

**FOR
DISCUSSION**

EUROPEAN FUND FOR STRATEGIC INVESTMENTS

STEERING BOARD

**Study in response to ECA Recommendation 5:
Improving the geographical spread of
EFSI supported investment**

Questions concerning this note should be referred to
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EFSI supported investment

July 2019

European Investment Bank and
European Commission

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I. Introduction

In its EFSI performance audit report, the European Court of Auditors (ECA) assesses whether EFSI has been effective in supporting investment in the EU.¹ Among other observations, the ECA states that “EFSI financing is not adequately spread” across EU Member States, and issues a recommendation to the European Commission (EC) and the European Investment Bank (EIB) “to improve its geographical spread.” In particular, the ECA requests the EFSI Steering Board to “assess the root causes of the observed geographical spread” and to recommend possible actions to be taken in this regard in the remaining EFSI implementation period. The Commission and the EIB accepted this recommendation.

The present study, in response to the ECA recommendation, reviews:

- the EFSI geographical spread (over a longer timeframe than the ECA audit)²
- the economic and investment context
- actions taken so far in order to take stock and seek possible ways to further improve the geographical distribution of EFSI investment.

European Fund for Strategic Investments (EFSI)

In November 2014, the Commission launched the Investment Plan for Europe. The implementation of its financing pillar, the European Fund for Strategic Investments (EFSI), was entrusted to the EIB. EFSI, functioning as a portfolio guarantee provided by the EU budget, increased the EIB risk-bearing capacity, thereby promoting investment for projects in key economic areas in the EU. EFSI had an initial investment target of EUR 315bn to be mobilised within three years i.e. by July 2018, which was exceeded (in terms of approvals) by EUR 20bn. EFSI was extended in 2017 (EFSI 2.0) with an increased target of at least EUR 500bn of investments to be mobilised by end-2020. EFSI 2.0 reinforced three important issues: additionality, geographical balance and transparency.

EFSI Geographical Scope and Concentration Limit

The EU guarantee enables EIB to expand its portfolio of higher risk projects. In accordance with the EFSI Regulation, the EU guarantee shall be granted for the benefit of operations carried out in the EU, or involving entities located or established in one or more Member States and extending to one or more third countries (Article 8(b)).³ The EFSI Regulation (Article 5) also stipulates that “projects that carry a risk corresponding to EIB Special Activities, especially if facing country- or region-specific risks, in particular those experienced in less developed and transition regions” present strong indications of additionality.

As an EU-wide initiative, ensuring a balanced geographical distribution of EFSI activity has always been pursued. The EFSI Investment Guidelines (Annex II of the EFSI Regulation) provide that best

¹ European Court of Auditors (ECA), Special Report 03/2019 “European Fund for Strategic Investments: Action needed to make EFSI a full success” (January 2019),

https://www.eca.europa.eu/Lists/ECADocuments/SR19_03/SR_EFSI_EN.pdf

² The ECA audit covers EFSI from its launch in 2015 until July 2018, focusing primarily on the IIW, including a portfolio analysis of EFSI operations signed by 31 December 2017. The geographic distribution of EFSI support (and related limits) is analysed on the basis of operations signed by 30 June 2018.

³ EFSI Regulation (amended December 2017), <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2396&from=en>

efforts shall be made to ensure that at the end of the investment period a wide range of sectors and regions is covered and excessive sectorial or geographical concentration is avoided. Apart from the political rationale, avoiding risk concentration of a portfolio is also justified from a financial management perspective.

The EFSI Strategic Orientation established indicative geographical diversification and concentration limits for the EFSI Infrastructure and Innovation Window (IIW, managed by the EIB).⁴ In order to avoid EFSI supported operations from being concentrated in any specific territory:

- i. At the end of the investment period,⁵ the EFSI should aim to cover all EU Member States;
- ii. At the end of the investment period, the share of investment in any three Member States together (measured by signed loans/investment amounts) should not exceed 45% of the total EFSI portfolio.

While the decision to support an operation shall be based on the quality of the operation itself, the macro-economic environment where the project is taking place shall also be considered. In this regard, the EFSI Investment Committee, deciding on the granting of the EU guarantee on an operation by operation basis, is provided with macro-economic information on the Member State and sector where the investments proposed will take place.

The geographical distribution of EFSI activity is subject to continuous monitoring. The EFSI Steering Board monitors closely the evolution of the EFSI portfolio with regard to geographical distribution and related indicative limits. The EFSI Investment Committee is also regularly informed about these aspects. The geographical distribution of EFSI (first Key Monitoring Indicator) is covered by semi-annual KPIs/KMIs reports prepared by the EIB, providing breakdowns by Member State and by region.⁶ By Q1 2019, EFSI support had reached all Member States and the three largest beneficiaries accounted for 47% of signatures and 44% of approvals under the IIW.

ECA's Performance Audit of EFSI

The European Court of Auditors (ECA) is responsible for the external audit of EFSI (in accordance with Article 287 of the TFEU). A performance audit was launched in March 2017 and the final report by ECA was published in January 2019 (with cut-off-date June 2018⁷ and July 2018 for the investment-mobilised target). Publication of the ECA audit followed two EC-commissioned independent evaluations and two evaluations by the independent EIB Evaluation Department.⁸

The ECA's audit objective was to assess "whether EFSI was effective in raising finance to support additional investment within the whole EU". In particular, the ECA examined whether (a) the EIB

⁴ Reviewed EFSI Strategic Orientation (January 2019),

https://www.eib.org/attachments/strategies/efsi_steering_board_efsi_strategic_orientation_en.pdf

⁵ The target of EUR 500bn of investments is linked to operations approved or signed within the investment period (end-2020 for approvals and end-2022 for signatures).

⁶ See updated analysis in the EIB's annual Reports on EFSI to the European Parliament and the Council, publicly available on the EFSI Steering Board page (e.g. 2017 Report, http://www.eib.org/attachments/strategies/efsi_2017_report_ep_council_en.pdf).

⁷ See footnote 2.

⁸ https://ec.europa.eu/commission/sites/beta-political/files/ey-report-on-efsi_en.pdf
<https://www.eib.org/en/infocentre/publications/all/evaluation-of-the-functioning-of-the-efsi.htm>
https://ec.europa.eu/info/sites/info/files/economy-finance/efsi_evaluation_-_final_report.pdf
<https://www.eib.org/en/infocentre/publications/all/evaluation-of-the-efsi.htm>

provided the expected level of higher-risk financing by July 2018; (b) EFSI replaced other EIB and EU financing operations; (c) investment projects could have been financed in the EFSI implementation period with other public or private funds; (d) reported estimates of investments mobilised by EFSI were realistic in terms of their impact on the real economy; and finally (e) the EFSI investment portfolio was suitably balanced in terms of relevant EU policy areas and geographic concentration.

The ECA audit report issued five recommendations –for the Commission, for the EIB or jointly for both– in areas it considered the implementation of EFSI should still improve. Three of these recommendations were considered addressed by EFSI 2.0 or otherwise by actions presented to the ECA. Only two recommendations are still outstanding: Recommendation 1 - “Promoting the justified use of higher-risk EIB products under EFSI” and Recommendation 5 - “Improving the geographical spread of EFSI” (assessing the root causes). The latter recommendation is addressed both to the EIB and to the Commission.

ECA Audit Recommendation 5

While recognising that EFSI is demand driven, the ECA stated that “the geographic concentration of EFSI signed financing operations was not sufficiently balanced, mostly ending up in a few of the larger EU 15 Member States”. ECA observed that, as at 30 June 2018, financing under the IIW was concentrated (47%) in three Member States, thus exceeding the IIW geographical concentration limit of 45% in any three Member States as set in the EFSI Strategic Orientation. Even though there are no concentration limits set for the SMEW, ECA noted that the same three Member States accounted for 30% of SMEW financing. While acknowledging that EFSI financing had addressed investment needs in some of the most crisis-hit countries such as Italy, Spain, Greece and Portugal, the ECA noted that that EFSI financing “mostly ended up in the EU 15 countries, in absolute amounts and per capita” with the EU 13 receiving less EFSI support per capita. ECA did not include an analysis of EFSI financing by GDP share, although it reckoned that the average GDP per capita in EU 13 is significantly lower than the EU 15 average.

ECA concluded that “action needed to be taken to improve the geographic spread of EFSI supported investment”. In Recommendation 5 “Improving the geographical spread of EFSI supported investment”, ECA recommends that the Commission and EIB, through the Steering Board, “assess the root causes of the observed geographical spread and provide recommendations for actions to be taken in the remaining EFSI implementation period. The EFSI Steering Board should assess the effect of the measures taken”.

The EC and the EIB accepted the recommendation. The EFSI Steering Board, in its meeting of 8 April 2019, requested an assessment of the root causes of the observed geographical spread of EFSI to be presented to it by July 2019. The Steering Board shall, as appropriate, on the basis of this assessment, decide on further actions to be implemented until the end of the EFSI investment period to address ECA Recommendation 5.

This study

The study⁹ provides an analysis of the geographical distribution of EFSI activity.¹⁰ Following EFSI 2.0, the study covers EFSI operations by the cut-off of April 2019. This study is organized as follows:

Section II reviews the evidence on geographic concentration. In particular, it provides context for the ECA results by relating the cross-country allocation of EFSI financing to a set of variables that arguably are better proxies for current levels of economic activity and investment demand. With a view to informing the subsequent analysis, it then breaks down EFSI financing by objective. Finally, the section tracks achievement of the indicative geographic concentration limit over time.

Section III provides economic context for the subsequent analysis by characterizing the investment landscape in the Central, Eastern and South-Eastern Europe (CESEE) region before and after the financial crisis. It documents a decline in the speed of economic convergence since the crisis and makes the case for reorienting the growth model towards innovation. Against this background, more EFSI financing could benefit the region by accelerating sustainable long-term economic convergence.

Section IV examines several factors that can affect the geographical allocation of EFSI financing. The Section revisits the role of National Promotional Banks and Institutions (NPBIs) and Investment Platforms identified by the ECA report. For the EU13, the European Structural and Investment Funds (ESIF) are important funding sources, and the section therefore examines the relation between ESIF and EFSI. In addition, it looks at the region's progress towards a more innovation oriented growth model and provide a private sector perspective on investment barriers. Though this study focuses on the IIW, the final part of Section IV examines the allocation of resources under the SME window.

Section V presents actions taken under Pillar 3 of the Investment Plan for Europe to improve the business environment. In particular, Section V discusses the Single Market Strategy, the Capital Markets Union, reform efforts in the context of the European Semester, and the work of the Structural Reform Support Service.

Section VI summarizes actions taken by EIB to obtain a geographically balanced allocation of EFSI financing. The discussion highlights the awareness-raising efforts delivered by the operational departments that are complemented by the capacity building initiatives of the bank's advisory services. Section VI also highlights EIB activities that make the case that for continued economic convergence a stronger capacity for innovation is paramount.

Section VII provides the conclusions.

⁹ The study has been undertaken by the EIB and EC services and has been steered by two external High Level Experts (HLE), - Mr Cristian Popa and Mr Kevin Cardiff, appointed by the EFSI Steering Board.

¹⁰ The study focuses on implementation of the EFSI Innovation and Infrastructure Window (IIW), to which the indicative geographical concentration limit applies, while the sub-section "EFSI SMEW window financing and SME access to finance" presents data from the SME Window.

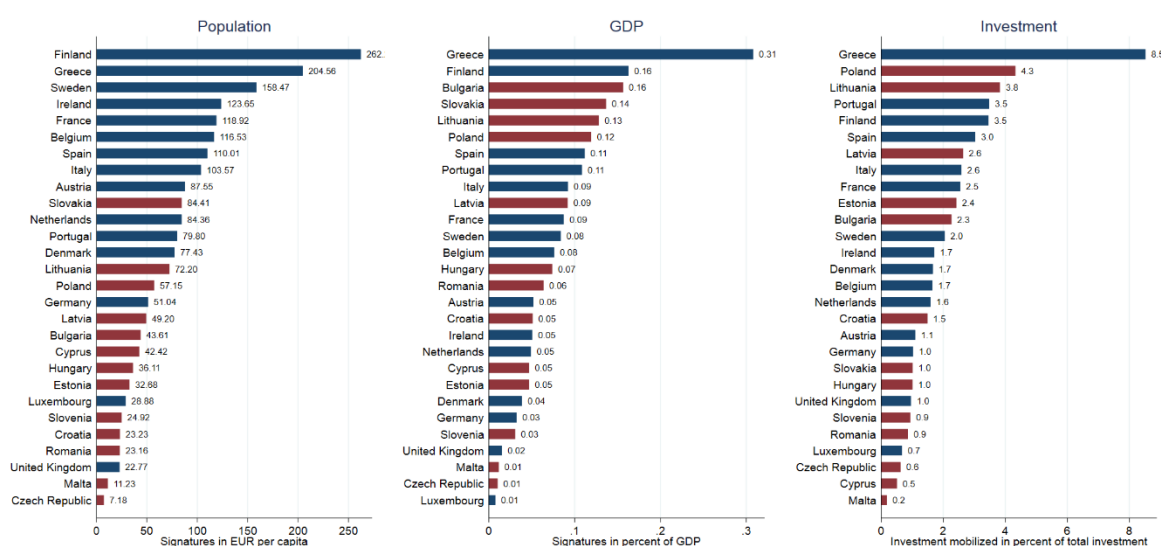
The study draws on data on EFSI implementation and on existing EIB Group and EC research and reports. Many sources refer to the Central Eastern and South-Eastern Europe (CESEE) region. The CESEE region covers the EU13, which is the commonly used label covering the Member States having joined the EU in 2004, 2007 and 2013, with the exception of Malta and Cyprus.

on average both more populous and richer than the EU13 economies. Figure 2 adjusts EFSI activity accordingly. The left-hand-side plot scales EFSI signatures by population. This chart corresponds to Figure 11 in the ECA report, albeit with a cut-off date of Q1 2019. On a per capita basis, France, Italy and Spain are no longer the leading EFSI recipients. They now are Finland, Greece, and Sweden. Still, EU13 Member States receive less EFSI financing per capita than the EU15.

Scaling EFSI financing by population provides insights on long-term investment needs but is less useful as a measure of current investment demand. Analysing EFSI signatures from a long-term, convergence perspective, scaling signatures by a country’s population has some merit. From this perspective, Figure 2 indicates that EU13 Member States do not receive EFSI financing commensurate with their long-term investment needs. At the same time, however, one has to recognise that EFSI is a demand driven instrument and that a country’s population is not a good proxy for current investment demand. Pillar 1 and 2 of the Investment Plan for Europe stimulate investments by alleviating financing constraints. In the short run, one would expect the ability of EFSI to mobilise investment to be stronger in Member States experiencing severe financing constraints, which may not be those with the biggest long-term investment needs. In view of their lower GDP per capita levels, the EU13 are found predominantly in the latter group.

Accounting for economic activity reduces disparities in EFSI financing between the EU13 and the EU15. The chart in the centre adjusts EFSI signatures by GDP. Among the top five countries three belong to the EU13, namely Bulgaria, Slovakia, and Lithuania. A similar picture emerges once EFSI investment mobilised is scaled by total gross fixed capital formation (GFCF). Two EU13 countries, Poland and Lithuania, are among the top five beneficiaries. Once economic activity is taken into account, EFSI financing is no longer concentrated in France, Italy, and Spain. Instead, Greece is the largest EFSI recipient by a significant margin. More generally, controlling for economic activity significantly lowers cross-country heterogeneity in EFSI financing.

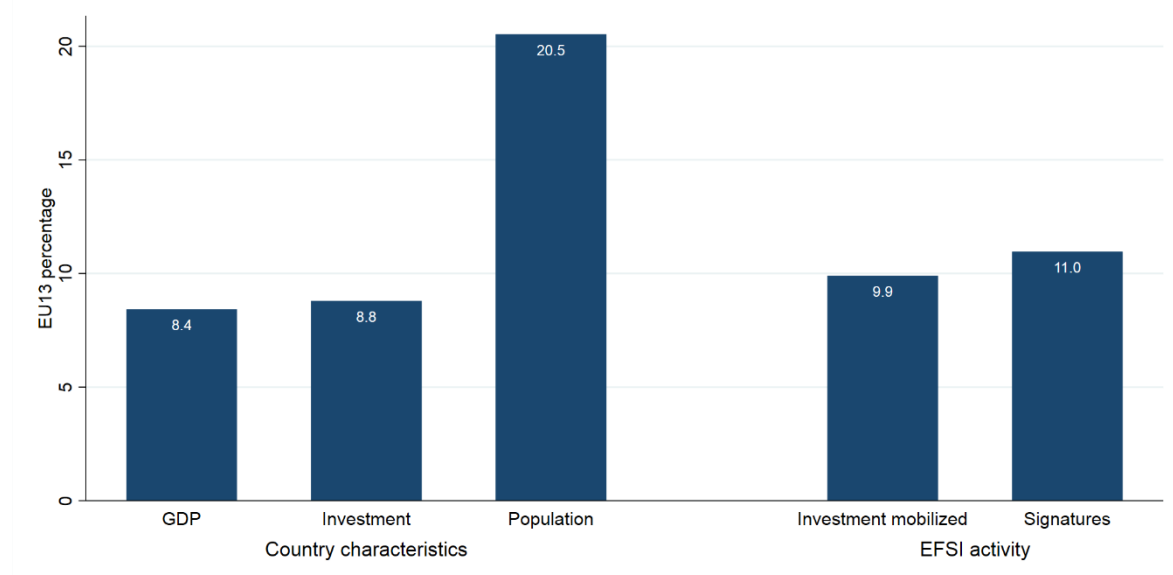
Figure 2: EFSI IIV signatures scaled by population, GDP and investment, as of Q1 2019



Source: EIB, AMECO, EIB calculations.
 Note: GDP and Gross Fixed Capital Formation correspond to the EFSI investment period (2015–2018). Population refers to 2015. Multi-country operations not considered.

