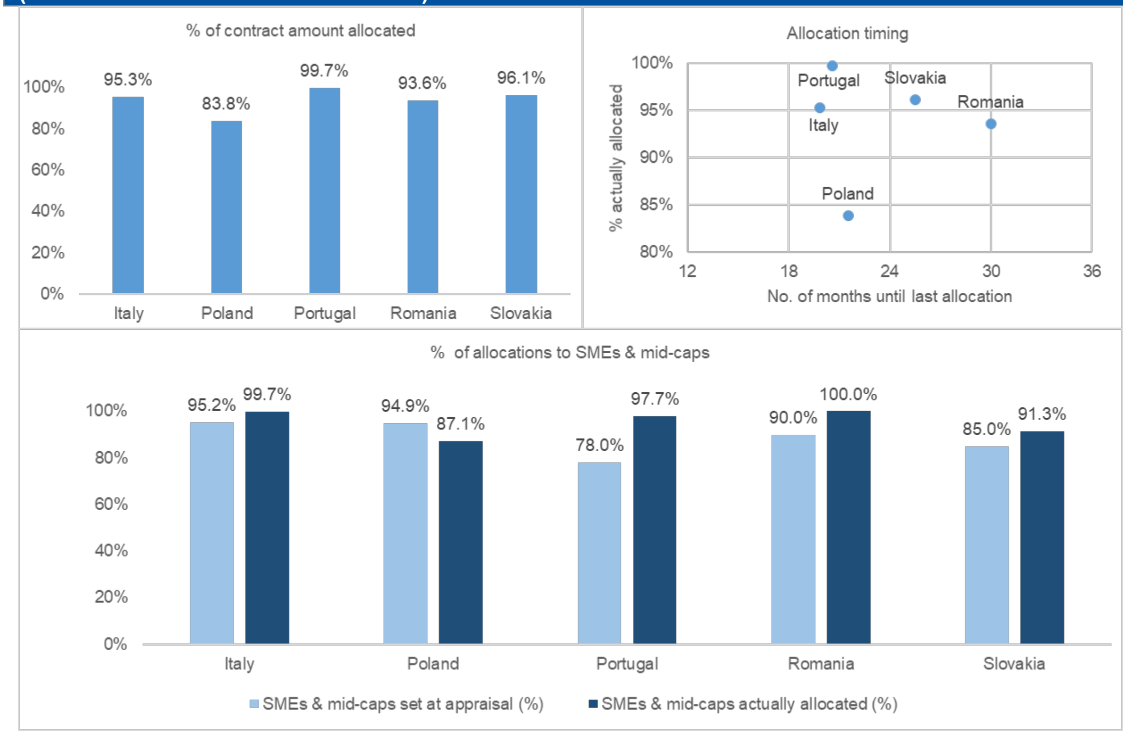
The population of MBILs within scope represents a contracted amount of €23.7 billion, distributed mainly in support of Italy (62%), Poland (17%) and Portugal (15%), and to a minor extent Slovakia (4%) and Romania (2%).

[117] Some flexibility has been built into this assessment, and operations that were within 10% of the project end date set at appraisal have been included in the category “in line with estimate at appraisal”.

[118] As indicated above, the format of the project completion documents reviewed does not allow for systematic reporting against outcome indicators. For this reason, only material collected from the individual evaluations could be exploited in an aggregate manner.

**The MBIL operations within scope delivered successfully in terms of allocation rates, allocation timing and targeting principally SMEs and mid-caps** (see Figure 22). MBILs were on average allocated between 18 and 24 months in Portugal and Italy, while also achieving high levels of allocation (best case scenario). In Poland, the average allocation timing was less than 24 months, while allocation rates were relatively lower than in other countries (83.8%). In Slovakia and Romania, allocation rates were above 90%, but allocation timings tended to extend beyond 24 months, explaining more frequent recourse to extensions of allocation deadlines in these countries. In all countries, the proportion of allocations dedicated to SMEs and mid-caps reached at least 90% and was on average higher than expected at appraisal. Only Poland performed lower than expected.

