



REGIONAL COHESION IN EUROPE 2020-2021

Insights from
the EIB Investment Survey



Regional Cohesion in Europe 2020-2021: Insights from the EIB Investment Survey

September 2021

Regional Cohesion in Europe 2020-2021: Insights from the EIB Investment Survey

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About the EIB Investment Survey (EIBIS)

The EIB Group Survey on Investment and Investment Finance is a unique, annual survey of some 13 500 firms. It comprises firms in all EU Member States and the UK, as well as a sample of US firms which serves as a benchmark. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS is representative across all Member States of the EU and for the US, as well as for firm size classes (micro to large) and four main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the EIB, with support for development and implementation by Ipsos MORI.

For more information see: <http://www.eib.org/eibis>.

About this publication

This is a report of the EIB Economics Department. It analyses regional cohesion using the EIB Investment Survey (EIBIS) 2020 as the data source. For the purpose of this publication, we classify firms' responses depending on their location in cohesion (less-developed, transition) and non-cohesion regions. To better reflect the contribution of different firms to economic output, data are weighted by value-added. In order to adapt the survey to this regional approach, 114 NUTS were identified for weighting and NUTS-specific value-added weights were created. The target weights were slightly adjusted so that each country total was the same as the SBS size/sector country totals. The methodology of the EIBIS survey is available at:

<https://www.eib.org/en/about/economic-research/surveys-data/about-eibis>.

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About the EIB Economics Department

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The department, a team of 45 economists, is headed by Director Debora Revoltella.

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Disclaimer

The views expressed in this publication are those of the authors and do not necessarily reflect the position of the European Investment Bank.

For further information on the EIB's activities, please consult our website, www.eib.org. You can also contact our InfoDesk, info@eib.org.

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Overview

Support for economic, social and territorial cohesion has been at the heart of the EU since its inception. However, the COVID-19 pandemic risks deepening divergences between citizens, territories and firms across Europe. Firms across the EU will need to adapt to the post-pandemic environment and megatrends, notably digitalization and climate change, to stay competitive looking ahead.

The EU has committed to a joint recovery centred on green and digital transition. The extent to which this will mitigate the risks of rising inequalities and rising divergences across firms depends not least on support for cohesion. Data coming from the EIB Investment Survey (EIBIS) provides a unique tool to gain insights on how non-financial corporates in these different regions are behaving. EIBIS information sheds new light on investment needs and gaps, financing requirements as well as firm activity on innovation, digitalization and climate change.

Firms in cohesion regions often face a more challenging business environment. This is particularly the case for firms in less-developed regions which often encounter challenges related to transport, energy, demand and access to finance. SMEs located in respective regions report the limited availability of finance as an issue more often compared to large firms in less-developed regions and similarly sized peers based in transition and non-cohesion regions. That access to finance is more often an issue in less-developed regions is further corroborated by a higher share of finance-constrained firms.

Cuts to investment triggered by COVID-19 come on top of lower initial investment activity in cohesion regions. While the pandemic is taking its toll on investment plans across all regions, cuts come on top of lower investment activity in transition and particularly in less-developed regions. Firms in non-cohesion regions may find themselves in a better position to adapt to structural changes, including for example accelerating digitalization in the post-pandemic environment.

Many firms across the EU are aware of the impact of climate change and have already taken action. However, firms in non-cohesion regions are pulling ahead and more have already invested in energy efficiency and climate change mitigation and adaptation measures. Also, investment to tackle the impact of climate change more often seem to proliferate, with more firms having invested and planning to do so in the future. Findings suggest that some firms are getting increasingly prepared, but also positioning themselves to take advantage of the opportunities green investment provides for their businesses. This pattern appears less pronounced in cohesion regions.

Overview

EU recovery strategies are firmly tilted towards green and digital. As we recover from the pandemic, Europe will need to ensure that the opportunities of the green and digital transformation can be realized by firms all across Europe. The EIB group is playing an important role in this context. Capacities for transformative investment and access to finance needs to be strengthened in cohesion regions. This needs to come together with improvements in the investment environment to avoid widening gaps across firms, regions they operate in, and thereby also the people living in different places across the EU.

Debora Revoltella

Director, Economics Department

European Investment Bank

Regional Cohesion in Europe

EU Cohesion Policy aims to strengthen economic, social and territorial cohesion across the European Union and to correct imbalances between countries and regions.

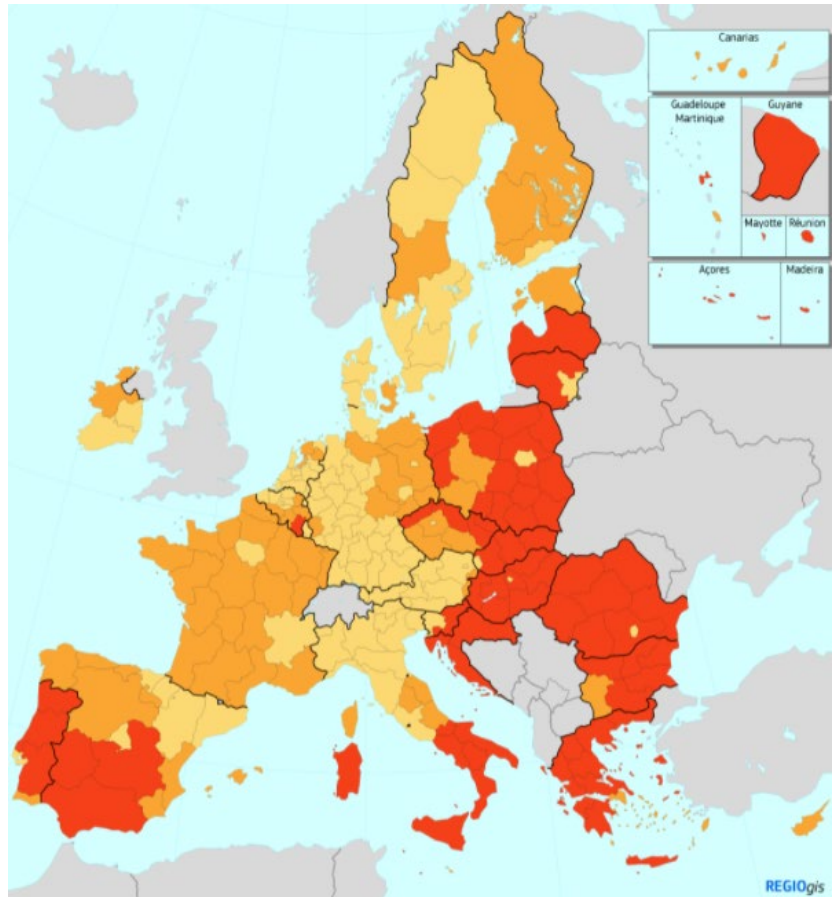
The green and digital transition are key priorities of Cohesion Policy for the next years. Cohesion support 2021-2027 is focused on five key policy objectives to support growth:

- A more competitive and smarter Europe
- A greener, low-carbon transition towards a net zero carbon economy
- A more connected Europe by enhancing mobility
- A more social and inclusive Europe
- A Europe closer to citizens by fostering the sustainable and integrated development of all types of territories.

EU funds will support investment across these policy objectives with a particular focus on a smart and green Europe.

Cohesion policy support 2021-2027 distinguishes three categories of regions at NUTS2 level.

New cohesion map 2021-2027



Source: EC DG Regio, available at [eu27.png \(4016x5598\) \(europa.eu\)](https://europa.eu/eu27.png) (2021-2027)

Notes: Thick borders separate countries. Thin borders delimit NUTS2 regions. Regions in red = Less-developed regions (per capita GDP < 75% of EU average), orange = Transition regions (per capita GDP between 75% and 100% of EU average), yellow = More Developed regions.

1. More developed regions – with GDP per capita > 100% of EU-27 average
2. Transition regions – GDP per capita between 75% and 100% EU-27 average
3. Less-developed regions – GDP per capita < 75% EU-27 average.

According to regions' income classification, the availability of co-financing differs with poorer regions having the possibility to receive more financial support.

Regional Cohesion in Europe: A Firm-Level Perspective

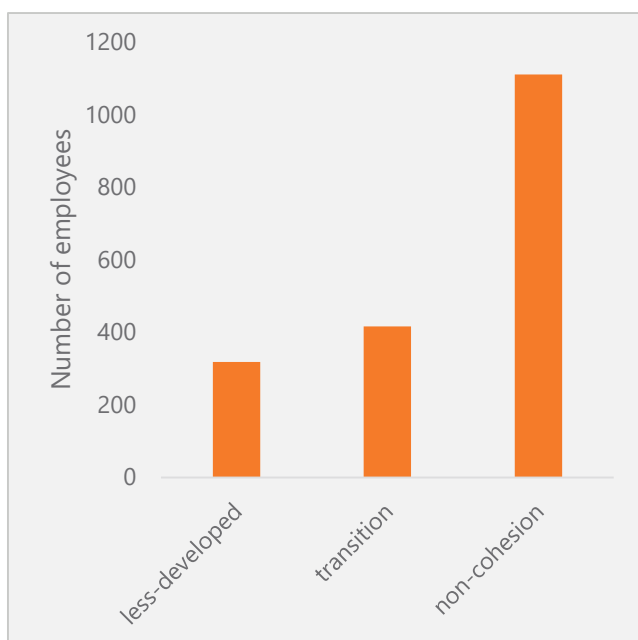
Firms' activities and investment are drivers of local prosperity and economic catch-up. Similarly, firms' activities are crucial for advancing the digital and green transition across the EU.

