European Investment Bank Cohesion Orientation 2021-2027

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European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
+352 4379-1
info@eib.org
www.eib.org
twitter.com/eib
facebook.com/europeaninvestmentbank
youtube.com/eibtheeubank

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Introduction

Cohesion policy is unique to the European integration process. It aims to help each region achieve its full potential, and to bring about a convergence of living standards and prosperity across the European Union. Cohesion was one of the original reasons behind the creation of the European Investment Bank (EIB) in 1958, and continues to be one of its priorities.

The EIB's cohesion financing supports projects in EU regions with a lower gross domestic product (GDP) per capita. The EIB complements EU grants with loans and other financial instruments as well as advisory services for projects and programmes that support economic, social and territorial cohesion. EIB-supported Cohesion projects seek to address inequalities by providing job and education opportunities, access to public infrastructure and services, and a healthy and sustainable environment. EIB support to productive investments is also key to reducing regional economic disparities and to enabling a thriving economy across the entire European Union.

In October 2020, IG/EV presented to the Board of Directors the evaluation of EIB cohesion financing 2007-2018. While the evaluation found that the EIB's cohesion financing supports operations that are relevant to cohesion regions' needs, recommendations were made to improve the Bank's cohesion action.

The main recommendation was the development of an orientation paper that articulates how the EIB's cohesion financing aims to contribute to economic growth in less developed regions and the reduction of disparities in the European Union. The cohesion orientation presented here aims to address this particular recommendation and to set out the way forward in terms of cohesion action for 2021- 2027.

This document is organised around four main sections as follows. The first section presents the context of this cohesion orientation with regard to the recommendations of the EIB's operations evaluation division (IG/EV) evaluation of EIB cohesion financing 2007-2018 as presented to the Board of Directors in 2020. The second section presents EU policy background and the EIB's role in supporting cohesion policy. The third section discusses the evolving context in cohesion regions and the integration of new challenges in defining the future of cohesion. Lastly, the fourth section proposes a cohesion orientation including a revised ambition and a strategy to tackle new cohesion challenges.

A midterm review will take place in 2023.

1. Background

In October 2020, IG/EV presented to the Board of Directors the evaluation of EIB cohesion financing 2007-2018. Five recommendations were made to improve the Bank's cohesion action. The recommendations and the actions taken may be summarised as follows:

- **Recommendation 1** Develop an orientation paper that articulates how its cohesion financing aims to contribute to the development of less developed regions and the reduction of disparities in the EU. The cohesion orientation presented here aims to address this particular recommendation and to set the way forward in terms of cohesion action for 2021- 2027.
- **Recommendation 2** Reconsider the pros and cons of applying EIB's "cumul rule" to Structural Programme Loan operations, so that cohesion regions can make the most of combining ESIF and EIB co-financing. This recommendation was closed following the Board discussion on 3rd February 2021 when it was decided to maintain the existing approach to this question.
- **Recommendation 3** Clarify the eligibility of operations in pre-accession countries under the cohesion KPI and exclude EFTA countries from the list of eligible areas. This recommendation was implemented in December 2020[1]. The new eligibility criteria excludes both EFTA and Pre Accession countries from reporting on the cohesion COP Objective for all EIB operations signed as from January 2021.
- **Recommendation 4** Strengthen the reporting system with regard to amounts signed and actually invested at NUTS 2. The Management Committee agrees that the EIB should have robust reporting systems. The services are currently working on cohesion reporting and will propose improvements by the end of 2021.
- **Recommendation 5** Strengthen project appraisal documentation with a narrative explaining how a project is expected to address market failures or suboptimal investment situations in cohesion regions. A narrative aligned with the new Additionality and Impact Measurement Framework (AIM) was introduced for new appraisals in May 2021 and will be presented to the Board of Directors from May 2021.

By the end of 2021, all recommendations following the evaluation of EIB cohesion financing 2007-2018 will have been implemented. The cohesion orientation, presented here, should be considered in the context of the other recommendations implemented, in particular the new geographical scope of cohesion, which is now limited to EU regions.

[1] "New eligibility for the Art 309(a) for 2021- 2027 programming period and review of the contribution of non-EU countries towards the Cohesion objective", submitted to the BoD for information at the December 2020 meeting

2. Cohesion: EU and EIB raison d'être

2.1. EU Policy background

The EU cohesion policy's objective is to ensure the economic, social and territorial cohesion between the EU regions. It contributes to the harmonious development of the Union and reduces the risk of fragmentation of the bloc by tackling economic and social disparities between EU regions. Disparities go beyond simple differences in regional GDP and include other inequalities such as differences in opportunities or increased exposure to globalisation and climate risks.

The cohesion policy may be understood as the "visible hand" of the European Union, fostering economic integration throughout its territory. Its basis comes from the political agreement that EU internal market policies should be accompanied by support in order to ensure that the advantages of a common economic area are exploited and distributed equally across EU regions.

cohesion policy is at the origin of the European Union and is central to many EU policies and initiatives. The goal of reducing regional economic and social disparities was introduced in the Preamble to the Treaty of Rome in 1957. Signatory states declared that they were "anxious to strengthen the unity of their economies and to ensure harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions" through the European Economic Community. While the Treaty of Rome did not yet create a real cohesion policy, it introduced three instruments addressing regional imbalances**.** The first instrument was the EIB, whose task was to grant loans and supply guarantees for the financing of development projects in developing and restructuring regions. The second instrument, the European Social Fund (ESF), was tasked with sustaining and improving mobility in the European labour market, and the third instrument, the European Agricultural Guidance and Guarantee Fund (EAGGF), provided support for underdeveloped rural areas.

The Single European Act in 1986, transformed the objective of "economic and social cohesion" into a Community goal. This goal was subsequently extended by the Lisbon Treaty to include "territorial cohesion". It is now incorporated in Article 3(3) TEU, Article 4(2)(c) and Title XVIII (Economic, social and territorial cohesion) including Articles 174-178 of the Treaty on the Functioning of the EU (TFEU) and accompanied by Protocol No. 28.

Economic, social and territorial cohesion is therefore one of the fundamental principles and shared competences of the European Union with the objective of fostering the "harmonious and sustainable development" of the Union as a whole.

2.2. EIB « raison d'être »

Financing projects that contribute to strengthening the economic, social and territorial Cohesion of the European Union has been one of the EIB's *raisons d'être* since its creation. The EU Treaty entrusts the EU Bank with supporting the development of the internal market and the reduction of regional disparities in the European Union, notably by facilitating the financing of projects in less developed EU regions (Box 1).

Box 1: EIB Cohesion action defined by the Treaty on the Functioning of the EU (TFEU)

<u>Protocol No 28</u>

"The High Contracting Parties reaffirm their conviction that ***the European Investment Bank should continue to devote the majority of its resources to the promotion of economic, social and territorial cohesion, and declare their willingness to review the capital needs of the European Investment Bank as soon as this is necessary for that purpose"***

<u>Article 309</u>

"The task of the European Investment Bank shall be to contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the internal market in the interest of the Union. For this purpose the Bank shall, operating on a non-profit-making basis, grant loans and give guarantees which facilitate the financing of the following projects in all sectors of the economy:

a) projects for developing less developed regions;

b) projects for modernising or converting undertakings or for developing fresh activities called for by the establishment or functioning of the internal market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States;

c) projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States.

In carrying out its task, the Bank shall facilitate the financing of investment programmes in conjunction with assistance from the Structural Funds and other EU Financial Instruments."

Therefore, EU Cohesion has been at the heart of EIB operations since its foundation in 1958. **Cohesion is an integral part of the EIB's core activity and is enshrined in its Statute**.

Since the Treaty of Rome, there have been six other major EU treaties as well as several minor amendments to the texts through accession and other agreements.[2] Yet the EIB's core objective – to contribute to the balanced development of the internal market – has remained the same, as has its first operational goal: supporting projects in less developed regions.

[2] EEC-ECSC-Euratom merger treaty (entry into force: 1967), Single European Act (1987), Maastricht (1993), Amsterdam (1999), Nice (2003) and Lisbon (2009).

Cohesion remains a top transversal priority for the Bank. The EIB Group as the EU Bank is committed to support EU Cohesion policy[3] as it has done since its creation.

Box 2: Territorial Agenda 2030
The Territorial Agenda 2030, adopted in December 2020 and supported by the EIB, is a strategic policy document for Europe, its regions and communities. It strengthens the clear *raison d'être* for the EU cohesion policy to achieve balanced territorial development across Europe and provides a strategic orientation framework for action towards territorial cohesion and a sustainable future for all places in Europe. The Territorial Agenda 2030 defines two overarching objectives, a Just Europe and a Green Europe, with the following six priorities: Balanced Europe, Functional Regions, Integration Beyond Borders, Healthy Environment, Circular Economy, Sustainable Connections.

2.3. Cohesion and EIB PPG framework

As a core activity of the EIB, Cohesion is logically a key element of the EIB Public Policy Goals (PPG) framework. The PPG framework reflects the EIB's lending priorities, which were introduced as part of the first Corporate Operational Plan (COP) in 2000. It is rooted in the requirement to ensure alignment of EIB long-term sustainable objectives with the political priorities set by the EU. The PPGs enable the Bank to achieve a balanced mix of financing across different policy areas and provide a clear framework for communication about and reporting on the EIB's lending within the overall Operational Planning framework and in line with its impact ambition.

The current framework as presented in the Operational Plan 2021 comprises two horizontal PPGs and four vertical PPGs:

- Horizontal PPGs
    - Economic and Social Cohesion
    - Climate Action and Environmental Sustainability
- Vertical PPGs
    - Sustainable Cities & Regions
    - Sustainable Energy & Natural Resources
    - Innovation, Digital & Human Capital
    - SMEs & Mid-cap Finance

While economic development and financing needs vary from one EU region to another, the PPG framework is flexible enough to adapt EIB action to local economic situations while maintaining a robust target setting and reporting system aligned with EU priorities. EIB action in Cohesion regions thus remains fully and appropriately embedded in the current PPG framework.

[3] It is acknowledged that social cohesion is as important in disadvantaged neighbourhoods of wealthy towns and regions as it is in less developed regions. Nonetheless, the EIB follows the map-based regional approach of the EC in reporting on its Cohesion lending. This is why lending to more developed EU regions is not reflected in the Bank's Cohesion figures even though the Bank finances projects fostering social cohesion in these regions, e.g. social and affordable housing and education and health infrastructure.

2.4. EIB Lending in Cohesion areas

In the period 2014-2020, the EIB provided 30% of its EU-27 lending (i.e. EUR 120.8 billion) to projects in EIB Cohesion Priority regions (less developed and transition regions). In 2020 alone, this amounted to EUR 19.5 billion. Lending in cohesion areas covers the full spectrum of economic activity, which can be re-grouped under EIB Public Policy Goals for the corresponding period[4] (Table 1).