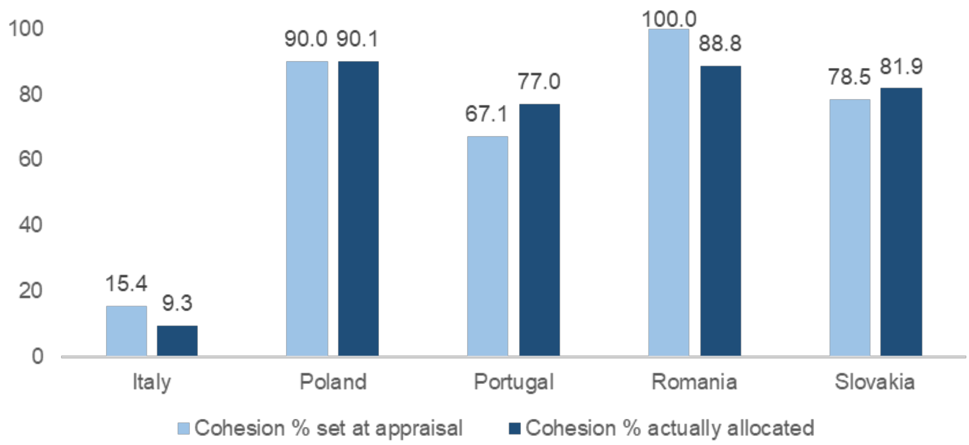
**Figure 22 – Performance of MBILs in five selected countries (contracted between 2007 and 2018)**




*Source: IG/EV individual project evaluations.*

The proportion of sub-loans located in cohesion regions varies, depending on whether the country is itself mainly composed of cohesion regions (e.g. Romania) or not (e.g. Italy). The table below compares this proportion, as estimated at appraisal vs. actually allocated.

**Figure 23 – Percentage of allocations located in cohesion regions (average per country)**




*Source: IG/EV individual project evaluations*

In particular, relatively low expectations were defined in Italy (15.4% dedicated to cohesion on average) when compared to the economic and population share of cohesion regions in its territory;[119] the actual allocation of MBILs to companies located in its cohesion regions was even lower than this prudent estimate. By contrast, expectations set for the other four countries were in line with population metrics,[120] and actual coverage was broadly in line with expectations. The discrepancy between expectations and actual allocations to cohesion was analysed for the six MBIL operations evaluated in depth. These expectations are estimated based on the existing portfolio of, or past experience of working with, the financial intermediaries. However, they are not converted into contractual requirements. A deviation vis-à-vis expectations set at appraisal does not influence the contractual relationship with the intermediaries; the cohesion percentage does not steer dialogue with the intermediary. By contrast, the selection of intermediaries with a strong presence (i.e. branch network) in specific cohesion regions can favourably influence the outreach.

**Credit lines provided real added value in terms of transfer of financial advantage, and such advantage was stronger during and after the financial crisis.** The magnitude of the financial advantage transferred to companies in terms of interest rate rebate varied from one market to another, and from time to time.

**However, the transfer of maturities received by intermediaries to their clients was limited.** Maturities transferred to companies tended to be shorter than those received by intermediaries, and in some cases substantially shorter. It can be assumed that, contrary to what the Bank expects from MBILs, allocations to cohesion regions financed on average investments of a relatively short economic lifecycle.

The six MBILs evaluated in depth illustrate that maturities provided by intermediaries through EIB-supported sub-loans were relatively similar to those offered via their overall portfolio of similar clients.

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[119] Cohesion regions represent 33% of the Italian population, 40% of its territory and 22% of its GDP.

[120] On average, for the period 2007-2018, cohesion regions represented 33% of the population in Italy, 93% in Poland, 72% in Portugal, 88% in Slovakia and 94% in Romania.