Although the share of financing obtained by the EU13 exceeds their economic weight in the Union more financing may contribute to sustainable long-term economic convergence. Figure 3 compares the percentage of EFSI activity in the EU13 to their economic and demographic weight in the Union. In economic terms, the EU13 are small. They account for 8.4% of GDP and 8.8% of investment in the EU. At 20.5%, their share of the population is much bigger. This difference is driving the perceived geographic imbalance, and it reflects differences in GDP per capita. The share of financing obtained by the EU13 is above what could be expected given their economic weight in the Union. At 11%, their share of EFSI signatures exceeds their 8.4% share of GDP and their 9.9% share in total investment mobilised exceeds their 8.8% share of GFCF.¹¹ This perspective, however, does not take into account the lower GDP per capita levels still prevailing in the EU13. Arguably, more EFSI financing could support the long-term sustainable convergence of living standards within the Union.

Figure 3: EU13 economies and EFSI activity

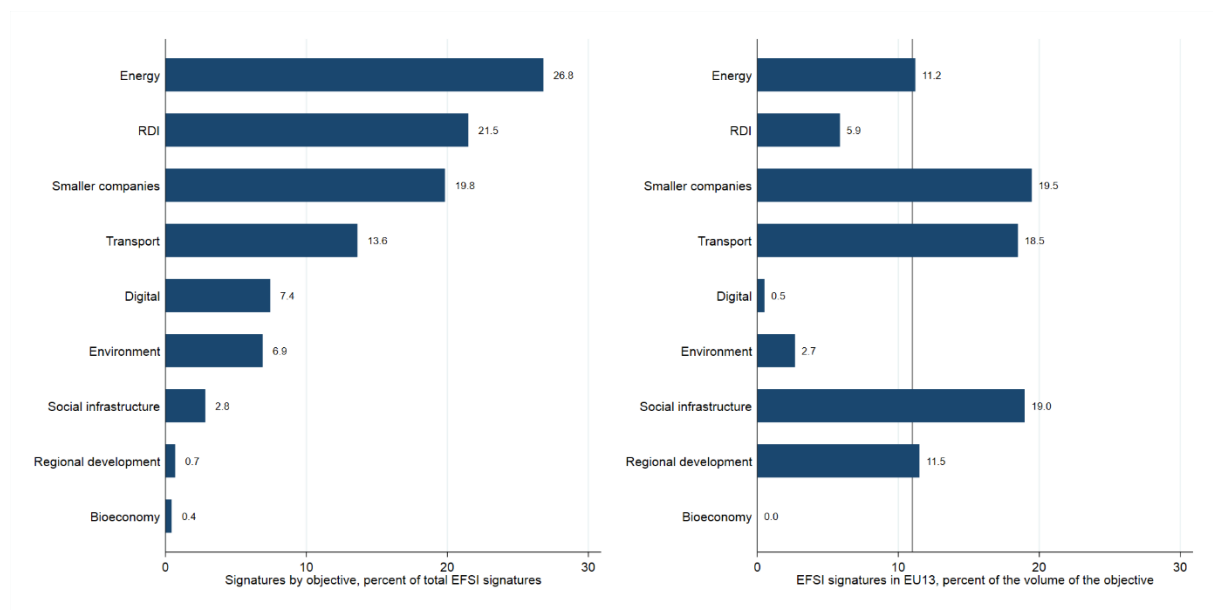


Source: EIB, AMECO, EIB calculations.

Note: GDP and Gross Fixed Capital Formation correspond to the EFSI investment period. Population refers to 2015. Multi-country operations not considered.

¹¹ These numbers are based on scaling signatures by nominal GDP. Alternatively, one could use GDP at purchasing power parity.

Figure 4: Breakdown of EFSI financing by objective (left) and share of EU13 signatures by EFSI objective (right)



Source: EIB

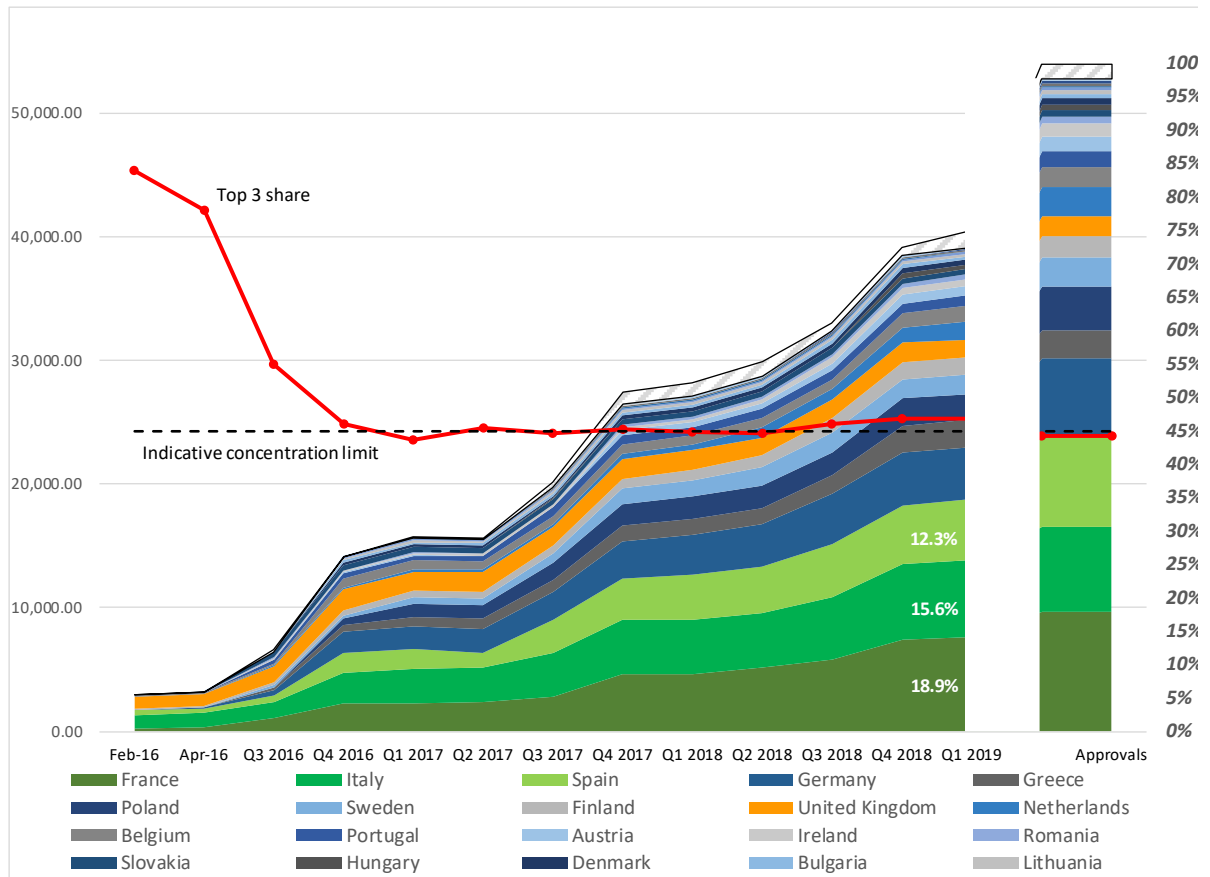
Note: Data refer to the IIW

So far, there has been limited demand for RDI and Digital projects in the EU13. Figure 4 examines EFSI financing conditional on EFSI thematic objective. The chart on the left-hand-side illustrates the prevalence of individual thematic objectives by their share in total signatures. Energy projects account for 26.8% of total signatures, followed by RDI (21.5%) and support to smaller companies (19.8%). The right-hand-side chart shows the relative importance of a given objective in the EU13. The EU13 for instance, account for 11.2% of signatures related to Energy projects. This is close to the EU13 proportion of 11% of overall signatures. This perspective reveals that the EU13 do well in terms of support to smaller companies, transport infrastructure, and social infrastructure. On the other hand, they account for a comparatively small share of digital, environment, bioeconomy and RDI projects. In this regard, a higher share of RDI projects would be especially desirable given the quantitative importance of the RDI objective. This pattern, however, reveals that, as far as EFSI financing captures it, the EU13 have not yet completed the transition to a growth model substantially driven by innovation. See Section IV for further analysis.

EIB is currently exceeding the indicative concentration limit set in the EFSI Strategic Orientation by a small margin. The Strategic Orientation foresees that the share of financing received by the top three Member States under the IIW should not exceed 45% of total signatures. Figure 5 shows the evolution of the top three share over time. The perspective is cumulative such that the Q1 2019 value takes into account all signatures up to the end of Q1 2019. Figure 5 indeed shows a high concentration early in 2016. This was close to the start of the implementation period, when a diversified portfolio had not yet been established. Ever since, however, the top three share has been close to the limit (and below limit at various instances Q1 2017, Q3 2017, Q2 2018 etc). At the end of Q1 2019, the three largest countries accounted for 47% of signatures, slightly exceeding the indicative limit. However, it is important to note that the concentration limit refers to the end of the investment period (2020 for approvals and 2022 for signatures). The share of approved operations currently stands at 44% and it may be expected that, once these operations are signed, the indicative limit will be met by end of the investment period.

It is worthwhile pointing out that the concentration limit tightened by the decision of the UK to withdraw from the Union. The associated decline of EFSI activity in the UK has tightened the constraint as some of what would have been UK business has been absorbed by other large Member States. As Figure 5 shows, the UK was one of the largest recipients of EFSI financing prior to the Brexit referendum, but today is only of minor importance.

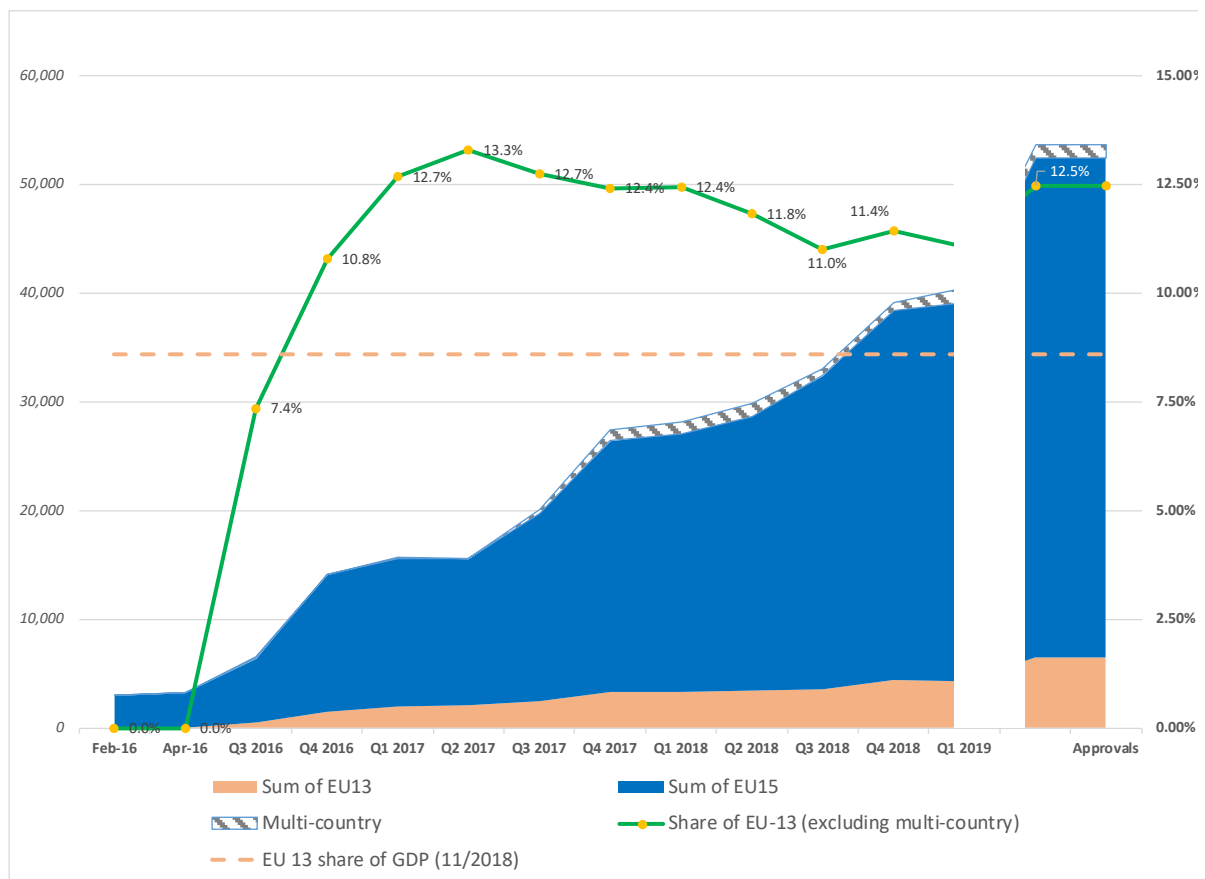
Figure 5: Geographical distribution IIW signatures over time, ordered by current ranking



Source: EIB

Meeting the indicative geographic concentration limit is an ongoing effort. Figure 6 shows how the share of the EU13 signatures has evolved over time. The Figure clearly demonstrates a slow start, with the first signatures coming in during Q3 2016. This was followed by a period of catching up, with signatures peaking at 13.4% of the total in Q2 2017. Since then, the share of signatures has declined to 11% (according to current projections, it shall stabilise). The expansion of eligibility criteria brought about by EFSI 2.0 appears not to have had a significant impact on signatures yet (approvals took off slowly and are progressing in the project cycle). In particular, EFSI 2.0 introduced the ‘regional development’ and the ‘bioeconomy’ objectives. As Figure 4 shows, the regional development objective, which is meant to widen eligibility for projects in cohesion regions otherwise not captured under other objectives, is taking off progressively, by Q1 2019 accounting for 0.7% of total signatures. Achieving wide geographical distribution of EFSI investment also needs to be balanced out with other important EFSI 2.0 goals (e.g. investment mobilised, especially private investment, risk and type of product, and sectoral diversification including the new climate target).

Figure 6: IIW signatures over time - EU15/EU13



Source: EIB

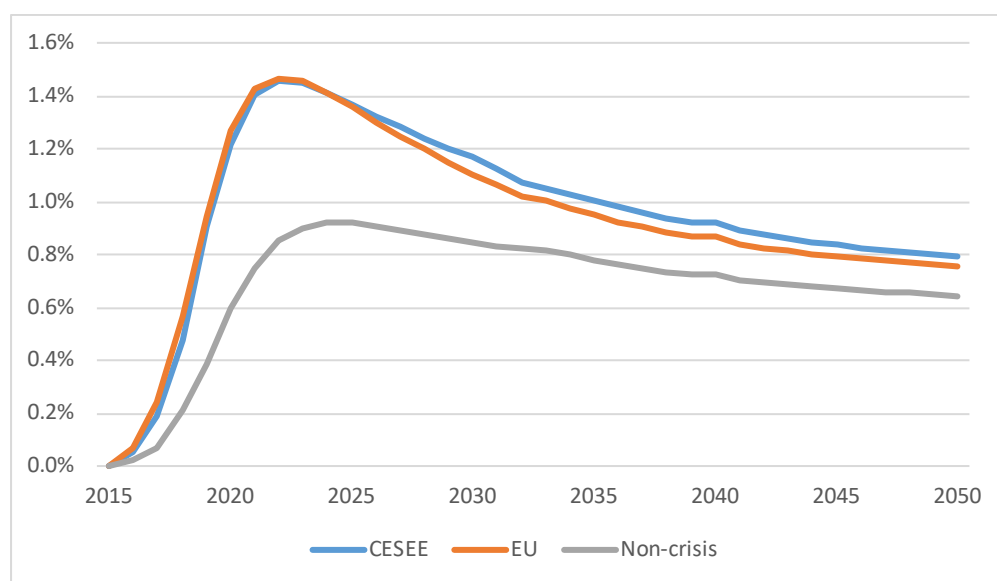
The macroeconomic impact of EFSI

To assess the macroeconomic impact of EFSI operations, the EIB works together with the Joint Research Centre of the European Commission, using a computable general equilibrium model called RHOMOLO-EIB. According to RHOMOLO-EIB, EFSI supported operations in the 2015-mid 2018 period

will create 1.4m jobs and will increase EU GDP by 1.3% by 2020 compared to the baseline scenario. Though the investment impetus wears out in the long-run, the longer-term structural effects such as improved connectivity, increased productivity are expected to have created 800,000 jobs and will have increased EU GDP by 0.9% in 2036. Unsurprisingly, EFSI had its strongest impact on the Member States most severely affected by the crisis.

The EFSI benefits to the Central, Eastern and South-Eastern Europe (CESEE) region are in line with the EU average and compare favourably to countries not affected by the financial crisis. In comparison to non-crisis hit EU countries, the CESEE region benefits to a greater extent in terms of both GDP and job creation. RHOMOLO-EIB estimates the impact of EFSI supported operations at 230,000 jobs and 1.2% of GDP by 2020, of which 180,000 jobs and 1% of CESEE GDP are expected to remain by 2036 (Figure 7).

Figure 7: The macroeconomic impact of EFSI, GDP over baseline in percent



Source: Rhomolo-EIB

III. Economic context: The investment landscape in CESEE

The growth model prevailing prior to the crisis

Economic growth in Central, Eastern and South-Eastern Europe (CESEE) before the crisis was driven chiefly by exports, in turn propelled by low wages, capital inflows and technology transfer.¹² Integration through trade well preceded the actual EU accession. Geographical proximity, reforms and competitiveness helped CESEE firms to integrate quickly into EU supply chains (particularly into the one of the German automotive manufacturing sector), granting indirect access to global markets. This ushered in an era of export-driven growth, particularly of machinery and transport equipment manufacturing. To a certain extent, the CESEE countries have moved up the production value chain,

¹² This section draws heavily on Bubbico et al (2017), Gattini et al (forthcoming) and Vienna Initiative (2019) (see References).

and more and more complex technological processes were assigned to the local subsidiaries of multinational companies.