Investment conditions and needs differ for firms across the EU. We use information coming from the EIB Investment Survey (EIBIS) 2020 to analyse corporate investment patterns. Firms are grouped based on their location in regions classified as less-developed, transition and non-cohesion. This allows to better understand the investment needs and gaps for in different locations and challenges for economic convergence.

Firms in cohesion differ structurally from those in non-cohesion regions. On average, firms in non-cohesion regions tend to be larger. The differences in average size mostly reflect the more frequent presence of very large firms based in non-cohesion regions.

Firms in non-cohesion regions export more often. Six in ten firms in non-cohesion regions export their goods and services signalling competitiveness and close connections globally as well as within the EU's internal market. Firms in less-developed regions tend to export more than firms based in transition regions, which may reflect among other factors the integration into global value chains of many firms in Central and Eastern Europe.

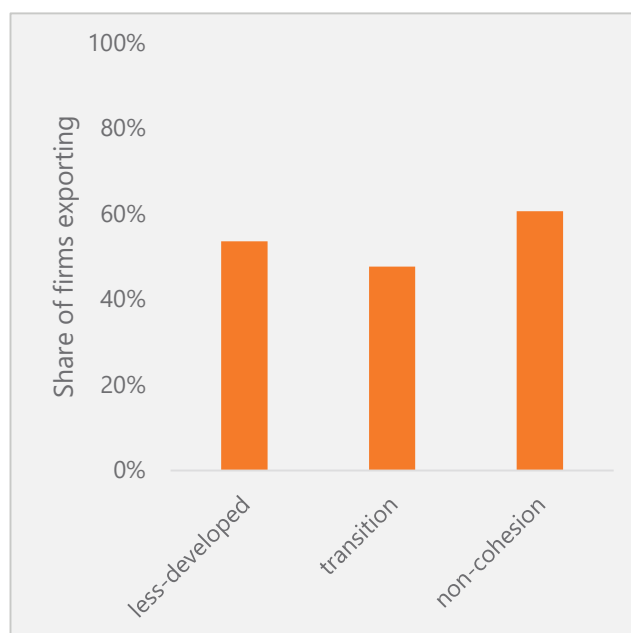
NUMBER OF EMPLOYEES



Average number of employees (incl. full and part-time).

Base: All firms (excluding don't know/refused responses)

SHARE OF FIRMS EXPORTING



Share of firms having directly exported goods and services to another country

Base: All firms (excluding don't know/refused responses)

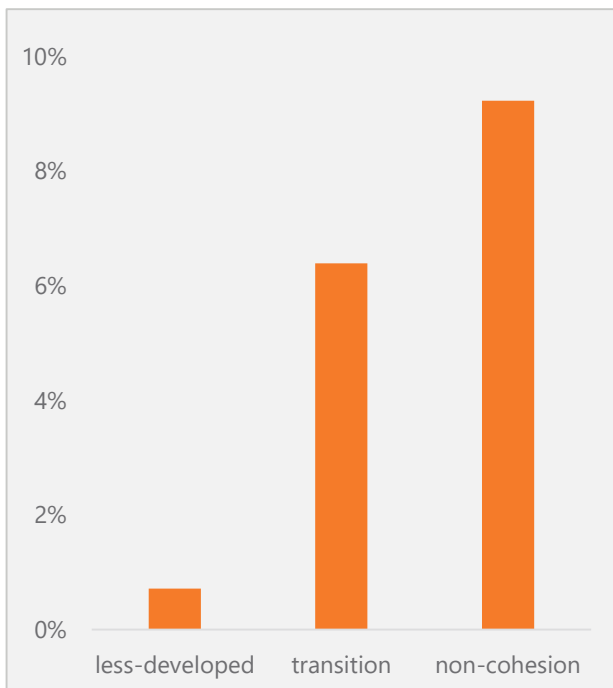
Regional Cohesion in Europe: A Firm-Level Perspective

When COVID-19 just hit, employment trends across the different regions were still positive, albeit with some important differences across the regions. For all three regional groups, the change in employment firms report over the three years preceding the pandemic was positive (ranging between 1% increase in employment in less-developed regions to 9% in non-cohesion regions). This positive development may to some extent be related to the different EU-wide and national policies put in place which contributed to preserve employment in the wake of the COVID-shock as much as possible (EC 2021).

Most firms in the EU had been making profits on the eve of the COVID-19 pandemic. On average, 16% of firms were highly profitable and slightly more than 60% were profitable across all regions. However, firms' profitability situation has changed with the impact of the pandemic unfolding.

Based upon structural indicators, firms seemed relatively well positioned to face modest external shocks. However, the COVID-19 pandemic has clearly been exceptional in terms of the size and nature of the shock. In order to shed light on reactions and firms' ability to transform in the longer-term, we take a look at investment dynamics and investment patterns in key areas.

CHANGE IN EMPLOYMENT

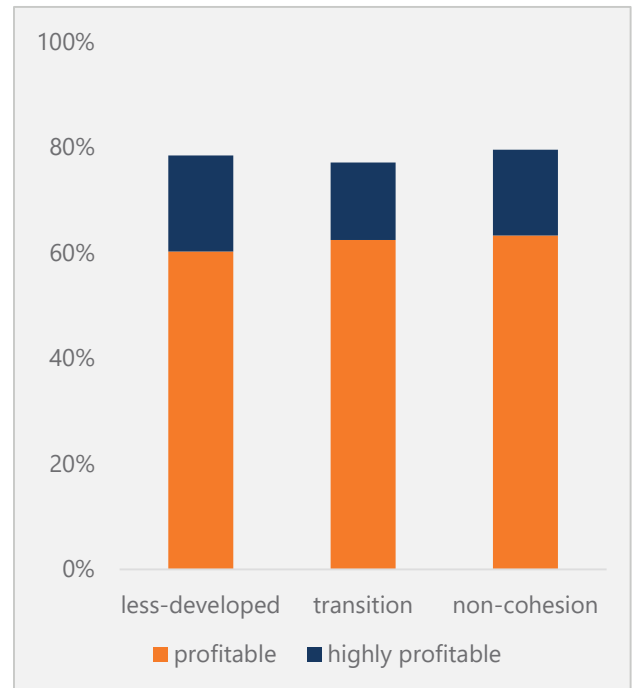


Q. How many people does your company employ either full or part time at all its locations, including yourself?

Q. How many people did your company employ either full or part time at all its locations, three years ago?

Base: All firms (excluding don't know/refused responses)

PROFITABILITY



Q. Taking into account all sources of income in the last financial year, did your company generate a profit or loss before tax, or did you break even? Highly profitable is defined as profits/turnover of 10% or more

Base: All firms (excluding don't know/refused responses)

Regional Cohesion in Europe: A Firm-Level Perspective

Before COVID-19 hit, investment dynamics seemed positive in all three regional groups, and especially in non-cohesion regions. Realized investment in the financial year 2019 was, on balance, positive (blue bar), i.e. many firms invested more than they had expected the year before.

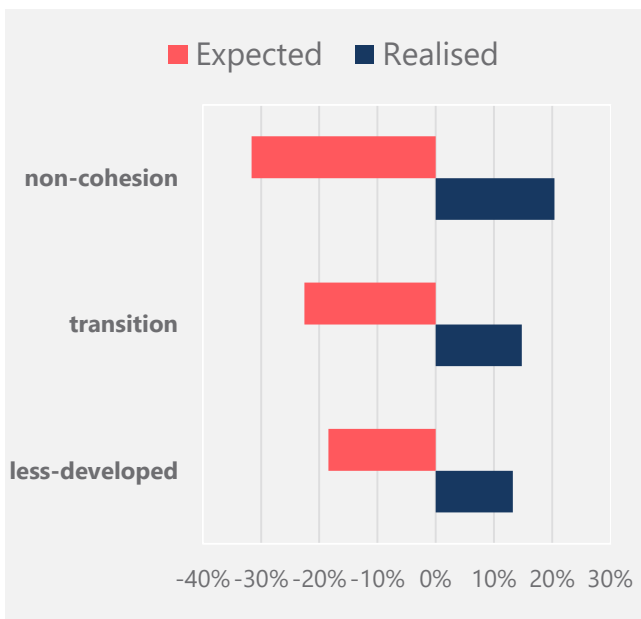
However, when asked about their expectations for 2020, firms were way more pessimistic. More corporates across all regional groups expected to decrease rather than to increase their investment in 2020. This was especially the case for the non-cohesion region.

Clearly, the COVID-19 pandemic has strongly impacted on the investment outlook across EU regions. The investment cycle graph shows that, prior to the pandemic shock, overall EU firms' outlook was mostly positive (point labelled EU 2019). With the COVID-19 shock, more firms hold a negative rather than a positive investment outlook. It also shows that firms' investment activity differs across EU regions. Fewer corporates in cohesion regions, particularly in the less-developed ones, undertake investment (79% compared to 85% in transition and 87% in non-cohesion regions), pointing to some deeper structural challenges.

Firms' investment outlook worsened most in non-cohesion regions, but investment activity was at higher levels before the pandemic shock, placing non-cohesion regions firmly into the 'high investment / contracting' quadrant.

A worsening outlook across the three groups comes on top of lower investment rates in cohesion regions. Firms in less-developed and transition regions both expect to cut investment on balance. These cuts would come on top of already lower investment rates.

