



Challenges for investing in infrastructure at local and regional level - EIB Municipalities Survey 2017

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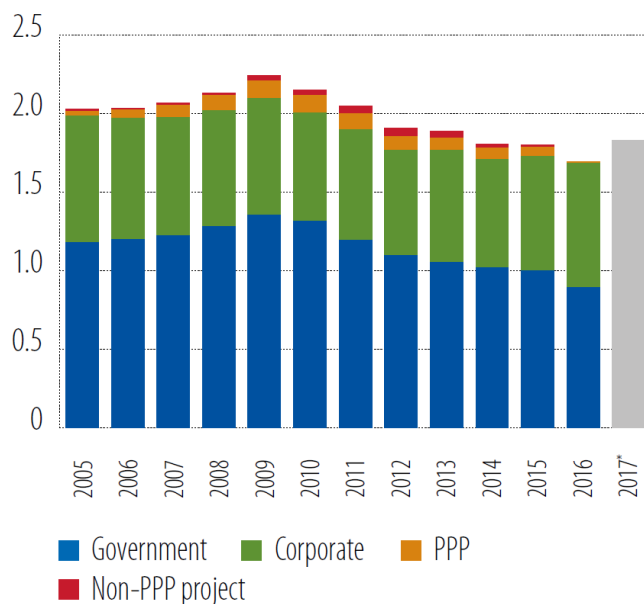
1. Infrastructure investment continues to fall
2. This does not reflect a 'saturation effect'...
3. To address under-investment effectively, the local context matters
 - Large differences in infrastructure quality across countries/regions
 - Regions with poor infrastructure quality require different policy response from those with good quality infrastructure.
4. Investment seems discouraged
5. Results for rural municipalities
6. The EIB and the EU Cohesion Policy

1. Infrastructure Investment

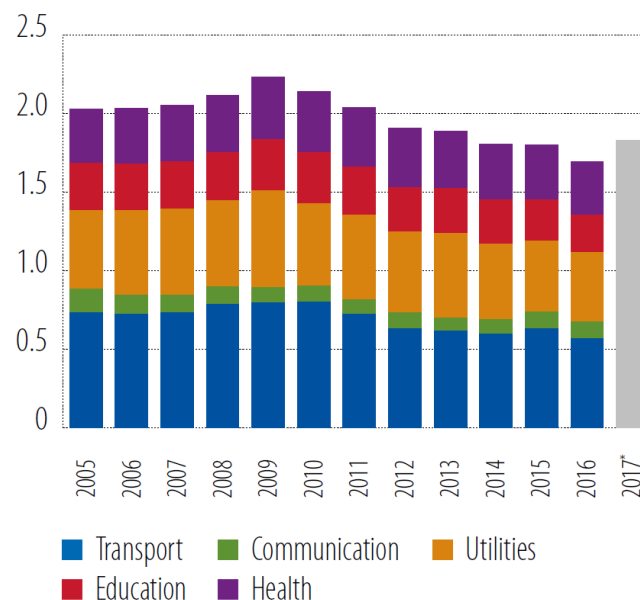


Infrastructure Investment Continues to Fall

a. Infrastructure investment (% of GDP) –
by institutional sector



b. Infrastructure investment (% of GDP) –
by sector of economic activity



Note: Based on EIB Infrastructure Database. Data are missing for Belgium, Croatia, Lithuania, Poland, Romania and the UK. 2016 figures are preliminary. PPP: public-private partnership. Authors calculations.
Source: EIB infrastructure database.

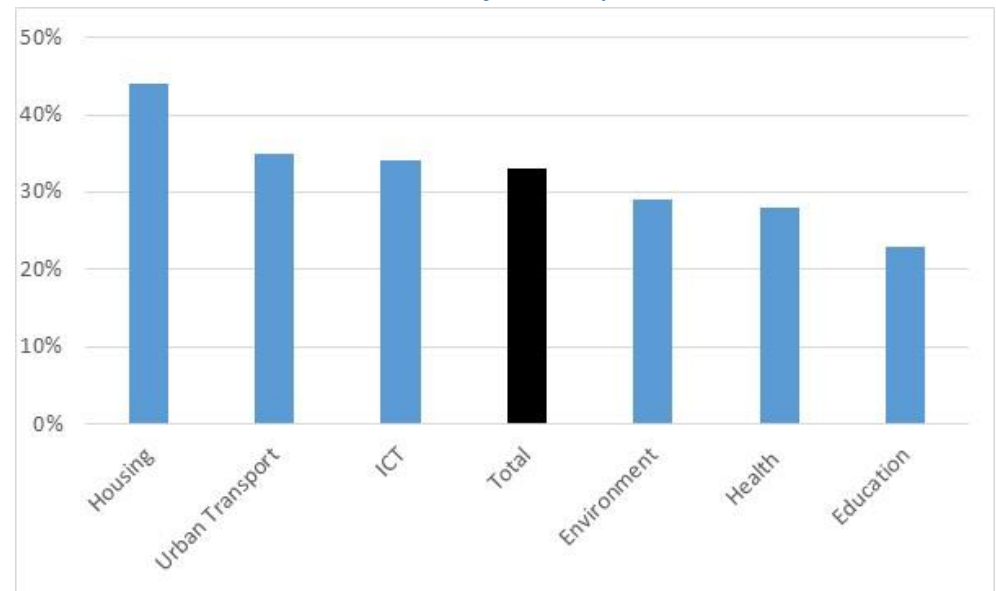
2. The fall seems not a saturation effect



3 Arguments:

- When asked: 1/3 municipalities confirm that investment was 'below needs'
- Infrastructure fell the most in regions which reported poor quality to start with
- Large positive spill-over effects from new construction continue to exist