The labour market situation – the combination of low wages and a skilled labour force – contributed significantly to the export-led growth model. The transition from central planning to market-based economies was initially accompanied by a severe increase in unemployment and inactivity. Deregulation and privatization resulted in significant job shedding. Nevertheless, it facilitated the development of the previously practically non-existent private sector during the times of radical enterprise restructuring. Job shedding, as well as technological and know-how improvements also kept real wages in check. As a result, the relatively skilled labour force of the region became highly competitive relative to the EU15.

Private investment - to a large extent in the form of foreign direct investment - flourished in most CESEE countries, supporting productivity growth. Investment was largely fuelled by the economic and political transition, the prospect of EU and NATO accession, and financial deepening. Large-scale private greenfield investments helped build up and modernise the capital stock in the CESEE countries, and facilitated rapid export growth. In addition, foreign direct investment also enabled the implementation of new technology and know-how, thereby supporting the rapid increase of total factor productivity (TFP).

As the convergence process continued, an increasing share of capital inflows was intermediated by the banking sector. In many countries of the region, large international banking groups acquired majority ownership of the banking sector. To take advantage of lending and profit opportunities in these new markets, intra-group funding was channelled to the CESEE subsidiaries, funding foreign currency lending, and pushing loan-to-deposit ratios well above 100% by the late 2000s. In the run-up to the crisis, capital inflows intermediated by the banking sector have been increasingly used to finance private consumption,¹³ property development and housing loans, rather than productivity-enhancing investments centred on the tradables sector.¹⁴

The pre-crisis growth model came hand-in-hand with high level of external imbalances in most countries of the region. The flipside of large-scale capital inflows were substantial current account deficits. By the time of the crisis, growth was driven largely by external borrowing for consumption and construction, and became increasingly unsustainable.

¹³ The motive was to smooth consumption over time, based on optimistic assumptions about future incomes.

¹⁴ At the same time, productivity growth in the tradable sector outpaced that in the non-tradable sector. The need to offer competitive wages in the non-tradable sector put upward pressure on the price level, known as the Balassa-Samuelson effect.

The need to reorient the region's growth model

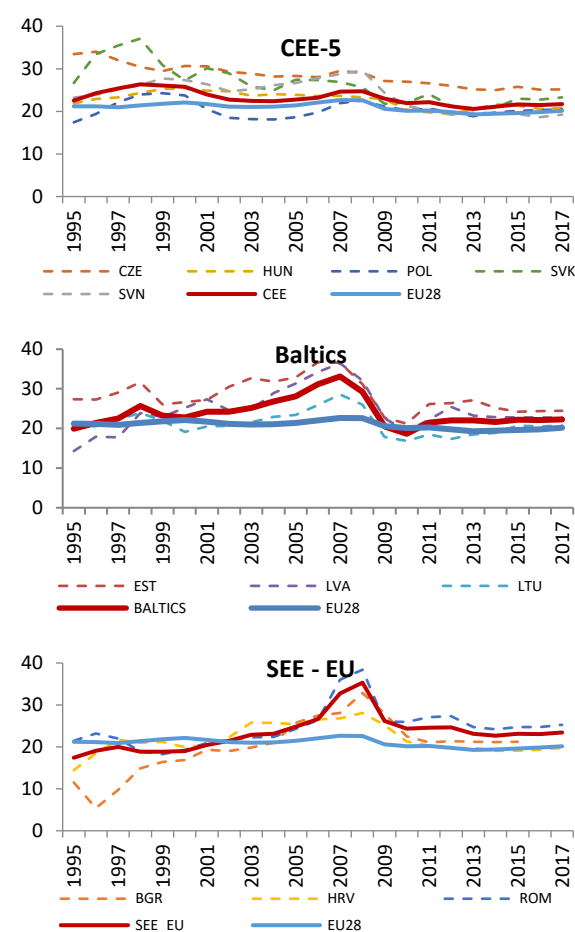
The level of aggregate investment across Central, Eastern and South Eastern Europe generally exceeded the average levels observed in the EU. In the EU28, the share of gross fixed capital formation (GFCF) in GDP averaged about 20% in the last 20 years (Figure 8). Despite a somewhat higher level, GFCF in the five countries of Central and Eastern Europe (CEE) has broadly followed the dynamics observed in the EU. Investment fluctuated between 20% and 25% of GDP, with somewhat higher levels recorded in the late 1990s, and before the 2008 crisis. Investment has followed a somewhat different, more volatile pattern in South-Eastern Europe (SEE) and the Baltic region, with stronger cyclical fluctuations and a more pronounced fall after the 2007-2008 peak.

With the onset of the crisis, investment has declined sharply in almost all CESEE countries. The decline was strongest in the Baltics (some 6% of GDP), followed by the CEE (roughly 3.5% of GDP). In the SEE-EU country group, nominal investment is some 1.6% of GDP below the pre-crisis average, with Croatia most affected.

EU funds played a crucial role in maintaining a healthy level of public investment during the post-crisis downturn (Figure 9). Public investment as a share of GDP has been significantly higher in the CESEE than in the EU28. Average public GFCF as a share of GDP between 2001 and 2015 exceeded the EU level – just above 3 per cent of GDP on average – by 30% in the CEE, by 40% in the Baltics, and by 50% in the SEE-EU country groups. The European Structural and Investment Funds (ESIF) helped to compensate the decline in public investment following the onset of the crisis.

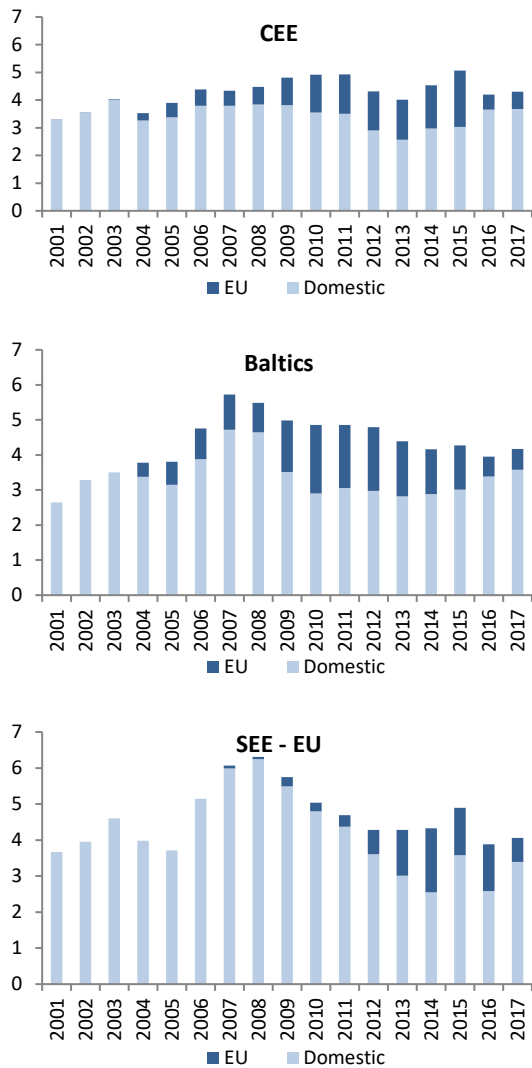
Private investment and foreign capital inflows declined sharply after the crisis, and have yet not fully recovered (Figure 10). Strong private investment reflected the success of the pre-crisis growth model. With the onset of the crisis, however, the region experienced a protracted capital flow reversal, leading to a recession in most CESEE countries. The lack of new funding, together with the deleveraging of indebted corporates and households triggered a decline in both credit and domestic demand. The slowdown in the euro area, and deleveraging by euro area parent banks exacerbated and prolonged the sudden stop.

Figure 8: Gross Fixed Capital Formation in percent of GDP



Source: Eurostat and HIS (SEE non-EU apart from SRB forecasts for 2016).

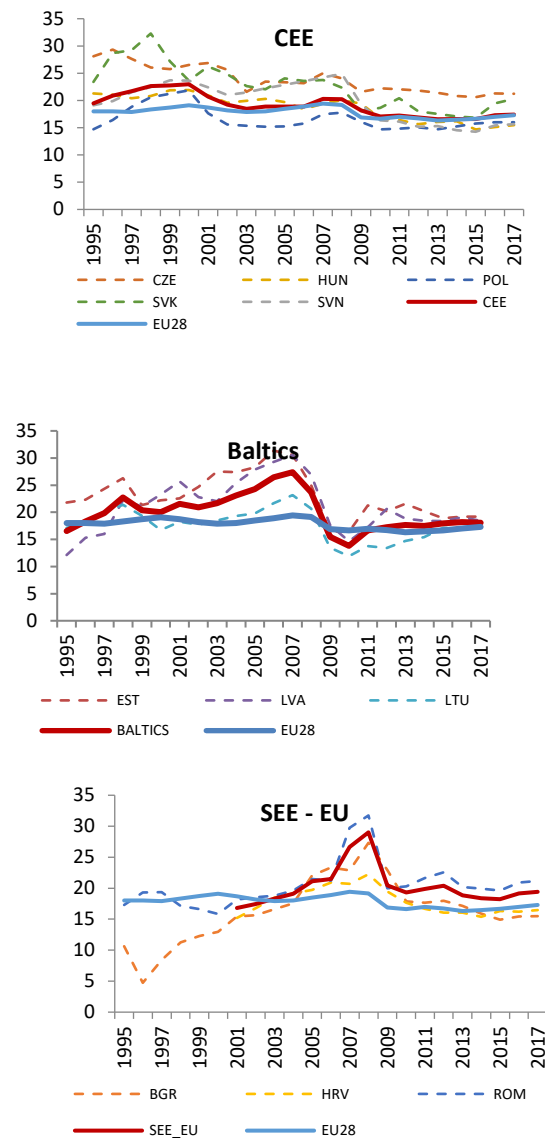
Figure 9: EU funds in public sector investment (GFCF) in percent of GDP



Source: Eurostat, European Central Bank.

Note: The EU fund's share in public sector GFCF is represented here by capital transfers from the EU to Member State governments.

Figure 10: Private sector investment (GFCF) in percent of GDP



Source: AMECO

Cyclical fluctuations aside, the conditions on which the pre-crisis growth model was based have also changed after the global financial crisis that started in 2008. While some of these changes – such as the slowdown of capital inflows – were a consequence of the crisis itself, others – for instance, demographic changes and migration – are independent and structural in nature.

While the CESEE countries have recovered from the downturn by now, their growth potential is significantly lower than prior to the crisis. Furthermore, the slowdown of potential growth cannot be attributed to a single factor of production. While the decline of the TFP is the most pronounced, capital and labour also contribute negatively to the post-2009 decline in potential growth (Figure 11).

Figure 11: Factor decomposition of potential GDP growth in a Cobb-Douglas accounting framework (in percentage points)



Source: European Commission.

When it comes to the post-crisis level of investment, it appears to be below the level necessary for economic convergence towards the core of the EU.¹⁵ Investment in CESEE has been below the levels experienced in countries that successfully graduated from middle-income to high-income status in the past.¹⁶ Furthermore, for most CESEE economies the current investment levels do not appear even sufficient to maintain the size of the capital stock relative to GDP under reasonable growth assumptions.

Low private investment is partially related to the slowdown of capital inflows. With the advent of the financial crisis, capital flows to the region, both gross and net, collapsed and have since remained at a low level. The largest decline came from inward Foreign Direct Investment (FDI), which decreased by two-thirds (EIB, 2016). This contributed significantly to the decline of corporate investment, not only through its direct effect but also through indirect effects on domestic investment. Large foreign banks also changed their strategies for the region. They reduced cross-border loans and intra-group financing for their subsidiaries, switching to a domestically financed banking model for the region. While this reduced lending, risks to financial stability also declined, as foreign-owned domestic banks

¹⁵ Bubbico et al (2017) covers in detail the post-crisis development of investment in CESEE, and provide estimates of an investment gap.

¹⁶ The Commission on Growth and Development, an independent expert panel established by the World Bank in 2006, studied policies and strategies that underlay rapid and sustained economic growth (Growth Commission, 2008). The key question of the analysis was to study how countries are able to successfully graduate from middle income to high income status. Since 1950, only very few (13) economies achieved the necessary fast, sustained growth to make the leap from middle income to high income. The study attempted to establish some common factors of such successful transitions. Given that the transition economies of the CESEE have been also in the income category between middle and high income, the results can be considered relevant. Among the key lessons, two relate to investment: (1) High investment levels above 25 per cent of GDP are needed for sustained periods, for instance for more than 15 years. (2) Around 5 to 7 per cent of GDP should be spent on public investment, in particular in infrastructure, education, and health. Most CESEE countries have reached the 25 percent benchmark for total investment to GDP only for short periods of time during the last 20 years. When it comes to public investment, the picture is similar, if not worse. Even with the support of the EU structural funds, the level of public sector investment broke through the lower level of 5 per cent only for a short period of time before the crisis, and stayed well below the thresholds for most of the period observed.

rebalanced funding towards local sources. While international banks remained committed to keep their subsidiaries well capitalised, they started to repatriate profits, and in some cases sold their participations to national or international investors. Portfolio investment in the region halved.

Labour markets in CESEE countries are increasingly tight, to the extent that lack of skilled labour has become a drag on investment and competitiveness. The post-crisis rise in unemployment reversed, and the countries of the region are now close to full employment. Reasons behind the skill shortages are both cyclical and structural and include emigration. Nevertheless, the abundant, competitive, skilled labour force that fuelled growth until the late 2000s no longer exists, and firms have difficulties finding skilled staff.

With the moderation of FDI, the pace of technological change has also slowed down, reflected in lower total factor productivity growth. Lower TFP growth partially reflects that it has become more difficult to find those ‘low hanging fruit’, where the replacement of old, outdated technology by modern production facilities led to large, one-off but persistent productivity improvements. The extra productivity gains for any additional FDI are lower now than they used to be around the time of the enlargement. Besides, the crisis and the related shift in risk perceptions, also contributed to the slowdown of FDI and lower TFP growth. In any case, technology adoption has so far not been fully substituted by home-grown innovation. Still, there are success stories in the IT sectors of several countries, with some displaying a fast growing share of innovation related activity.

The slowdown of potential growth casts the shadow of the middle-income trap over the countries of the region. Despite the cyclical upturn, growth is still lagging behind the levels seen in countries that successfully graduated from middle-income to high-income. Furthermore, many of the other conditions of a successful continuation of the convergence process – for instance, high levels of private investment – are not present either.¹⁷

In the light of these developments, a prospective “new growth model” is emerging to drive the region’s economic convergence over the coming years. Such a model has been put forward recurrently over the past years.¹⁸ Although the recommendations differ in the details, they have common elements. These include, among others, the following:

- **Stronger role for home-grown innovation to increase productivity.** By building on the already existing strong manufacturing base, it is time for CESEE economies to further move up the value chain. The momentum of economic growth can only be maintained with a stronger role of innovation, switching from manufacturing/industrial production towards – increasingly tradable – services.
- **Preservation and development of the productive labour force.** A skill-based growth model can only be successful when supported by policies that enable reversing the brain drain, and help to preserve and develop a skilled labour force. In addition, policies should address the low participation of certain parts of the population in the labour market. These could include dedicated programmes for the inactive population in rural regions, or programmes aiming at increasing the currently often low female participation in the labour force.

¹⁷ While FDI flows have declined since the crisis, the manufacturing value chains in place continue to sustain economic output. On a broad set of empirically established conditions of successfully graduating from the middle-income trap (Growth Commission, 2008).

¹⁸ See for example Piatkowski (2014), Bubbico et al. (2017), and EBRD (2017).

- **A system of financial intermediation that supports domestic savings.** While the region will continue to be a strong target for capital inflows, domestic savings should play an increasing role, by providing a stable, local-currency funding source that supports investment. In addition, the development of local capital markets can play a useful role in channelling local savings towards productive investment.

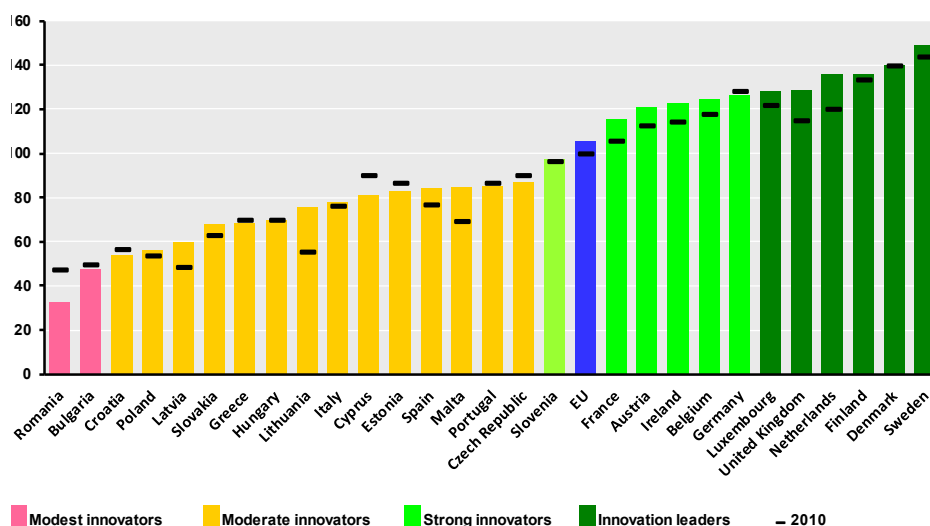
IV. Analysing the evidence

a. Innovation capacity

As economies become more advanced, the creation and diffusion of innovation become the main drivers for economic growth.¹⁹ Many factors can explain TFP growth, including the functioning of institutions, the rule of law, better infrastructure, high levels of education; and it is difficult to map the contribution that all these factors make to TFP growth. For high-income countries, however, the main driver for TFP growth is the level of technological advancement and innovation. In the long-run, continued improvements in prosperity require stronger innovation capacity.