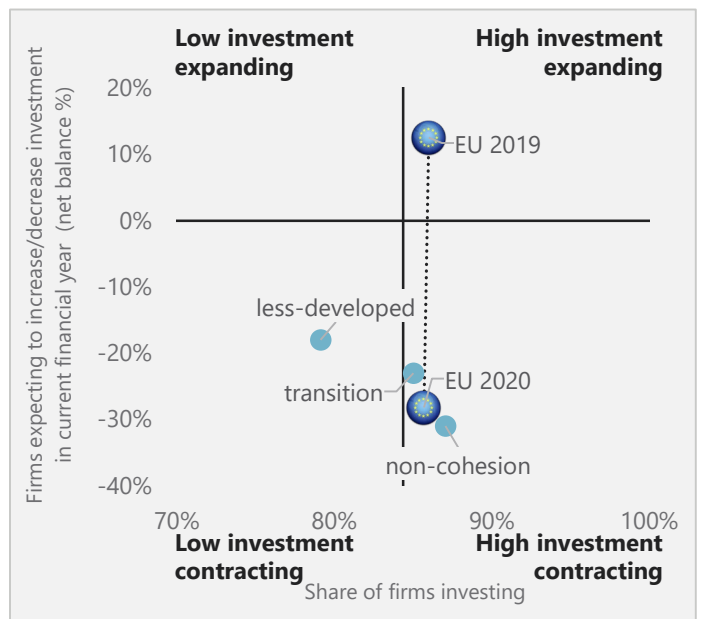
REALISED VS EXPECTED INVESTMENT



Realised change' is the share of firms who invested more minus those who invested less; 'Expected change' is the share of firms who expect (to invest more minus those who expect to invest less.

Base: All firms

INVESTMENT CYCLE



Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

Base: All firms (excluding don't know/refused responses)

The COVID-19 Shock and Firms' Reactions across EU Regions

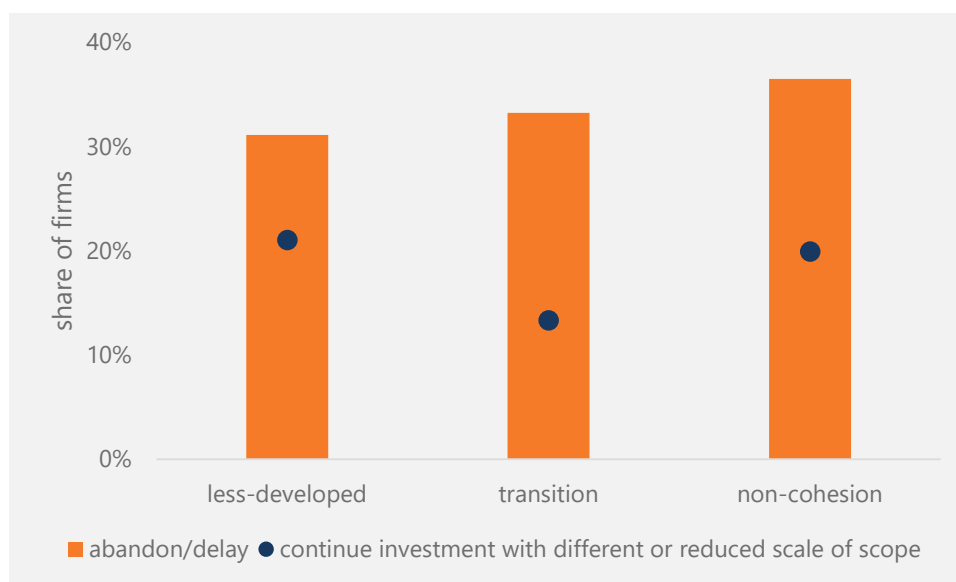
The COVID-19 pandemic clearly impacted investment plans across all regions. Around a third of firms with investment plans for the financial year 2020 report that they abandoned or delayed investment as a result of COVID-19.

In non-cohesion regions, where a higher share of firms had investment planned, around 36% of firms say they will delay or abandon at least some of their investment plans due to COVID-19. Around one-fifth (20%) expect to continue with at least some of their investment plans on a reduced scale.

In cohesion regions, a slightly lower share of firms report that they abandon or delay investment plans (31% in less-developed and 33% in transition regions). While the reported share is lower, it is important to keep in mind that fewer firms had investment planned in the first place.

Transition regions have the lowest share of firms that plan to continue investment plans with a different or reduced scale or scope (13%). In both less-developed and non-cohesion regions, around 20% of firms plan to continue investment, but with reduced scale or scope.

ACTIONS AS A RESULT OF COVID-19



Q. You just said you will invest less due to coronavirus. Can I just check which of the following actions will your company undertake ?

Please note some firms may be taking multiple actions i.e. abandoning/delaying some investment plans whilst continuing with other plans at a reduced scale or scope.

Base: All firms with investment plans for the current financial year (excluding don't know/refused responses)

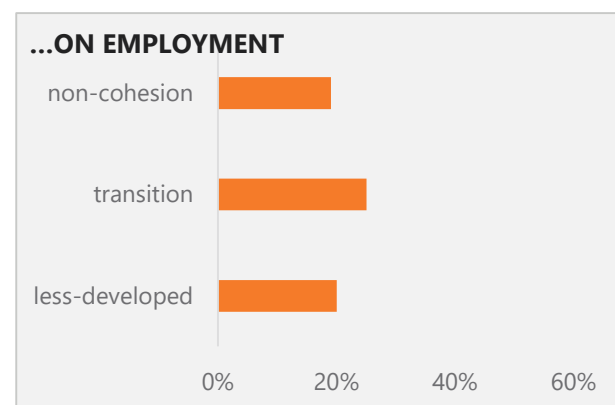
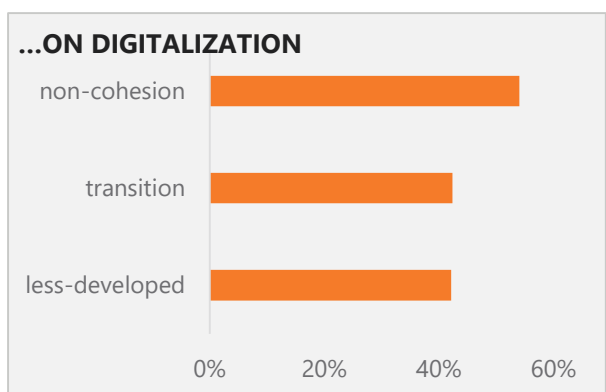
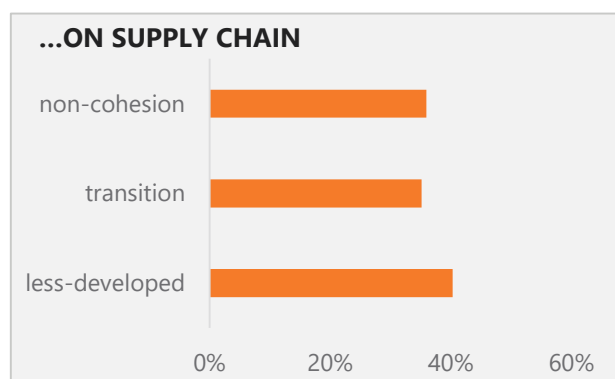
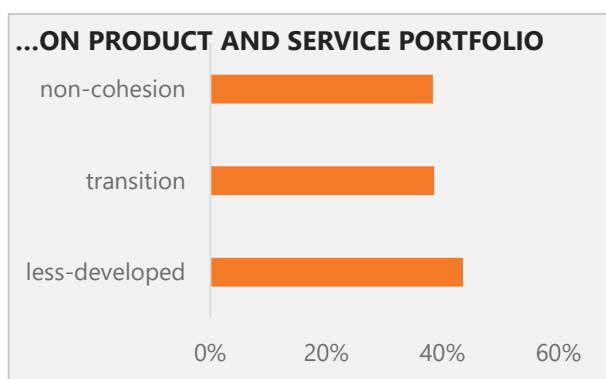
The Long-Term Impact of COVID-19

Firms' views on the long-term impact of COVID-19 are aligned on some aspects across EU regions. In cohesion and non-cohesion regions, about 40% of firms expect an impact on their product and service portfolio. A similar share sees an impact on their supply chain with effects most pronounced in less-developed regions (LD: 41%; T: 35% and NC: 36%).

Differences show when it comes to digitalization. While firms across all regions expect digitalization to receive a boost as a result of COVID-19, more firms in non-cohesion regions see a lasting impact. Here, more than half (54%) expect to increase the use of digital technologies compared to 42% in cohesion regions. This suggests a greater awareness of the digital transformation (to come) in parts of the EU where technology development and adoption is often already more advanced and risks a widening of gaps.

Slightly more firms in transition regions expect a structural impact on employment due to COVID-19. One in four firms in transition regions expect the pandemic to translate into more permanent cuts in employment compared to 20% in less-developed and 19% in non-cohesion regions. This may to some extent reflect differences in, amongst others, sectoral composition, possibilities to work from home, the timing of the interview as well as national and regional labour market trends prior to the pandemic. Nevertheless, non-cohesion regions already featured among those with high prevalence of structural unemployment and permanent job cuts as a result of the pandemic could further worsen the situation. In turn, the risk of seeing cuts materialize will depend on firms' abilities in different locations to recover quickly.

LONG TERM IMPACT OF COVID-19 ...