The present evaluation was not able to assess the specific impact of EIB intermediated lending in support of cohesion. Nevertheless, recent studies conducted on a similar subject, although not bearing a cohesion focus, provide for interesting insights. In 2019, the EIB's Economics Department released an impact study of EIB MBILs in the European Union between 2008 and 2014.[121] This study found significant positive effects of EIB credit lines on companies' employment, growth and investment. Such effect was assessed as being even higher during and after the financial crisis of 2008-2010. The impact of EIB lending on employment, fixed assets and leverage was estimated to be higher in Central, Eastern and South-Eastern Europe and Southern Europe (coinciding with cohesion regions) than in Western and Northern Europe. Another study from the EIB's Economics Department, focusing on Central and Eastern Europe, reaches similar conclusions.[122]

[121] EIB, Economics Working Papers 2020/04, "Making a difference: Assessing the impact of the EIB's funding to SMEs".
[122] EIB, Economics Working Papers 2019/09, "The impact of EIB lending support for SMEs in Central and Eastern Europe".

# Annex 6 – Macroeconomic analysis: detailed results

This technical annex outlines the methodology and sets out the findings of chapter 5 of the report.

The annex is organised as follows:

- The first section outlines the objectives and the methodology of the study.
- The second section examines the impact of the investments supported by EIB cohesion financing for cohesion regions and non-cohesion regions in terms of GDP and employment.

## a) Objectives and methodology

The ultimate objective of EIB cohesion financing is to help reduce economic disparities between EU regions, by financing investment projects for developing less-developed regions. The main assumption is that, for disparities to be reduced, GDP growth should happen at a faster pace in less-developed regions than in the rest of the European Union.

To estimate the impact of investments supported by EIB cohesion financing at the regional level, the evaluation team used the European Economic Modelling System (EU-EMS). In order to analyse the macroeconomic impact of investments supported by EIB cohesion financing, the modelling addressed the following key questions:

- What are the effects of investments supported by EIB cohesion financing on the GDP of EU-28 regions?
- What are the effects of these investments on employment?
- What are the indirect effects of investments supported by EIB cohesion financing for non-cohesion regions' economies?

### *Scope of the study*

The geographical scope of the study is EU-28 regions (at the level of NUTS 2 classification), divided into two categories depending on the expected effects:

- EIB cohesion regions: territorial entities corresponding to the NUTS 2 classification that are eligible under the EIB's cohesion lending objective (see section 2.2. of the main report). For these regions, the EIB-supported investments are expected to produce a direct effect.
- All other territorial entities corresponding to the NUTS 2 classification that are not eligible under the EIB's cohesion lending objective. These regions are potentially impacted indirectly.

The EU-EMS model estimates the effects of all investments supported by EIB cohesion financing under contracts signed from 1 January 2007 to 31 December 2018. The dataset is built on data extracted from the EIB database and corrected as described in Annex 1.a.

### *Methodology of the study*

To assess the impact of EIB-supported investments on reducing regional disparities (evaluation question E), the evaluation team used a macroeconomic model. This was done in collaboration with the Netherlands Environmental Assessment Agency (PBL), using the EU-EMS.

The EU-EMS is a spatial computable general equilibrium (SCGE) modelling system. The current version of EU-EMS used in the modelling covered 271 NUTS 2 regions of the EU-28 Member States and each regional economy is disaggregated into 60 NACE Rev.2 economic sectors. The Multi-Regional Input-Output (MRIO) database of the EU-EMS modelling system uses a combination of national, European and international data sources, such as the OECD database, BACI trade data, Eurostat regional statistics and national supply and use tables, as well as the detailed regional-level transport database of DG MOVE called ETIS-Plus. The latter dataset enables the estimation of inter-regional trade flows at the level of NUTS 2 regions that are currently not available from official statistical sources, and which are important in the calculation of spillovers from cohesion to non-cohesion regions.