Perceived under-investment,
% of municipalities



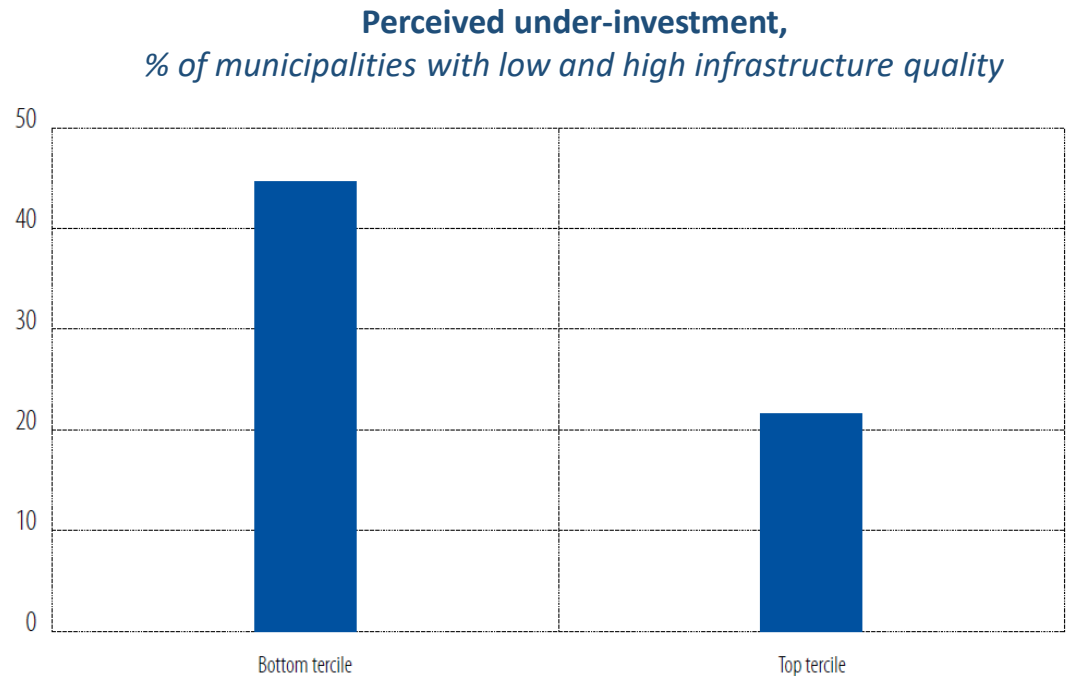
Source: EIB Municipalities Survey 2017.

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Source: EIB Municipalities Survey 2017.

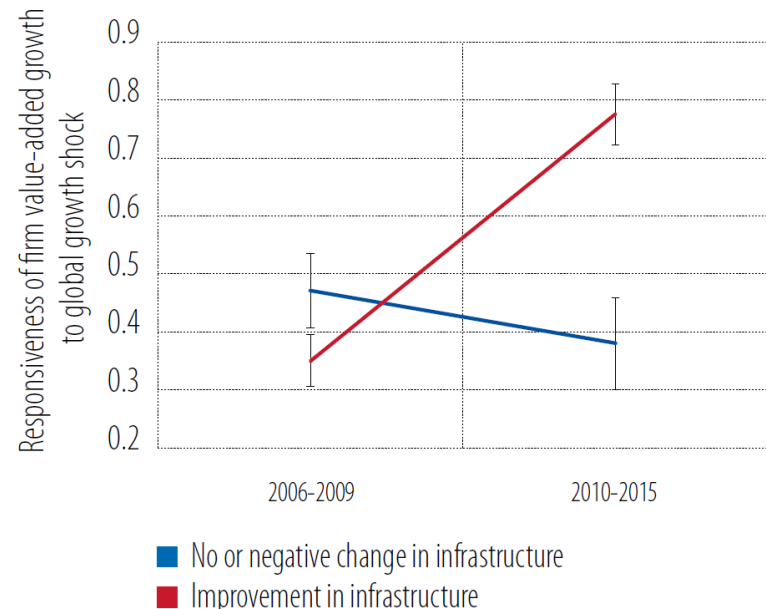
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Transport Infrastructure stock and efficient allocation of resources in the light of global growth shocks



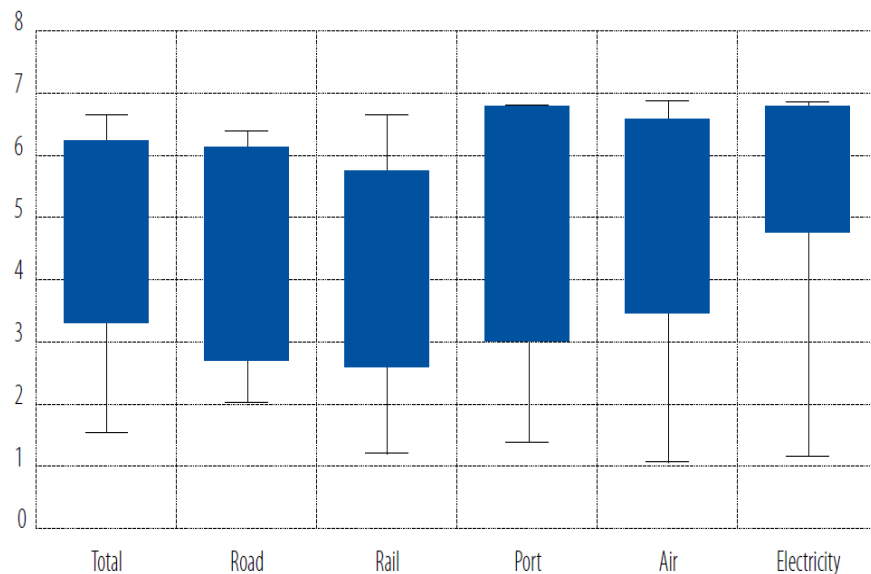
Source: Bureau van Dijk's ORBIS database, comprising about 100 000 firms per year in 236 European regions (NUTS-2) in the years 2005-15; (ii) Eurostat data on the level of infrastructure in the same 236 European; US industry growth data at NACE2 two-digit level coming from the EU KLEMS database.

3. The Local Context Matters

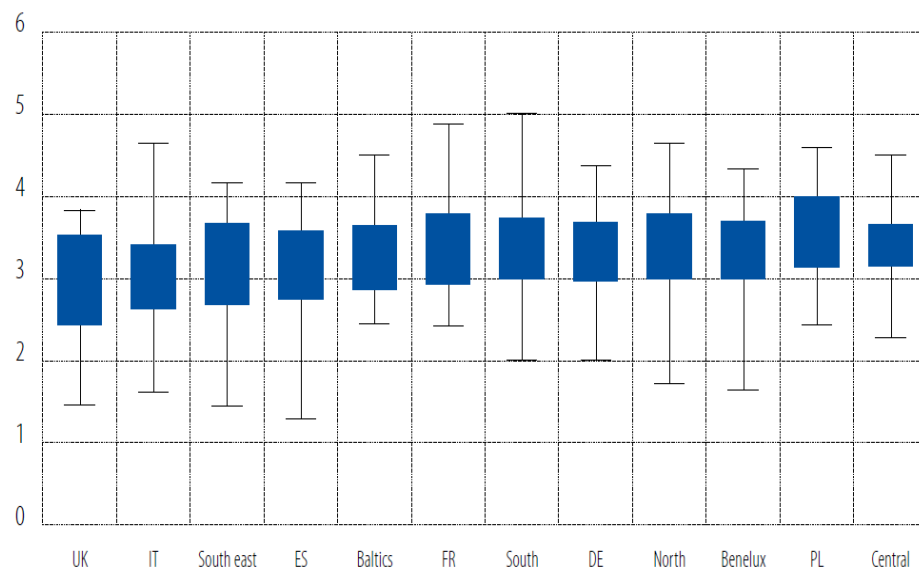


The dispersion of infrastructure quality across countries and regions remains substantial

Infrastructure quality dispersion - country level
Values from 1 (worst) to 7



Infrastructure quality dispersion within countries
Values from 1 (worst) to 5



Source: EIB Municipalities Survey 2017; World Economic Forum.