Q. Do you expect the coronavirus outbreak to have a long-term impact on any of the following?

Base: All firms

Investment Focus

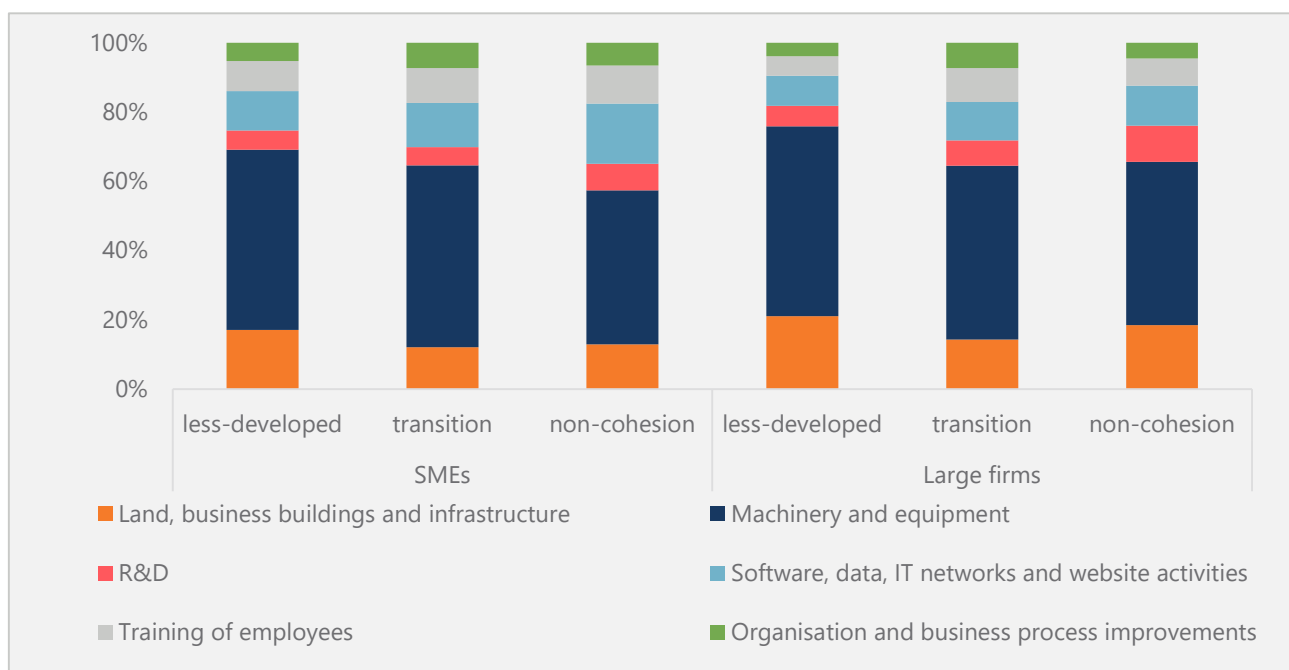
Firms' investment activities and focus will play a key role in adjusting to the post-pandemic environment. However, firms across EU regions differ with regards to the share of corporates undertaking investment and the focus of that investment.

Firms' investment in cohesion regions tends to be more tilted towards tangibles, i.e. focused on buying machinery and equipment or land, buildings and infrastructure. Conversely, Intangibles (Research & Development, Training, Organisation and business process improvements and Software and IT) account for some 38% of investment in non-cohesion regions compared to 35% in transition and 28% in less-developed regions. The lower share of investment in intangibles partly reflects industrial structure but also a more limited presence of some corporate activities, for example large research centres in specific locations.

Investment in Research & Development (R&D) accounts for a larger share in large firms. Comparing firms by size and region, large firms in non-cohesion regions dedicate the largest share of their investment to R&D (10% vs. 7% in transition and 6% in non-cohesion regions).

Large firms in less-developed regions show the lowest shares of investment dedicated to the training of employees (6%). Small firms in less-developed regions also spend a lower share on training compared to peers in other regions but differences are less pronounced (9% versus 10% in transition and 11% in non-cohesion regions respectively).

INVESTMENT AREAS BY REGION AND FIRM SIZE

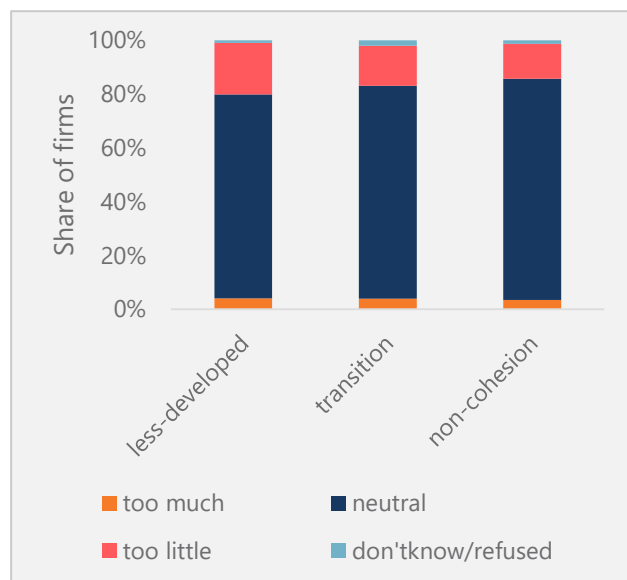


Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

Base: All firms who have invested in the last financial year (excluding don't know/refused responses)

Investment Needs and Priorities

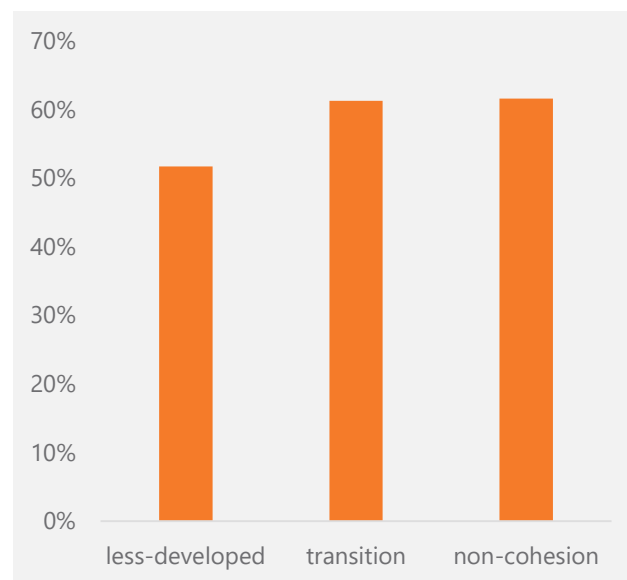
PERCEIVED INVESTMENT GAP



Q. Looking back at your investment over the last three years, was it too much, too little, or about the right amount?

Base: All firms (excluding 'Company didn't exist three years ago' responses)

SHARE OF FIRMS AT OR ABOVE FULL CAPACITY



Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?

Base: All firms (data not shown for those operating somewhat or substantially below full capacity)

Looking back at their investment activities, very few firms across the EU believe that they have invested too little over the last three years. Most firms state that they have invested about the right amount (76% in less-developed, 79% in transition and 82% in non-cohesion).

Perceived investment gaps are larger in cohesion regions. Almost one in five firms in less-developed regions state that their investment activities over the last three years have remained below needs. In transition regions, 15% of firms find that their investment was insufficient compared to 13% for firms in non-cohesion regions.

At the same time, firms in less-developed regions have a lower share of firms working at or above full capacity (52% versus 61% in both transition and non-cohesion regions). While this captures the situation in the financial year 2019, before the COVID-19 pandemic heavily constrained activities, it suggests that reported underinvestment may to a lesser extent reflect needs to expand capacities, but rather point to quality gaps in capital stock in many cases.

The higher perception of too little investment and lower share of firms working at or above full capacity in less-developed regions before the COVID-19 pandemic are a cause for concern regarding the potential greater impact of the pandemic shock on these regions. In addition, we have seen that investment in less-developed regions was lower than in other regions before the pandemic and that expectations were tilted negatively. These findings taken together suggest that the impact of COVID-19 could be worse for cohesion regions, and especially the less-developed ones.

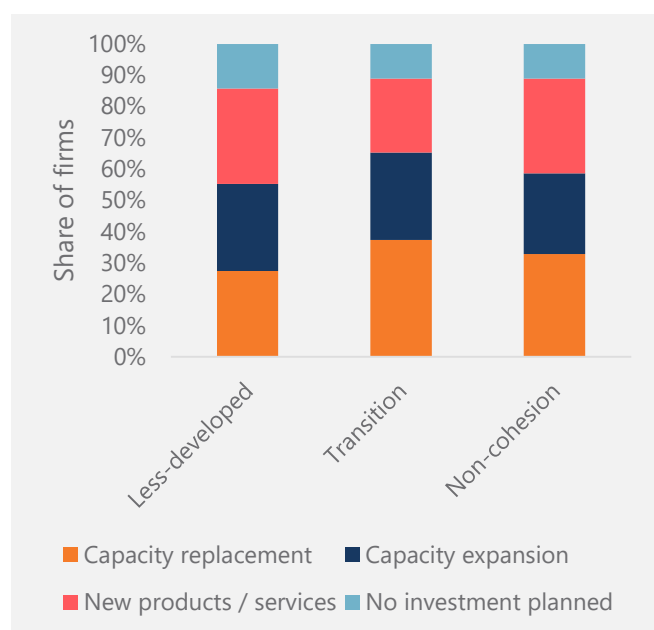
Investment Needs and Priorities

When asked about future investment priorities, over the next three years, more firms in less-developed regions flagged that they had no investment planned (14% versus 11% in both transition and non-cohesion regions). Similar to patterns for the previous years, firms in the less-developed regions seem slightly less eager to invest in the future adding to challenges for convergence.

Investment in replacement of existing capacity is the most commonly cited priority looking ahead. The share of investment in replacement is highest for firms in transition regions (37%, EU average: 34%). The second priority is new products or services. This is the second highest priority most frequently named by firms in less-developed regions and in non-cohesion regions.