Table 1. Share of EIB Public-policy goals in total lending to EU-27, 2014-2020

		Horizontal policy objectives		Vertical PPGs				
	EIB lending (EURm)	Cohesion	Climate Action	Environment	Innovation, Digital & Human Capital	Infrastructure	SME/ Mid-cap	Consolidated CA&ES share*
EU-27	402,104	30%	27%	22%	23%	24%	31%	32%
of which: EU-27 Cohesion lending	120,758	100%	23%	18%	19%	32%	31%	29%

Notes: * EIB estimate

EIB lending activity in cohesion areas differs slightly from overall EIB lending in EU-27. A review of lending activity over the 2014-2020 period shows the following:

- Cohesion lending represented the target of 30% of total EU-27 lending, a share well above the weight of the Cohesion priority regions in economy-wide fixed investment in the EU (21%);
- While Climate Action lending in Cohesion areas (23%) is significantly below Climate Action lending in the EU in general (27%), once Environmental Sustainability lending is taken into account (as it is since January 1st 2021), the gap becomes narrower (29% in Cohesion areas vs 32% in the EU 27).
- Lending for Innovation, Digital and Human Capital as well as Environmental Protection are also lower in Cohesion priority regions (19% and 18% respectively) compared with the average percentage in the EU-27 (23% and 22% respectively);
- By contrast, Infrastructure lending is significantly higher in Cohesion priority regions (32%) than overall (24%);
- The SME/Mid-caps share is the same in Cohesion and non-Cohesion lending.

However, it should be noted that these aggregated statistics hide significant variations between countries, notably:

4 EIB PPG presented here are for the corresponding period 2014-2020 before PPG revision as presented in the Operational Plan 2021.

- The CA&ES share ranges from 10% in Malta to around 50% in Sweden, Austria and France;
- The share of the Innovation, Digital and Human Capital PPG is highest in Denmark (59%) and lowest in Croatia and Slovakia (7%);
- The Infrastructure PPG ranges from 0% in Luxembourg to 46% in Croatia; and
- A number of countries in CEEC and southern Europe have very high SME shares in total lending (Bulgaria, Czech Republic, Croatia, Spain, Italy, Portugal). The highest SME shares are observed for Croatia and Spain (close to 60%), while the lowest are in Sweden (4%) and Finland (7%).

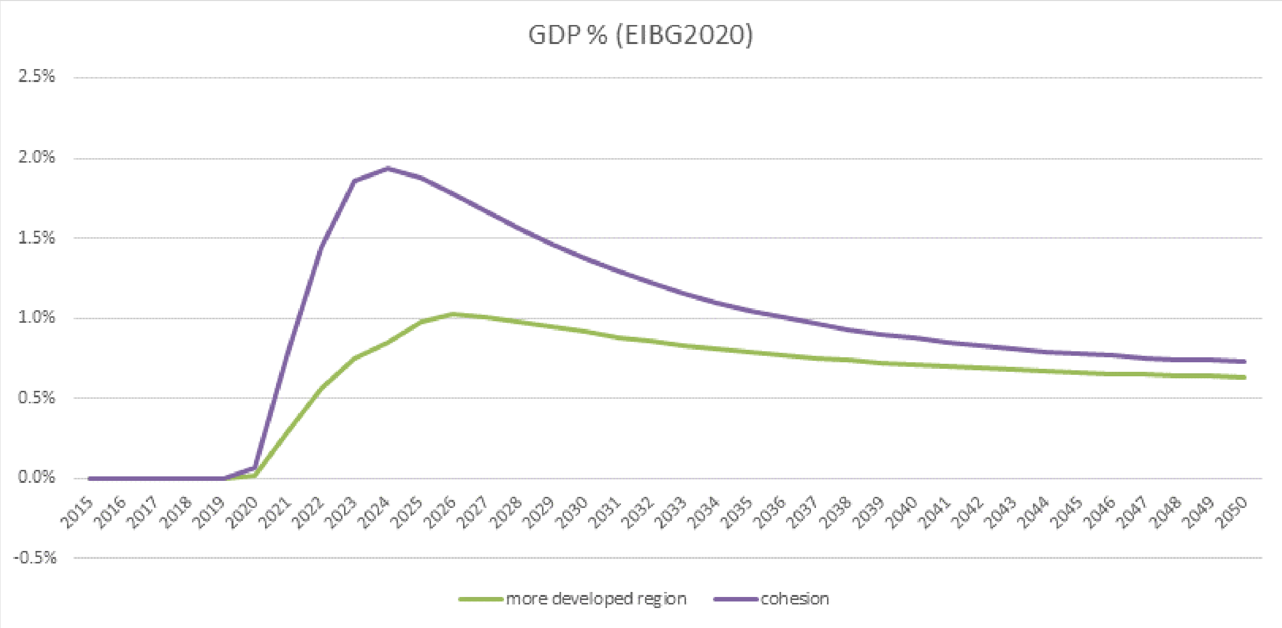
In addition to EIB lending, the EIB and the European Investment Fund (EIF), as part of the EIB Group, play an important role in EU Cohesion policy by managing EU funds on behalf of national and regional authorities through Decentralised Financial Instruments (DFIs). The EIB has so far managed more than EUR 3.4 billion through DFIs on behalf of EU Managing Authorities, supporting some 3,600 projects. The EIF has managed EUR 1.1 billion in European Structural and Investment Funds (ESIF) funds through DFIs, leveraged to an aggregate portfolio of about EUR 2.6 billion of SME financing, supporting around 21,000 SMEs during the 2007-2013 period, and 60,500 in the 2014-2020 period.

2.5. Analysing macro-economic impact of EIB lending

The Bank has carried out a modelling exercise to estimate the macro-economic impact of EIB lending in Cohesion areas. The results show that EIB lending over the period 2014-2020 had a strong macro-economic impact on Cohesion regions. This is demonstrated by simulating the macro-economic effects of operations supported by the EIB (based on signatures during the year 2020) on the regional economies of the EU-27. The simulations are based on the RHOMOLO-EIB model and consider the sectors of EIB intervention and the different policy channels activated by different types of projects.[5] The exercise suggests that EIB lending in 2020 had both a **stronger and a more rapid effect on regional GDP during project implementation in Cohesion regions** than in more developed regions (Figure 1). In 2023/2024, the level of GDP in Cohesion regions is estimated to be 2% higher than in the counterfactual situation without EIB-supported operations.[6] Even after 20 years, regional GDP in Cohesion regions is estimated to be 0.9% higher than it would have been without EIB-supported operations, compared with 0.75% in more developed regions.

[5] EIB/JRC (2018) *Assessing the macroeconomic impact of the EIB Group:* http://www.eib.org/attachments/efs/assessing_the_macroeconomic_impact_of_the_eib_group_en.pdf
JRC (2018) *RHOMOLO V3 - A Spatial Modelling Framework*. http://publications.jrc.ec.europa.eu/repository/bitstream/JRC111861/jrc111861_rhomolo_may_2018_final_2.pdf
[6] It is not possible at this stage to separate the effect of EIB Cohesion lending only. This could be done in future research.

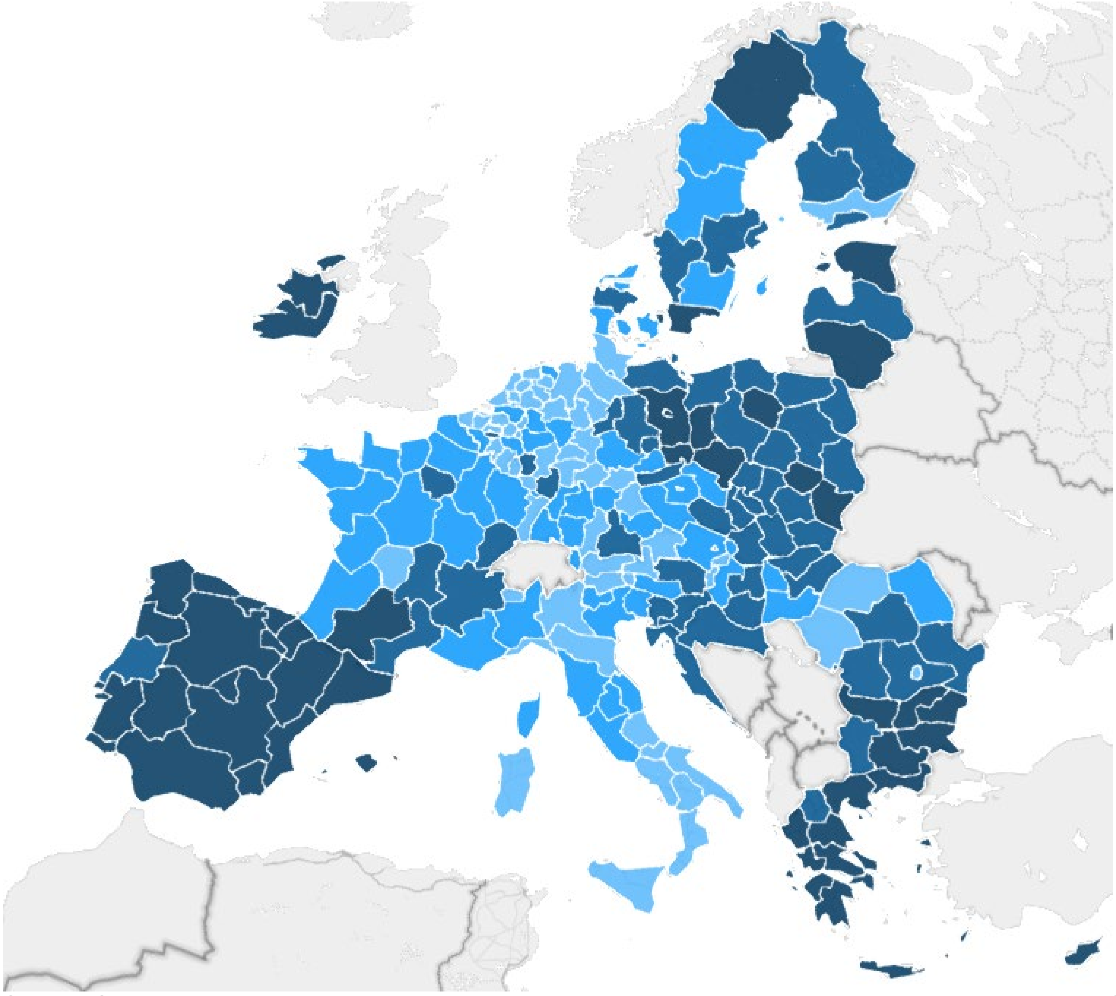
Figure 1. The impact on regional GDP of EIB's EU-27 lending (2020 signatures)



Source: Simulations carried out by the EIB's Economics Department together with the Joint Research Centre of the European Commission using EIB-RHOMOLO.

On the employment front too, the exercise suggests that the long-run impact of EIB lending is stronger in Cohesion priority regions than in more developed regions. To illustrate this, Figure 2 below shows an estimate of the increase in employment triggered by the investment mobilised through EIB lending in 2020. The 60 or so NUTS2 regions benefitting from the strongest impact by 2040 (darkest colours) are estimated to have employment at least 0.4% higher than without EIBG-supported operations signed in 2020 – and most of these regions are located in EIB Cohesion priority regions. In Spain and Greece, the average long-run increases in regional employment is close to 1%, while in Bulgaria it is around 0.7%.

Figure 2. The long-run impact on regional employment of EIB's EU-27 lending (2020 signatures)



Source: Simulations carried out by the EIB's Economics Department together with the Joint Research Centre of the European Commission using EIB-RHOMOLO.

Note: The four shades of blue depict each of the quartiles of the distribution of the long-term employment impact of EIB lending of 2020, ranging from the lightest (1st quartile) to the darkest (4th quartile). In the darkest regions, thanks to EU lending of 2020, employment is at least 0.4% higher in 2040 than it would have been otherwise.

2.6. Cohesion success

Beyond numbers and lending targets, EIB support to Cohesion areas over many decades has contributed to the economic development of many EU regions in a very concrete way. The boxes below highlight three examples of what Cohesion means in practice. These successes are models on which the Bank is building its Cohesion strategy.