3. The Local Context Matters



EIB Municipalities Survey - Key facts:

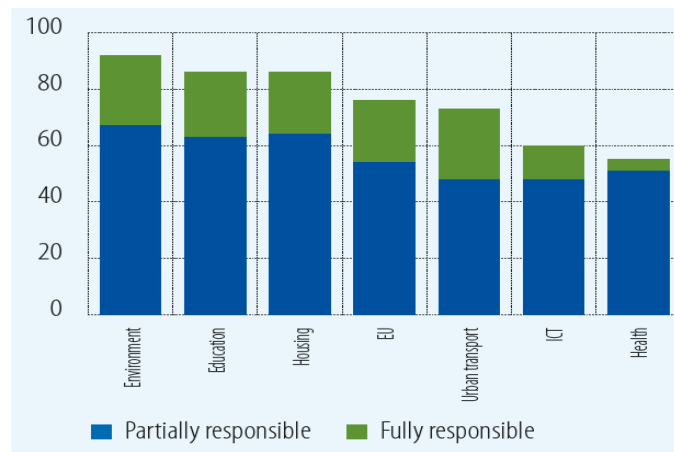
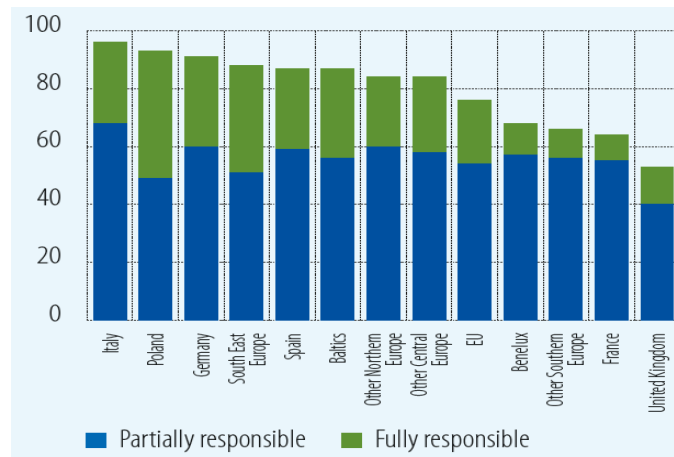
- The EIB Municipalities Survey 2017 was a add-on to EIBIS, which interviews every year 12.500 companies on their investment activities
- 555 municipalities in all 28 Member States were asked about their infrastructure investment activities.
- The focus was on larger municipalities.

EIB Municipalities Survey - Motivation:

- Municipalities account for a big part of investment activities.
- They are well placed to assess infrastructure investment needs, gaps and impediments.



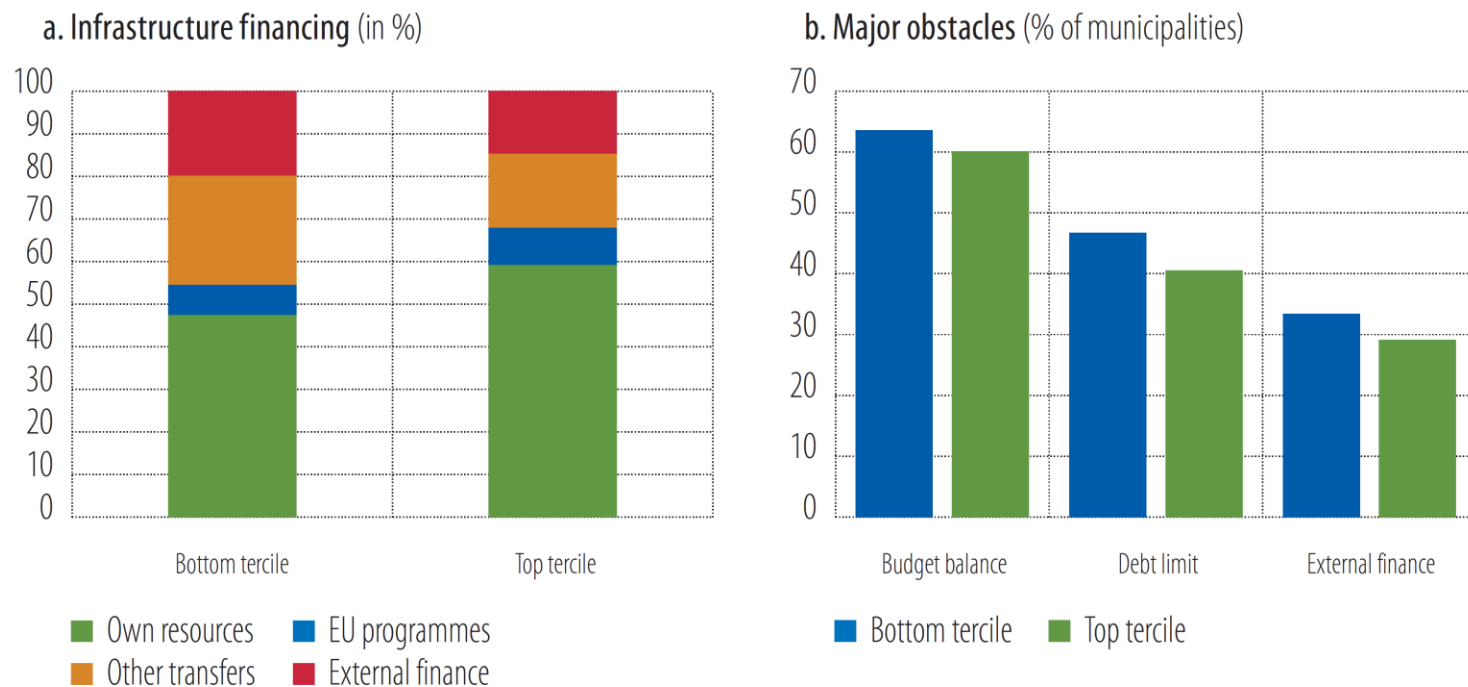
Municipalities' responsibility for infrastructure investment Share of municipalities, in %



3. The Local Context Matters



Municipalities with low infrastructure quality suffer from financing constraints



Source: EIB Municipalities Survey 2017.

