

The EIB and European Cohesion Policy: An effective trade-off between growth and convergence?

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By Malin Berg von Linde

The European Union (EU) is founded on the principles of competition and free trade to increase economic and social welfare. It is well-known that these principles are associated with uneven economic development across regions, with a self-reinforcing process where more developed regions become richer at the expense of less developed regions.¹ As a result of this foreseeable effect, the founders incorporated aims of cohesion already in the Treaty of Rome, making it an important feature of EU policy making from the very beginning.²

Today, cohesion spending accounts for a third of the EU budget. It aims to help each region achieve its full potential by pursuing convergence in terms of economic and social standards, and is implemented foremost through the EU Structural and Investment Funds (ESIF).^{3,4} In addition to this, other institutions, including the European Investment Bank (EIB), work within their competencies to ensure development in line with EU cohesion objectives.⁵ The aim of this article is to provide a brief analysis and highlight some important features of how the EIB contributes to the achievement of these objectives.

Since its establishment, alongside its duties as the EU bank, the EIB's mandate includes a regional development component. The extent of this involvement increased significantly in the 2007-2013 cohesion programme period due to political pressure from the European Commission and the European Parliament (EP), and has continued to increase in the 2014-2020 programme. Despite sharing the same aim, working practices between the EIB and EU cohesion fund spending differ, as the EIB exercises normal investment bank lending practices and refrains from giving grants.⁶

In addition to bank lending, the EIB assists governments to access EU funds by co-financing part of their contribution required to obtain grants, and provides advisory services to member states and regions to raise the quality of investment projects.⁷ Giving guidance is an important complement to the lending activities, where human capital and knowledge about projects and investment mechanisms is on average lower in the targeted less developed regions.^{8,9}

Key sectors for EIB cohesion objectives include areas of trans-European networks and sustainable energy, water, waste management, forestry, and food security; small and medium sized enterprises (SMEs) and innovation; education and training; information and communication technology; and municipal lending for improved urban living environments. Due to the significant size of EIB loans, lending to SMEs is done through intermediary banks or public entities.¹⁰

The role of the EIB in cohesion policy varies greatly across the EU, but so far the expansion of activities seems to increase both in terms of the number of countries and the depths of its investment.¹¹ Over the last programme period, the EIB support for cohesion objectives amounted to €147 billion.¹² Recently supported projects include the co-financing of Hungarian investment in the areas of transport, energy and environment¹³ worth €500 million, in cooperation with the EU's cohesion funds, €360 million of investments in research and development as well as in information and communication technology in Romania,¹⁴ investment in educational infrastructure in Hungary,¹⁵ in Poland's railway infrastructure,¹⁶ and increased support for smaller infrastructure projects concerning the environment in Slovenian municipalities.¹⁷

In general, EIB activities are regarded as making a significant contribution to cohesion policy objectives by policy makers and officials responsible for implementation in the member state regions. The advisory service is particularly appreciated, and considered to contribute with high added value. In addition to this, a recent Committee of the Regions report argues that the main benefits of involving the EIB in cohesion policy projects is the positive effect on project

quality, encouraging actors to move away from grant dependency cultures and boosting involvement of private investors.¹⁸ However, without questioning the sincerity of the EIB's role in attempting to realise concrete benefits for EU citizens, better insight into this mechanism is necessary.¹⁹

Latest research shows that there is a rather limited understanding of EIB's effectiveness in the development of regions. Partly due to a lack of aggregate EU level data and partly due to the difficulties of determining causality when means of finance have multiple sources.²⁰ The unavailable data, which would give analysts and ultimately decision makers a better overview of the efficiency and effectiveness, also presents a problem for monitoring the EIB. In response to this, documentation and data collection over the 2014-2020 programme is required, compared to the previous programme period where it for the EIB in many cases was voluntary.²¹

Along with the increased involvement of the EIB in cohesion policy, weaknesses in the legal framework for such activities have been pointed out. The EIB has a high level of operational autonomy within the EU's institutional system. As a consequence, concerns have been raised about the fact that the EIB is not directly accountable to EU citizens or their representatives. The set-up is challenging to say the least; with the hybrid nature of being both an investment bank, having to respect client confidentiality, and as an EU body, having to be accountable to the public. In general, member states have positive views regarding the accountability of EIB activities, but reporting and monitoring activities connected to cohesion objectives is fragmented.²²

While there have been significant efforts to improve both accountability and transparency, motions for granting the EP more power to inspect activities have been raised, and the Commission is currently looking into alternative approaches.²³

As an actor of significant importance, the EIB has been criticised for a lack of projects in sectors with the greatest development potential such as agricultural, health care, telecommunication, and waterworks. Financially sound projects, those favouring higher profits over the mitigation of environmental consequences, have a greater chance of success in securing funds also within the EIB cohesion framework.²⁴ Perhaps more alarming however, is the fact that it is not only the EIB or the private sector that seem to neglect social impacts and leave little or no concern for negative externalities: Public institutions, whose main criterion should be development of the target region, also put profit concerns first in many cases. In poorer countries, this is shown by placing emphasis on relatively low cost projects with a greater impact on the economy, with unfortunate heavy burdens on the environment.²⁵

The greater involvement of the EIB in cohesion objectives illustrates an important change of character of cohesion policy in general. What started as a combination of structural and regional policy aimed at reducing economic disparities within the Union, has since the millennium been subordinate to a strategy of growth and competitiveness.²⁶ With the growing focus of global competitiveness, an informal redefinition of key objectives and principles has occurred, and a potential conflict between growth and cohesion has arisen.²⁷

A serious problem thus appears to be low compatibility of the EIB's institutional motivation, including profitability concerns and risk aversion, and the rationale of cohesion policy that encompasses economic convergence.²⁸

In the context of the Juncker Plan and the establishment of the European Fund for Strategic Investment (EFSI), the EIB is more important for the EU than ever before. Due to the competing aims of growth and convergence, transparency has to be a key priority for the EIB. Furthermore, a more clearly defined operational framework with a predefined allocation of resources dedicated to cohesion objectives could increase accountability. From the Commission and the EP, better guidelines, clearly separated from the aims of growth and competitiveness, have to be established for accomplishing cohesion objectives. Now, more than ever, it is important to place an even heavier emphasis on ex-post evaluations and analysis to ensure a desired development.

Despite difficulties in implementing such measures in practice, and the questionable compatibility of the EIB's legal mandate with the political aims of cohesion policy, this discussion should be part of the solution to the problematic trade-off between growth and convergence, efficiency and equality.

Malin Berg von Linde is a ZEI Fellow, "MES Class of 2016".

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