However, most countries in the CESEE region are regarded as modest or moderate innovators, despite substantial heterogeneity in the evolution of innovation performance across countries. The European Innovation Scoreboard²⁰ (EIS) provides an annual assessment of innovation performance across EU Member States (see Figure 12). With the exception of Slovenia – a “Strong innovator”-, all of the other CESEE countries fall under the categories of “Moderate innovators” (Czech Republic, Estonia, Lithuania, Slovakia, Hungary, Latvia, Poland, Croatia), or “Modest innovators” (Bulgaria and Romania). Some countries – such as Lithuania, Slovakia and Latvia – have increased their innovation capacities, while in others – including Slovenia, Poland, Croatia and Bulgaria – innovation performance has stagnated. According to the EIS, innovation performance has actually decreased between 2010 and 2017 in the Czech Republic, Estonia, Hungary and Romania.

Figure 12: Innovation performance (2017 compared to 2010)



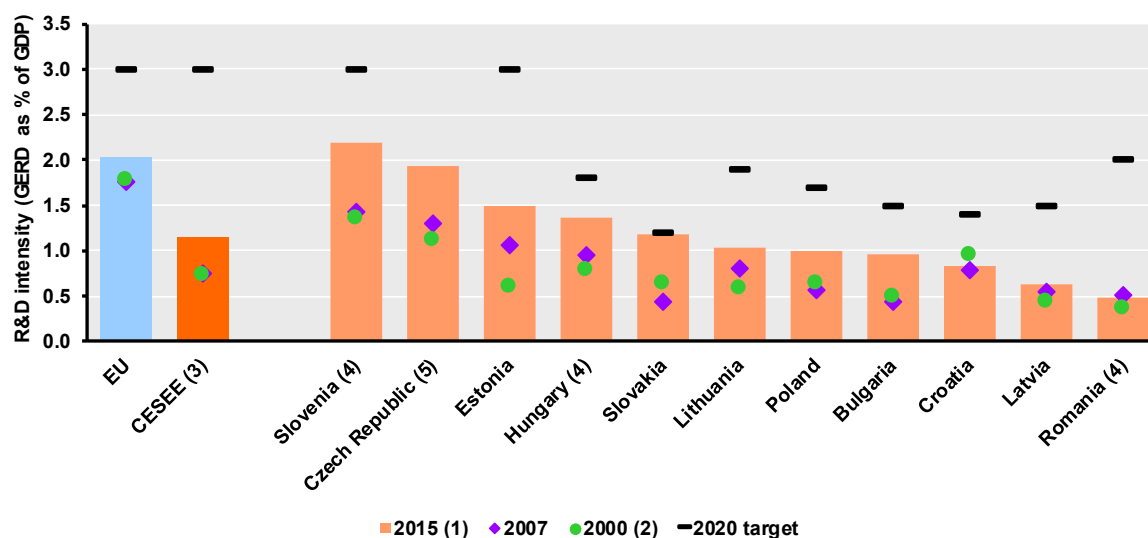
Source: European Commission - DG Research and Innovation
Data: EIS 2018

¹⁹ This section draws heavily on Correia et al (2018) and Vienna Initiative (forthcoming).

²⁰ http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en

One of the crucial reasons for the low innovation performance in the CESEE region is low investment in intangible assets, such as R&D. As the rest of the EU, CESEE countries are not making sufficient strides to increase their R&D investment. R&D intensity in the CESEE region remains significantly below the EU average, with the exception of Slovenia (see Figure 13). However, with the exception of Romania, Latvia and Croatia, all the other CESEE countries show increasing R&D intensities, particularly after 2007.

Figure 13: R&D intensity 2000, 2007, 2015 and 2020 target



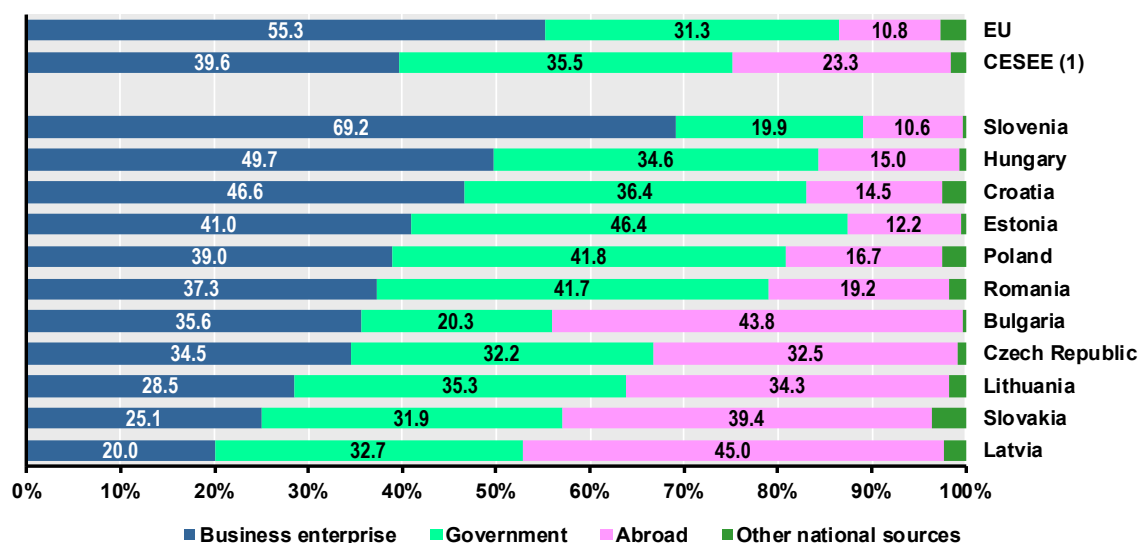
Source: European Commission - DG Research and Innovation

Data: Eurostat, Member States

Notes: ⁽¹⁾EU: 2016. ⁽²⁾HR: 2002. ⁽³⁾CESEE: BG+CZ+EE+HR+LV+LT+HU+PL+RO+SI+SK. ⁽²⁾HR: 2002. ⁽⁴⁾HU, RO, SI: Breaks in series occur between 2000 and 2015. ⁽⁵⁾CZ: An R&D intensity target for 2020 is not available.

A decomposition of R&D investment by sector shows large differences between the EU and the CESEE region as well as across countries within the region. Private R&D investment plays a weaker role in CESEE than in the rest of the EU, whereas foreign financing and public R&D play a much stronger role, notably in certain countries where they account for the vast majority of R&D investment (Figure 14). Compared to the EU average, the CESEE region relies more heavily on government financing and financing from abroad. This reflects, on the one hand, the importance of intra-group financing of R&D due to the large presence of multinationals in the region, and, on the other hand, the importance of European funding (e.g. European Structural and Investment Funds, ESIF) in the financing of much of domestic R&D investment. However, there is substantial heterogeneity within the region. In Slovenia, for instance, almost 70% of R&D is financed by the private sector. At the other extreme, only 20% of R&D is financed by business enterprises in Latvia, and almost half of R&D is financed from abroad.

Figure 14: Decomposition of gross domestic expenditure on R&D (GERD) by sector of funding (%), 2015



Source: European Commission - DG Research and Innovation

Data: Eurostat

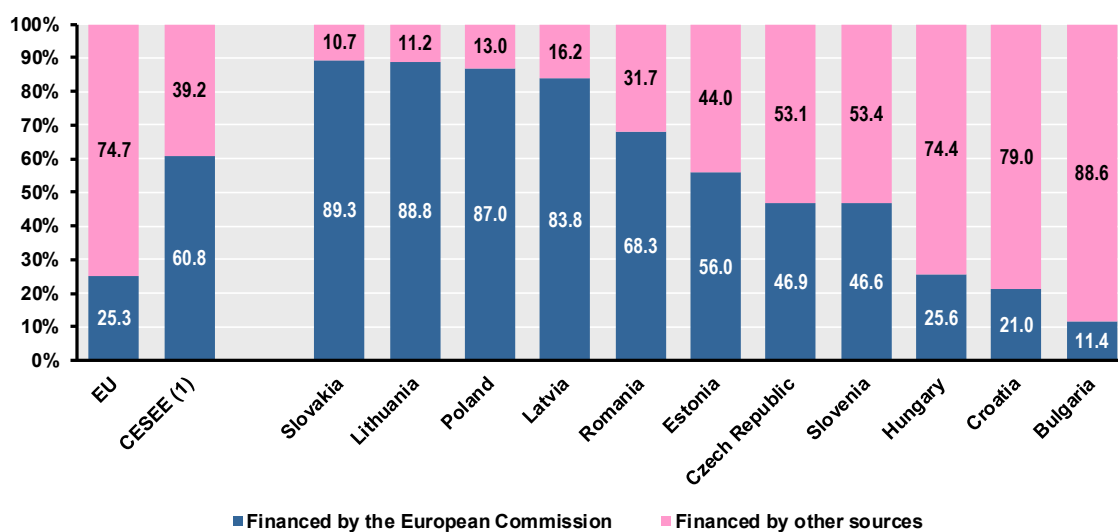
Note: ⁽¹⁾CESEE: BG+CZ+EE+HR+LV+LT+HU+PL+RO+SI+SK.

The importance of R&D financing from abroad reflects the importance of the ESIF and the role of foreign investors in boosting R&D investment. Looking specifically into the sources of R&D expenditure financed from abroad, the role of the ESIF, as the main source of EU R&D funding in the region, becomes evident: 61% of all funding coming from abroad is from the European Commission funds, in comparison to 25% for the EU average (Figure 15). However, in countries with a strong presence of manufacturing such as the Czech Republic, Slovenia and Hungary, foreign direct investment is the primary source of R&D investment from abroad.

In addition to weak R&D expenditure, the region’s innovation performance suffers from the on-average rather low quality of the scientific system as well as a lack of workers with the right skills. This is reflected in a low share of national scientific publications within the top 10% of most cited publications worldwide and the low number of patent applications that fall under the Patent Cooperation Treaty.²¹

²¹ See *Science, Research and Innovation Performance of the EU* (European Commission, 2018), https://ec.europa.eu/info/sites/info/files/rec-17-015-srip-report2018_mep-web-20180228.pdf

Figure 15: R&D expenditure financed from abroad, 2015



Source: European Commission - DG Research and Innovation

Data: Eurostat

Note: ⁽¹⁾CESEE: BG+CZ+EE+HR+LV+LT+HU+PL+RO+SI+SK.

According to the results of the EIB Investment Survey (EIBIS),²² the relatively low investment in intangible assets seems to result from a low number of leading innovators or developing innovators in the CESEE countries compared to EU as a whole. EU firms can be classified in five different innovation profiles based on R&D investment and innovation activities: basic firms, adopters, developers, incremental innovators, and leading innovators.²³ In the CESEE region:

- Less than 4% of CESEE firms are **leading** innovators (i.e. firms that develop products new to the country or to the global market and report substantial R&D expenditures);
- 15% of CESEE firms are **incremental** innovators (i.e. firms that develop products new to the company and report substantial R&D expenditures);
- 29% of CESEE firms are **adopting** innovation (i.e. firms that report no substantial R&D expenditures and that develop products that are new only to the company);

²² The EIB Investment Survey (EIBIS) is a unique, EU-wide survey that collects information on firm characteristics and performance, past investment activities and future plans, sources of investment finance, financing constraints and other challenges that businesses face. EIBIS is representative across all 28 Member States of the EU, as well as for firm size classes (micro, small, medium-size and large) and four main sectors (manufacturing, services, construction and infrastructure). The data are weighted by value-added to better reflect the contribution of different firms to economic output. See more information on the EIBIS at <https://www.eib.org/en/about/economic-research/surveys-data/about-eibis.htm>

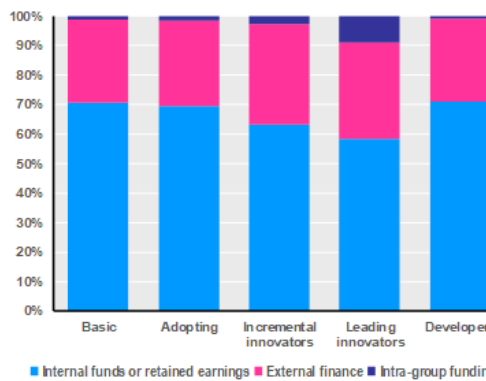
²³ See the EIB Investment Report 2017-2018 (Chapter 9), https://www.eib.org/attachments/efs/economic_investment_report_2017_en.pdf. The development of new products is based on questions 18 and 19 of EIBIS, namely “Q18. What proportion of the total investment was for developing or introducing new products, processes or services?” and “Q19. Were the new products, process or services (A) new to the company, (B) new to the country, (C) new to the global market?” R&D activity is defined as firms reporting substantial R&D (amounting to at least 0.1% of firm turnover).

- 4% of CESEE firms are **developing** innovation (i.e. firms that report substantial R&D expenditures, but that do not yet develop products new to the firm, country or global market);
- And 48% of CESEE firms are “**basic**” firms (firms with no substantial R&D expenditures and no development of new products).

Innovation activity in the CESEE countries is broadly driven by manufacturing firms, large companies, or young firms. Looking at firms with active R&D spending (i.e. leading, incremental and developing innovators), about 68% of active innovators are large firms, almost 18% are medium-size firms and less than 10% are among small firms.²⁴ About 62% of active innovators are manufacturers, 20% are in the infrastructure sectors and 14% in services.

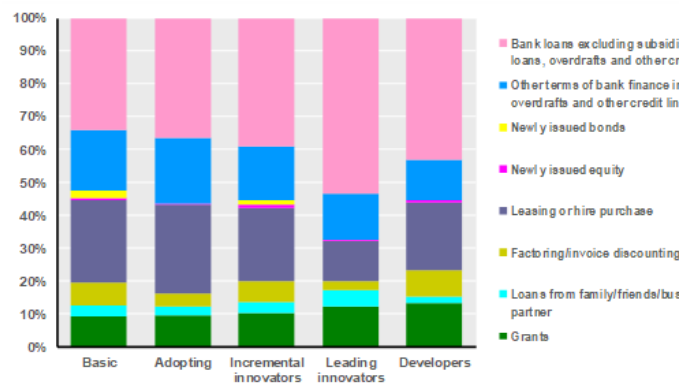
CESEE innovators rely on bank finance, but also tap intra-group funding. In terms of overall sources of finance, CESEE innovators use relatively more external finance than basic firms, and they also have access to intra-group funding. As to the sources of external finance, CESEE leading innovators stand out as being predominantly funded by banks, either in the form of direct bank loans or other forms of bank finance. Capital market funding – i.e. newly issued bonds and equity – also play a relatively stronger role in financing incremental innovators, in comparison to other firms.

Figure 16: Source of finance by innovation profile (weighted percentages)



Source: EIB
 Data: EIB Investment Survey, 2017
 Note: ⁽¹⁾CESEE: BG+CZ+EE+HR+LV+LT+HU+PL+RO+SI+SK.

Figure 17: Source of external finance by innovation profiles (weighted percentages)



Source: EIB
 Data: EIB Investment Survey, 2017
 Note: ⁽¹⁾CESEE: BG+CZ+EE+HR+LV+LT+HU+PL+RO+SI+SK.

While the leading innovators in the CESEE make the most use of intra-group financing, grant financing is tapped by all innovation profiles. About 9% of investment by leading innovators is financed by intra-group sources. Active R&D spenders in the CESEE, i.e. incremental, leading and developing innovators, use marginally more grant financing than firms who are adopting innovation and basic firms.

For a vibrant innovation ecosystem to emerge, financing options need to be available across all stages of the firm’s life cycle. Ongoing work in the context of the Working Group on Financing for

²⁴ Large companies are those with more than 250 employees, medium-sized companies have 50-249 employees, small companies have 10-49 employees, and micro companies have 5-9 employees.

Innovation in CESEE (Vienna Initiative) emphasizes the importance of financing options suited to each stage of the firm's life cycle. When it comes to risk capital, the Vienna Initiative finds that growth capital is particularly scarce. In the domain of debt, bank lending comprises the main source of external finance for innovative companies (especially for innovation adoption). However, lending against intangibles still faces challenges. Likewise, the venture debt market is at a nascent stage. Private equity accounts for 0.005% of GDP in the region, vs 0.04% in the EU, with strong regional disparities and some more depth in Hungary, Poland, Bulgaria and in the Baltics.

Limited take-up of RDI financing likely results from several factors. Despite significant needs, average R&D expenditure in CESEE continues to lag that of the EU15. This can be partly attributed to suboptimal framework conditions, including the business environment, the availability of skilled staff, and the overall quality of scientific output. This may result in a relative dearth of firms that qualify as counterparts for direct operations under the IIR. At the same time, among the firms that are potential counterparts for RDI financing there may still be limited awareness of EFSI.

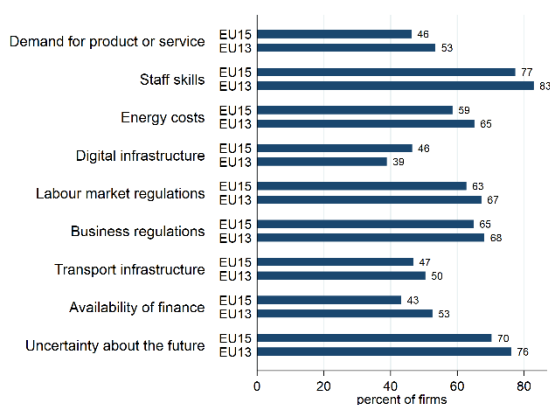
b. Investment barriers

Limited investment finance can result from impediments other than availability of finance. This section examines barriers to investment as perceived by European firms. The data come from the EIB Investment Survey. This is not intended to be an exhaustive review of investment barriers in the EU13, but it is a useful account of real investment barriers on the ground.

Firms in the EU13 are broadly concerned with the same problems as those in the EU15. Figure 18 compares perceived investment barriers based on EIBIS in the EU13 to those in the EU15. The perceptions are highly correlated across regions. For instance, staff skills emerge as the most frequently cited obstacle in both the EU15 and the EU13. Whereas in the EU13, 83% of enterprises report inadequately skilled workforce as an obstacle to investment, this applies to 77% in the EU15. Uncertainty about the future is the second most frequently cited obstacle, mentioned by 76% of firms in the EU15 and 70% in the EU13.