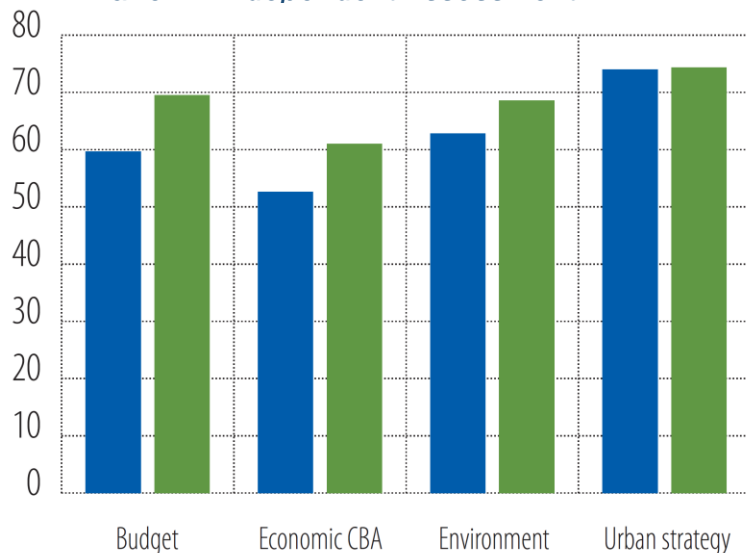
3. The Local Context Matters



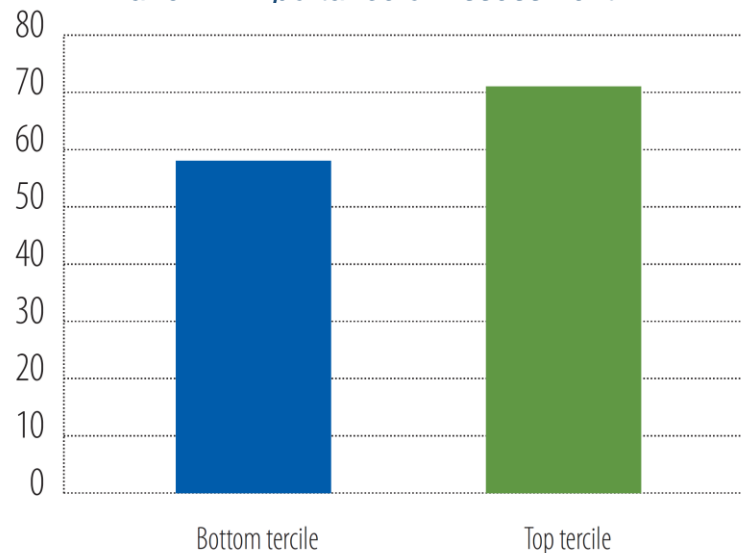
Infrastructure governance and quality go hand in hand: 43% of municipalities with poor infrastructure say technical capacity is a major obstacle

Independent Assessment of projects and infrastructure quality

Panel A: Independent Assessment



Panel B: Importance of Assessment



■ Bottom tercile ■ Top tercile

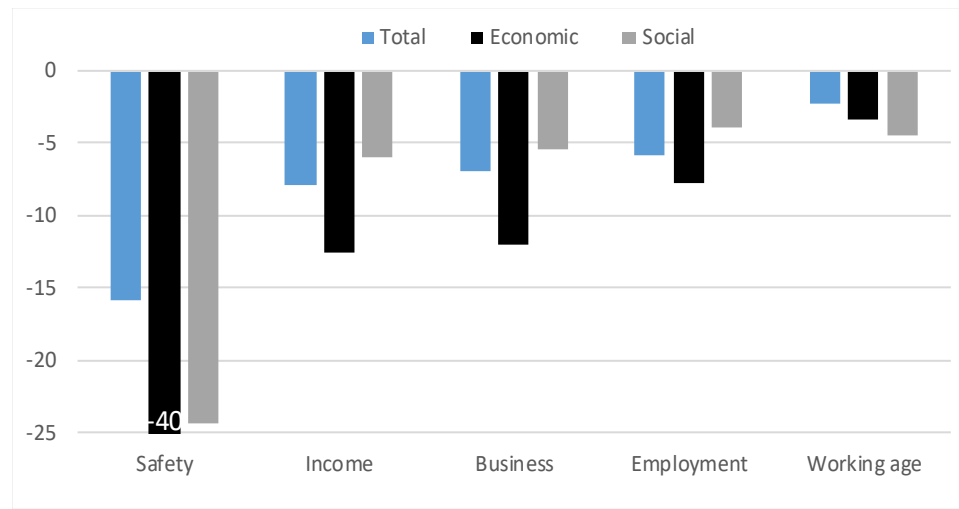
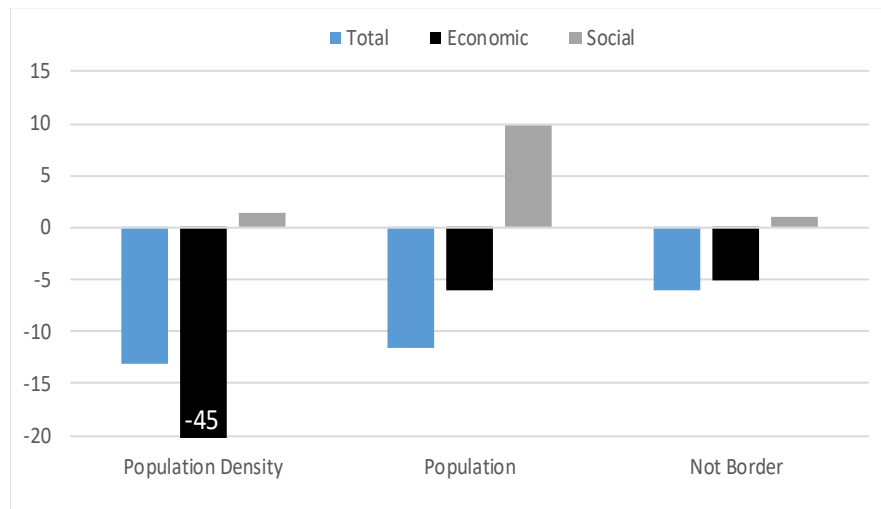
Source: EIB Municipalities Survey 2017.