European firms that have been impacted by the coronavirus have slightly different investment priorities for the next three years, compared to firms that have not felt an impact. COVID-19 impacted corporates are more likely to envisage investment for new products or services, especially in less-developed regions. Given that we often relate investment in new products or services to investment in change, the outlook appears encouraging. However, past actual investment activity shows that it the challenge for less-developed regions to realise these ambitions as they have the lowest change-related investments. Also, less-developed regions have the highest share of firms impacted by COVID-19 with no investment planned (16%).

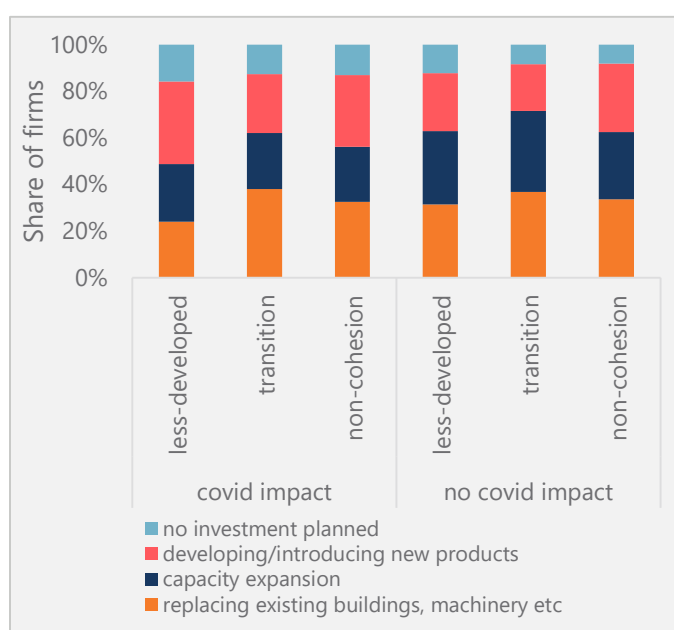
FUTURE INVESTMENT PRIORITIES (% of firms)



Q. Looking ahead to the next 3 years, which is your investment priority (a) replacing capacity (including existing buildings, machinery, equipment, IT) (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

Base: All firms (excluding don't know/refused responses)

COVID-19 IMPACT ON PRIORITIES



Q. Looking ahead to the next 3 years, which is your investment priority (a) replacing existing buildings, machinery, equipment, IT; (b) expanding capacity for existing products/services; (c) developing or introducing new products, processes, services?

Q. Thinking about the impact of coronavirus, have you had to put staff temporarily on leave, make staff redundant or unemployed or reduce the number of hours they work compared to before the coronavirus pandemic?

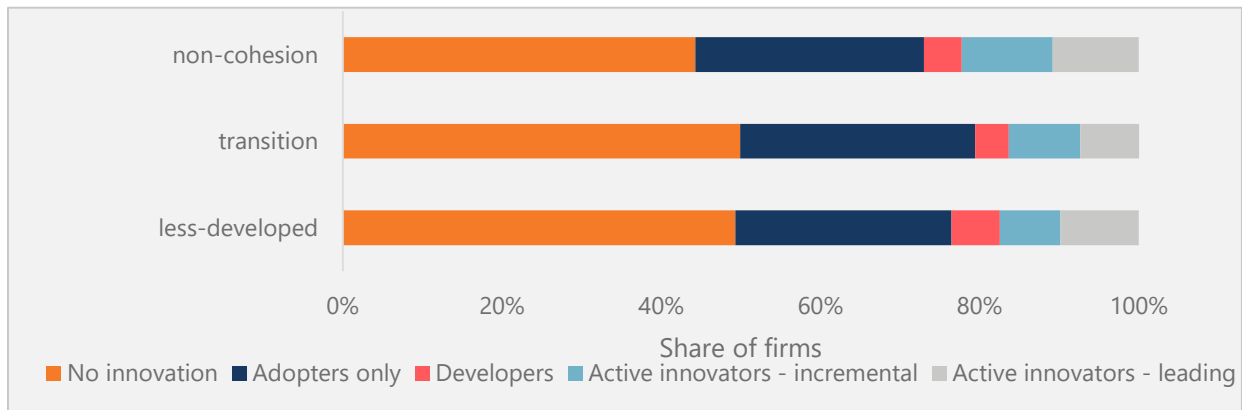
All firms (excluding don't know/ refused responses)

Firms impacted have put staff on leave, made staff redundant or unemployed or reduced staff hours compared to before COVID-19. Impacted firms also include those who plan to take measures in the next 3 months. Around three fifths of EU and US firms experienced an impact due to COVID-19.

Innovation Activities

Compared to non-cohesion regions, a lower share of firms in cohesion regions targeted their investment to innovation or invested in R&D in 2019. Non-cohesion regions clearly have a higher share of active innovators, those that have introduced new products, processes and services and also invested in R&D activities in the past financial year.

INNOVATION PROFILE BY REGIONAL GROUP



Q. What proportion of total investment was for developing or introducing new products, processes, services?
 Q. Were the products, processes or services new to the company, new to the country, new to the global market?
 Q. In the last financial year, how much did your business invest in Research and Development (including the acquisition of intellectual property) with the intention of maintaining or increasing your company's future earnings?

Base: All firms (excluding don't know/refused responses)

DEFINITION OF DIFFERENT INNOVATION PROFILES

Investment in R&D	Active	Developers	Incremental innovators	Leading innovators
	Inactive	No innovation	Adopters only	
		No new products	New to the company	New to the country or the global market
Developing or introducing new products, processes or services				

In order to assess the extent to which firms invest in change, we rely on the innovation profiles as introduced by Veugelers et al. (2019). These profiles are based on the extent to which firms invest in R&D and their innovation activities. The 'No innovation and no R&D' group comprises firms that did not introduce any new products, processes or services in the last financial year. The 'Adopter only' introduced new products, processes or services but without undertaking any of their own research and development effort. 'Developers' are firms that did not introduce new products, processes or services but allocated a significant part of their investment activities to research and development. 'Incremental' and 'Leading innovators' have introduced new products, processes and services and also invested in research and development activities. The two profiles differ in terms of the novelty of the new products, processes or services. For incremental innovators these are 'new to the firm'; for leading innovators' these are new to the country/world'.

Adoption of Digital Technologies

Another important indicator of the extent to which firms invest and adopt change is the extent to which they implement digital technologies. This is strongly related to innovative activities, and also a direct measure of the extent to which firms embrace the way to digitalization.

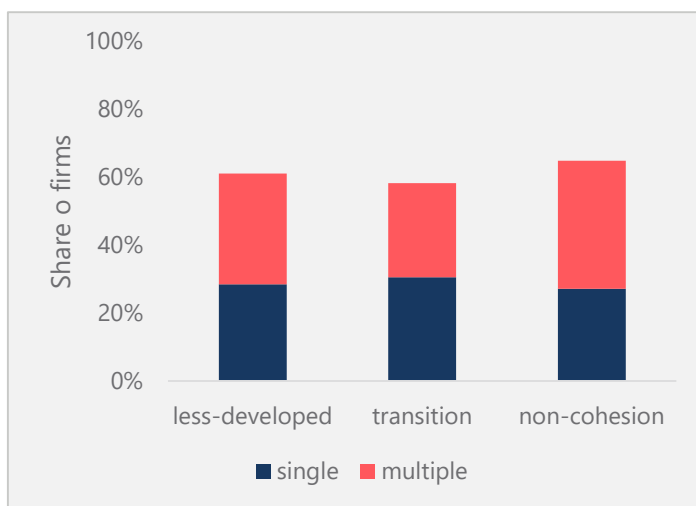
Implementation differences across EU regions are not large.

The implementation of digital technologies, and especially the implementation of a single digital technology does not differ substantially across the different regions and hovers around 30%.

However, more firms in non-cohesion regions have adopted multiple digital technologies. While the implementation of multiple digital technologies stalls at around 30% in cohesion regions, it reaches close to 40% in non-cohesion regions.

A higher share of firms in non-cohesion regions are implementing nearly all different digital technologies asked about. When focusing on the specific technologies, firms in less-developed regions seem to be less likely to implement nearly all of them.

IMPLEMENTATION OF DIGITAL TECHNOLOGIES

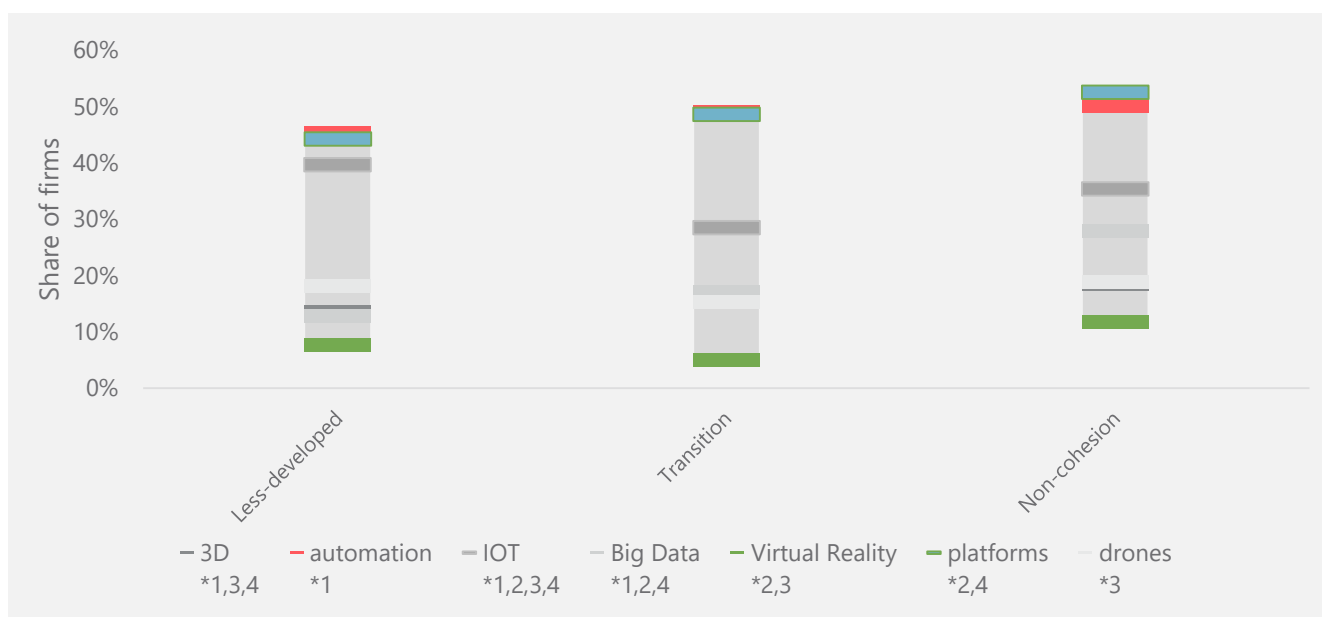


Reported shares combine implemented the technology 'in parts of business' and 'entire business organised around it'