The EU-EMS model has been used to examine the effects of the total investment amount of the projects supported, not only that of the EIB financing contribution. The model has been used to estimate the direction and magnitude of the effects of EIB-supported investment projects undertaken between 2007 and 2018 in the European Union (including cohesion and non-cohesion regions) on several economic indicators, namely:

- Gross domestic product (GDP). This indicator was modelled on aggregate and for each EU region separately.
- Employment in these regions, defined as the number of persons employed with respect to the baseline scenario.
- Spillover effects from cohesion regions to non-cohesion regions. Modelling of labour and capital flows in the model is strongly influenced by data availability. At the moment, no data are available on capital flows (or ownership) at the NUTS 2 level for the whole of the European Union. Migration data, on the contrary, are available for intra-country migration at NUTS 2 level.

The macroeconomic effects described above have been estimated up to 2050 with the EU-EMS model being run for five-year intervals. Two different set-ups of the model were used to calculate both direct and indirect impacts of EIB-supported investments: a partial use of the model equations for the direct effects and a full use of the model equations for the indirect effects. The main difference between these two set-ups of the model is that in the partial simulation, only the producer side is represented (skipping the consumer and market equilibrium) and the prices of labour and intermediate products are kept constant. This isolates the direct impacts of productivity changes on the outputs of various economic sectors and their use of labour, capital and intermediate products. Changes in the value added of each of the sectors due to productivity developments sum up to the changes in regional GDP that are due to the direct impacts of EIB-supported investments.

The main assumptions of the model were:

- For the baseline scenario, we assume that there is no EIB and that all investments in the global capital market are distributed by a fictitious global investment agent in accordance with the expected capital returns in various regions/countries and sectors.[123] It is important to note that this initial distribution of savings to finance investments is, by construction, optimal: savings are allocated to the projects delivering the highest returns.
- For the policy scenario, a key assumption is that the amounts of the EIB loans, which the EIB borrows on the capital market, as well as private co-financing of the EIB investment projects, come from the global capital market (inside and outside the European Union) and hence reduce the amount of world savings that are available for investments elsewhere (in other regions/countries and sectors that are not supported by EIB loans).
- For loan repayments, the assumption is that the inflow of investments to EU cohesion regions with EIB loans decreases and inflows of investments to the rest of the world increase.

In terms of limitations, most of the parameters of CGE models such as EU-EMS are calibrated on data for one year and hence do not have statistical significance and are not fully representative for longer periods. For this reason, the modelling exercise was completed with a sensitivity analysis. Furthermore, the EU-EMS is a very large modelling system that cannot be implemented as a fully dynamic CGE model due to the current software and hardware limitations. Instead, the EU-EMS model uses recursive dynamics, which means that the model is solved separately in each time period and the time periods are linked with savings being distributed as investments into various sectors and regions of the model. There is no representation of the financial sector in the model, which means that there is no financial multiplier, no inflation and everything is expressed in real values. The prices in the model are relative and expressed in terms of the GDP deflator.

One of the main challenges of the modelling exercise was assembling a dataset that is as complete, reliable and granular as possible. The most important ways of achieving this were: (a) reconstructing

[123] This type of assumption is quite common in recursive dynamic CGE models, for example the ENV-Linkages model of OECD, the MIRAGE model of CEPII and the RHOMOLO model of JRC.

data at NUTS 2 region level; and (b) integrating data concerning allocations to the final beneficiaries of MBILs.