Box 3: Supporting sustainable growth in Western Pomerania

Western Pomerania, located in north-west Poland, has been working with the EIB since 2009 to support the development of the region. Investments in the region largely depend on EU grants. EIB loans are instrumental to co-finance these grants and to complete Western Pomerania's investment programme.

Western Pomerania is severely affected by weak intra- and inter-regional accessibility. This is due to the region's peripheral location relative to the capital Szczecin and other national regions. The region's economic development depends on well-functioning transport, with minimum standards in terms of safety, comfort, reliability and accessibility. Developing sustainable transport and reducing CO2 emissions are among the key elements in the multi-sector strategy of Western Pomerania. Thanks to the current EIB framework loan, the region was able to buy 17 new electric trains to replace obsolete rolling stock. The improvement of the availability and reliability of the fleet will increase the attractiveness of railway services and support the modal share of public transport in the region.

The region has borrowed PLN 600m (about EUR 143 million) under two operations in support of its regional development strategy "Looking towards 2020". In addition to sustainable transport, these funds were used to preserve cultural and natural heritage and enhance the quality of life of the region's inhabitants by upgrading urban infrastructure; improving the quality of and access to healthcare; and enhancing road safety and energy efficiency in buildings.

Western Pomerania intends to invest further in the attractiveness of the region, for example by extending its network of cycling paths and improving its cultural offering. It counts on the EIB to extend the cooperation under the new regional development strategy "Looking towards 2030", with a third operation currently under discussion.

Box 4: Rebuilding Greece [EU Funds co-financing 2007-2013 (GR)]

This Structural Programme Loan (SPL) supports the recovery and sustainable development of the Greek economy. It focuses on the selected priority axes under the Operational Programmes of the Greek National Strategic Reference Framework (NSRF) 2007-2013 supported by the European Structural and Investment Funds (ESIF).

The SPL co-financed NSRF 2007-2013 in a period of economic crisis and financial constraints. It was instrumental to enabling a high absorption of ESIF and thus the financing of eligible ESIF projects, which otherwise would not have been implemented due to budget limitations.

Sectors covered were railways, environment, energy efficiency and renewable energy, water, waste, RDI, ICT and education. The investments focused on the Greek economy's long-term objectives in the areas of RDI improvement, sustainable infrastructure and development of quality human capital.

The EUR 2 billion SPL was signed in 2010 and is the EIB's largest in Greece. The EIB signed another EUR 50 million loan a few years later to help over 123,000 small projects across the country, including schools, archaeological museums, hotels, tourism, vocational training and technology, research, environmental programmes, and water and waste projects. The projects also support small and medium-sized companies, the backbone of the Greek economy.

In the 2014-2020 programming period, the Greek government chose to continue its cooperation with the EIB, signing another EU Funds co-financing operation with a loan amount of EUR 1.7 billion.

Box 5: Post-disaster recovery, Madeira, Portugal [RECONSTRUCAO MADEIRA FRAMEWORK LOAN (2010-0148)]

The island of Madeira, an ultra-peripheral territory of the EU and an EIB Cohesion region, needed financing to rebuild critical infrastructure following the catastrophic floods of 20-21 February 2010 and to improve resilience to future disasters. To finance public infrastructure repairs and reconstruction, Madeira turned to the EIB. As this was a post-disaster emergency, the Bank was able to finance the total project cost with a EUR 62 million multi-sector Framework Loan. The Bank sees this lending instrument as the most flexible financial tool for cities and regions looking to finance various projects in multiple sectors over a three- to five-year plan.

The reconstruction was composed of a number of small and medium-sized investments. Work started in early 2011 and was completed by April 2016 on projects, which included:

- reconstruction of water supply
- road repairs
- construction of solid silt-dams for sediment management
- redesigning and rebuilding drainage channels
- an early warning system

The EIB has used Framework Loans to provide support for post-disaster recovery across continental Europe including the Murcia region in Spain and the Italian regions of Tuscany, Emilia- Romagna, Lazio, Umbria and Le Marche.

As the “Rebuilding Greece” operation shows, EIB projects often support regions and countries in recovery from deep crises such as the economic and financial crisis of 2008. The COVID-19 pandemic represents another unprecedented crisis that hit throughout the EU, leading to significant increases in unemployment rates and reductions in employment in almost all regions. Cohesion priority regions are potentially more vulnerable and could be increasingly impacted in the medium term due to specific conditions such as lack of critical health infrastructure and information technology as well as strong dependence on tourism. Alongside the EU’s COVID response initiatives, the EIB reacted swiftly to help Member States stabilise public investment and finance urgent needs in the areas of health and civil protection. Among the temporary COVID response measures most relevant to the Cohesion context, the following are worth mentioning: (i) embedding a COVID-health component into existing Framework Loans or as stand-alone operations; (ii) temporary waiver of the *cumul* rule; (iii) top-ups to existing loans to support SMEs; (iv) acceleration of disbursements of Framework loans; and (v) fast-track approval of top-ups to approved loan amounts beyond the usual limits.

The EIF has also had many successes in Cohesion regions over the years, as illustrated by the two projects outlined below.

Box 6: JEREMIE Bulgaria

The EUR 349 million JEREMIE Bulgaria programme was initiated in 2009 with the aim of easing access to finance for Bulgarian SMEs through DFIs providing both debt and equity financing. The equity part of the initiative focused on the development of an, at the time, immature equity market and on strengthening the growth potential of business ideas and start-ups in their initial stages of development.

The initiative's equity budget was further increased through use of the programme's reflows (resulting from the financial instruments' revolving nature), reaching a total of EUR 180 million allocated for investments in venture capital and private equity funds. JEREMIE Bulgaria succeeded in stirring up the market both by creating expertise at the fund manager level and by successfully supporting company growth, with the objective of further supporting new equity investments through the recently launched InvestBG equity platform. JEREMIE Bulgaria has thus helped create a vibrant equity ecosystem, attracting the attention of an increasing number of private investors and seeding multiple investment teams managing successive generations of funds.

By December 2020, the programme had provided support to 233 companies in different stages of development (from seed to start-up to later-stage financing and growth) employing more than 5,300 people. To date, the programme has signed support to nine Bulgarian venture capital and private equity funds with an expected total capacity of around EUR 330 million or more.

Box 7: Croatian Venture Capital Initiative (CVCi)

In mid-2018, the EIF and the Croatian Ministry of Regional Development and EU Funds signed a funding agreement launching the ERDF-funded EUR 35 million Croatian Venture Capital Initiative (CVCi). CVCi focused on accelerating the development of the Croatian venture capital market through equity investments in early stage innovative SMEs, including at the idea stage. The DFI programme is focused on investments via compartmentalized funds running acceleration programmes with the capacity to provide significant follow-on financing for successful accelerator graduates. Thus, new ideas are seeded and further supported, while investments also target existing start-ups with some revenues.

Despite its significant developmental focus, the single selected investment team managed to attract considerable additional capital from predominantly institutional investors, including first investments by Croatian pension funds, which are key for the future sustainable development of the Croatian VC/PE market. Less than two years after the launch, the DFI has invested in over 80 start-ups (about half of the total targeted number), with its accelerator becoming the programme of choice for entrepreneurs from the wider region, making Croatia an innovation hub within CEE. The inititative has addressed the considerable accumulated demand and provided funding for innovative but capital-starved Croatian businesses looking for an investment in a previously underdeveloped ecosystem. Furthermore, it will serve as a stepping stone for the future acceleration of the market's development, encouraging additional Croatian entrepreneurs to set up new businesses focused on innovative solutions.

3. An evolving context

3.1. New regional priorities

EU Cohesion policy has evolved. For the 2021-2027 period, the policy devotes special attention to all regions below the EU economic development average. As the EU Bank, EIB Cohesion action for 2021-2027 will align with the European Commission's policy and will thus include vulnerable regions with intermediate income levels in the EIB´s definition of Cohesion priority regions.

EIB Cohesion priority regions for the period 2021-2027 as defined by EU cohesion policy map encompass the following two categories of regions:

- "Less developed" regions (GDP per inhabitant of less than 75 % of the EU average);
- "Transition" regions (GDP per inhabitant between 75 % and 100% of the EU average).

All regions within the EU belonging to one of the above categories are eligible for EIB financing under Art 309(a) TFEU. Accordingly, lending to projects and counterparts located in these regions will count towards the EIB Cohesion horizontal public policy goal (PPG).

The EU cohesion policy map for 2021-2027 has changed significantly compared to the previous programming period (see Figure 3). Consequently, the EIB's Cohesion priority regions have also changed. The most important change concerns the definition of transition regions. This category has been widened by moving the upper limit from 90% to 100% of the EU average in terms of GDP per capita in the regions concerned.

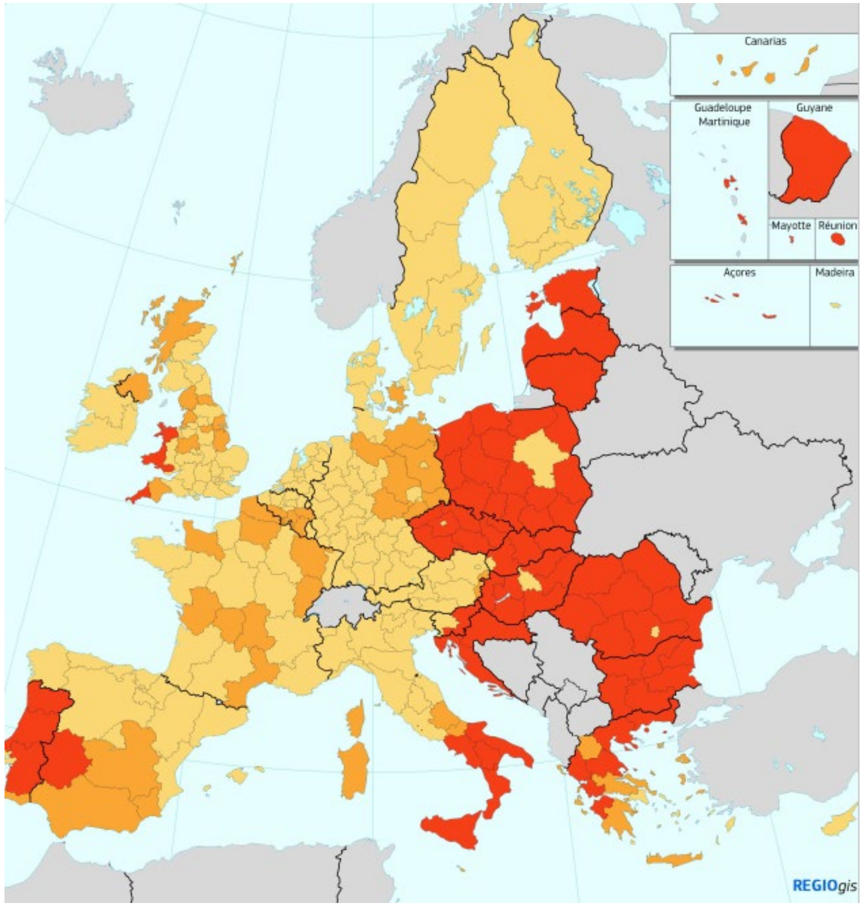
The widening of the transition region category to include regions with average per capita GDP ranging from 90% to 100% of the EU average is a policy choice. Regions with intermediate levels of income have been identified by the EC as a new vulnerable group. Many of them are located in the northern parts of France, Spain, Finland and the Netherlands. Globalisation and technical change have amplified vulnerabilities in these regions, which cumulate risk factors such as: (1) dependence of employment on low-tech manufacturing, (2) rapidly increasing unit labour costs in manufacturing, (3) relatively low educational attainment among the working-age population, and (4) a decline in employment in industry.