Q. Can you tell me for each of the following digital technologies if you have heard about them, not heard about them, implemented them in parts of your business, or whether your entire business is organised around them?

Base: All firms (excluding don't know/refused responses)

IMPLEMENTATION OF DIFFERENT DIGITAL TECHNOLOGIES



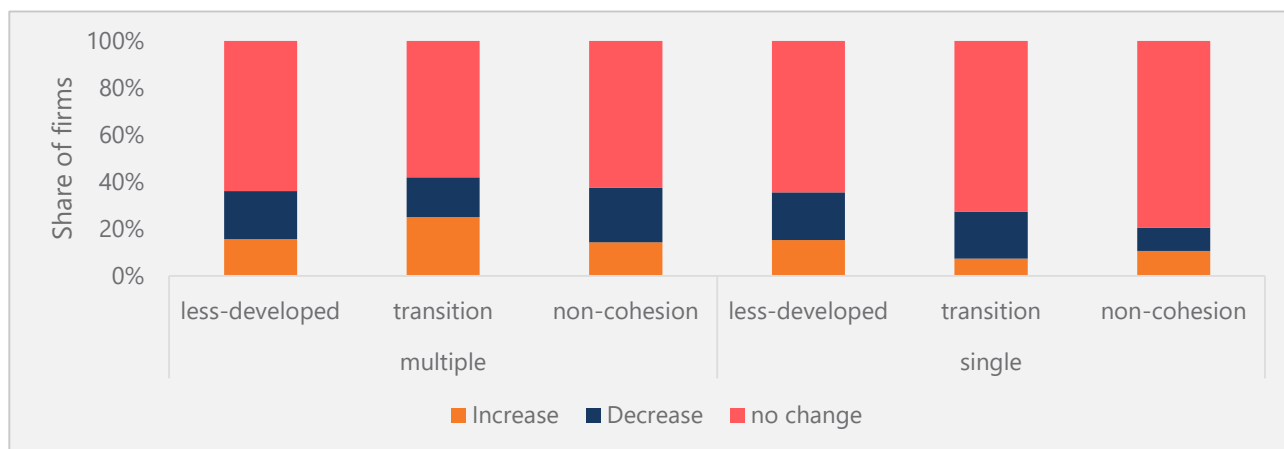
Q. Can you tell me for each of the following digital technologies if you have heard about them, not heard about them, implemented them in parts of your business, or whether your entire business is organised around them?

Base: All firms (excluding don't know/refused responses)

* Sector: 1 = Asked of manufacturing firms, 2 = Asked of services firms, 3 = Asked of construction firms, 4 = Asked of infrastructure firms

Adoption of Digital Technologies

FUTURE IMPACT OF DIGITAL TECHNOLOGIES ON EMPLOYMENT, BY DIGITAL IMPLEMENTATION



Q. Looking ahead to the next three years, do you expect digital technologies implemented by your business to increase, decrease or not change the number of employees in your business?

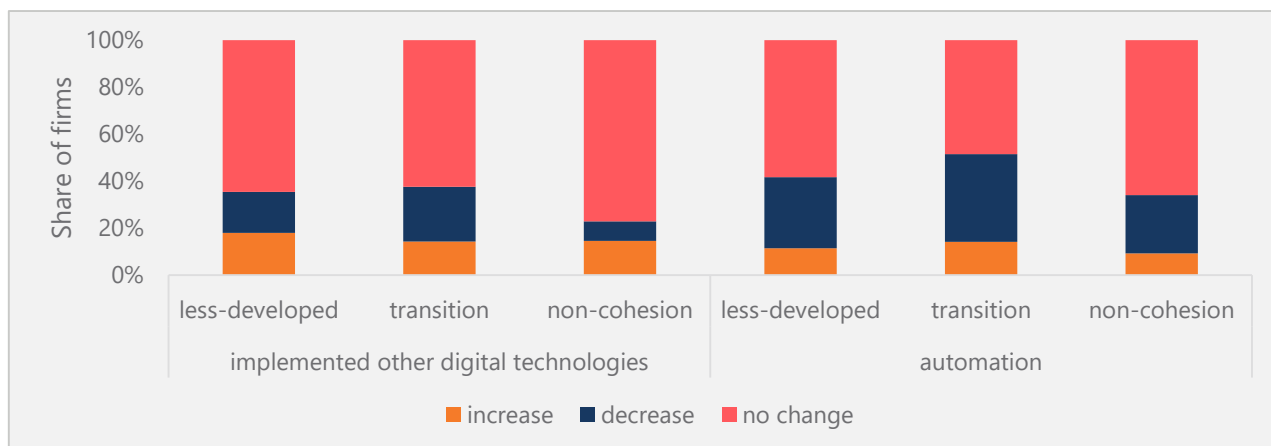
Base: All firms (excluding don't know/refused responses)

The majority of firms expects employment to remain constant as a direct result to adopting digital technologies. However, firms having adopted digital technologies have been more likely to create jobs over the last years compared to non-digitals (EIB 2021).

Firms implementing multiple digital technologies are more likely to expect an increase in employment than single digital implementers. A decrease is only more prevalent in non-cohesion regions. This suggests that the adoption of more digital technologies is not necessarily a signal for (additional) job losses. Expected effects rather seem to depend on the type(s) of digital technology adopted (labour-saving versus labour augmenting).

Firms that implemented automation expect digitalization to lead to a higher decrease in employment than firms adopting other technologies. This underscores the need to boost re-skilling and training measures where automatable jobs cluster, particularly as the COVID-19 pandemic may provide a further boost to automation (Chernoff/Warman 2021). For other digital technologies, the opposite pattern prevails.

FUTURE IMPACT OF DIGITAL TECHNOLOGIES ON EMPLOYMENT, AUTOMATION



Q. Looking ahead to the next three years, do you expect digital technologies implemented by your business to increase, decrease or not change the number of employees in your business?

Base: All firms (excluding don't know/refused responses)

Obstacles to Investment

Uncertainty is the most prevalent obstacle to investment for firms across all regions. More than 80% of firms across all regional groups report uncertainty as an obstacle to investment.

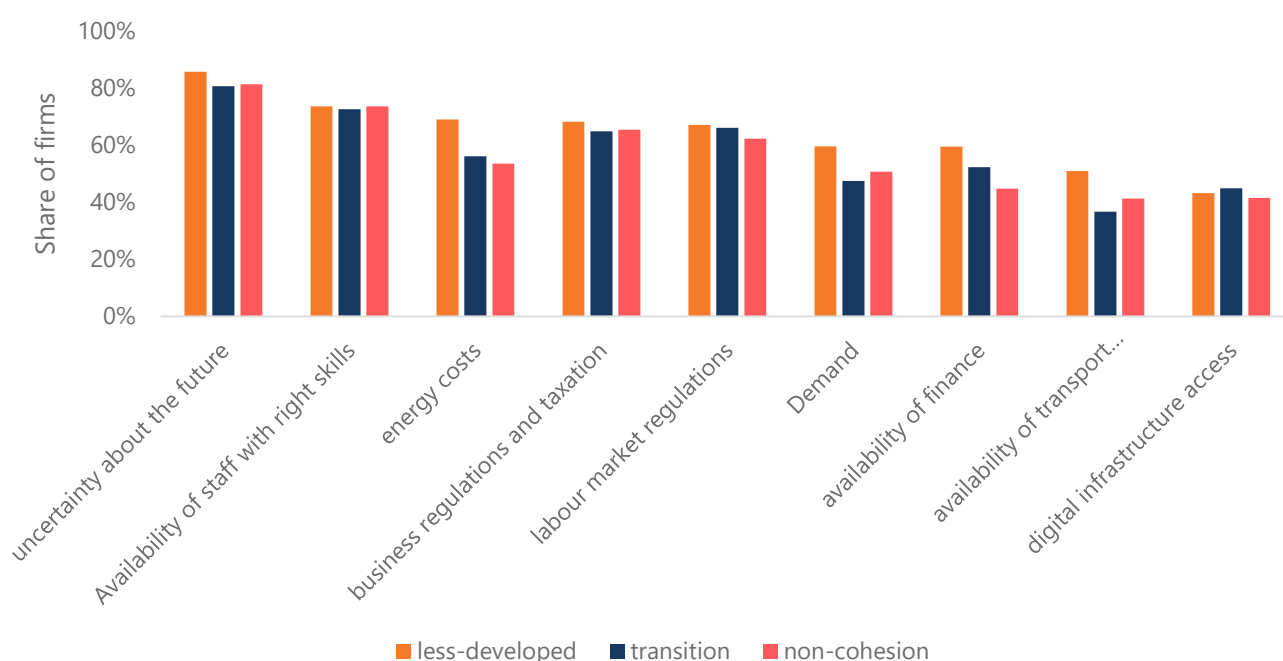
The second most reported structural issue is the limited availability of skills. More than 70% of firms across all regional groups report difficulties in finding people with the right skillsets an obstacle to investment.