Availability of finance appears to be an obstacle of middling relevance. About 53% of firms in the EU13 report finance to be an obstacle to investment, compared to only 43% in the EU15. Availability of finance thus ranks 6th, alongside demand for products or services, among the nine obstacles investigated by the EIBIS. Figure 19 focuses on the particular aspects of finance that firms consider problematic. The percentage of firms that are fairly or very dissatisfied with any feature of the finance they were offered or received is in the single digits and thus rather low. Second, there is again a high correlation between the responses of EU13 and EU15 firms. Third, to the extent that firms are dissatisfied they are mainly concerned with cost and collateral.

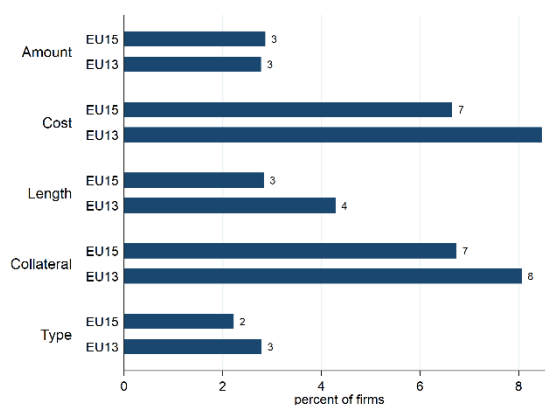
Figure 18: Investment Barriers



Source: EIBIS 2018

Note: Q. Thinking about your investment activities in [country name], to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all? Reported shares combine 'minor' and 'major' obstacles into one category.

Figure 19: Dissatisfaction with finance



Source: EIBIS 2018

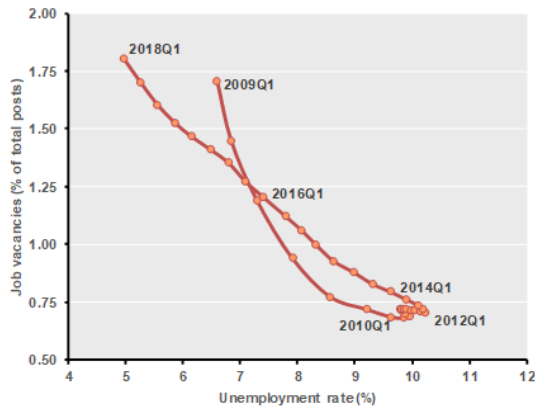
Note: Q. How satisfied are you with ...? Percentage of firms that are fairly or very dissatisfied with a particular feature of the finance that they received or were offered.

According to the EIBIS, skill shortages constitute the single most important impediment to investment. Beyond short-term effects of skill shortages, e.g. in terms of limiting production in firms and putting pressure on wages, they can also add to difficulties to adopt new technologies and dampen investment, thereby impacting on longer-term growth prospects. Reasons behind the skill shortages are both cyclical and structural. Growth in 2017–18 has been strong, supported by robust domestic demand, favourable external conditions and EU inflows. The robust recovery rapidly increased labour demand. At the same time, structural factors have worked to constrain labour supply.

Emigration and population aging strongly affect the region and put pressure on labour supply. During the last 25 years, almost 20m people, i.e. about 5.5% of the population, left the region,²⁵ many of them young and highly skilled. At the same time, CESEE countries have fertility rates below the EU average. This has led to a decline in the overall population and an increase in the old-age dependency ratio, contributing to pressure on labour supply. This is reflected in low unemployment, a high job vacancy rate, and wage growth well above the EU average, sometimes stimulated by public sector wage increases (see Figure 20 and Figure 21).

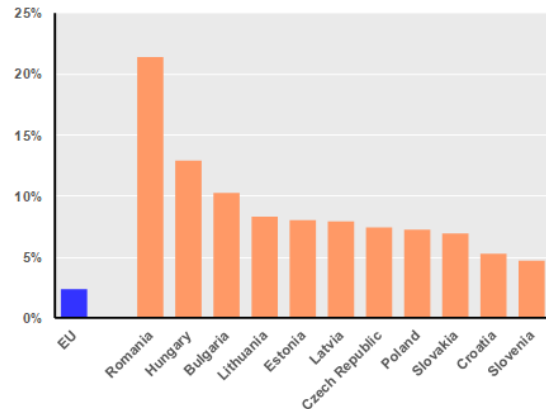
²⁵ Due to data limitations, this figure may also include instances of re-migration.

Figure 20: CESEE unemployment and job vacancies – Beveridge curve



Source: EIB
 Data: Eurostat and authors' calculations.
 Notes: ⁽¹⁾CESEE: BG+CZ+EE+HR+LV+LT+HU+PL+RO+SI+SK. ⁽²⁾Job vacancy rates and unemployment rates are averages of the preceding 4 quarters.

Figure 21: CESEE – Annual wage growth, 2018, first quarter



Source: EIB
 Data: Eurostat
 Notes: ⁽¹⁾CESEE: BG+CZ+EE+HR+LV+LT+HU+PL+RO+SI+SK. ⁽²⁾Average wage growth of the preceding 4 quarters.

c. National Promotional Banks and Institutions

The EFSI Regulation encourages cooperation between EIB Group and National Promotional Banks and Institutions (NPBIs). The idea is to exploit complementarities between EIB and NPBIs where the latter can bring value-added based on their knowledge of the local context. This includes knowledge of local business and investor communities as well as the policy environment. The EIB Group has long-standing and strong partnerships with NPBIs across the European Union.

The Investment Plan for Europe has further enhanced EIB's cooperation with NPBIs.²⁶ With their knowledge and access to local markets, these financial institutions are essential to optimise reach and economic impact, especially for small businesses. NPBIs and the EIB Group co-finance individual projects, Investment Platforms and investment vehicles. NPBIs and the EIB Group meet regularly to share knowledge, exchange best practices and improve collaboration, in what is called the EIB-led NPBI Network and in other fora. The geographic spread of EFSI has also been the object of discussions at such fora.

To maximize the impact of EFSI financing, the rules governing operations with NPBIs, as approved by the EFSI Steering Board,²⁷ place a particular emphasis on subordination of EFSI support. The rules list several models, in which subordination can be achieved:

- Project Co-financing: EFSI tranches could be contractually or structurally subordinated to NPBI tranches.
- Risk Sharing: EFSI risk sharing products could aim at asymmetric risk sharing and delegation models.

²⁶ "Investing Together - The European Investment Bank Group and National Promotional Banks and Institutions" (EIB, 2019), <https://www.eib.org/en/infocentre/publications/all/investing-together.htm>

²⁷ "Rules applicable to operations with Investment Platforms and NPBIs" OPS/MM/RSM/2016-378/CG – Steering Board document 09-2016 (18 February 2016), http://www.eib.org/attachments/strategies/efsi_steering_board_rules_applicable_to_operations_with_investment_platforms_and_npbs_or_institutions_en.pdf

- Investment Platforms: EFSI tranches could be used as mezzanine, allowing NPBIs to contribute at a lower risk level.

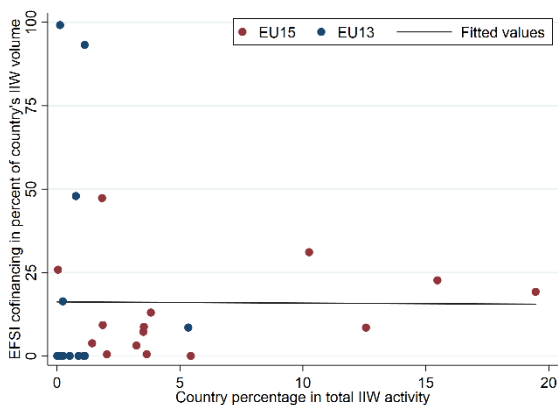
From 2015 to 2018, 18% of EFSI signed transactions were with NPBIs, representing 173 projects and total investment of EUR 9.6bn. EFSI operations with NPBIs currently cover 24 EU Member States which goes in the direction of the objective for EFSI financing to cover all Member States. More information on cooperation with NPBIs, by the European Investment Advisory Hub (EIAH), can be found under Section VI.b. “Supporting finance activity and advisory”.

The effect of EFSI on credit supply also depends on local intermediation capacity and thus NPBI involvement. If credit supply shifts to the same extent in all Member States, differences in take up reflect differences in demand. However, given that NPBIs play an important role in the intermediation of EFSI financing there is the concern that the shift in credit supply is tilted in favour of Member States with more experienced and active NPBIs.

EU15 NPBIs co-finance more frequently with EFSI than their EU13 counterparts. Figure 22 plots the share of co-financing in a country’s EFSI volume against the country’s share in total EFSI activity. If co-financing were more important for the largest beneficiaries of EFSI, this would result in a positive correlation and consequently, an upward sloping regression line. Figure 22 shows no such correlation. Instead, there is much greater variability among smaller countries. Some have very active NPBIs whereas others have no co-financing at all. Moreover, there appears to be a significant difference between EU13 and EU15 economies. Only four EU13 countries have co-financed projects with NPBIs, in contrast to 13 of the EU15 countries.

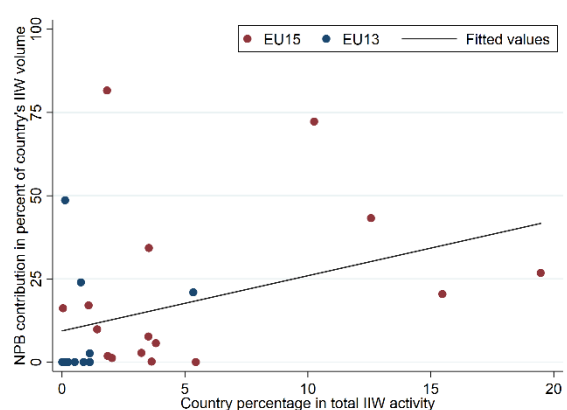
EFSI funding appears to mobilise a greater amount of NPBI resources in the EU15. Figure 23 plots the NPBI contribution associated with the EFSI signed amount shown in Figure 22 against a country’s percentage in total IIW activity. It turns out EFSI financing mobilises a greater share of NPBI financing in the larger beneficiaries. Again, EU13 and EU15 countries differ systematically. In the EU15, the EFSI contribution crowds in an NPBI amount worth 21% of total IIW volume, compared to only 7% in the EU13.

Figure 22: EFSI co-financing and country share



Source: EIB

Figure 23: NPBI contribution and country share



Source: EIB

d. Investment Platforms

Since its inception, EFSI has promoted the use of Investment Platforms (IP) as a vehicle to pool together financing and projects with a specific geographical or sectoral focus. The EFSI 2.0 Regulation maintains the concept of Investment Platform as a key investment tool, in particular to facilitate access to finance for small-scale projects. The possibility of cross-border and multi-country platforms was also made explicit. The EFSI 2.0 Regulation reinforces the role of Investment Platforms by offering more possibilities to bundle projects and making it possible to use the full delegation model for these platforms and NPBI in the case of sub-projects with an EFSI contribution of under EUR 3m.

The Investment Platforms have been specifically promoted by the European Commission and the EIB as a valuable feature of EFSI to boost investment.²⁸ The reviewed EFSI Strategic Orientation recognises that the establishment of Investment Platforms is a useful tool to be pursued on the basis of gained experience.

Investment Platforms are approved by the EFSI Investment Committee on the basis of specific documentation submitted per operation. According to the “Rules applicable to operations with Investment Platforms and NPBI”, adopted by the EFSI Steering Board,²⁹ the features that would qualify EFSI operations to be designated as Investment Platforms are in essence:

- Creation of a specific vehicle, or a co-financing arrangement between the EIB Group and co-investors, with the view to gather financing in order to support pools of EFSI eligible projects typically in a given sector or geographical area;
- Participation of public entities (for instance, NPBI, Managing Authorities of ESIF, or IFIs such as the EBRD) or contributions from public sources of funding (e.g. national grants, ESIF grants or other EU financial instruments) as a means to co-share the risk incurred in the operation.

Investment Platforms are investment facilities which typically pool smaller and/or higher-risk projects by geographic location or sector. This helps to better share risk, make it easier to attract private investors and eventually unlock financing for individual projects. By aggregating investment projects, Investment Platforms also reduce transaction and information costs, which in turn facilitates smaller tickets. The platforms itself can then provide loans and/or equity financing to the underlying projects, depending on their specific needs. Designation as an EFSI Investment Platform is considered beneficial for the concerned operations because it usually results in increased visibility and recognition: the operation promoters can use the label for marketing purposes.

Structuring operations as Investment Platforms has also reinforced activity under EFSI with NPBI and vice versa, not the least as Investment Platforms are dependent (or boosted), by definition, on the support of a public entity. The ECA audit reckons that NPBI generally consider Investment Platforms to be “suitable for helping to finance smaller or riskier projects, combining financing from several sources and optimising the allocation of risk between various investors”.

²⁸ “Investment Platforms” (EC, 18 July 2018), https://ec.europa.eu/commission/sites/beta-political/files/investment_platforms_factsheet_en.pdf

²⁹ OPS/MM/RSM/2016-378/CG – Steering Board document 09-2016 (18 February 2016), http://www.eib.org/attachments/strategies/efsi_steering_board_rules_applicable_to_operations_with_investment_platforms_and_npbs_or_institutions_en.pdf

As at end 2018, 46 EFSI operations have been approved as Investment Platforms under IIW and 3 under the SMEW.³⁰ Altogether, they cover 15 Member States.³¹ Overall, 33 platforms were set-up with NPBIs, which represent over 70% of all EFSI Investment Platforms.³² The development of platforms took off only after the first 18 months of implementation of EFSI, given the initial set-up time of the EFSI as an instrument and its features (including the definition of rules for the platforms) as well as the complexity entailed in negotiating the co-financing or corresponding platform agreements. Since 2016, Investment Platform development has been steady (14 platforms in 2016, 19 in 2017, and 12 in 2018).

In EU13, progress is only moderate, and was slower to show, with only four platforms in this region being approved in 2017 (two in Poland) and in 2018 (one in Poland and one in Lithuania). A positive factor is, however, that two of the EU13 Investment Platforms are in key sectors such as ‘social infrastructure’ and ‘environment and resource efficiency’ (which are overall less prevalent in the EU15 platforms). The EFSI Steering Board in its December 2018 meeting encouraged services to develop Investment Platforms to cover more Member States.

All in all, in 2019, a moderately increased variety can be observed in the existing portfolio of Investment Platforms, both geographically and sectorally, in relation to that depicted by ECA based on mid-2018 data. The contribution of this tool to the geographical balance of the EFSI portfolio has shown some limitation, despite the efforts deployed, which is to a certain extent linked to the platforms’ own defined features and moderate market demand for this type of products, especially in smaller and less consolidated markets and/or in Member States with less experienced NPBIs (or no NPBI at all). More information on related activity, by the European Investment Advisory Hub (EIAH), and a possible pipeline for future platforms, can be found under Section VI.b. “Supporting finance activity and advisory” (including Table 3: ‘Examples of EIAH support to Investment Platforms in Cohesion Countries’).

e. Other financial instruments

Limited demand for EFSI in the EU13 can partly be explained by the availability of other funding sources dedicated to the EU13, in particular the European Structural and Investment Funds (ESIF).³³ Subject to a national co-financing requirement, the ESIF support the policy priorities of the Union, in line with the objectives of each fund. In the 2014-2020 budgeting period, the EU makes available about EUR 460bn in funding in total, of which about EUR 200bn or 43% are dedicated to the EU13, in line with pre-defined earmarking per Member State and sector.

To the extent that eligibilities overlap, it seems natural that beneficiaries prefer ESIF grants to EFSI lending or financing. The majority of ESIF are delivered in the form of grants. Repayable financial instruments constitute an alternative delivery mechanism. Although financial instruments assume a

³⁰ See updated analysis, for the IIW and the SMEW, in the EIB’s annual Reports on EFSI to the European Parliament and the Council. The list of Investment Platforms approved under IIW is available at <http://www.eib.org/efsi/efsi-projects/index.htm>

³¹ Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Lithuania, Luxembourg, Netherlands, Poland, Spain, Sweden and Portugal.

³² “Investing Together - The European Investment Bank Group and National Promotional Banks and Institutions” (EIB, 2019), <https://www.eib.org/en/infocentre/publications/all/investing-together.htm>

³³ The ESIF is the designation for the EU five structural funds: The European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD), and the European Maritime and Fisheries Fund (EMFF).

more important role in the 2014-2020 programming period compared to earlier periods, their overall share of ESIF is still limited.

While in principle, it is possible to combine ESIF and EFSI funding, this is subject to restrictive conditions. EFSI and EFSI funding can be combined at the project level or at the level of financial instruments. At project level, support is subject to the double funding restriction. The double funding condition implies that the part of the project supported by ESIF cannot receive additional EFSI financing. This also means that EFSI support to the project cannot count as national co-financing of ESIF. As financing the national contribution of ESIF projects is a significant part of EIB activity in EU13 countries, this blocks the flow of EFSI funds to such projects. Moreover, a share of EFSI eligible projects are not eligible or not a priority under ESIF, whereas in some areas ESIF already provide sufficient financial support.

The Omnibus Regulation attempted, among other things, to allow and facilitate more combinations of ESIF and EFSI financial instruments. It was understood this would also help promote use of EFSI in the EU13 region as a very important recipient of ESIF funds. Box 1 provides additional information on the specificities of the Regulation. The limited impact of the Omnibus Regulation (entry into force August 2018) mainly reflects the remaining complexity and limited interest or capacity to conceive and implement such instruments or operations. The late adoption of the Omnibus Regulation, in the middle of the programming period 2014-2020, did not facilitate this process as the majority of funds were already committed. Some Member States and regions claim to be struggling to implement grant projects and disburse their ESIF resources in compliance with the so-called n+3 rule.³⁴ Although the use of financial instruments may help Member States to meet the n+3 targets and despite facilities provided on how to count ESIF-EFSI combinations towards this rule, overall the pressure to disburse may act in some cases as discouragement for Member States and regions from exploring possibilities to leverage their ESIF amounts further.