3. The Local Context Matters



Socio-economic challenges weigh on infrastructure quality convergence

Percentage point difference, municipalities with low and high infrastructure quality, evaluated at country mean



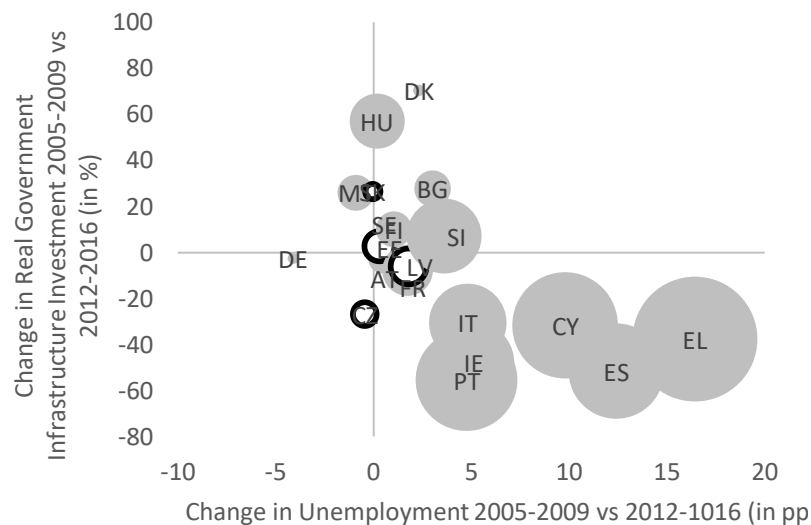
Source: EIB Municipalities Survey 2017; Eurostat.

4. Investment seems discouraged?



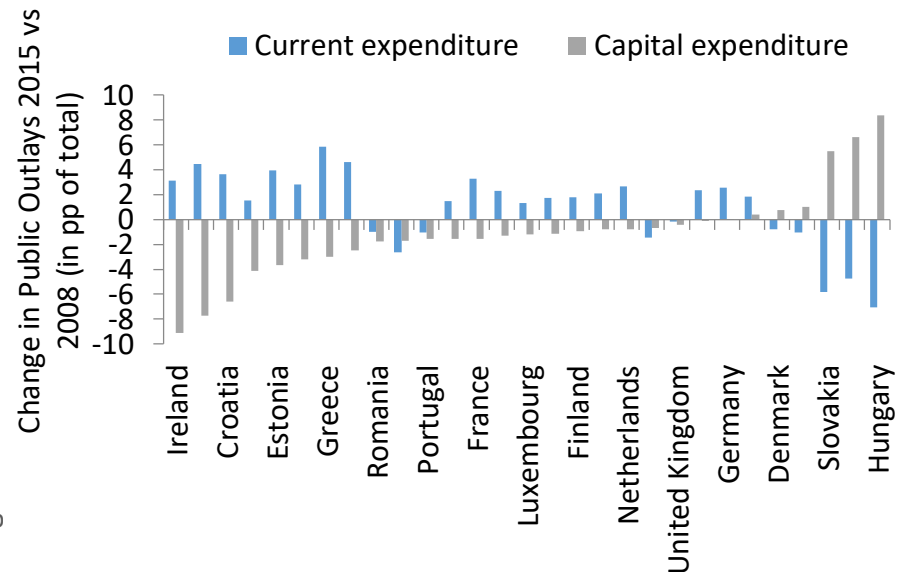
Government sector: A tight fiscal stance forced governments to make ‘tough’ choices.

Investment vs fiscal stance



The larger the bubble size, the greater the downgrade in sovereign rating. The black circles indicate rating upgrades. To calculate rating scores, sovereign ratings from S&P, Moody's and Fitch were used and converted into numerical values. Source: Eurostat, Projectware, EPEC for government infrastructure investment, Eurostat for unemployment figures and EIB for rating changes.

Shift in budget allocation



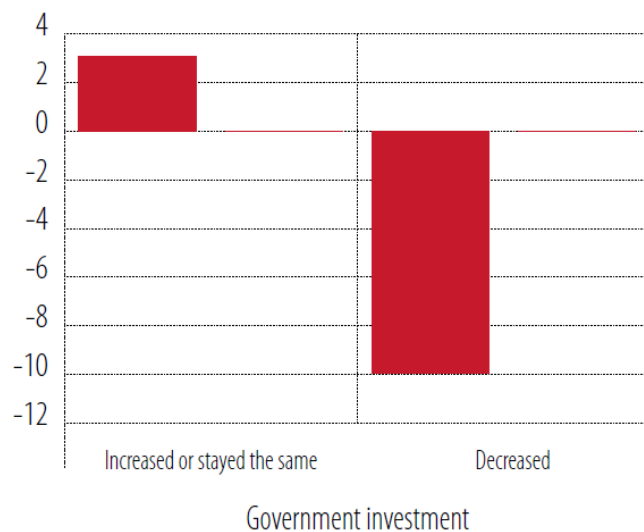
Source: Eurostat.

4. Investment seems discouraged?

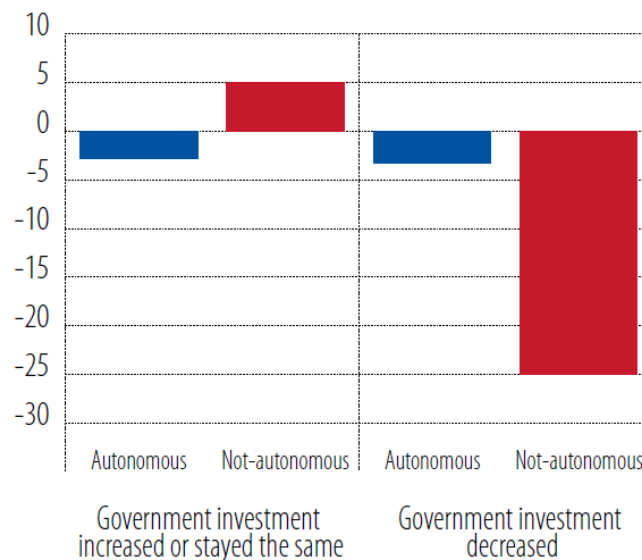


Government sector: A tight fiscal stance forced governments to make ‘tough’ choice, with investment activities by sub-national governments most negatively affected.