As highlighted by the EC[7], "for the medium level regions, regional policy must help overcome their 'middle-income trap', which involves being too expensive for some activities but not innovative or productive enough for others, including investments to reinforce the knowledge base as well as knowledge transfer". By contrast, "For the less developed EU regions, investment support is needed to overcome their manifold existing barriers to productivity." In summary, less developed and transition regions each require specific types of support to spread welfare gains and technical change throughout the EU.

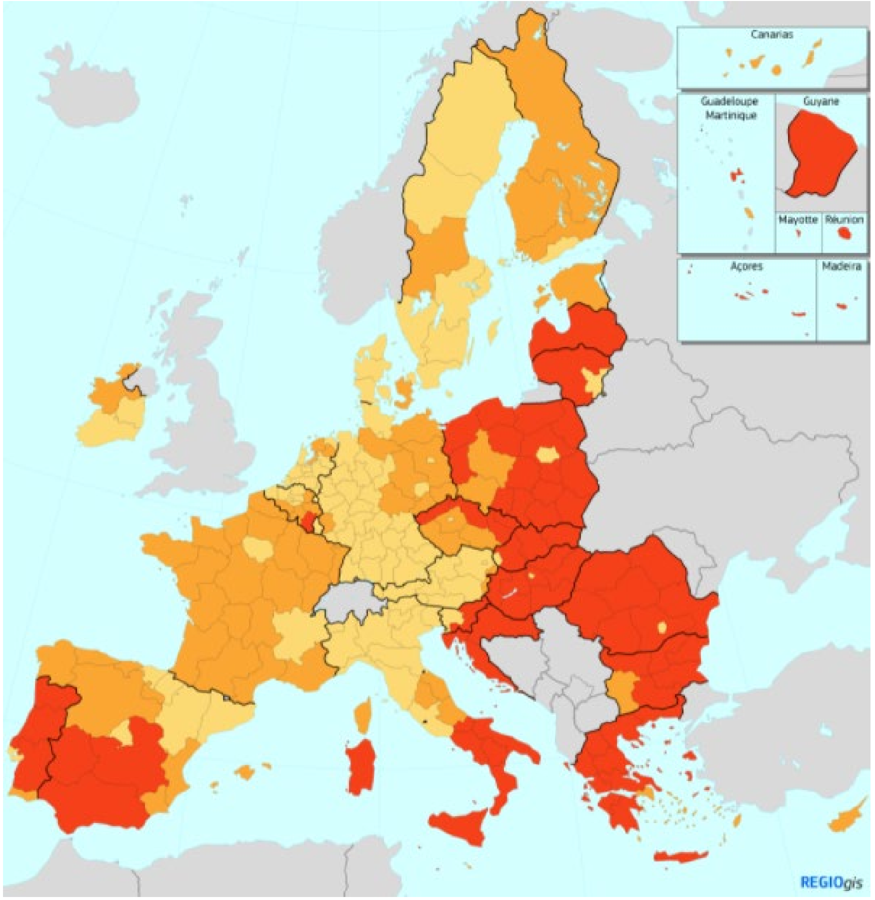
[7] European Commission (2017), "My Region, My Europe, Our Future — Seventh report on economic, social and territorial cohesion", p. 9

Figure 3. EU Cohesion policy maps, 2014-2020 vs. 2021-2027

EU cohesion policy map 2014-2020



EU cohesion policy map 2021-2027



Source: EC DG Regio, available at [eu27.png (4016×5598) (europa.eu)] (2021-2027)
Notes: Thick borders separate countries. Thin borders delimit NUTS2 regions. Regions in red represent the less developed regions (per capita GDP<75% of EU average), orange regions are transition regions (per capita GDP between 75% and –now– 100% of EU average [90% during 2014-20]) while yellow colour shows More Developed regions.
The 2021-2027 map updates the provisional map presented to the Board of Directors on 16 December 2021 (Document 20/1034).

With the expansion of the transition region category, the number of transition regions increases from 39 to 67. EIB Cohesion Priority regions are now home to 53% of the EU population (compared with 39% for previous programming period) (Figure 4), producing 34% (22%) of total GDP (Figure 5) and accounting for 33% (20%) of total fixed investment (Gross Fixed Capital Formation) (Figure 6) of the EU-27.

Figure 4

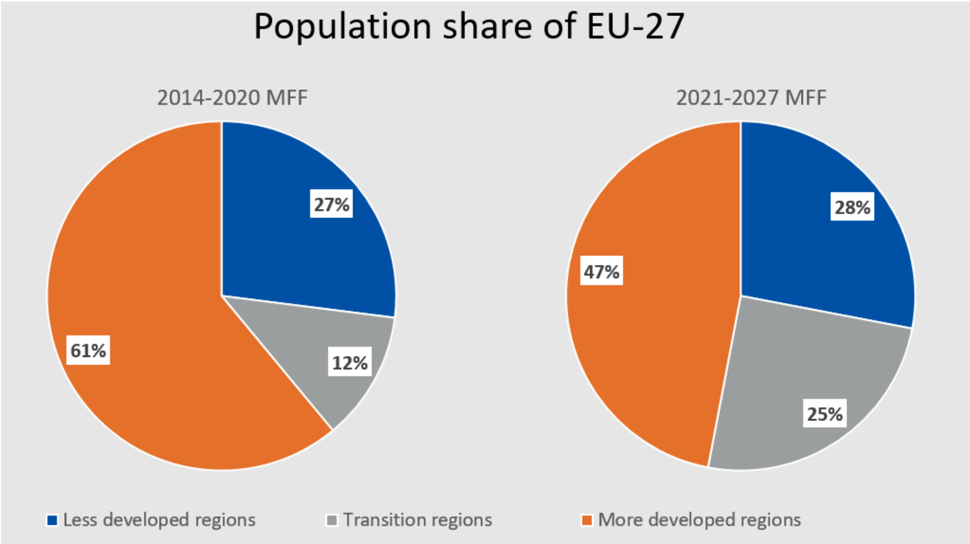


Figure 5

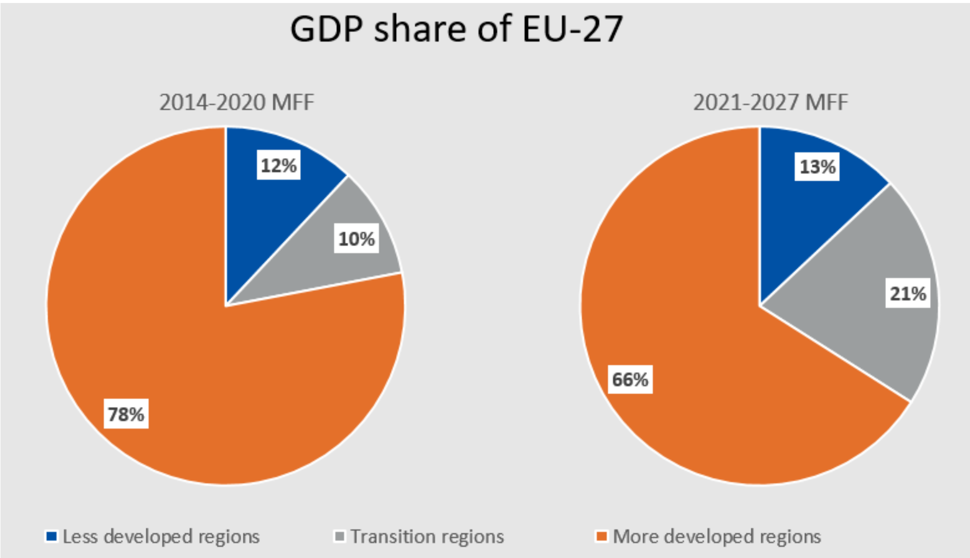
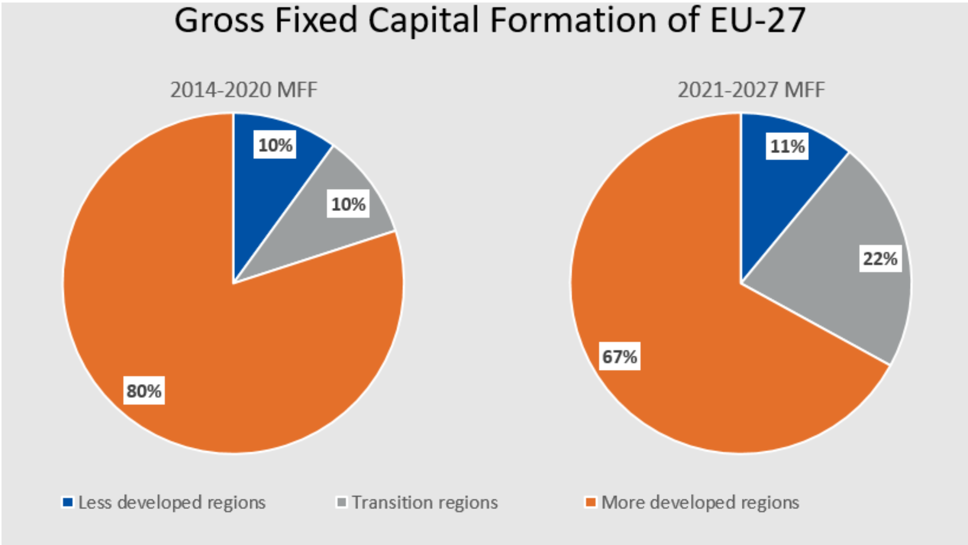


Figure 6



EIB Cohesion action for 2021-2027 will focus on 145 EU regions, 67 transition regions and 78 less developed regions.

The less developed regions are mostly located in Central and Eastern Europe as well as in Portugal, Greece and the Southern parts of Italy and Spain, which are either low-income catching-up regions or regions with long-standing low growth. Many of the transition regions are former wealthy industrial regions struggling to cope with globalisation and technical change.

Investment needs may well differ across these two groups of regions. While the former needs basic infrastructure and investment in knowledge to move to the technological frontier, the latter is generally well endowed with transport, energy and digital infrastructure and skills but needs to succeed in its structural transformation towards new economic sectors.

3.2. Climate change

The EU has made a strong commitment to fighting climate change through the European Green Deal, the proposed European Climate Law, and the emissions reduction objectives – to reach at least 55 % by 2030 and achieve climate neutrality by 2050. It has also subscribed to international efforts, such as the Paris Agreement, the United Nations 2030 Agenda and its Sustainable Development Goals.

Climate change is a top priority for the EIB. In November 2019, the EIB committed to support EUR 1 trillion of “green” investments by 2030 and to increase the share of climate action and environmental sustainability lending to 50% of its total lending by 2025. A year later, the EIB’s Board of Directors approved the Climate Bank Roadmap (CBR), which sets out how the Bank plans to support the European Green Deal and help make Europe carbon-neutral by 2050. The document provides the framework to align all EIB activities with the Paris Agreement and details how the Bank will increase climate action and environmental sustainability lending.

As highlighted in the 2020 EIB Municipalities Survey, a lack of funding stands out as the major barrier to investment in climate and green infrastructure for municipalities. While this is the principal barrier throughout the EU, it is particularly pronounced for cohesion regions, with 83% of municipalities in less developed regions identifying a lack of financing among the top two barriers to greater investment in climate change-related infrastructure. Cohesion regions are more reliant on capital transfers or grants to finance their investment needs. Given the substantial gaps that cohesion regions face in even basic infrastructure, such as for public transport networks or waste and water services, there is a risk that without external support, it will be difficult for them to meet green investment needs. Many of the EU regions most vulnerable to job losses due to both the green (decarbonisation) and digital (automation) transitions occurring in economies are located in Central and Eastern Europe, pointing to the importance of supporting the climate- and digital-related structural transformation to ensure continued income convergence (EIB Investment Report, 2020).