Despite the additional options brought about by Omnibus, unresolved challenges remain. Some arise from different legal bases applicable to the individual funds that can hinder the interest for national authorities to combine ESIF financial instruments with EFSI. Omnibus has not changed the State aid requirements applicable to EFSI and ESIF combinations (only a fast track procedure for the EC process to review was put in place). In addition, the Omnibus Regulation imposes a limit on the ESIF contribution in relation to the total support provided to final recipients. This limit ranges from 25% to 40% and may possibly further hinder the recourse to ESIF-EFSI combinations. Such levels may not be enough to set up financial instruments, which aim at addressing specific market failures and/or supporting new and immature sectors.

As of 31 December 2018, 41 EFSI signed operations (4.68% of total IIW and SMEW operations) were co-financed either by ESIF or other EU grants and financial instruments. This represents 7.26% of EFSI signed financing volume as of end 2018. Of these, 17 operations under IIW combined ESIF with EFSI support. The total signed financing volume of these operations amounted to EUR 1.8bn. In terms of number of projects, 53% were in EU13 and around 35% of the EFSI financing linked to these 17 operations targeted EU13 Member States. Additionally, work has been undertaken by EIB Advisory Services on EFSI-ESIF combinations notably in the sector of agriculture; further assignments are

³⁴ The n+3 rule states that Member States and regions will lose their ESIF resource if no payment application has been made by the end of the third financial year following the budget commitment.

underway to explore the potential for combinations in the area of energy efficiency and smart cities (see Section VI.b. “Supporting finance activity and advisory”).

In summary, there may be several reasons for a relatively low volume of EFSI and ESIF combinations:³⁵

- The changes introduced by the Omnibus Regulation came relatively late in the programming period when the majority of ESIF resources had been already committed and did not solve many of the challenges and limitations for ESIF-EFSI combinations;
- There might be a lack of incentive to seek repayable support especially for projects promoters in cohesion regions where they can obtain ESIF grants; in addition, a share of EFSI eligible projects are not eligible or not a priority under ESIF;
- More time would be needed for Omnibus changes to take effect as projects have relatively long lead-times.

Box 1: EFSI-ESIF combinations and the Omnibus Regulation

Background

Member States’ and regions’ Managing Authorities can use ESIF to support financial instruments in order to contribute to the achievement of specific objectives in accordance with the Regulation 1303/2013 (Common Provisions Regulation (CPR)). Initially, in implementing financial instruments Managing Authorities could provide ESIF contributions:

- a) to financial instruments set up at Union level, managed directly or indirectly by the Commission (e.g. EFSI); or
- b) to financial instruments set up at national, regional, transnational or cross-border level, managed by or under the responsibility of the Managing Authority (e.g. ESIF financial instruments).

In practice, the majority of financial instruments set up under the 2014-2020 programming period follow option b) and only a few financial instruments have been set up under option a) (notably the SME Initiative).

The CPR was adopted at the end-2013, 1.5 years in advance of the launch of EFSI. While a number of combination possibilities existed before the Omnibus Regulation, there were limitations attributable to the presence of the two different Regulations that proved difficult to overcome. These included limited options to subordinate ESIF to EFSI; demanding payment regime; national co-financing required in most cases; different reporting and audit requirements; State aid issues etc.

The Omnibus Regulation introduced a third implementation option and Managing Authorities could subsequently also provide financial contribution:

- c) to financial instruments combining such contribution with EIB financial products under the EFSI in accordance with the CPR (Article 39a).

³⁵ Based on the low level of implementation on the ground, the Omnibus option for combination would no longer be available in 2021-2027 (replaced by a transfer to InvestEU so as to benefit from a single set of rules).

Objectives of the Omnibus Regulation

The so-called Omnibus Regulation³⁶ entered into force on 2 August 2018 and revises the EU's financial rules to make them simpler and more focused on results. Among other, the Omnibus Regulation attempts to facilitate more combinations of ESIF and EFSI financial instruments. The idea behind the Omnibus Regulation is to further improve complementarity, avoid competition and provide an opportunity for Managing Authorities to attract additional private sector investments.

The modifications introduced with the Omnibus Regulation to facilitate the use of financial instruments are:

- Introducing the possibility to combine ESIF financial instruments with EIB financial products under the EFSI (Article 38.1.c);
- Clarifying the possibility to entrust implementation of financial instruments through the direct award of a contract to a National Promotional Bank or Institution (NPBI) fulfilling certain conditions (Article 38.4.b.iii);
- The prolongation of the possibility to contribute ESIF resources to the SME Initiative until end of the eligibility period (Article 39.2);
- The introduction of new Article 39a laying down specific rules on the contribution of ESIF to financial instruments combining such contribution with EIB financial products under the EFSI;
- The possibility, in limited cases, to reuse the funds subject to individual irregularities within the same financial instrument (Article 40.5a);
- Possibility of subordination of ESIF to EFSI and clarification on differentiated treatment of investors (Article 43a).

In addition, only in the context of ESIF-EFSI combination under Article 38(1)(c) / Article 39a CPR, the Omnibus Regulation provides additional flexibility:

- Instead of carrying out dedicated ex-ante assessment, Article 39a.3 allows Managing Authorities to rely on the preparatory assessment, including the due diligence, carried out by the EIB under the EFSI;
- Simplified reporting requirements are permitted and based on the information kept by the EIB;
- The possibility to choose an existing instrument and award direct contract to the selected fund manager which has already been selected by the EIB.

The Omnibus Regulation also provided for derogation from the payment regime allowing for more flexible conditions:

- The possibility to design layered guarantee products where, for example, the ESIF tranche takes junior risk;
- In some cases, no need for national co-financing alongside the ESIF resources.

f. EFSI SMEW window financing and SME access to finance

The geographical allocation of EFSI financing under the SME Window reflects local SME access to finance. On average, Member States where SMEs face greater difficulties in accessing finance receive more support. This study focuses on the allocation of resources under the IIW as the indicative geographical concentration limit set in the EFSI Strategic Orientation applies to the IIW only. It is nevertheless instructive to examine SMEW geographical balance and this section briefly reviews the

³⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2018:193:FULL&from=EN>

related aspects of SME financing. As shown by Figure 24, geographical concentration appears to be less of a concern under the SME Window, given the strong role of multi-country operations. This section therefore assumes a slightly different perspective and asks to what extent the SMEW allocation responds to local SME access to finance as measured by the EIF SME Access to Finance index.

The EIF SME Access to Finance (ESAF) index is a comprehensive composite indicator that aims to summarise in one simple statistic the difficulties European SMEs experience in accessing external financing sources. The index is calculated annually for each of the 28 EU Member States (see Torfs, 2018, in References). The ESAF is composed of four sub-indices, three of which relate to different financing markets (equity, lending and credit & leasing), while the fourth covers the general macro-economic conditions in which SMEs operate. Box 2 illustrates the different components of the sub-indices, each of which captures specific elements of the respective markets. To come to a single index, all the individual indicators are first normalised and aggregated into sub-indices. Those four sub-indices are subsequently aggregated into one overarching financing index, the ESAF. A country with a low score on the ESAF index will typically be characterised by more constrained access to finance and/or stricter financing conditions for SMEs.

Box 2: The four ESAF sub-indices and their respective SME access to finance indicators

Loans:

- Percentage of SMEs using bank loans in the last 6 months
- Percentage of SMEs using grants or subsidised bank loans in the last 6 months
- Percentage of SMEs not applying for a bank loan because of possible rejection in the last 6 months
- Interest rate for loans under EUR 250k (floating rate with IRF up to 1 year)
- Interest rate spread (under EUR 250k vs over EUR 1m for floating rate with IRF up to 1 year)

Equity:

- Venture Capital Investments / GDP
- Venture capital availability index
- Value of IPO market / GDP
- Percentage of SMEs using equity capital in last 6 months

Credit and Leasing:

- Percentage of SMEs using bank overdraft, credit line, or credit card overdraft in last the 6 months
- Percentage of SMEs not applying for the above because of possible rejection in last the 6 months
- Percentage of SMEs using leasing or hire-purchase in the last 6 months
- Median interest rate charged to SMEs for credit line or bank overdraft application in the last 6 months

Macro Factors:

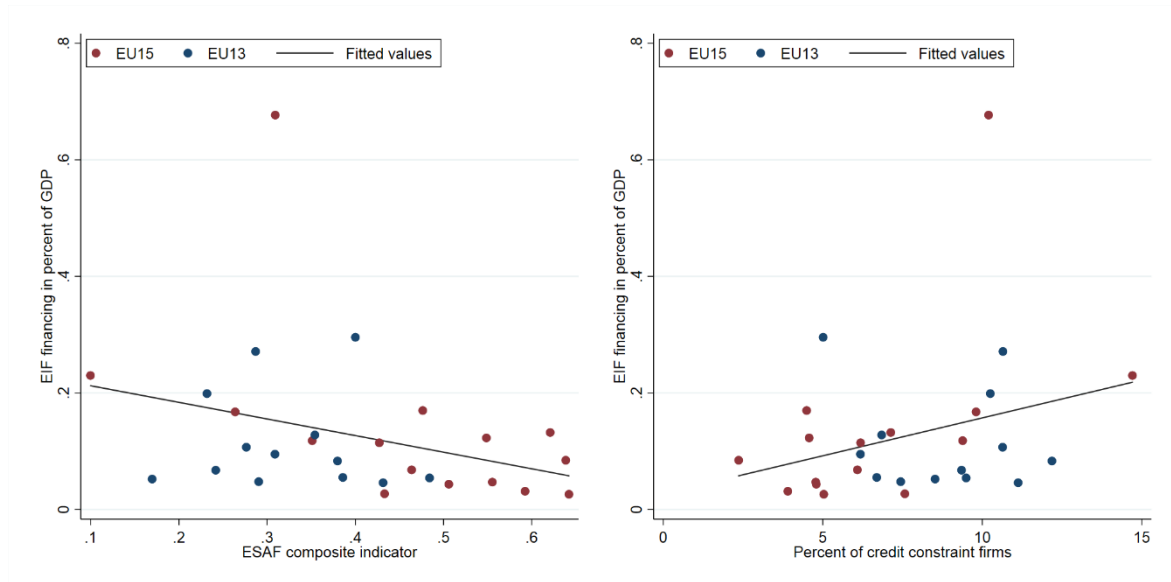
- Gap between actual and potential GDP
- Strength of legal rights index
- Depth of credit information index

- Availability of financial services index
- Bank non-performing loans to total gross loans
- Percentage of SMEs "feeling that there are no financing obstacles"

EIF financing under EFSI in the EU Member States inversely relates to the availability of external financing to local SMEs. This is clearly evidenced by the left-hand-side chart of Figure 24, which plots the ESAF index vis-à-vis the total amount of approved EFSI SMEW transactions, normalised by GDP. It shows that countries like Portugal, Czech Republic, Greece, Croatia and Italy, who rank at the bottom of the ESAF distribution, received a relatively high share of EFSI investments (as a share of GDP). In contrast, countries that score well on the ESAF index (UK, Finland, Sweden) were allocated a more modest share of finance. This negative relationship shows that several countries where SMEs faced more severe access to finance challenges received a greater share of EFSI financing.

Evidence from the EIB investment survey corroborates the evidence. The right-hand-side chart of Figure 24 plots EFSI SME transactions against the share of financially constrained firms from the EIB Investment Survey. This indicator classifies as constrained firms that had their loan application rejected, that were dissatisfied with either cost or quantity of external finance or did not apply for a loan in expectation of a rejection. The share of financially constrained firms yields a measure of excess demand for bank loans, i.e. demand that is not met by supply. Figure 24 shows that countries with higher excess demand receive a greater share of EFSI financing.

Figure 24: SMEW finance and SME access to finance



Source: EIF, EIBIS

V. Actions taken to improve the investment environment (IPE Pillar 3)

Identifying and removing barriers to investments constitutes a key part of the Investment Plan for Europe (IPE, Pillar 3). This initiative requires sustained and coordinated efforts at EU, national and regional level. The European Commission has been addressing regulatory bottlenecks at EU level and has been supporting structural reforms at Member State level.

IPE Pillar 3 indirectly supports Pillar 2 (EFSI) as it tackles improving the business and investment environment. Pillar 3 is led by the Commission and is not governed by the EFSI Steering Board. However, actions to remove barriers to investment do in the long-term have an impact on the supply and demand for investment finance and consequently on EFSI's geographical distribution. This section presents the key initiatives taken by the Commission to improve the investment environment in the EU.

a. Removing regulatory bottlenecks

Single Market Strategy

In October 2015, the Commission adopted a Single Market Strategy to deliver a deeper and fairer Single Market that will benefit both consumers and businesses. It places a particular emphasis on promoting investment by eliminating remaining barriers and providing greater regulatory predictability.

Initiatives relating to the Single Market Strategy include:

- **The 2017 procurement package** features different measures aiming at enhancing the European Union's procurement framework and encourages a more strategic implementation of the existing rules. Fair, predictable and transparent procurement is key to boosting investment.
- **The Digital Single Market Strategy**, launched in 2015, aims to remove barriers that prevent the digital economy from functioning optimally and to open up new opportunities for innovation, growth and jobs. Linked to this Strategy:
 - **The European Electronic Communications Code** further encourages investment in broadband networks (including 5G), by reducing barriers for operators to co-invest and pool costs.
 - The EU put in place **highest standards for European citizens** to be better connected and protected in the digital era, including through the General Data Protection Directive.

Capital Markets Union

The Capital Markets Union (CMU) has a significant potential to boost investment in the EU by removing obstacles to the free flow of capital. The CMU is a Commission plan to mobilise capital in the EU. CMU seeks to diversify the financial system by complementing bank financing with deep and developed capital markets and to unlock the capital around Europe. It should also establish a single capital market in the EU where investors are able to invest their funds without hindrance across borders and where businesses can raise the required funds from a diverse range of sources, irrespective of their location.

In particular, the CMU is aiming to address the following challenges:

- investment in Europe remains heavily reliant on banks,
- there are significant differences in financing conditions between EU countries and between the degree of sophistication of national capital markets,

- there are differing rules and market practices for products like securitised instruments or private placements,
- shareholders and buyers of corporate debt rarely go beyond their national borders when they invest,
- many SMEs still have limited access to finance.

The CMU action plan and mid-term review contains 71 legislative and non-legislative measures, all of which provide key contributions to the CMU. Broadly, the measures aim at:³⁷

- financing innovation, start-ups and non-listed companies;
- making it easier for companies to enter and raise capital on public markets;
- investing for the long term, investing in infrastructure and sustainable investment;
- fostering retail and institutional investment;
- leveraging banking capacity to support the wider economy;
- facilitating cross-border investing.

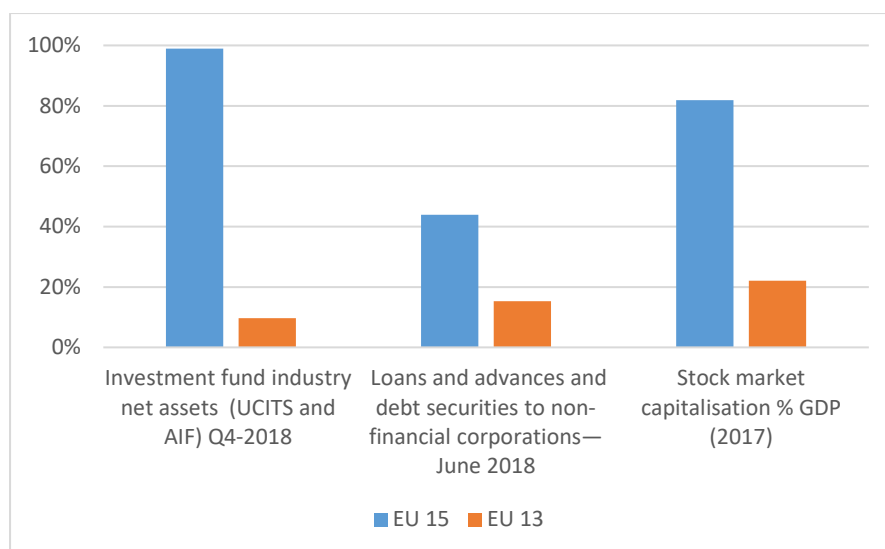
As of March 2019,²⁷ 10 out of the 16 outstanding Commission legislative proposals have reached a political agreement with the European Parliament and the Council. This includes legislative initiatives to introduce a) new EU-wide rules for products, labels and passports, b) measures to provide simpler, clearer and more proportionate rules for entrepreneurs, businesses and financial institutions, c) rules for more integrated and efficient supervision of capital markets, and d) proposals to enable the EU financial sector to lead the way towards a climate neutral, more resource-efficient and resilient circular economy.

Capital markets in EU15 and EU13

Different levels of capital market development in Member States have a direct impact on the supply of investment finance. As EFSI aims at mobilising private investment, it could also have an impact on the demand for EFSI support. Figure 25 compares the development of capital markets in EU13 and EU15.

³⁷ *Capital Markets Union: progress on building a single market for capital for a strong Economic and Monetary Union* (COM(2019) 136 final, 15 March 2019), https://ec.europa.eu/info/publications/190315-cmu-progress-report_en

Figure 25: Comparison of capital markets for EU13 versus EU15 (as a % of GDP)³⁸



Capital markets in the EU13 are significantly smaller and less developed compared to those in the EU15. This demonstrates a strong need for further deepening of capital markets in the EU13. Since EFSI is demand driven and tries to mobilise private investment, the comparatively shallow capital markets in the EU13 hinders leveraging investment and can be one of the reasons why EFSI activity in these countries is under-represented relative to their population size. This could also demonstrate gaps in supply of investment finance in these countries. Public interventions such as EFSI thus play an important role in helping address the gaps in such supply.

b. Pursuing investment-friendly structural reforms

Since 2015, the European Commission pays a particular attention to the investment environment in Member States, integrating it in the European Semester cycle analysis. In 2015, the Commission also created the Structural Reform Support Service to assist Member States in reform implementation.