a. Change in subnational investment share (in %)



b. Change in subnational investment share by fiscal autonomy (in %)



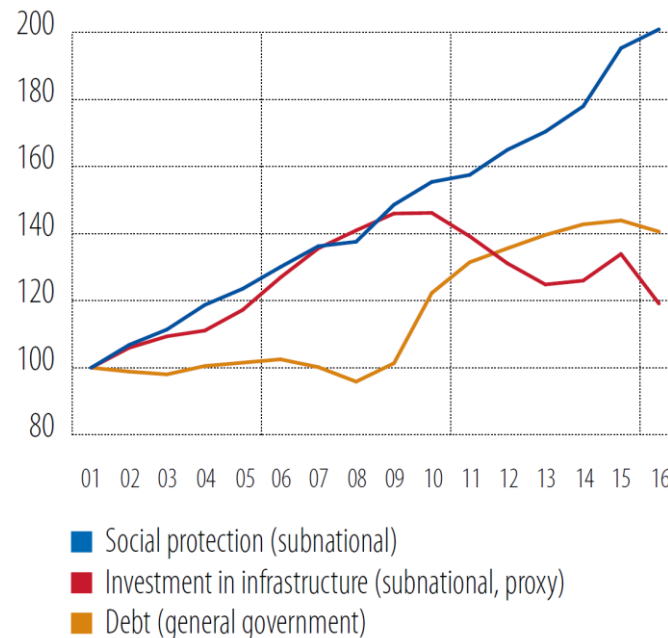
Source: Eurostat, Projectware, EPEC (for infrastructure investment) and Eurostat for subnational government investment in infrastructure sectors. Fiscal autonomy data comes from Hooghe et al. (2018).

4. Investment seems discouraged?



Does social spending crowd out infrastructure investment of municipalities?

In real terms, Index 2001=100



Spending on social protection by subnational governments is deflated by the GDP deflator. Investment in infrastructure is deflated by the GFCF deflator. Debt is expressed in per cent of GDP. Infrastructure investment refers to gross fixed capital formation in other buildings and infrastructure for economic affairs, health, education and environment by local and state governments.

Source: Eurostat; EIB calculations.

Key messages



- Infrastructure investment continued its downward trend in 2016, with no marked reversal in 2017 (75% of its pre-crisis level).
- Municipalities in rural regions report more often infrastructure gaps.
- Municipalities with low infrastructure quality suffer more often from financing constraints, capacity constraints and other socio-economic challenges, while reporting also more often infrastructure gaps.
- To ensure funds are used effectively, sound project selection, preparation and implementation are key.
- Regions with poor infrastructure quality require different policy response from those with good quality infrastructure.
- EIB instruments and next EU Multiannual Financial Framework represent an opportunity to address infrastructure gaps through a mix of complementary policies accounting for the local context.





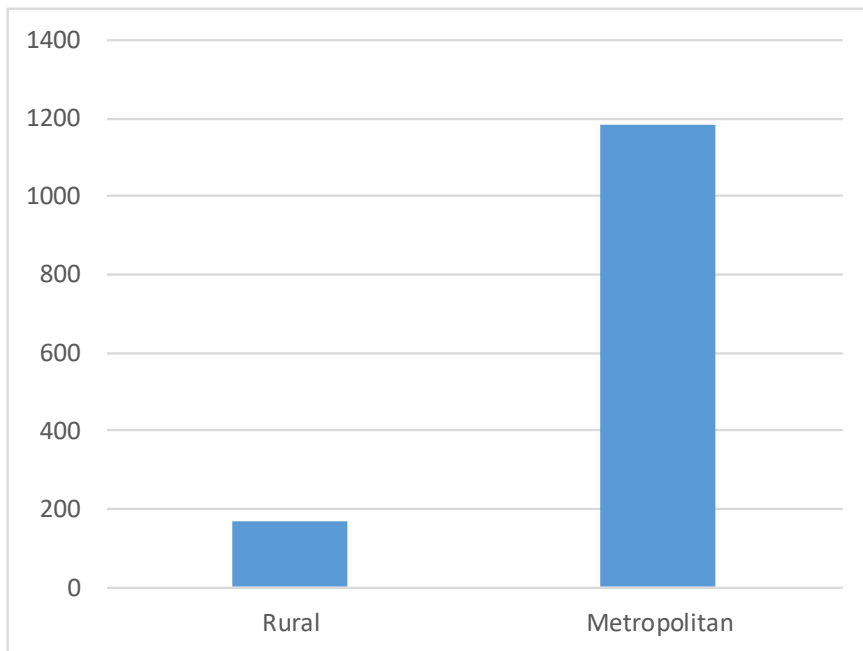
5. EIB Municipalities Survey and Rural Municipalities

5. Rural Municipalities

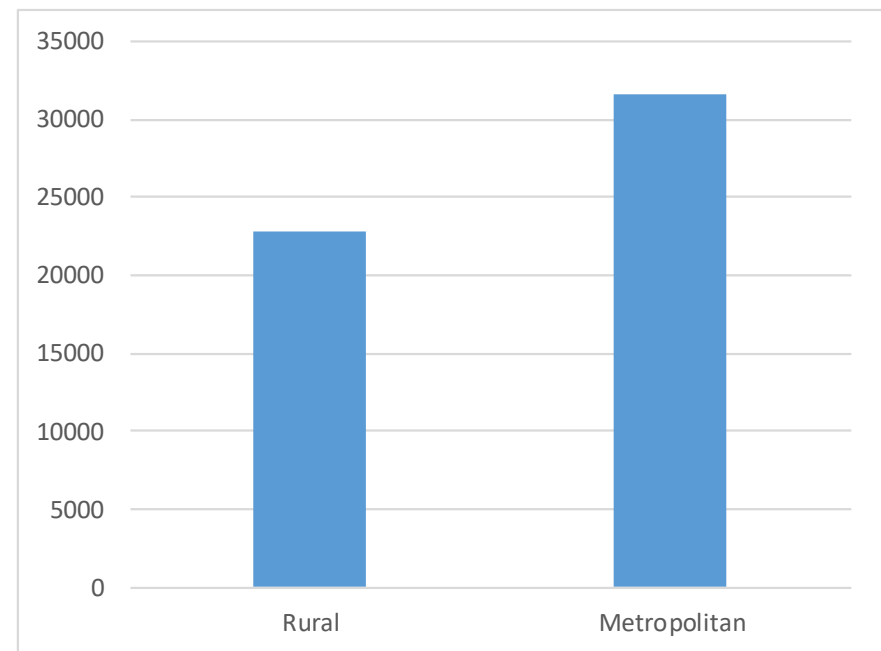


Rural Municipalities characterized by lower population density and GDP per capita