In terms of preparedness for climate change, results from the EIB 2020 Municipality Survey portray the two cohesion groups as lagging behind, but looking to catch up. Cohesion regions are lagging behind in terms of administrative capacity to engage in green investments, with often little or no planning taking place for these types of projects. Only one-fifth of municipalities in cohesion regions have developed significant green administrative capacities – such as green budgeting or planning for extreme weather events – compared to nearly 50% in high-income regions. This may reflect a lower level of awareness of the risks related to climate change. For instance, while the share of EU municipalities that have conducted audits of their exposure to the physical risks related to climate change is relatively low, at 22%, the share in cohesion regions is half of that in high-income regions. Regulatory red tape is more of a barrier to investment in cohesion regions in terms of length of time that processes take and uncertainty. Therefore, green investments that are more demanding in terms of regulatory requirements or technical capacity would require particular support for project design, financial structuring and implementation. Awareness of the need for climate-related infrastructure investment is growing: when it comes to planned investments in green infrastructure compared to past investment, the increase in planned climate-related investments stands out for municipalities in less developed regions. In terms of investments for the green transition, judiciously combining the climate agenda with addressing basic infrastructure gaps in urban transport, and waste and water utilities presents an opportunity.

Cohesion regions face very significant investment gaps in terms of mitigation, adaptation and environment. The following sectors are key priority areas for climate action in cohesion regions:

- **Clean, safe and connected mobility:** The transport sector represents the highest annual investment need for achieving the EU's 2030 climate and energy targets through a combination of decentralisation, decarbonisation (including electrification) and digitalisation. Investments are particularly needed in cohesion regions in the following sectors:
    - **Electric vehicles (EV):** More efficient and sustainable batteries, highly efficient electric powertrains, connectivity and autonomous driving to decarbonise road transport. Investment in the supporting charging infrastructure is particularly needed.
    - **Passenger and freight railways:** The European railway sector's goal is to be carbon neutral by 2050 through the replacement of diesel trains. This is particularly relevant in cohesion regions due to ageing rolling stock. TEN-T

requires an investment of EUR 500 billion to EUR 750 billion between 2021 and 2030 to complete the TEN-T Core Network.
  - **Shipping:** Electrification of short sea shipping and inland waterways, where feasible in Southern Europe (Portugal, Spain, South Italy, Croatia and Greece).

- **Energy efficiency:** Energy efficiency is the second highest annual investment need at EU level (EUR 282 billion p.a.) for achieving the EU's 2030 climate and energy target. While not quantified, the majority of energy efficiency investment needs are expected to be in cohesion regions specifically in less developed regions.

- **Deployment of renewables:** While renewable energy has been a major focus of EIB lending in the EU over the recent years, investment needs in cohesion regions are still significant, especially in onshore and offshore wind, solar and associated transmission and distribution networks.

- **Water and wastewater:** Investment need for upgrading and renewing water and wastewater systems is very significant in less developed regions. Beyond EU regulatory requirements, climate mitigation and adaptation investments are needed. Climate Action investment priorities within this sector include ensuring the resilience of water and wastewater infrastructure to extreme weather events, reuse of treated wastewater in South Europe, and flood management.

- Other sectors with significant climate investment needs include **industry** and **circular economy**, **infrastructure interconnections**, **bio-economy**, **natural carbon sinks** and **food and agriculture**.

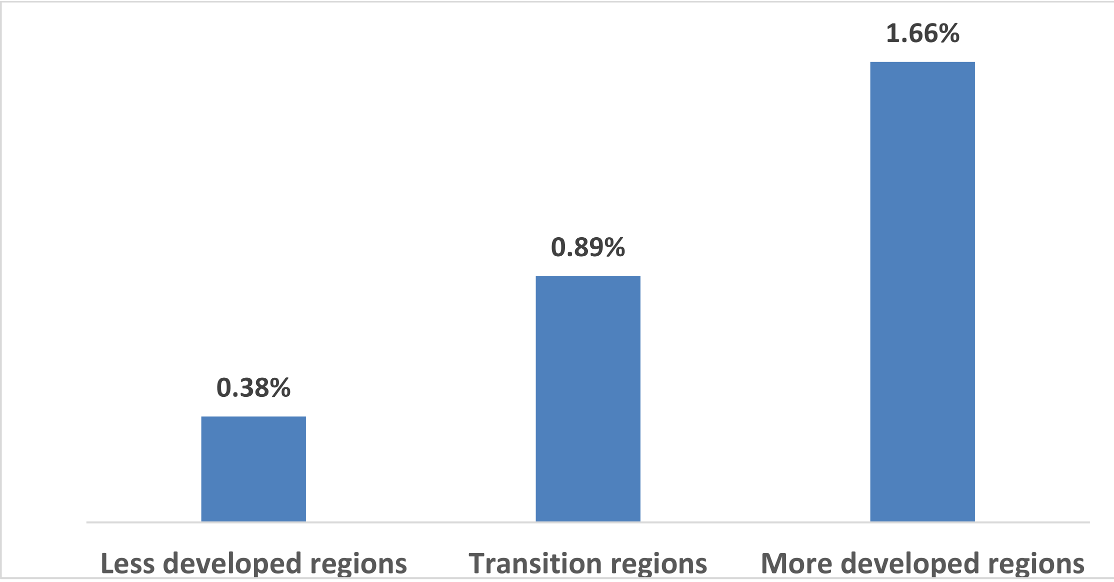
- Cohesion regions are also home to a significant proportion of EU forests and have a rich biodiversity. This biodiversity needs to be protected and enhanced through renaturation and depollution projects.

The EIB has strong expertise in financing climate action investments in cohesion areas. However, over the period 2014-2020, climate action and environment investments remained lower in cohesion areas (29%) than in the EU as a whole (32%). This is paradoxical given the greater climate and environment financing needs in these regions. In addition, the transition towards climate neutrality and environmental sustainability will require profound social and economic changes in cohesion regions, while ensuring a socially fair and just transition.

3.3. Innovation, Digital and Human Capital

Innovation is the second challenge for cohesion regions, where structural gaps in digital and innovation activity and skills remain important. As shown in Figure 7 below, the relative share of Business R&D spending compared to GDP is significantly lower in less developed regions and transition regions than in more developed regions.

Figure 7: Business enterprise R&D expenditure in the EU by cohesion status of regions, 2011-2018 (in % of GDP)



Note: Average Business enterprise R&D expenditure from 2011-2018 expressed as a share of GDP at market prices. Source: Eurostat (Business enterprise R&D expenditure by NUTS2 region; GDP at market prices at NUTS2 level); EIB calculation.

As the 2020 EIB Investment Survey indicates, a significant share of firms in cohesion regions do not target their investment activity towards innovation and tend to show lower innovation activity and output, which constitutes a substantial obstacle to convergence. Strengthening skills, particularly to accompany the digital and green transition, is critical for supporting innovation activity and fostering successful structural transformation in these regions:

- A large share of firms in cohesion regions are not engaged in innovation. The share of firms not doing any innovation is 61% in transition and 63% in less developed regions.
- Differences in innovation activity also reflect lower innovation activity by large firms. In non-cohesion regions, the majority of large firms undertake some innovation activity (52%), but a lower share in cohesion regions are doing so (44% in transition regions and 39% in less developed regions).
- Lower innovation appears to be linked to lower investment in key intangible assets, including not only R&D activities, but also complementary investments, such as for software and data management, employee training and organisational capital. Investment in intangibles is necessary to support innovation activity and enable firms to move up the value chain (notably through investment in R&D).

- Many of the EU regions most vulnerable to job losses due to both the green (decarbonisation) and digital (automation) economic transitions are located in Central and Eastern Europe, pointing to the importance of supporting the climate- and digital-related structural transformation to ensure continued income convergence.

Convergence will require significant support for innovation investments, including increasing R&D and the skills of workers, in cohesion regions.

4. A new strategic orientation

4.1. Operational challenges

The new strategic orientation has been developed in view of the needs of cohesion regions themselves, the status of the market, and operational challenges faced by the EIB in cohesion areas as well as other EIB priorities.

In the past, EIB lending in cohesion regions has been attributed mainly to the following policy areas: (i) SMEs and Mid-caps; (ii) strategic infrastructure for road transport and energy; (iii) railways, rail rolling stock and sustainable urban transport; (iv) environmental protection; and (v) innovation. In terms of products, over the past seven years, Investment Loans accounted for 42% of the lending volumes, intermediated products (notably Multi-Beneficiary Intermediated Loans (MBILs)) for 30%, Framework Loans for 24% and Equity and Guarantees for 3%. Framework Loans are used to a much greater extent in cohesion areas than in non-cohesion areas. Due to their flexible delivery features, Framework Loans are particularly well-suited for the deployment of EIB lending (notably for small sub-projects) in cohesion regions, with their often-difficult framework conditions for investment. A particularly important type of Framework Loan is the Structural Programme Loan through which the EIB supports the national co-financing obligations under the European Structural and Investment Funds (ESIF). In terms of counterparts, over the past seven years 38% of EIB loans in cohesion regions were channeled though financial intermediaries, 33% to the public sector, 26% to corporates, and 3% to SPVs.

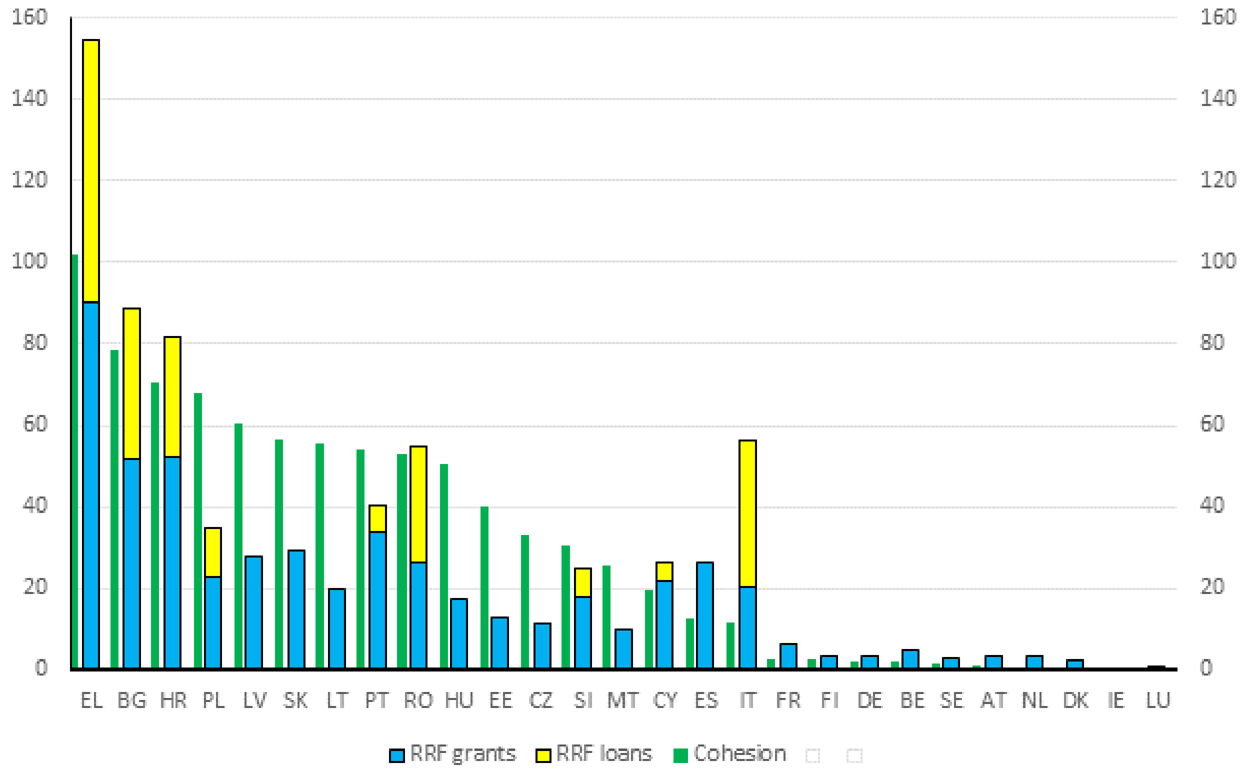
As outlined in section 2.4 above, over the past seven years, the share of the Infrastructure PPG was higher in cohesion lending than in overall lending, whereas the share of the Innovation, Digital and Human Capital PPG was significantly lower. This calls for a reflection on how the EIB could spur innovation in cohesion priority regions.