Overall, more firms in cohesion regions report investment obstacles. This suggests a more challenging business environment for firms operating in these locations.

Firms in less-developed regions stand out for a number of barriers they encounter. Notably, they face issues with access to transport, demand for goods and services, financing and energy most often. To some extent, firms' responses point to persistent challenges in tackling infrastructure-related gaps in some parts of the EU (EIB 2021). In the case of transport infrastructure, improvements may also make it easier for firms to access larger markets.

Finance-related obstacles are more frequently reported by SMEs in less-developed regions. More than 60% of SMEs in less-developed regions report finance as an obstacle compared to 52% and 46% in transition and non-cohesion regions, respectively. However, the availability of finance is also a structural obstacle for many large firms in less-developed regions (55% vs. 53% and 43% in less-developed, transition and non-cohesion regions respectively).

SHARE OF FIRMS REPORTING INVESTMENT OBSTACLES



Q. 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?

Base: All firms (data not shown for those who said not an obstacle at all/don't know/refused)

Investment Finance

Firms across all EU regions fund the majority of their investment through internal financing. Non-cohesion regions and less-developed regions have a higher share of investment financed by internal funds compared to peers in transition regions (65% vs 54% respectively).

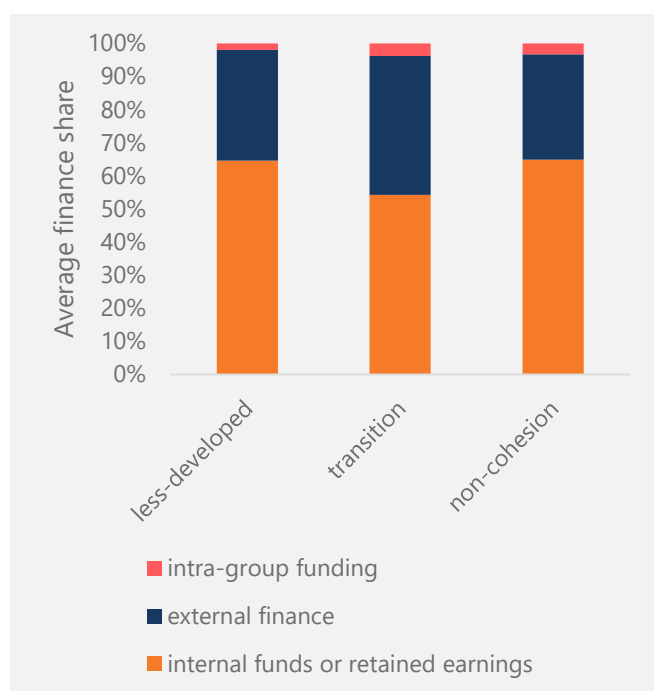
Bank loans made up the largest share of external finance used for investment activities for firms across all regions. Leasing or hire purchases account for the second largest average share and are most intensively used in non-cohesion regions (22% vs 16% and 19% in less- developed and transition regions respectively).

Firms in less-developed regions are more likely to resort to other bank financing. This includes types of credit that are not primarily designed for financing investment and often more expensive (e.g. overdraft).

Grants are most important as a source of external finance in less-developed regions (13% compared to 2% in transition and 6% in non-cohesion regions). Particularly for large firms in less-developed regions, grants account for a higher share of the financing mix compared to SMEs in the same location (15% vs 11%) and to peers in transition and non-cohesion regions (2% vs 8% and 2% vs 4% respectively).

Similarly, financing from friends, family or business partners makes up a higher share for firms in less-developed regions (2% compared to less than 1% in transition and non-cohesion regions). Altogether, structural features of the financing mix point to greater challenges to obtain suitable finance for investment for firms in less-developed regions in particular.

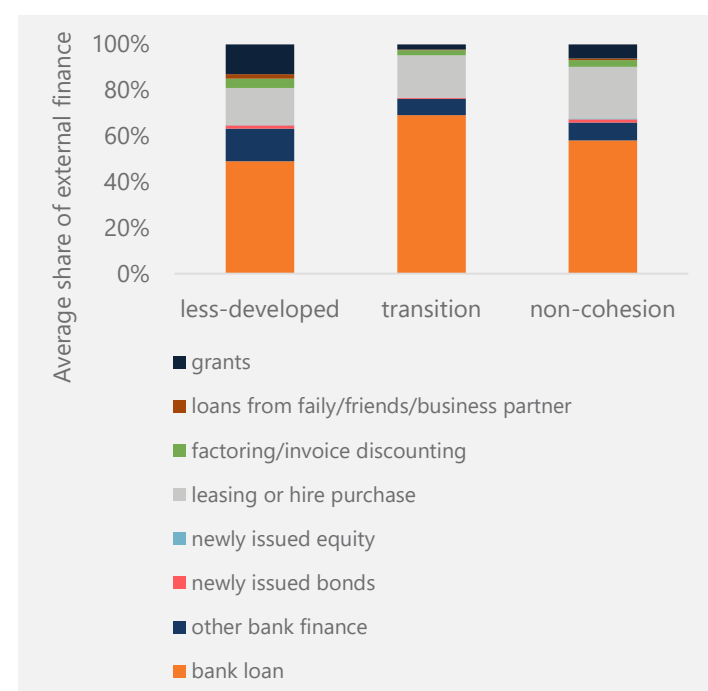
SOURCE OF INVESTMENT FINANCE



Q. What proportion of your investment was financed by each of the following?

Base: All firms who invested in the last financial year (excluding don't know/refused responses)

TYPE OF EXTERNAL FINANCE USED FOR INVESTMENT ACTIVITIES



Q. Approximately what proportion of your external finance does each of the following represent?

* Loans from family, friends or business partners

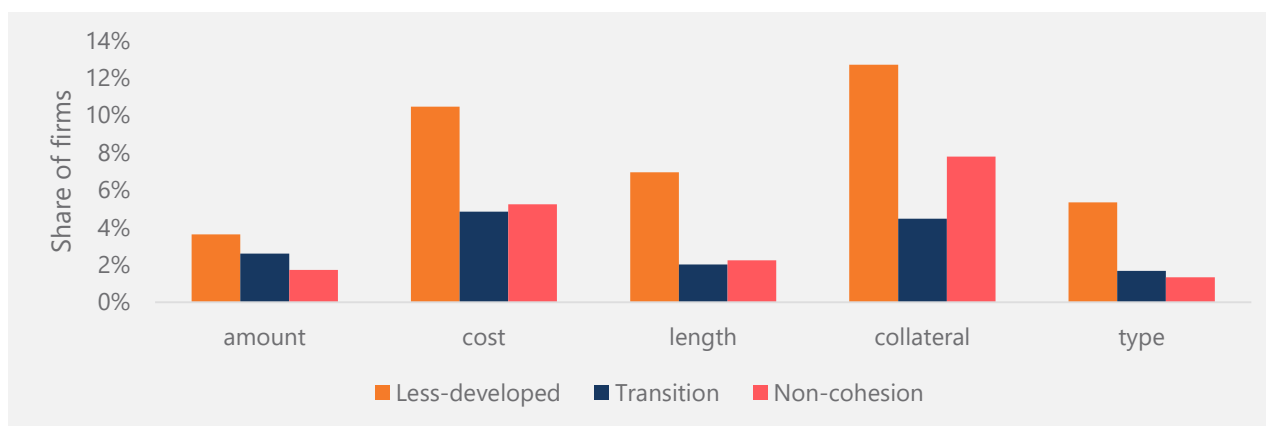
Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

Access to Finance

Most EU firms across all regions are satisfied with the finance they receive. Nevertheless, a share of firms that used external finance in the last financial year are dissatisfied with the amount, cost, length of time, collateral or type of finance received.

Levels of dissatisfaction differ across regions. Firms in less-developed regions report higher shares of dissatisfaction across all features. In particular, they face issues with collateral (13%) and costs (10%) more frequently. In addition, they are more than three times as likely to perceive issues with the length of financing (7% compared to 2% in transition and non-cohesion).