Population density
per square kilometre



GDP per capita
In Euro



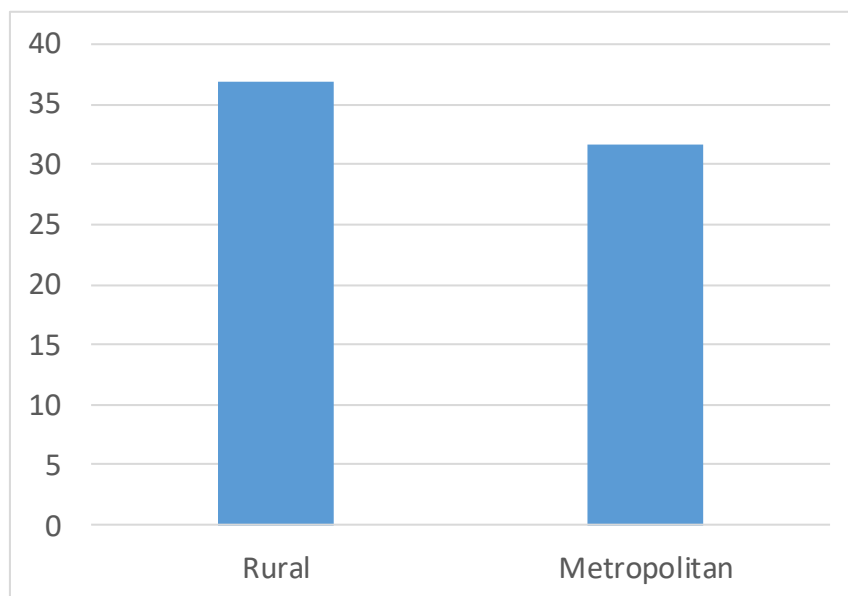
Source: EIB Municipalities Survey, Eurostat.

5. Rural Municipalities

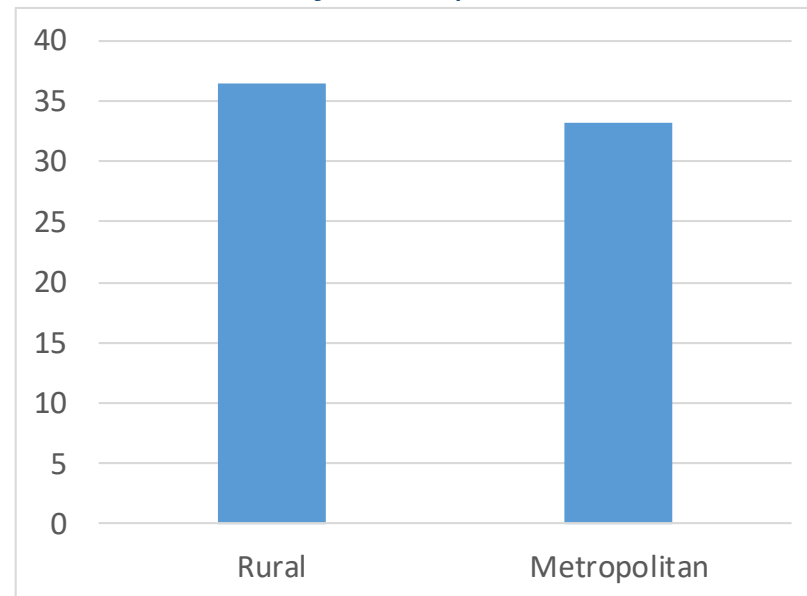


Rural Municipalities report more often infrastructure deficiencies

Poor Perceived Infrastructure Quality
% of municipalities



Perceived infrastructure Underinvestment
% of municipalities



Question: Low (high) quality refers to the third of municipalities reporting the lowest (highest) average score across infrastructure sectors (weighted by the importance of the sector in terms of subnational gross fixed capital formation) in response to the following question: How would you assess the quality of infrastructure in each of these areas in your municipality on a scale of 1 to 5, where 1 means it is completely outdated and 5 means it is up to latest international standards?

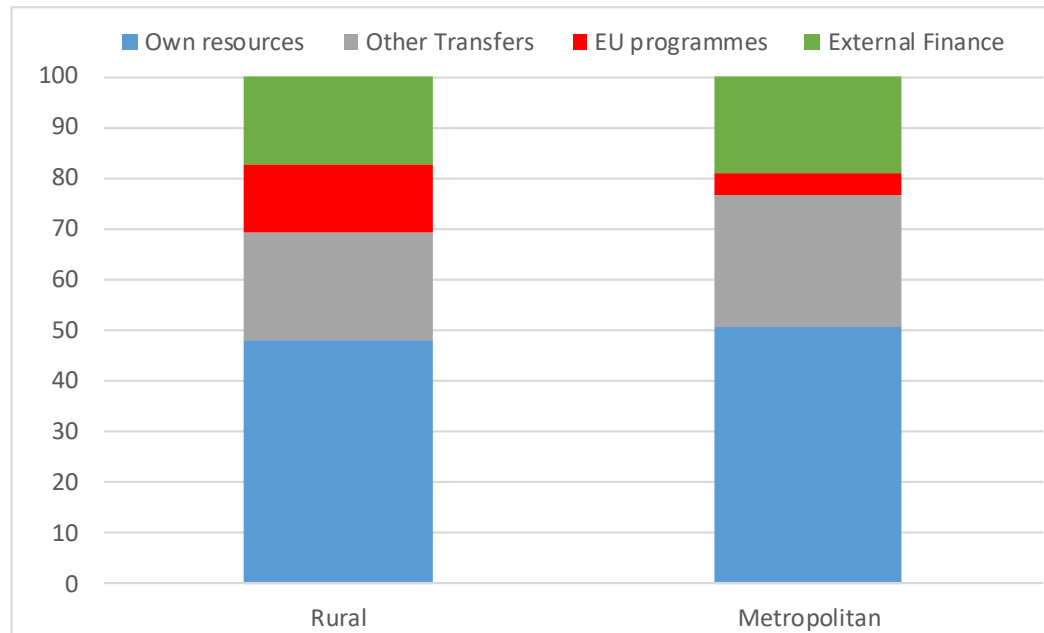
Question: For each of the following, would you say that, overall, past investment in your municipality has ensured the right amount of infrastructure, or led to an under provision or over provision of infrastructure capacity.