At the same time, the Climate Bank Roadmap (CBR) sets the framework within which the Bank's efforts to increase support to the cohesion priority regions will take place. It commits the EIB to devoting 50% of its total lending to Climate Action and Environmental Sustainability (CA&ES) by 2025. Thus, this target and the new cohesion lending targets will need to be achieved jointly.

Over the next few years, an unprecedented amount of EU grant money will be available for the support of cohesion policy goals. The Recovery and Resilience Facility (RRF) and Cohesion Policy Funds together will amount to over EUR 1 trillion for the years 2021-2027.

The budget from the MFF available for the cohesion policy (ERDF, CF, ESF+ and JTF) will amount to nearly EUR 369 billion[8] for the years 2021 - 2027. However, this figure includes only "traditional" cohesion funding. In addition, the EU Recovery Instrument "Next Generation EU" (NGEU) will provide further financing to support primarily climate and innovation investment and reforms, and this mainly via the RRF which will mobilise more than EUR 310 billion as grants and up to EUR 360 billion as loans with better conditions than other repayable forms of financing (e.g. from NPBIs or the EIB). This additional funding will have tight implementation timetables and does not, unlike more traditional cohesion funding, require any co-financing from the Member States. Although Member States are free to spend RRF resources across their territories (including in more developed regions), a significant share of the resources will likely go towards cohesion regions. Figure 8 below shows the extent to which RRF will play a key role, alongside cohesion funding, in shaping the investment plans, including financing thereof, in the years to come. The data shows the expected funding from the RRF (split by grants and announced loans) and cohesion funds (green column) as a share of 2018 public investment, measured as gross fixed capital formation (GFCF). Total RRF and cohesion funds exceed historic public investment levels for a number of EU countries.

Figure 8. EU Funds as a share of 2018 Public Investment (Gross fixed capital formation), %



Source: EIB calculations based on data from European Commission and AMECO.

Notes: The EU funds are totals for the current cycle. The data are sorted by the ratio of cohesion funds to public investment, from largest to smallest value.

[8] https://cohesiondata.ec.europa.eu/stories/s/2021-2027-EU-allocations-available-for-programming/2w8s-ci3y

Against this backdrop, the RRF is perceived as the most attractive EU funding source available. Due to the time constraints for spending, this will likely result in other “traditional” cohesion policy funds and almost certainly other repayable forms of financing, including EIB traditional loans and guarantees, being less in demand. In this context, the EIB will need to focus on developing complementarity between EU policy instruments, including through advisory initiatives.

As a result of the above, this significant and unprecedented programme brings a number of challenges for the EIB to maintain the same lending as in the past, severely dampening public sector demand for borrowing. A number of public sector projects in the EIB pipeline have already been put on hold by Member States, in the expectation that the RRF will make available substantial amounts of grant funding. Since the focus of these funds is also on climate and innovation, this will overlap to a large extent with the focus of EIB lending activity in the years to come. The majority of the national Recovery and Resilience Plans for the use of funds from the RRF are either still not quite finalised or fully agreed with the European Commission at this point, making it challenging to fully understand their impact. The Bank’s services are following this closely,- and will ensure the Board receives regular updates through annual reporting on cohesion-related activity.

In addition, the following operational challenges need to be considered when discussing new targets:

- The EIB is committed to delivering the Climate Bank Roadmap (CBR), including alignment to Paris principles of all of its financing interventions. Applying the EU taxonomy or ensuring that EIB lending is aligned with the EIB Climate Bank Roadmap (CBR) will result in a shift in activities;
- While in the past, investments in cohesion regions were highly focused on Infrastructure, those regions now also have ambitions in digitalisation, RDI and smart specialisation;
- The operational environment has changed, as there is now plenty of liquidity in the market in a context of extremely low interest rates;

As a result of the above, there are a number of significant challenges for EIB to achieve cohesion- related lending targets, brought about by unprecedented levels of EU grant funding programmes. Consequently, there is a clear demand for more advisory support to help improve the capacity of the public sector, particularly in the less developed regions, prepare and implement high priority projects, and provide guidance on how to combine EU funding sources, so as to complement rather than compete with EIB lending.

4.2. Toward a new cohesion lending target

During the 2014-2020 programming period, the Bank had a cohesion lending target of 30% while cohesion priority regions were home to 39% of EU population and produced 22% of total GDP of the EU-27. They also hosted 20% of total gross fixed investment.

As a result of the increased cohesion coverage for the 2021-2027 programming period, cohesion priority regions are now home to 53% of the EU population and produce 34% of total GDP of the EU-27. They also host 33% of total gross fixed investment (Table 2 below).

Table 2: Weight of EIB cohesion priority regions in the economy and in EIB lending

Indicators for EU-27, 2021-2027 vs. 2014-2020

Indicator	Region type	2014-2020 MFF	2021-2027 MFF
Number of regions	Less developed	70	78
	Transition	39	67
	Less developed + Transition	**109**	**145**
Population share	Less developed	27	28
(%of EU-27 total, 2019)	Transition	12	25
	Less developed + Transition	**39**	**53**
GDP share	Less developed	12	13
(%of EU-27 total, 2020)	Transition	10	21
	Less developed + Transition	**22**	**34**
Investment share	Less developed	10	11
(%of EU-27 total, 2017)	Transition	10	22
	Less developed + Transition	**20**	**33**

Due to the extended geographical coverage**, the Bank expects 40% of its total EU-27 lending to be in cohesion regions. This 40% orientation will be closely monitored and reported on,** aiming to reach 45% of total EU-27 lending by 2025, using reasonable endeavours**.**

When defining a cohesion lending orientation, the impact on EIB lending capacity for non-cohesion regions was considered. Any increase of the cohesion lending objective decreases financing available for non-cohesion regions, including non-climate activities in non-cohesion areas (to finance innovation, hospitals, research for vaccines and education, for example). To ensure sufficient flexibility in the Bank's financing capacity, it is proposed to keep the 2021 overall 40% cohesion orientation as non-binding, while still aiming to reach 45% of total EU-27 lending by 2025.

Since the larger number of transition regions will naturally drive the increase in overall EIB lending to cohesion priority regions[9], specific attention will need to be devoted to the less developed regions, which face the double challenge of lagging economic development and decarbonisation. As shown in Table 2 above, the less developed regions accounted for 28% of EU-27 population and 11% in total EU-27 fixed investment.

As of today, the Bank does not have a target for its lending to less developed regions and such lending is not systematically monitored/reported on. In this context, following a shadowing phase[10], necessary for the adaptation of its IT systems for adequate monitoring and reporting, the Bank proposes to maintain the existing **lending of 20% for the less developed regions, increasing to reach 23% of total EU-27 signatures by 2025. This will be a KPI.**

In parallel, the EIF is also expected to include a cohesion KPI in its 2022 COP (to be discussed by EIF Board of Directors in Q4 2021) and is currently working on defining further the role of cohesion as part of its product strategy reflexion.

4.3. Supporting climate action, environmental sustainability and Just Transition

Financing Europe's transition to climate neutrality as foreseen in the European Green Deal will require at least EUR 1 trillion in public and private investments over the next decade.

Investments for climate action and a sustainable environment are not at the expense of cohesion objectives. On the contrary, cohesion policy can play a vital role in delivering on EU climate objectives, and in paving the way for the green transition.

The increased support to climate action and environmental sustainability activities is particularly relevant to cohesion priority regions, as these regions have historically suffered from lower levels of public investment in climate mitigation, adaptation and environmental sustainability. These regions are therefore more exposed to climate and environmental threats and will potentially experience a greater impact from the social and economic challenge of the transition to a net-zero GHG emissions.

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[9] France, Italy, Spain and Finland contribute most to the increase in the simulated EIB Cohesion lending share under the new map – in line with the large number of additional transition regions in these countries as of 2021.
[10] In 2022, during the shadowing phase, the new target of 20% is expected to be a soft target, while a mandatory target will be introduced as of 2023.

In practice, lending data over the period 2014-2020 shows that climate change and cohesion are interlinked priorities, with 12% of the lending volume being both climate action/environmental sustainability and cohesion under the new map.

In this context, **the Bank is committed to increase the share of its climate action and environmental lending across transition and less developed regions**. Its mitigation effort will be focused on the following key areas:

- Green transport through increased investment for rail and urban mobility
- Clean energy
- Green cities including green buildings, renaturation as well as green urban development in line with the 15 minute city concept
- Green innovation such as investments in developing the next generation of batteries as well as green hydrogen.

The Bank will also support adaptation measures and investments in the following areas:

- dykes, flood defence and water security investments
- ecosystem-based approaches
- new resilient infrastructures
- retro-fitting existing infrastructures to take into account climate change
- disaster resilience investments at regional and local level

In addition, the Bank will support the green transition of economic activities through Just Transition (JT) support. The Bank's general approach to JT endeavours is to ensure that no people or places are left behind in the transition to low-carbon and climate resilient economies and societies.

The Bank's JT activities focus investment efforts on addressing the costs of the transition and aim to harness new sustainable economic development opportunities for the most affected places and communities, including those offered by the decarbonisation of the economy. In addition, people, businesses, sectors and regions most severely impacted by climate change also deserve specific consideration.

Related investment programmes may include components such as the (re)use/repurposing of infrastructure and land (circular economy), implementing new or missing infrastructure (regional assets), reskilling/upskilling of workers and jobseekers and environmental rehabilitation, which are needed individually or in a comprehensive package to enable the transition.

Just Transition is a key component of the EIB climate agenda. While the majority of investments are expected to be in cohesion areas, Just Transition concerns also non-cohesion regions. Therefore, a comprehensive proposal on Just Transition will be presented to the Board of Directors in a separate document.

With its recognized technical expertise in climate mitigation, adaptation and environmental sustainability, the Bank is committed to be a key partner of cohesion regions and to support them through lending and advisory in achieving their environmental and decarbonisation transition. The box below highlights cases of high added-value climate projects in cohesion areas. These projects serve as examples to guide the EIB's new cohesion orientation.

Box 8: High added-value climate projects in cohesion areas

Modernisation of the "Simeria-km 614" railway section of the Rhine-Danube TEN-T Rail Corridor

The modernisation of 144 km of railway in western Romania, forming part of the Rhine-Danube corridor, is the largest transport infrastructure project implemented by the Romanian government in the last 30 years, with a value of over EUR 2 billion. Besides the technical complexities of such a project, implementing the contract and securing the financing were also challenging issues for the Romanian government.