- The EIB systems allow, technically speaking, for information to be collected at NUTS 2 region level. However, EIB procedures do not make the inputting of region-level data compulsory. As a result, information in the systems about the distribution of cohesion amounts at the level of NUTS 2 regions was available for approximately one-third of the portfolio (36%).[124] For the remainder, no specific information about the distribution of cohesion amounts across the regions had been input. In such cases, the evaluation team distributed cohesion amounts of contracts replicating the distribution of cohesion amounts among regions for operations/contracts for which data were available at NUTS 2 level. See further explanations in Annex 1.a above.
- The information about allocations for MBILs cannot be extracted automatically from the EIB database, but it is available in allocation reports. The team replaced each MBIL-related line in the database with several lines, each one corresponding to a specific actual allocation under the MBIL.

The exercise does not aim to measure the *actual* effects of the EIB cohesion financing and EIB-supported investments, as would be the case for an econometric study. Instead, the macroeconomic modelling process is as follows:

- Defines a hypothetical path of the EU economy and its evolution over the period 2010-2050 in which no EIB cohesion financing was provided and no EIB-supported investments occurred ("the baseline scenario").
- Simulates how this hypothetical economy would evolve over the same period if EIB-supported investments labelled as cohesion did occur ("the policy scenario").
- Identifies deviations for GDP growth, employment, investment and other variables. These deviations represent the net effects of the investments supported by EIB cohesion financing.

It is worth noting that the EIB is never the sole provider of financing for investment projects. The investments are always co-financed by private or other public investors who tap domestic or foreign savings from the same global pool. This is why the independent variable of interest is not EIB cohesion financing, but rather EIB-supported investments, which encompass financing from the EIB and other private or public financiers. The share of foreign and domestic savings used by private investors from a region is approximated using the national accounts data in combination with the international investment data from Eurostat for each region.

The simulation of the impact of the EIB-supported investments is done in two logical steps:

- In the first step, the EIB and the private or public investors borrow/withdraw funds from a pool of savings outside and inside the European Union and invest the equivalent amount into projects located in the cohesion regions. Thus, cohesion regions receive an inflow of funds from the EIB and the private or public investors.
- Cohesion regions undergo an outflow of funds which corresponds to the repayment (or sale of the equity position) made to the EIB and to the private or public investors.

The inflow of funds has two types of effect. The first is to boost demand in the short run and improve productivity in the longer run – both of these effects have a positive impact on GDP. The second type of effect is the increase in labour demand, which leads to higher wages and higher prices. This negatively affects GDP growth.

The modelling work builds on a dataset where 28% (out of the total volume) of the region-level data had been redistributed across regions (the information was missing in the raw data extracted from the EIB database). It implies that the effects of EIB-supported investments on aggregate GDP, employment and investment of the cohesion regions in each Member State should be taken as orders of magnitude rather than precise estimates. Nevertheless, the redistribution of the data was done in an unbiased manner. Furthermore, unlike the portfolio analysis – which seeks to report on specific figures for accountability purposes and therefore requires precision – the macroeconomic modelling seeks only to provide

[124] The amount of information available varies by product: 60% of investment loans in the portfolio, 41% of framework loans, 15% of equity/quasi-equity, 8% of guarantees and only 1% of MBILs have NUTS 2 level information.

estimates for very large aggregates (GDP, employment, aggregate investment). Considering that the size of EIB cohesion financing in a specific region (or set of regions) is a small fraction of the GDP, if it varies by +-10%, the size of the effects will vary relatively little.

## b) Effects of investments supported by EIB cohesion financing on cohesion and non-cohesion regions

This section considers the results of the EIB cohesion financing-supported investments at the regional level.[125] The population under consideration consists of 271 EU regions corresponding to the NUTS 2 classification, of which 136 are considered EIB cohesion regions (i.e. regions eligible under the EIB cohesion lending objective for the period 2007-2018), and 135 are considered non-cohesion regions.