European Semester

Since the launch of the Investment Plan for Europe in autumn 2014, addressing the obstacles to investment became a priority in the European Semester of economic governance and policy coordination. Since then, the Commission has mapped the relevant policy areas and identified the main challenges to investment faced by each Member State. The aim is to assist them by providing an overview of the obstacles to investment at national level and suggest appropriate reforms. Country reports have included, since 2016, a box reflecting the progress in addressing challenges to investment. The most prominent investment barriers are also reflected in the Country-Specific Recommendations (CSRs) since 2016. Table 1 indicates the investment challenges identified in EU Member States and specifies whether they were addressed by a recommendation in 2018.

³⁸ Commission analysis based on: EFAMA Quarterly Statistical Release (does not include data for Estonia, Latvia and Lithuania), EBA Risk Assessment Reports (does not include data on Poland and Romania), and www.eurocapitalmarkets.org/statistical-packages.

Table 1: 2018 European Semester recommendations

Investment Challenges		AT	BE	BG	CY	CZ	DE	DK	EE	EL*	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	UK	
Public administration/ Business environment	Regulatory and administrative burden																													
	Public administration																													
	Public procurement / PPPs																													
	Judicial system																													
	Insolvency framework																													
	Competition and regulatory framework																													
Labour market/ Education	EPL & framework for labour contracts																													
	Wages & wage setting																													
	Education, skills, lifelong learning																													
Fin. Sect. Taxation	Taxation																													
	Access to finance																													
R&D&I	Coop. between academia, research & business																													
	Financing of R&D&I																													
Sector specific regulation	Business services / Regulated professions																													
	Retail																													
	Construction																													
	Digital Economy / Telecommunications																													
	Energy																													
Transport																														

*: Until 2018, EL has been under Economic Surveillance Programme and it was not included in the 2015 exercise on barriers to investment. In 2018, there were no CSRs because EL was not included in the Semester.

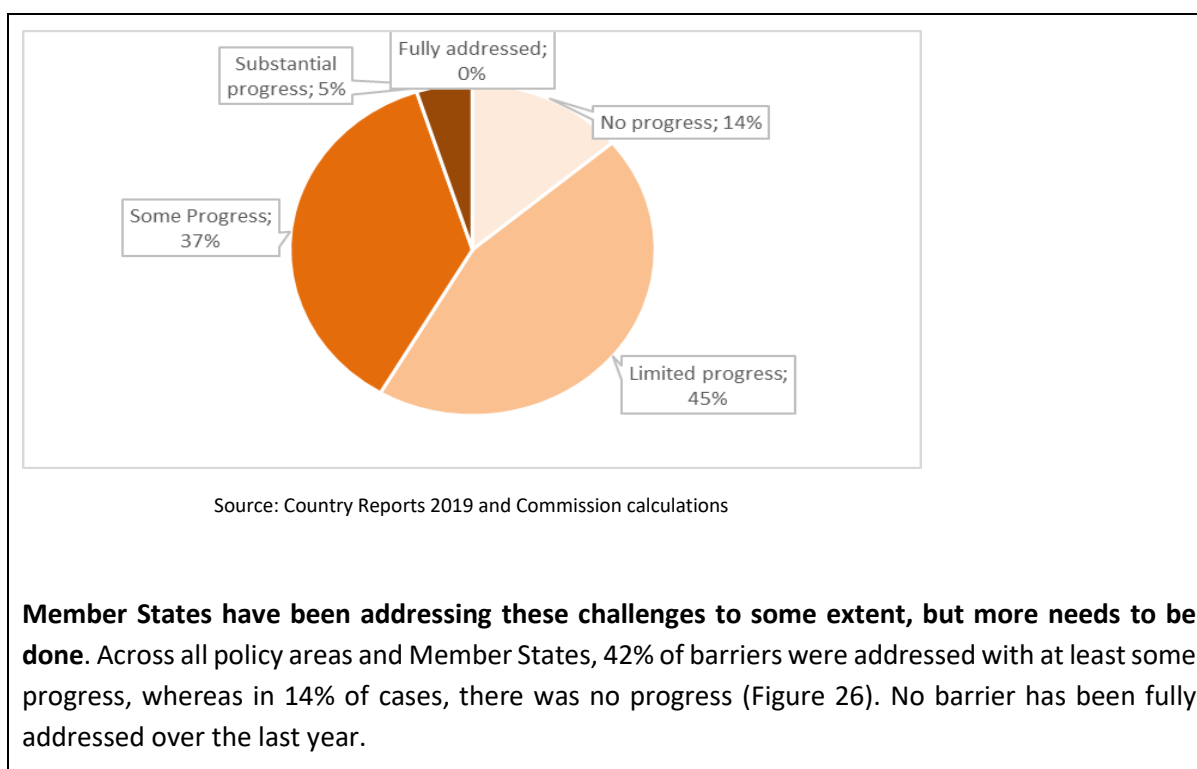
Source: European Commission

In the 2019 Country Reports,³⁹ the Commission deepens the discussion on investment challenges and priorities in Member States and sets out first ideas as to how EU funds, in particular EU Cohesion Policy funds (ESIF), can help in the forthcoming programming period 2021-2027. This is intended to ensure greater coherence between the coordination of economic policies and the use of EU funds, which constitute a significant part of public investment in several Member States. This priority is reflected throughout the Country Reports and included in a new annex, which identifies possible priority investments for EU Cohesion Policy funding in the period 2021-2027 as a starting point for the future dialogue between the Commission and Member States on how these EU funds should be targeted. In this context, CSRs now also put stronger focus on investment.

While not able to address all investment needs, the EU funds could provide considerable opportunities to tackle some concrete gaps identified in the CSRs. Indeed, while some challenges refer to larger policy frameworks and economic processes, not linked to finance, other challenges are relevant to inform, to the extent possible, implementation of EU financial instruments including EFSI. The policy areas where most barriers are identified are regulatory and administrative burden and construction (17 Member States).

³⁹ https://ec.europa.eu/info/publications/2019-european-semester-country-reports_en

Figure 26: Overall degree of progress in addressing investment barriers



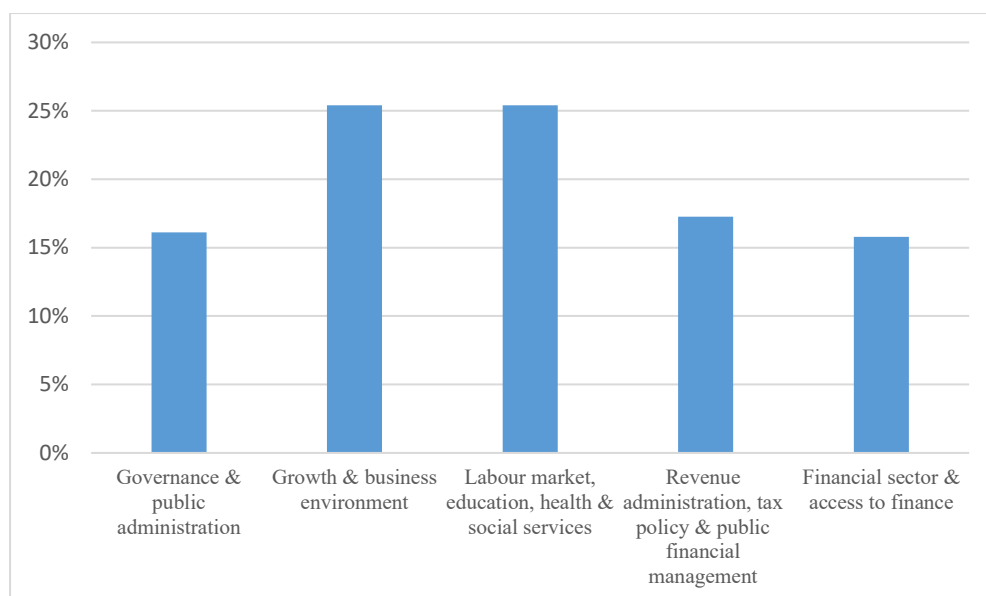
In comparison to the EU15, the EU13 economies face more severe obstacles to investment. Comparing investment challenges identified in 2019 European Semester Country Reports across Member States is difficult due to inherent differences in their economies. Yet, several patterns emerge. The assessment for the EU15 is on average more positive, and more than half of these countries face either low or moderate investment challenges. The EU 13 countries face persistent issues involving lengthy and costly licensing processes affecting sectors such as construction, energy and transport, complex procedures for enforcing contracts, lack of stability and predictability of legislation, matched with a low efficiency of the public administration. All these factors hinder both internal investment, as well as foreign direct investment and in some cases limit the absorption of the EU funds (e.g. Croatia, Romania, Slovakia).

[Structural Reform Support Service](#)

The Structural Reform Support Service (SRSS, European Commission) has a mandate to help EU Member States prepare, design and implement growth-generating reforms. The Structural Reform Support Programme (SRSP) is the main source of funding for technical support projects in EU countries. The programme has a budget of EUR 222.8m for the period 2017-2020.

As of July 2019, around 41% of completed or ongoing SRSP projects have focused on the investment environment. This mainly concerns projects related to growth and the business environment and those related to the financial sector and access to finance (Figure 27). However, projects in other areas, like governance and public administration as well as labour market, education and health and social services, could also have a positive impact on the investment environment in the long-term. This matters because public administration and lack of skills are frequently identified as investment barriers.

Figure 27: Structural Reform Support Programme projects by area of interventions



Source: European Commission

The EU13 are the main beneficiaries of the Structural Reform Support Programme (SRSP). In total, the SRSP has supported more than 600 projects across 26 Member States, with 64% of SRSP projects being located in EU13 Member States. A big part of SRSP support, 32%, has been provided to countries that were hardest hit by the financial and sovereign debt crisis like Italy, Spain, Greece, Portugal, Ireland and Cyprus.⁴⁰

The SRSS mandate

The SRSS, created in 2015, built on the EU efforts to help Greece and Cyprus overcome the effects of the euro crisis. The Task Force for Greece was created in 2011 and the Support Group for Cyprus in 2013. Following the success of these Task Forces, and considering the benefits that structural reforms can have in making economies more flexible and competitive, SRSS was conceived as a permanent structure that could serve all EU countries.

The focus is on providing tailor-made support on the ground. This includes strategic or legal advice, studies, training and in-country missions by experts. It covers the whole reform cycle - from identifying needs through implementation to monitoring and evaluating outcomes. The SRSS also undertakes special assignments to deal with specific issues faced by particular Member States.

VI. Actions taken to ensure geographically balanced EFSI activity

a. Developing finance activity and products

Since early 2015, EIB has undertaken significant efforts to deliver impact and additionality in the terms defined for EFSI, which included addressing market failures and achieving geographic spread.

⁴⁰ Cyprus is a member of EU13 and is one of the countries that suffered most during the crisis. Therefore, it is included in both EU13 and crisis hit countries statistics.

In order to deliver the greater volume of higher-risk financing required by EFSI, the EIB addressed new market segments and enhanced activity in new or less well-served geographic areas, collaborated further with new client groups, private investors and local actors such as National Promotional Banks and Institutions (NPBIs), and developed new products or product features. For instance, under EFSI, in comparison to the EIB business outside of EFSI, the share of corporate clients among all client types has increased significantly EU-wide.

As per the EFSI Regulation, and while still needing to align its activity to market cycles, market needs and geographic and sectoral patterns of demand, EIB has given particular attention to operations having a higher-risk profile and special characteristics not served by commercial lenders, in particular “features of subordination, risk-sharing, cross-Member State characteristics or exposure to specific risks, for instance risks related to new technologies or a specific geographical context.”

EIB efforts to maintain and progressively improve the geographical balance of EFSI activity are mainly geared to raising awareness on finance possibilities and improving uptake of finance in EU13 regions. This is mostly achieved via direct efforts towards origination of projects and promotion of the EFSI guarantee: prospecting the market or markets (in various sectors and regions), liaising with key local partners and economic agents, presenting the EFSI guarantee and its specific features and favourable finance conditions, help structure a product that is adapted and affordable to project promoters and consortiums. These efforts are led by EIB’s dedicated regional and country divisions, which hold the local knowledge in the EIB, together with country economists. Country expertise is then complemented by sector or market area specialists.

Table 1: Examples of outreach activities by EIB operational departments (May and June 2019)

Country	Event
Poland	European Economic Congress
Poland	European Financial Congress
Poland	Corporate Finance and Banking Congress
Poland	Dairy Cooperative Forum
Bulgaria	BDB Forum – Roads to Partnership
Bulgaria	Strategic Infrastructure Transport Conference
Bulgaria	Round Table on InvestEU
Bulgaria	Plovdiv Economic Forum
Romania	PPP Workshop
Hungary	Seminar on Energy Efficiency and Renewable Energy

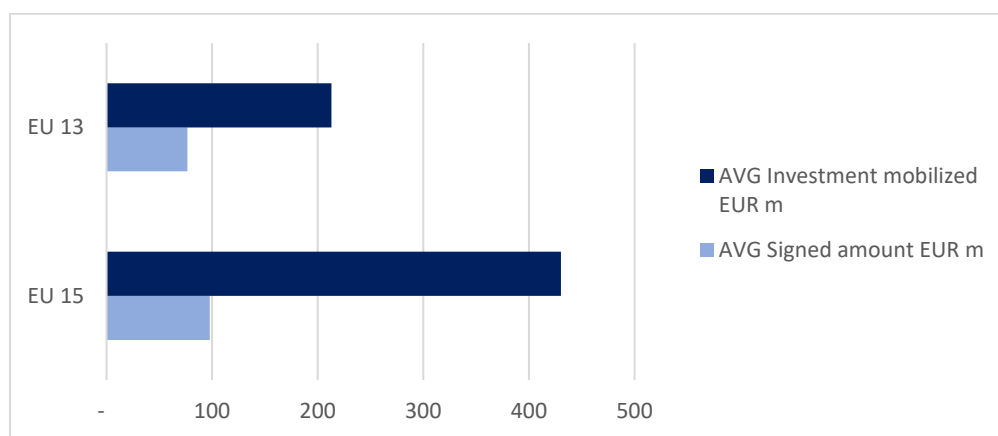
Source: EIB

These geographic diversification efforts have paid off. The EIB Group, thanks to EFSI’s enhanced risk bearing capacity and increased origination and marketing efforts, has managed to expand its geographical outreach covering new market areas and reaching new clients. Direct corporate financing, through debt or equity, is one of the areas where the EIB has significantly diversified its client base and portfolio of operations leveraging on the EFSI guarantee. By reaching to riskier projects, the EIB has financed new projects with new clients in several EU13 countries such as Lithuania, Poland or Bulgaria. This has led to a higher share of corporate clients in EU13 under EFSI, in relation to EIB business outside EFSI, in line with the EFSI orientation towards the private sector.

A gap can still be appreciated between EU15 and EU13 with regard to the borrower type under EFSI, though it is decreasing. The share of operations with corporates (including project finance) in the EU15 is typically higher than in EU13. Operations with financial institutions are comparable and operations with public sector counterparts cover a higher percentage in EU13 than in EU 15.

EFSI adapts to market conditions and in EU13 on average serves smaller operations. Access to finance for smaller projects is part of EFSI’s original aims. The average project size and average external multiplier are both lower in EU13 than in the EU15 (Figure 28), in part due to the bigger share of debt-type operations in EU13, which typically have a lower external multiplier than equity-type operations. Despite this, EFSI benefits in the EU13 region are in line with the EU average (see ‘Macroeconomic impact of EFSI’, p. 12).

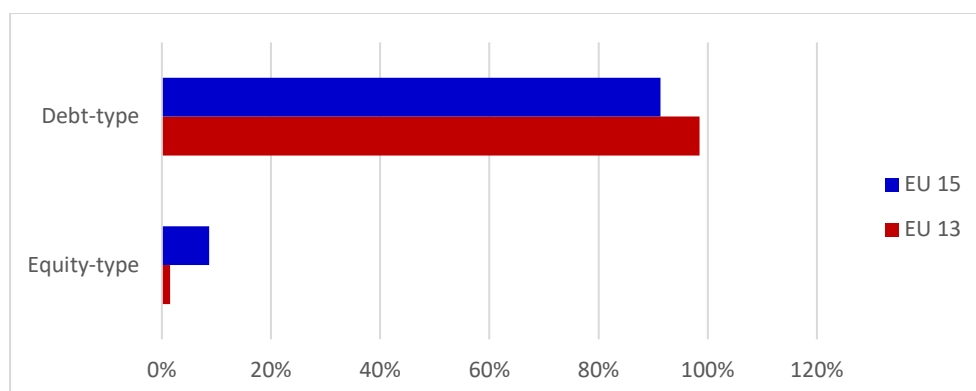
Figure 28: Average EFSI financing and Investment Mobilized (operations signed by end-2018)



Source: EIB

In both regions, debt type operations cover the majority of the EFSI portfolio (92% in EU15 vs 98% in EU13) with equity-type being significantly less in EU13 (8% vs 2%) (Figure 29).

Figure 29: EFSI financing by type of portfolio (operations signed by end-2018)



Source: EIB

Further analysis of the EFSI portfolio shows that the time required to originate and execute EFSI operations in EU15 and EU13 is comparable. Despite the alleged complexity and cost of originating operations in EU13, this is no obstacle for EIB operational teams: on average it takes about the same time to transact, from origination to first signature, an EFSI operation in EU15 and EU13. Adding to the analysis the time to first disbursement, operations in EU13 are processed a bit slower mainly due to a more challenging economic and regulatory environment (linked to conditions precedent to disbursement) but also linked to a higher share of public borrowers, who on average take longer to process disbursement requests.

EIB policies, procedures and working methods are aligned across the various geographic areas and across projects and product types, sectors and customer groups. The delivery time varies between different client groups and product types, not between geographic areas. In general, Multi-Beneficiary Investment Loans (with financial institutions) are the fastest to process while operations with public borrowers and project finance operations have the longest project cycle.

The EIB has developed new tailored products under EFSI. As the EFSI operations generally fall under EIB's Special Activities risk category, the lending activity has been expanded towards the higher risk spectrum supported by the development of new products (e.g. deeply subordinated corporate hybrid bonds) oriented to new market areas and clients. The development of new risk-sharing instruments and the use of loan substitutes (i.e. ABSs and Covered Bonds) have been well received by the EU markets, including those located in EU13 countries.