The Romanian authorities initially had difficulties in securing EU funding unless the project was updated to meet the European Commission's financing requirements, including climate risk and vulnerability assessment. With the support of EIB experts working under the PASSA initiative, the feasibility study was successfully updated to comply with these requirements and in 2017, the European Commission approved the EUR 2 billion EU financing package. The EIB is also co-financing the project through a framework loan for the entire Large Infrastructure Operational Programme of Romania.

The EIB's advisory initiative, PASSA will continue to support the Romanian authorities in dealing with implementation issues until the end of the project.

Once the project is completed, passenger trains will run at a maximum speed of 160 km/h and freight trains will travel at a maximum of 120 km/h. The modernised railway section will also benefit from a traffic management system, improving safety.

The project will not only provide increased safety, comfort and travelling times for passengers; it will also have a major impact on the environment by reducing CO2 emissions by an anticipated 1.5 million tonnes over its expected 30-year lifespan.

Nord-Pas-de-Calais financial instruments, France

Launched in 2015, this platform dedicated to the "third industrial revolution in Nord-Pas-de-Calais" combines EU funds (EUR 15 million from ESIF), EIB loans of EUR 15 million and resources from French public and private players (Caisse des Dépôts Group, Crédit Agricole Nord de France). The platform targets funds of up to EUR 100 million and focuses on energy efficiency, renewable energy, circular economy and mobility projects.

Residential energy efficiency financial instruments in Lithuania

In this fund of funds managed by the EIB, the Lithuanian Ministry of Finance and Ministry of Environment have used financial instruments, in combination with grants, to fund loans to support investment in energy efficiency in apartment block buildings in Lithuania. The DFIs have supported the development of a single product for homeowners known as the "Modernisation Loan", which forms the centrepiece of the Lithuanian government's programme to improve energy efficiency in residential properties. Grants are used in combination with financial instruments to fund technical support, interest rate subsidies and capital rebates.

Covid-19 Disaster Prevention & Climate Adaptation in Greece

As part of an EIB Framework Loan, investments will support a significant upgrade of the General Secretariat for Civil Protection for prevention and management of natural disasters, with a majority being weather and climate-related, as well as public health and environmental protection. The investment programme contributes to implementing the Greek National

Adaptation Strategy and is embedded in a comprehensive Disaster Prevention Programme called ASPIDA (SHIELD) as well as the National Civil Protection Plan. The material physical climate risks, which are addressed are increasing droughts, extreme temperature events, wildfire risk, storms and high winds, and extreme rainfall events (flooding). Adaptation measures financed by the EIB include new aviation fire-fighting assets, vehicles and construction equipment, the installation of fire detection systems in forest areas, and sensors for real-time flood monitoring.

Fostering the transition towards sustainable energy and energy efficiency in residential buildings in Pomerania, Poland

Under the 2014-2020 programming period, the EIB and the Pomorskie Region in Poland have been working together to implement DFIs to promote sustainable investments and foster the use of renewable energy and energy efficiency in the region.

Under the European Regional Development Fund (ERDF), the EIB and the Board of Pomorskie Voivodship created a fund of funds under which the EIB manages EUR 43 million to invest in eligible EE and RE projects.

The ERDF Funds are committed to final recipients in the form of preferential loans that support projects to improve energy efficiency and implement smart energy management in the housing sector. Total EU allocation for the EE in residential buildings is approximately EUR 30 million with an additional financing from the financial intermediaries of up to EUR 3 million. Successful examples under this facility include the thermal modernisation of Słupsk’s residential community building, which increased its energy efficiency by at least 32% and the installation of solar panels for the maritime scouting centre in Puck, where the generated electricity covers the energy consumption of the whole building. The support of DFIs for the region’s green economy will also increase its competitiveness.

4.4. Supporting innovation deployment by mid-caps

Supporting innovation in cohesion regions will require mobilising significant investments. The Bank can support innovation in a specific way by extending its action toward mid-caps in less developed regions under the Innovation, Digital and Human Capital PPG.

EIB direct lending to mid-caps under the Innovation, Digital and Human Capital PPG is restricted, as it is for all companies, to R&D investments. Given the challenges facing less developed regions, investments undertaken by mid-caps in these regions are deemed to have larger spillovers than the same investments in more developed regions, thereby driving a positive wedge between the economic and the financial rates of return on investment.

The EIB Investment Survey 2020 shows that mid-caps in less developed regions introduce less innovation that is new to the enterprise than in non-cohesion regions.

In particular, investments in the adoption of key new technology by mid-caps in less developed regions can often imply knowledge, wider social and economic spill-overs and potentially also positive environmental externalities at local level:

- The firms contribute to developing and diffusing knowledge and know-how associated with new technologies, along with creating the conditions for the required upskilling and training of the concerned workforce.
- They contribute to creating social and economic conditions that enable, simplify or incentivise further investments by other economic actors for the establishment or upgrade of local economic activities and potentially employment.
- They contribute to creating networks of economic activities and eventually the development of local supply chains and therefore support further future local investments and innovative upgrades.

Considering the significant economic impact at the local level, **the Bank proposes to expand the eligibility criteria to finance directly the deployment of existing technologies by mid-caps in less developed regions, under certain conditions, under the Innovation PPG.**

To ensure that this extended support remains focused on technology deployment, one of the criteria is that it is the first time that the promoter deploys this technology in the country.

The second main criterion is that the main activity of the final beneficiary is in an innovative economic activity sector.

To maintain a consistent approach among EIB products and initiatives, it is proposed to select the same innovative sectors by NACE code as agreed under the EGF and for mid-caps under standard MBILs (Table 3). The list of economic activity sectors of final beneficiaries considered as innovative is derived from the OECD classification of the top ten innovative sectors. The classification is based on a broad definition of innovation in line with the innovation definitions used in the OECD's Oslo Manual that covers a range of innovation activities from products and processes to marketing and organisational innovations. The list of innovative sectors for MBILs, EGF and direct mid-caps lending as proposed here may be updated from time to time based on the evolution of the OECD list as well as the sector or business needs.

Table 3 R&D Intense sectors (applying also to EGF and MBIL)

NACE code	Sector
Section C	**Manufacturing**
20	Manufacture of chemicals and chemical products
21	Manufacture of basic pharmaceutical products and pharmaceutical preparations
26, 27	Electronic and electric equipment
28	Machinery and equipment
29, 30	Manufacture of motor vehicles, trailers and semi-trailers
Section J	**Information and Communication**
58	Publishing activities
61	Telecommunications
62, 63	Computer programming, consultancy and related activities; Information service activities
Section M	**Professional, Scientific and Technical Activities**
72	Scientific research and development

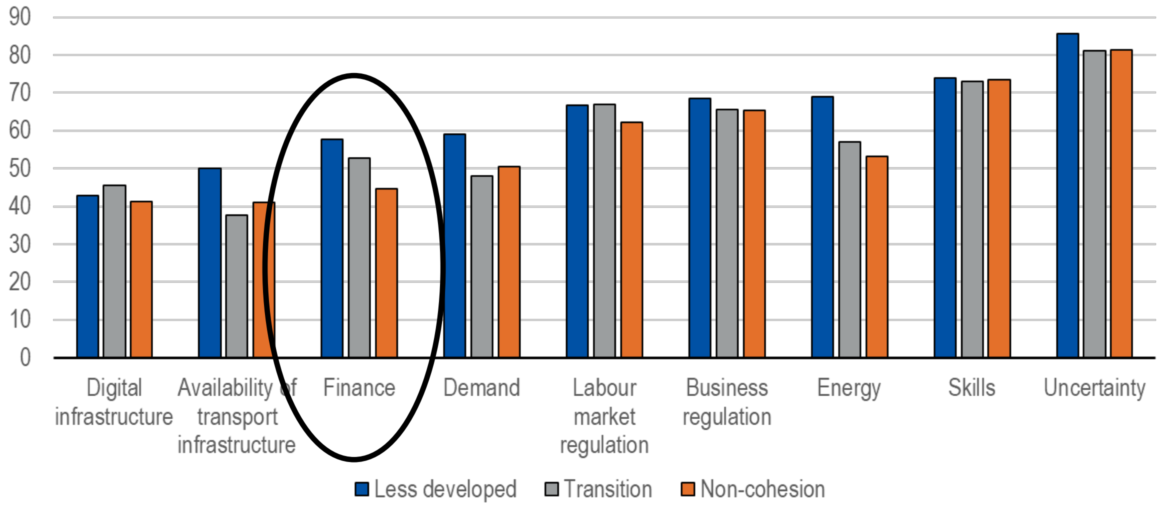
As the purpose of these loans are wider social and economic spill-overs at the local level, eligibility for EIB financing will be conditional to a set of spill-over criteria, in particular staff training and skills development.

4.5. Supporting access to finance for mid-caps through direct lending

Access to finance remains a challenge in cohesion regions. According to the EIB's 2020 Investment Survey, almost 60% of firms in less developed regions, more than 50% of firms in transition regions and around 45% of firms in non-cohesion regions report access to finance as being an obstacle to investment (Figure 9).

While this survey was carried out in 2020, results indicate that challenges with access to finance are more structural, suggesting that the situation remains critical for less developed regions and many transition regions. Issues with access to finance appear most pronounced for firms in less developed regions.

Figure 9: Share of firms reporting obstacles by region, %



Source: EIBIS 2020
Question: Thinking about your investment activities, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all? Bars show the combined share of firms reporting the issue as major or minor obstacle respectively.

Supporting economic convergence of cohesion regions will therefore require a significant effort in terms of private sector development. Private sector development is key to reducing inequalities and creating employment opportunities in cohesion regions. The EIB is already very active in terms of SME financing in cohesion regions through intermediated finance products.

Mid-caps are eligible final beneficiaries under the "SME and mid-caps finance" PPG. For mid-caps, the EIB lends through both intermediated finance products, such as the Mid-Cap Loan product, as well as providing direct loans under different PPGs.

Lending to mid-caps has traditionally been mainly delivered through intermediated structures – e.g. through Multi-Beneficiary Intermediated Loans (MBILs). Since July 2010, the eligibility criteria for mid-caps with sub-projects up to EUR 25 million of costs under MBILs have been fully aligned with the eligibility criteria for SMEs.[11] For mid-caps, these criteria have been extended to sub-projects with costs of up to EUR 50 million. Mid-cap lending under intermediated finance products can be (but is not necessarily) attributed to the SME and Mid-caps access to finance COP objective. While the EIB imposes conditions for the use of the proceeds of the sub-loans, the sub-projects financed under the SME and Mid-cap access to finance primary objective do not necessarily have to contribute to another EIB primary lending objective such as innovation or sustainable infrastructure.

Direct loans to mid-caps are usually carried out through Mid-cap Programme Loans. These loans were initiated under Innovfin, and have been continued under EFSI. In contrast to mid-cap lending under MBILs, the sub-projects must contribute to at least one of the EIB's primary lending objectives other than the SME and mid-cap access to finance objective. In other words, meeting the mid-cap size criterion on its own is not sufficient under direct loans. Expanding the ability to undertake direct lending to mid-caps in cohesion regions under the SME and mid-cap access to finance objective would provide increased flexibility to deliver the

[11] CA/438/10 of 14 July 2010, document 10/349.

EIB's ambition. This would also complement RRF, which is expected to be more targeted toward the public sector than toward mid-caps.