### *Effects on GDP*

The following table summarises the results of the analysis:

**Table 15 – Investments supported by EIB cohesion financing: effects in cohesion vs. non-cohesion regions**

| | | 2025-2030 | 2035-2040 | 2045-2050 |
|---|---|---|---|---|
| Number of cohesion regions | With a positive impact on GDP | 134 | 130 | 128 |
| | With a negative impact on GDP | 2 | 6 | 8 |
| Average impact on GDP with respect to the baseline scenario (in %) | | +1.3% | +1.0% | +1.0% |
| | | | | |
| Number of non-cohesion regions | With a positive impact on GDP | 125 | 3 | 2 |
| | With a negative impact on GDP | 10 | 132 | 133 |
| Average impact on GDP with respect to the baseline scenario (in %) | | +0.05% | –0.05% | –0.09% |

*Source: PBL-IG/EV*
** The simulation includes the United Kingdom as an EU member.*

The results are quite compelling. **Almost all cohesion regions have a higher regional GDP with respect to the baseline scenario thanks to the investments supported by EIB cohesion financing. This result holds for all the periods considered.** On average, across cohesion regions, by the peak period (2025-2030), the impact is quite substantial: investments supported by EIB cohesion financing add up to 1.3% to GDP with respect to the baseline scenario. The impact declines somewhat over time, from +1.3% by 2025-2030 to +1.0% by 2045-2050.

**The vast majority of non-cohesion regions have a positive impact on their GDP by 2025-2030. By 2035-2040 and by 2045-2050, for almost all of them the impact of the investments supported by EIB cohesion financing turns slightly negative.** Nevertheless, the magnitude of the impact is always very small and close to zero. It is worth remembering that EIB cohesion financing-supported investments have indirect effects on non-cohesion regions, e.g. via trade or other links (discussed in more detail below). The average impact on GDP moves from very slightly positive by 2025-2030 to very slightly negative by 2045-2050.

**Cohesion regions – with a few exceptions – unequivocally gain in terms of GDP from investments supported by EIB cohesion financing in comparison to the baseline scenario. Non-cohesion regions, by contrast, see a very slight reduction in their GDP**. Regions in the south and east of the European Union (Portugal, Italy, Greece, Hungary, parts of Romania and Poland) – the principal recipients of EIB cohesion financing – experience the largest gains with respect to the baseline. The region “Highlands and Islands” in the UK is another clear winner. By contrast, the regions which do

[125] As explained in chapter 4, the evaluation identified some inconsistencies in the data present in the EIB database. These inconsistencies make it difficult to precisely analyse the EIB financing received by each region. However, the nature and purpose of the macro-modelling are different from the portfolio analysis. The goal is not to report on the inputs provided by the EIB or the outputs delivered, but rather to assess the sign and the magnitude of the impacts. This task does not require the same degree of precision as the portfolio analysis. Some of the data in the dataset built for the macro-modelling involved estimation of the missing data. However, this estimation was done in an unbiased manner. So, as is always the case with this type of exercise, it is the sign and the magnitude of the effects that matter, and not the accuracy of the results.

not benefit from EIB cohesion financing have a slightly lower regional GDP compared to the baseline scenario.

### *Effects of investments supported by EIB cohesion financing on employment in cohesion and non-cohesion regions*

**The results in terms of employment per region are very much in line with the results in terms of GDP: regions that are major beneficiaries from EIB cohesion financing experience the most pronounced increase in terms of employment with respect to the baseline scenario** (Portugal, Italy, Greece, Hungary, some parts of Romania and Poland).

## About the Evaluation Division

The Evaluation Division conducts independent evaluations of the European Investment Bank Group's activities. It assesses the relevance and performance of these activities in relationship to their objectives and evolving operating environment. It also helps the EIB Group to draw lessons on how to continuously improve its work, thereby contributing to a culture of learning and evidence-based decision-making.

Evaluation reports are available from the EIB website:

http://www.eib.org/en/infocentre/publications/all/ex-post-evaluations/index.htm

OPERATIONS EVALUATION

# Evaluation of EIB cohesion financing (2007 to 2018)

## Thematic report

October 2020

European Investment Bank
The EU bank

OPERATIONS EVALUATION

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