However, more sophisticated products and risk-sharing features are less well absorbed by EU13 markets. The general EFSI objective of pursuing higher-risk and more advanced products can also act to some extent as a deterrent to geographical diversification, as less advanced markets in EU13 are less well prepared to absorb, and de facto absorb less, of these more innovative and riskier products (among other concerns, due to lack of awareness, capacity issues, but also limited appetite to structure and price more sophisticated products). Similarly, cooperation with NPBIs using more advanced forms of risk-sharing and, to some extent, complex products like Investment Platforms, requires more developed NPBIs which are more frequently located in EU15 countries.

As an example, venture debt was a product for which dedicated efforts were needed for uptake in EU13 countries. An EFSI-created product, the European Growth Finance Facility (EGFF) provides venture debt, which is a derivative instrument to the venture capital industry. EGFF follows closely the

cycles and geographical and sector concentrations of the venture capital markets in Europe. Implementation of this product resulted in some geographical concentration of the EGFF portfolio in its initial ramp-up stage. However, the EIB worked so as to actively diversify the portfolio in geographies that are relatively underserved by the venture capital industry. Efforts led to the EGFF portfolio including innovative companies in countries which have historically received low EFSI support e.g. Estonia, Latvia, Hungary and Croatia, with operations developing in additional EU13 countries.

Finally, local EIB Group offices, working in close cooperation with the Bank's operational and advisory teams (as well as with the EC Representations), also have a key role in uptake of EFSI in the EU13 region thanks to their everyday presence on the ground, contributing for instance to: explaining in bilateral meetings how EFSI operates, to both existing EIB clients (for new projects) and new promoters; first screening of project proposals; directing promoters to other services of the EIB Group i.e. advisory for projects at definition stage and operational teams for more mature projects; ongoing promotion of EFSI-related activities in regional or local public events, seminars, conferences, with relevant audience groups and thematic focuses (e.g. energy, transportation, SMEs).

b. Supporting finance activity and advisory

In addition to the promotion efforts delivered by the operational departments and the local offices in the Central, Eastern and South-Eastern Europe (CESEE) countries, the EIB has deployed its Advisory Services (in particular under the initiatives co-financed by the EU Budget, the EIAH⁴¹ and the *fi-compass* advisory platform)⁴² to complement the lending teams. The CESEE region having significant access to ESIF, the EIB undertook a number of assignments to scope and advise on the potential to combine EFSI and ESIF resources in financial instruments and Investment Platforms.

Advisory activities delivered under the EIAH mostly benefit 'less developed' regions of the EU. More than one half of the requests screened and processed by EIAH⁴³ come from cohesion countries and regions,⁴⁴ while over three quarters of the advisory assignments undertaken are with beneficiaries located in these regions.⁴⁵ The top beneficiary countries of EIAH assignments are Romania, Bulgaria, Greece and Poland. In terms of progression of projects towards EFSI backed financing, EIAH passed over 50 project/platform leads to the EIB operational teams, half of which were earmarked as possible EFSI operations (proceeding to appraisal, approval and signature as relevant) and well over one half of these originated from cohesion countries.

⁴¹ The European Investment Advisory Hub (EIAH) is a joint initiative of the EC and EIB and part of Pillar 2 of the Investment Plan for Europe.

⁴² *fi-compass* is a platform for advisory services on financial instruments under the European Structural and Investment Funds (ESIF). *fi-compass* is provided by the Commission in partnership with the European Investment Bank.

⁴³ All advisory requests are processed by the EIAH and addressed individually in coordination with the sender. A proportion of these lead to advisory assignments where EIB staff and/or external consultancies are assigned to provide dedicated advisory services.

⁴⁴ Cohesion countries are, by mandate, a key target group of EIAH support. This group, as identified in the Cohesion Fund, includes EU13 countries, Greece and Portugal.

⁴⁵ Based on 1,071 requests processed until end April 2019, excluding no-country-specific requests and including requests supported through the EBRD Advice for Small Businesses programme.

Many assignments in cohesion countries also take the form of capacity building, awareness-raising and other upstream activities. To date, EIAH has processed more than 60 requests that involved elements of capacity building for National Promotional Banks and Institutions (NPBIs) or public authorities, 80% of which were from the cohesion region. The capacity building requests typically address institutional development, financial instruments/Investment Platforms or project level support. These activities generally have a stronger impact on future projects and a longer lasting effect than assignments dedicated to one specific project.⁴⁶ The assessment of the geographical balance of advisory activities should therefore also consider the type of assignments (not only their number) and their long-term impact in the beneficiary countries.

Local presence of EIAH is concentrated in cohesion countries. The EIAH regularly engages experts from EIB's Advisory Services and other services to work on-site with project promoters, NPBIs and public authorities. Organisationally, the EIAH is a part of the EIB's Advisory Services, of which over 40% of expert staff are based in several cohesion Member States to ensure local knowledge is built into their advisory work. Experts of JASPERS⁴⁷ and other Advisory Service divisions (including EIAH) are based in offices across Bucharest, Vienna, Brussels, Warsaw and Sofia, which facilitates sharing of local knowledge and expertise across the services.

The EIAH is also working closely with NPBIs and focuses in particular on building relationships with NPBIs from cohesion countries. The partnership between NPBIs and the EIAH is governed through Memoranda of Understanding (MoU), which foresee an active role for NPBIs in supporting project development at regional and national level. In cohesion countries, the EIAH support has been specifically focused on building NPBIs' capacity with the aim to create a level playing field for development of EFSI projects. This cooperation has resulted in increased activity on both institutional and project levels.

In addition, the EIAH is regularly organising different types of events for NPBIs with the aim to facilitate knowledge exchange and peer-to-peer learning. The annual EIAH Days events and in-country EIAH Roadshow are well established as delivery formats. Of 10 Roadshow events to date, 9 have been organised in cohesion countries and have focused on a variety of topics, such as Investment Platforms, energy efficiency, smart cities or support for SMEs.

The EIAH is addressing specific challenges of SMEs through partnerships. In addition to its collaboration with SME-focused European and national institutions, the EIAH has engaged with the European Bank for Reconstruction and Development (EBRD) to provide direct support to SMEs operating in challenging environments with limited availability or access to professional business advice. SMEs in Bulgaria, Croatia, Greece and Romania are receiving direct advisory through the EBRD's Advice for Small Businesses (ASB) programme. The programme is currently ongoing and aims to support over 250 advisory projects and complementary activities in the four Member States.

⁴⁶ Examples of such activities and ensuing results include setting up of a regional advisory and investment platform based in Slovakia, a micro finance intermediated operation in the French Outermost Regions, joint work with NPBIs on developing Investment Platforms in several countries (Table 3), support to authorities in developing PPP and Energy Performance Contracting (EPC) concepts, upgrade of strategic investment planning in Croatia, or regional seminars for NPBI with coaching on specific topics.

⁴⁷ JASPERS (Joint Assistance to Support Projects in European Regions) is a technical assistance partnership between the EIB and the Commission, within the framework of EU Cohesion Policy.

The EIAH is currently developing additional means of capacity building, specifically targeted to NPBI from cohesion countries. NPBI coaching seminars are being developed to facilitate focused discussions around NPBI specific themes.⁴⁸ Finally, the EIAH is also offering grant-funding support for NPBI through a continuous Call for Proposals.⁴⁹

Table 3: Examples of EIAH support to Investment Platforms (IP) in Cohesion Countries

Country	Sector	Description
Slovakia	Smart cities, Energy Efficiency	Feasibility in cooperation with Slovak Investment Holding (SIH). Potential to create an IP and combine EIB lending with ESIF Financial Instruments
Hungary	Municipal investment	Feasibility in cooperation with Hungarian Development Bank (MFB). Potential to create an IP platform and combine EIB lending with ESIF Financial Instruments
Croatia	Smart cities and islands	Support to Ministry of Regional Development (MRDEUF) and indirect to Croatian Bank for Reconstruction and Development (HBOR) in identifying a potential to create an IP that combines EIB funding with ESIF and other financial instruments
Czech Republic	Energy efficiency	Feasibility to establish an IP to finance ESCOs and other players undertaking Energy Performance Contracts
Bulgaria	Multi sector	Support for Fund Manager of Financial Instruments in Bulgaria (FMFIB) to develop a multi-sector investment strategy, financial product and intermediary selection process for an IP targeting the urban sector
Greece	Social enterprises	The Hellenic Fund for Entrepreneurship and Development (ETEAN) indirectly involved in feasibility for Ministry of Labour regarding an IP for social enterprise investment in Greece

Source: EIB, EIAH.

Under the *fi-compass* platform, the EIB is actively providing advisory support to ESIF Managing Authorities interested in taking advantage of the Omnibus Regulation and, in addition to the areas listed in Table 3 by EIAH, is actively working on EFSI-ESIF combinations in the following areas:

- General awareness-raising activities through specific EFSI-ESIF combination presentations at EIAH roadshows;
- Awareness-raising events targeting Managing Authorities across the EU; a case study of practical combinations of EFSI-ESIF has been developed;

⁴⁸ Different themes and delivery formats are being conceived following a survey of demand among NPBI. The first series of such seminars, covering PPPs, Energy Performance Contracting and Investment Platforms, was delivered in Budapest in June 2019.

⁴⁹ The Call is published on the EIAH website: <https://eiah.eib.org/about/local-delivery-of-investment-advisory>

- Coaching of Managing Authorities and in some instances feasibility work (e.g. facilitating EFSI-ESIF combinations in the agriculture sector of Greece; work is underway to explore similar combinations in Slovakia and Slovenia).

c. Supporting the structural economic and investment shifts

The EIB has taken various steps to raise awareness and support the need to increase investment and improve the innovation capacity of the EU13 region. The steps go well beyond the provision of information and knowledge materials. The EIB organizes events and participates in fora that make the case for a reorientation of the region's growth model. National-level conferences serve as a platform for the EIB Group to demonstrate its commitment in understanding how it can optimally contribute to economic needs at country level by leveraging EIB economic research results, particularly from EIBIS and the Investment Report. These conferences (Table 4) are organised with the National Central Bank and/or the Ministry of Finance of the concerned country.

Table 4: Conferences in the EU13 organized by the EIB Economics Department

Date	Country	Partner Institution	Participants
11/03/2019	Poland	National Bank of Poland	
05/12/2018	Bulgaria	Chambers of Commerce, AT, EL, DE, FR, IT	60
04/12/2018	Romania	National Bank of Romania	100
05/11/2018	Czech Republic	Commerzbank and Czech National Bank	
31/05/2018	Cyprus	Nicosia Chamber of Commerce and Industry	205
03/05/2018	Estonia	Eesti Pank Estonia	25
13/05/2018	Poland	National Bank of Poland	208
07/03/2018	Croatia	Croatian National Bank	126
16/11/2017	Slovenia	Bank of Slovenia	187
31/10/2017	Malta	Central Bank of Malta	137
21/06/2017	Romania	National Bank of Romania	177
06/06/2017	Czech Republic	Czech National Bank	158
27/02/2017	Poland	National Bank of Poland	75

Source: EIB.

In the context of the Vienna Initiative (Working Group on Financing for Innovation in CESEE), EIB has proposed to set up a Working Group on IFI financial products supporting investment. The Working

Group was established in 2017, and representatives from both public and private institutions from the CESEE countries as well as IFIs were invited to participate. The objectives of the working group focused on enhancing the supply of investment finance and include:

- Identify the markets gaps and priority policy areas for investment that are best served by financial products offered by international financial institutions (IFIs),
- Support the development of appropriate combinations of instruments to meet investment needs of the CESEE region,
- Contribute to the debate on shaping the next generation of IFI products.

The final report of the Working Group was endorsed by the Vienna Initiative Full Forum on 28 March 2019. As a follow-up to the working group, the EIB will organise a permanent consultation group with commercial banks, IFIs and the EC, under the EIB lead, to discuss the effectiveness of IFI products and financial instruments. The EIB will also lead the Vienna Initiative consultation with the European Commission (DG ECFIN and DG FISMA) on the effectiveness of existing products offered by IFIs.

In addition, the EIB is co-chairing a second Vienna Initiative forum – the Working Group on Financing for Innovation. The group was established in 2018 and is chaired jointly by EIB and EBRD. The working group is focusing on comparatively weak innovation performance and the need to strengthen productivity growth. The objectives of the working group include a mapping of the innovation ecosystem in CESEE and a review of the financing options for innovative companies in the region. The working group is to develop policy recommendations, including for the role of IFIs. The working group is a good example of new areas of activity of the Vienna Initiative, addressing economic problems in the CESEE region. It succeeded in bringing new players to the table, including stakeholders from venture capital, business angels, fintech, business accelerators, venture capital associations and crowdfunding institutions.

For the third consecutive year, EIB is organizing a course entitled “Investment and Investment Finance - Guiding Principles and the EIB Group Expertise” at the Joint Vienna Institute. The course analyses investment and investment finance in Europe, with a geographical focus on the CESEE region. It addresses macroeconomic issues and sectorial specificities. In case studies, participants (including public officials and economic actors at different levels) develop strategies for public support to investment. In addition to disseminating knowledge, the course strengthens operational links between EIB and representatives of its partner countries. Course participants can become EIB entry points in their respective administrations. The programme results in increased visibility of EIB lending opportunities in the CESEE region and ultimately facilitates the development of bankable projects.

VII. Conclusions

More EFSI-type of investment in the EU13 can contribute to sustainable long-term economic convergence across the Union. Compared to the EU15, the EU13 receive less EFSI financing on a per capita basis, even though the EU13 share of total EFSI lending exceeds their economic weight in the Union as measured both by GDP and GFCF. The study argues that higher investment rates are necessary to expand and upgrade the current capital stock in the less advanced economies of the EU. At the same time, the study observes a gap between long-term investment needs and current investment demand. Moreover, differences are also observed between individual Member States (regardless whether in EU15 or EU13) which do not seem to be related to the development of their economies and which also affect the geographical distribution of EFSI.

The EFSI Strategic Orientation defines geographical concentration in terms of the share of the top three beneficiary countries in addition to all EU Member States being covered. Excessive EFSI geographical concentration in these terms was observed only in the very beginning of EFSI implementation. At the end of 2015, a diversified portfolio had not yet been established and the share of the three largest recipient Member States exceeded the geographical concentration limit set for IIW. Strong progress was made and, since Q4 2016, the share of the three largest recipients has been close to the indicative concentration limit (and often underneath). At the end of Q1 2019, however, the three largest recipients accounted for 47% of signatures, slightly exceeding the indicative limit. The share of approved operations is 44% and it may be expected that, once these operations are signed, the indicative limits could be met by end of the investment period.

Despite a need to adopt a growth model that grants a greater role for innovation, the study documents a so far limited take-up of innovation finance in the EU13. Average R&D expenditure continues to lag behind that of the EU15. This can be partly attributed to suboptimal framework conditions, including the business environment, the availability of skilled staff (or brain drain), and the overall quality of scientific output. This may result in a relative dearth of firms that qualify as counterparts for direct operations under the IIW. At the same time, among the firms that are potential counterparts for RDI financing there may still be limited awareness of EFSI.

Aspects of the institutional framework appear to tilt the absorption of EFSI financing in favour of the EU15. The study shows that co-financing possibilities have not been used to the same extent by EU13 NPBIs than those in the EU15. Likewise, there are few Investment Platforms with EU13 counterparts. This suggests a continued need for building local capacity. Perhaps this also reveals an inherent tension between the delivery of sophisticated financial products and maximizing outreach. Moreover, many EU13 Member States are large beneficiaries of European Structural and Investment Funds (ESIF), providing a simpler and cheaper source of funding. The adoption of the Omnibus Regulation has not solved the complexity entailed in the combination of ESIF and EFSI nor incentivised demand at origin for mixed funding at the desirable levels.

The study has documented considerable efforts on the side of EIB and the Commission to facilitate a more balanced geographical distribution of EFSI financing. These efforts focus on originating projects in the EU13, by addressing new market segments and client groups, and developing new products or product features. In addition, the EIB Group and the Commission have carried out multiple awareness-raising actions focused on the EU13. Through outreach activities and knowledge products, the EIB has also made the case that for continued economic convergence a stronger capacity for innovation is paramount.

The Commission and the EIB have launched capacity building and advisory support initiatives that seek to reduce the gap between long-term investment needs and current demand. The study has described the activities of the SRSS and the EIAH. The SRSS helps EU Member States prepare, design and implement growth-generating reforms, whereas the efforts of the EIAH target project development and support to NPBIs. In both cases, EU13 Member States are the main beneficiaries. It is important to have realistic expectations as to what capacity building and technical assistance can achieve in just a few years. On the other hand, capacity building and advisory support promise returns that exceed the time horizon of EFSI.

Despite the limitations identified in this study, a macroeconomic impact assessment documents the considerable benefits of EFSI. According to the computable general equilibrium model RHOMOLO-

EIB, the Member States most severely affected by the crisis benefitted the most from EFSI. However, the impact on the CESEE region is in line with the EU average and amounts to about 230,000 jobs and 1.2% of GDP by 2020, of which 180,000 jobs and 1% of CESEE GDP are expected to remain by 2036.

Monitoring country investment absorption capacity and continued assessment of obstacles to investment demand could contribute to understanding the geographical diversification of EFSI financing. EFSI is a demand driven instrument that operates without country quotas as decided by the legislative authority. This study has discussed factors that to varying extents limit investment absorption capacity in the EU13, and perhaps some other Member States, to levels below their long-term investment needs. It has also noted that even when GDP and population are controlled for, there are considerable inter-state differences in EFSI usage. To ensure maximum effectiveness of EFSI, continued efforts are needed to monitor country absorption of EFSI financing through appropriate indicators. Moreover, the overall country investment absorption capacity and the extent to which local conditions create obstacles to natural demand for EFSI will continue to be further analysed in cooperation between the Commission and the EIB notably in the context of the European Semester.

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