Given the multiple challenges facing cohesion regions, investments undertaken by mid-caps in these regions are deemed to have an important impact on employment and economic convergence given their strong link to the local economy. Over and above the types of investment already supported by the AIM framework and what is proposed in the previous section in the area of Innovation, the Bank proposes to consider **direct finance to mid-caps to facilitate access to finance in cohesion priority regions with particular attention to less developed regions under the SME & Midcaps PPG. The project size would remain limited to EUR 100 million.**

The increase in project size is justified by the absence of delegation; while in intermediated lending the due diligence and project allocation is delegated to financial intermediaries, in direct lending, each operation would need to be assessed and approved by the EIB.

Since mid-Caps are already eligible final beneficiaries under the SME & Mid-Cap PPG and the Bank already lends to mid-caps through intermediated structures under the SME & Mid-Cap PPG (as well as directly in very specific cases), this proposal would not constitute a change of eligibility but rather a complementary way of delivering the same type of support.

To ensure strong additionality, it is also proposed that direct funding to mid-caps is extended for operations with the highest EIB contribution (i.e. "very good" or excellent" Pillar 3).

4.6. Increasing support through advisory services

EIB advisory services form a core element of the Group's value proposition. Advisory services complement EIB lending and blending activities by providing support to help promoters develop and implement economically sound, sustainable and well-grounded projects. Through awareness raising, project support, financial structuring and specialist technical assistance, EIB advisory services play a critical role in capacity building and project pipeline development in cohesion regions.

EIB advisory is well established in cohesion regions, facilitating investment of EU funding, working closely with operational teams in the EIB and EIF. The provision of advisory and capacity building support, are an important element of the EIB ambition in terms of geographical scope, as well as the cohesion lending priorities: climate and environment, innovation and private sector development. Through effective targeting of limited resources, and subject to the approval of proposed mandates currently under negotiation with the EC for the new MFF, EIB advisory services are well placed to help "level the playing field" mobilising investment in cohesion regions in the 2021-2027 programming period, optimising the use of public resources.

With more than 220 EIB Group operations supported since its launch in 2015, the European Investment Advisory Hub has focused over time more on supporting sustainable investment and the deployment of EFSI. Now, under the InvestEU Advisory Hub (the Advisory Hub) this focus on project development with links to green investment and InvestEU products will be strengthened. The Advisory Hub will provide an efficient point of access for advisory demand, drawing on expertise from the pool of advisory and technical assistance expertise across the Group. Working across all four of the InvestEU policy windows (Sustainable Infrastructure, Research, Innovation and Digitisation, SMEs and Social Investment and Skills), it is expected that much of the support delivered through the new Advisory Hub will also target cohesion regions. This will include supporting the European Commission's Just Transition Mechanism (JTM), where a dedicated amount of the Advisory Hub resources will be targeted specifically to eligible projects under the EIB public sector loan facility (Pillar 3 of the JTM) [12].

ELENA (the European Local ENergy Assistance programme) will continue to provide technical assistance for preparing and implementing investment programmes in the areas of energy efficiency and integrated renewables. Its primary focus is on existing buildings and urban transport solutions, supporting the EU's Renovation Wave, Green Deal and the EIB's climate objectives. Under the RD&I/SME Investment Windows, Innovation Finance Advisory will make recommendations to enhance access to finance conditions for key emerging innovative technologies and business models, providing financial advice to help structure projects to better prepare them for EIB or private sector financing, as well as for support from public funding resources. Developing the innovation ecosystem in cohesion regions will be a key focus for such support.

The Advisory Hub is complemented by several important advisory mandates delivered by the EIB in support of cohesion objectives. The largest of such programmes is JASPERS (Joint Assistance to Support Projects in European Regions). Set up in 2006, JASPERS combines the project experience of the EIB and the policy expertise of the Commission to support beneficiaries of European grant funds that contribute to cohesion policy objectives. This support consists of the provision of high-level technical advice to ensure sustainable investments funded under ERDF, JTF, Cohesion Fund as well as Connecting Europe Facility.

Presently, JASPERS is the largest advisory initiative of the EU's cohesion policy. During the 2014-20 Multiannual Financial Framework (MFF), at least 101 Bank loans for a total amount of EUR 22 billion, for a total investment cost of EUR 45 billion have benefited from JASPERS support. During the same period, the EC has already approved EUR 40 billion in grants for projects supported by JASPERS.

In practice, JASPERS works with local authorities, project developers and EU funds' managing authorities. It helps these bodies to prepare strategies and sustainable projects, and to build their own capabilities in planning, designing, contracting and delivering. The range of sectors and topics covered is vast, including circular economy, energy efficiency, carbon neutrality, smart cities, applied research and innovation, healthcare systems, sustainable mobility, water and sanitation services, flood and disaster risk management and protecting biodiversity.

In the 2021–2027 programming period, JASPERS will continue to cover all aspects of project development, implementation support and capacity building with particular focus on supporting Europe's transition towards a climate-neutral economy.

Implementation support is critical in cohesion regions and particularly in less developed regions. To reinforce this key aspect of the project development cycle, the PAS Programme (Project Advisory Support), provides implementation support to promoters in participating Member States on strategic and complex projects through tailor-made advice. The service has successfully accelerated the implementation of EU funded projects in Romania and Bulgaria, and has the potential to be expanded in the 2021-2027 period to provide coordinated financing

[12] A sub envelope will also be dedicated to building administrative capacity in the Lesser Developed Regions.

and advisory support for the implementation of projects financed by the Bank in other Member States, including under Invest EU.

The Bank has developed a Financial Instruments advisory offer to support the design and implementation of financial instruments and investment platforms using cohesion funding, EFSI and now also Recovery and Resilience Facility funding, including the DFIs managed by the EIB Group. The *fi-compass* platform, delivered in partnership with the EC, provides horizontal capacity building services and the Bank provides tailored support to managing authorities, NPBIs and financial intermediaries in relation to the design and implementation of financial instruments under cohesion policy. Additional advisory expertise is also provided by EPEC (European PPP Expertise Centre) in relation to building the capacity of project promoters in the use of public private partnerships and other similar models, helping to mobilise more private sector investment also into cohesion regions.

Through awareness raising, project identification, preparation and implementation support, combining financial structuring and specialist technical assistance, EIB advisory services will support cohesion regions to meet the challenges of 2021-2027 cohesion policy programme along with the longer-term ambitions of the European Green Deal.

Responding specifically to the needs of cohesion regions, EIB advisory services will target Members States' needs in the following key areas, while seeking to serve EIB Group's interest in support of potential operations:

- The 'Greening' of EU cohesion policy and the JTM create the conditions to accelerate investment of EU Funds and EIB cohesion lending in projects with positive CA&ES impacts. The EIB can support cohesion regions to meet the challenges of 2021-2027 cohesion policy programme along with the longer-term ambitions of the European Green Deal and Territorial Agenda 2030 through its advisory activity. Through awareness raising, capacity building of both project promoters and intermediaries, project identification, preparation and implementation support and combining financial structuring and specialist technical assistance the Bank can underpin the development of capacity within Member States to bring forward green and digital projects and financing models aligned to the objectives of 2021-2027 cohesion policy. Pilots in these areas are already underway, including support for "greening" intermediated operations, scaling up investment across the hydrogen value chain, strengthening climate adaptation ambition and development of related projects, as well as supporting the wider usage of green bond issuance by EIB clients.

- Support for innovation will be a critical area for growth in the EIB's engagement in cohesion regions. The current low levels of innovation in some parts of the EU result in a lack of capacity within the public and private sectors, which in turn creates further barriers to investment. The EIB can provide advisory support across the entire 'innovation' value chain addressing not only local capacity constraints but also the identification and development of new areas of potential investment and facilitating access to finance. The EIB advisory offer will be key in helping to strengthen related capacities in technical and financial project preparation and implementation as the Bank seeks to support the digital and innovation transition pathways in cohesion regions.

- The significant increase in the use of financial instruments is a key objective of the 2021-2027 cohesion policy framework. This renewed emphasis on financial instruments can be supported further through the building of capacity of the public sector and intermediaries. Early stage advisory intervention will also be important in making sure that EIB Group financing and mandate management services can be brought effectively into the design of such instruments ensuring an appropriate mix of funding sources for cohesion priority projects, and helping also to ensure complementarity with the significant grant resources becoming available in the new MFF. The combination of financial instruments advisory, mandate management and EIB co-lending has also been proposed recently to interested Member States as a response to the challenge of unprecedented levels of European grant funding resources, most notably now under the RRF, in cohesion regions. Thanks to initial advisory work done with the Commission and several Member States, opportunities for EIB Group to manage this funding, either as financial instruments or as grants in combination with EIB lending has led to larger mandate management and/or co-financing opportunities in Greece, Italy, Romania and Bulgaria – with more under development.

5. Conclusion

Financing projects that contribute to strengthening the economic, social and territorial cohesion of the EU has been at the heart of EIB operations since its foundation in 1958. Over the last seven years, the EIB lent more than EUR 120 billion to projects in cohesion priority regions. Economic modelling shows that EIB lending had a strong macro-economic impact on cohesion regions with up to 2% GDP impact. Further EIB support to productive investments is key to reduce regional economic disparities and to enable a thriving economy across the entire European Union.

The approach to cohesion lending has changed with the widening of the cohesion priority regions to include all regions with average per capita GDP below EU average. At the same time, cohesion regions face new and increased challenges in the area of climate action, environmental sustainability and innovation. These challenges have been exacerbated by the Covid-19 crisis. The increased demand for financial support from expanded cohesion regions is expected to be to a large extent met through the vast EU funding earmarked for the economic recovery (e.g. RRF, etc.), in turn reducing the resulting financing gap the EIB would be targeting.

Taking into account these challenges, the Bank is proposing a new cohesion orientation articulated around the following seven pillars:

- Increase of the cohesion ambition with an **orientation of 40% of total EU-27 lending in cohesion regions, aiming to reach 45% of total EU-27 lending by 2025, using reasonable endeavours**. While this orientation will not be an explicit KPI, it will be closely monitored and reported on each year.
- A **KPI of 20% of EU-27 lending for the less developed regions, increasing to reach 23% of total EU-27 signatures by 2025**. The implication, as in the last MFF, is the EIB lending will at least equal the share of GDP of the transition regions.
- In parallel, the **EIF is also expected to include a cohesion KPI in its 2022 COP** (to be discussed by EIF Board of Directors in Q4 2021) and is currently working on defining further the role of cohesion as part of its product strategy reflexion.
- Particular support to cohesion priority regions in their climate and environmental transition in order to **increase significantly the share of climate action and environmental lending across transition and less developed regions**.
- **Finance directly the deployment of proven technologies (not justified by another PPG) for the first time by Mid-caps in less developed regions** when these projects show clear economic spill-over impact at the local level.
- **Increase the support to facilitate access to finance for Mid-caps through direct lending under SME and Mid-caps PPG in cohesion regions with a particular attention to less developed regions**.
- More and well-targeted advisory support to respond to and deliver on the challenges outlined above, especially in light of the unprecedented amount of EU grant funding being made available to cohesion regions. This should help to channel these funds into sustainable and future-oriented investment as well as optimise their combination and complementarity with other resources.

With this new cohesion orientation for 2021-2027, the Bank reaffirms its commitment to cohesion lending and is ready to support transition and less developed regions in light of new economic, operational and environmental challenges.

European Investment Bank Cohesion Orientation 2021-2027

European Investment Bank
Investment
Bank
The EU bank

European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
+352 4379-22000
www.eib.org – info@eib.org