Source: EIB Municipality Survey, Eurostat.

5. Rural Municipalities



Financing of Infrastructure *% of total financing*



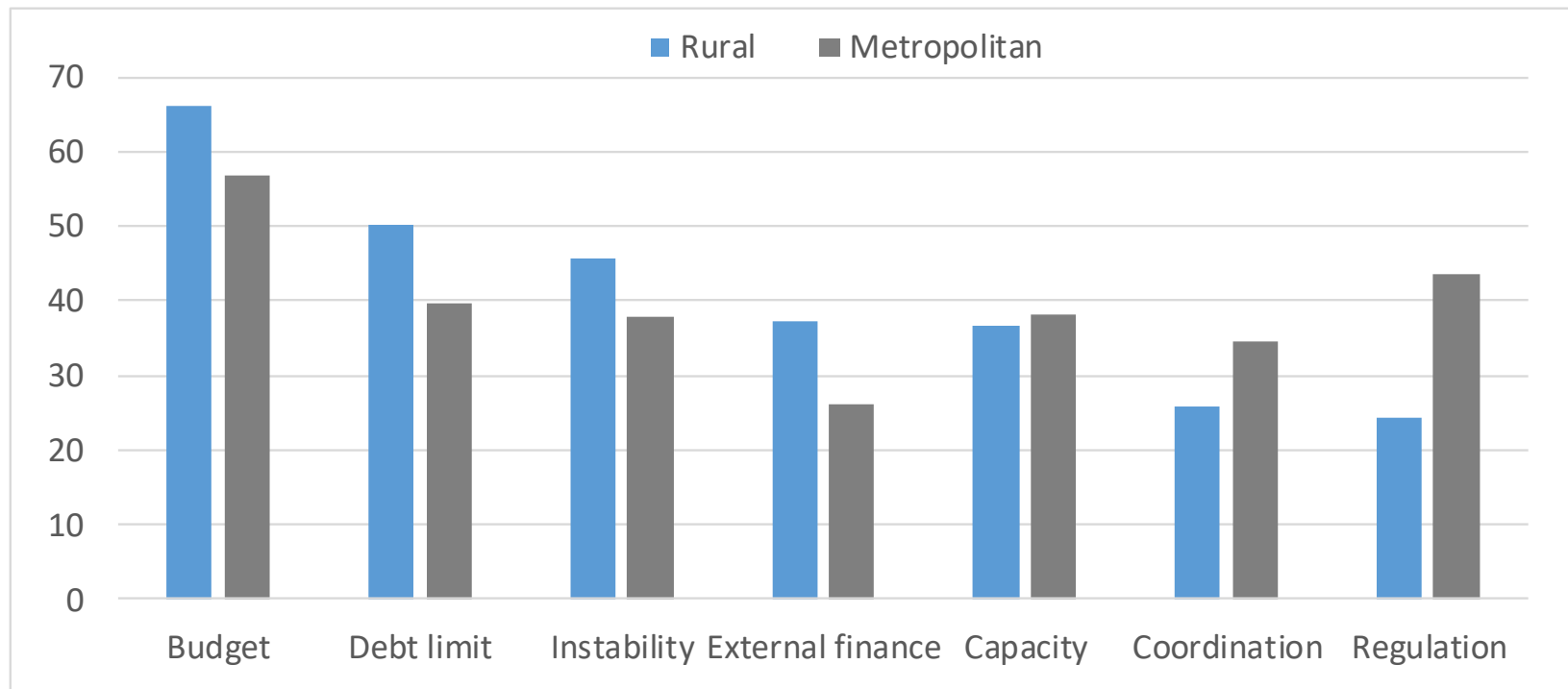
Question: Can you tell me approximately what proportion of your infrastructure investment activities in [...] were financed by each of the following...?

Source: EIB Municipality Survey, Eurostat.

5. Rural Municipalities



Major Obstacles to Infrastructure Investment *% of municipality*



Question: To what extent is each of the following an obstacle to the implementation of your infrastructure investment activities? Is a major obstacle, a minor obstacle or not an obstacle at all? (1) Balance between revenues and operating expenditure; (2) Limit on amount of debt the municipality can borrow; (3) Access to external finance (excluding funding from other government bodies); (4) Technical capacity to plan and implement infrastructure projects; (5) Co-ordination between regional and national policy priorities (including among municipalities); (6) Length of regulatory process to approve a project; (7) Political and regulatory stability.

Source: EIB Municipality Survey, Eurostat.

The EIB and the EU Cohesion Policy



Table 2 - EIB Group activities relating to EU Cohesion Policy

Activity	2007-13 programming period	2014-20 programming period
(B)lending	Direct Loans	
	Intermediated Loans	
	Framework Loans (including SPLs)	
	Global Loans	Integrated within Intermediated Loans
Advising	Ad-hoc advice and support for MAs, regional, national and EU institutions	
	Technical expertise for EU Regulations, Acts and Guidance	
	Lending specific TA	
	Jaspers (EIB)	
	Jasmine (EIF)	fi-compass (EIB)
	Jeremie (EIF)	
	Jessica (EIB)	
Mandate management	Holding fund managers for urban development (EIB)	
	Holding fund managers for enterprises (EIF)	
		Implementing EU-level instruments(SME initiative)

Rural Municipalities - Key Messages



- Rural Municipalities
 - report more often investment gaps
 - receive more often EU funding
 - report more often obstacles to infrastructure investment
 - have scope to improve impact assessment
- Many rural municipalities seem to among the disadvantaged regions identified in chapter 2 of the EIB Investment Report 2018/2019.
 - To ensure funds are used effectively, sound project selection, preparation and implementation are key.
 - EIB instruments and next EU Multiannual Financial Framework represent an opportunity to address infrastructure gaps through a mix of complementary policies accounting for the local context.





financial instruments capacity building Farming
Rural development funding agreement EU guidance
added technical support co-financing ex-ante assessment final
value seminars governance intermediaries recipients
leverage EAFRD fi-compass investments
Agriculture case studies
business plan thematic objectives Targeted coaching
advisory services Thank you equity
RDP guarantees private investors
conferences banks revolving combination
fund of funds loans microfinance CAP of support
DG AGRI manuals managing authorities factsheets
Agricultural products investment strategy EIB Group