SHARE OF DISSATISFIED FIRMS

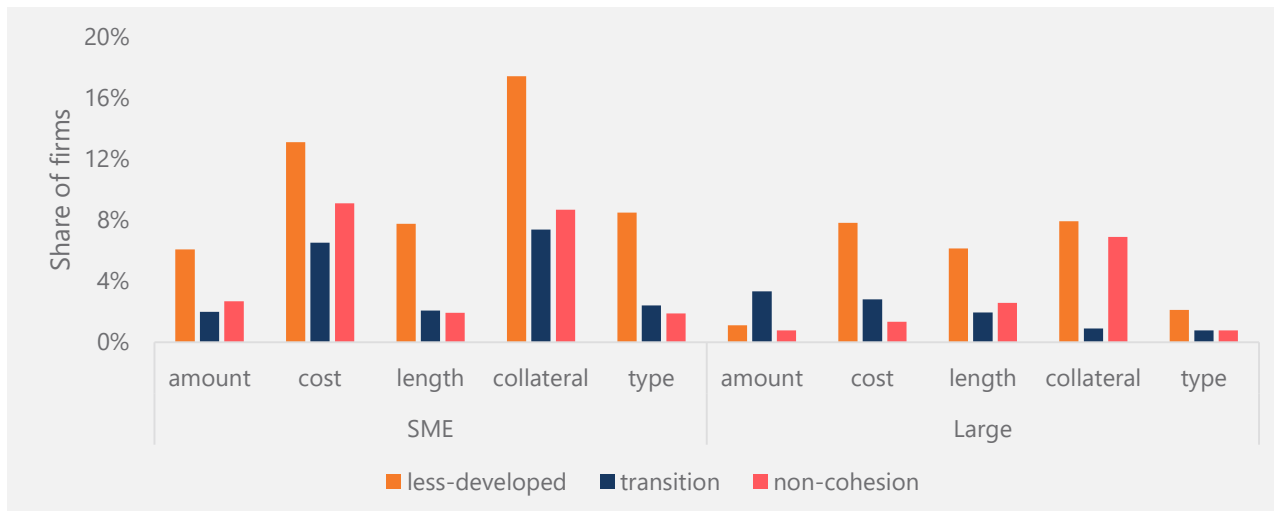


Q. How satisfied or dissatisfied are you with ...?

Base: All firms who used external finance in the last financial year (excluding don't know/refused responses)

More SMEs than large firms are dissatisfied with the conditions of external finance. In particular SMEs in less-developed regions flag issues more frequently. They especially tend to complain more about the collateral (17% versus 8% of the large firms in less-developed regions) and the cost (13% versus 8% of the large firms in less-developed regions).

DISSATISFACTION BY SIZE



Q. How satisfied or dissatisfied are you with ...?

Base: All firms who used external finance in the last financial year (excluding don't know /refused responses)

Access to Finance

More firms in less-developed regions are finance constrained.

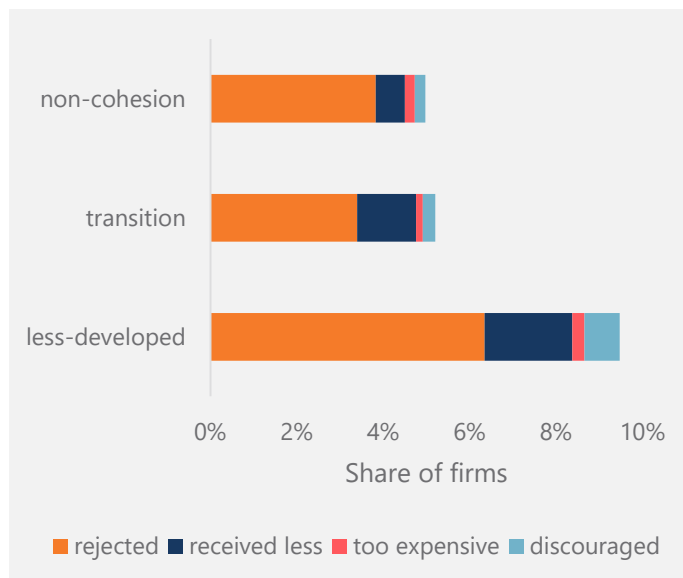
The share of firms across the EU that could be considered financially constrained in terms of external financing in 2020 differs across EU regions. In less-developed regions it is about twice as large as in non-cohesion and transition regions (almost 10% versus 5% in the latter two groups). Difficulties in accessing finance may be one factor underlying on average lower investment rates in less-developed regions.

Finance constraints are most prevalent among SMEs in less-developed regions.

Here, SMEs are more than twice as likely to be considered financially constrained (11%) compared to peers in the other regions. However 8% of large firms in less-developed regions also classify as financially constraint.

While SMEs are more likely to complain about different factors, large firms mainly complain about the fact that they were rejected and not so much about the other factors. Nevertheless, large corporates in transition regions are more likely to experience quantity constraints than their peers and than SMEs in the same region. This contrasts with the other regions, where it are mainly the SMEs being dissatisfied with the amount of finance obtained.

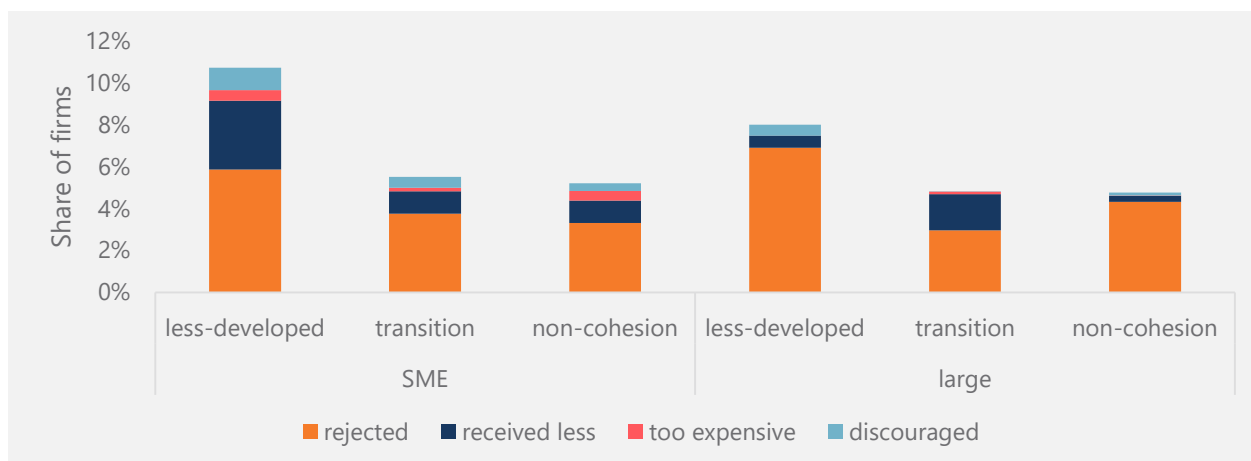
SHARE OF FINANCE CONSTRAINED FIRMS



Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

Base: All firms

SHARE OF FINANCE CONSTRAINED FIRMS BY REGIONAL GROUP AND FIRM SIZE



Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

Base: All firms

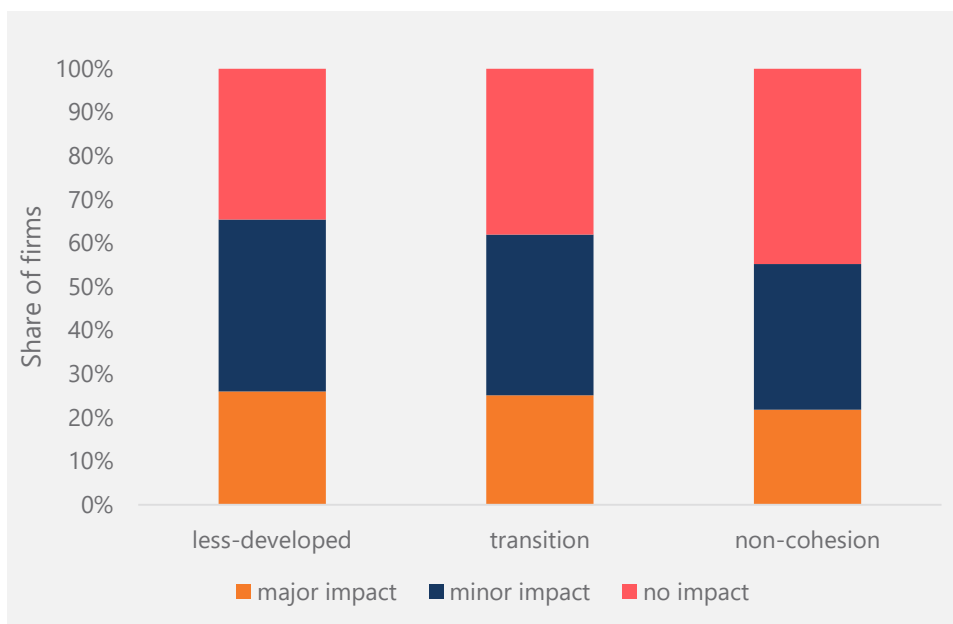
Climate Change and Energy Efficiency

The green transition is, next to digitalisation, a key priority for cohesion regions. As part of this, EU funds will support investment in these areas. The recent IPCC report revealed once more the daunting reality of climate change and its devastating consequences (IPCC, 2021). EIBIS provides a unique tool to assess the perception of climate change as well as investment challenges in the areas of climate change in general and energy efficiency.

Firms in non-cohesion regions are more likely to expect no impact of climate change on their business compared to firms in cohesion regions. Across the EU, 23% of firms say that climate change is having a major impact on their business, with a further 35% saying it is having a minor impact. In non-cohesion regions, 45% do not expect an impact, potentially reflecting a mix of cooler weather conditions, a different industrial mix, some adaptive measures being already taken and firms' confidence in their capacity to (further) adapt.

In less-developed regions the share of firms expecting a climate change impact is highest. About two thirds of firms state that climate change was having an impact on their business at the time of the interview (spring-summer 2020). The share of firms reporting a major impact is around 25% in less-developed and transition regions compared to 22% for firms in non-cohesion regions. The largest differences are for firms experiencing a minor impact (40%, 37% and 33% in less-developed, transition and non-cohesion regions respectively).

CLIMATE CHANGE IMPACT



Q. Thinking about climate change and the related changes in weather patterns, would you say these weather events currently have a major impact, a minor impact or no impact at all on your business?

Base: All firms (excluding don't know / refused responses)

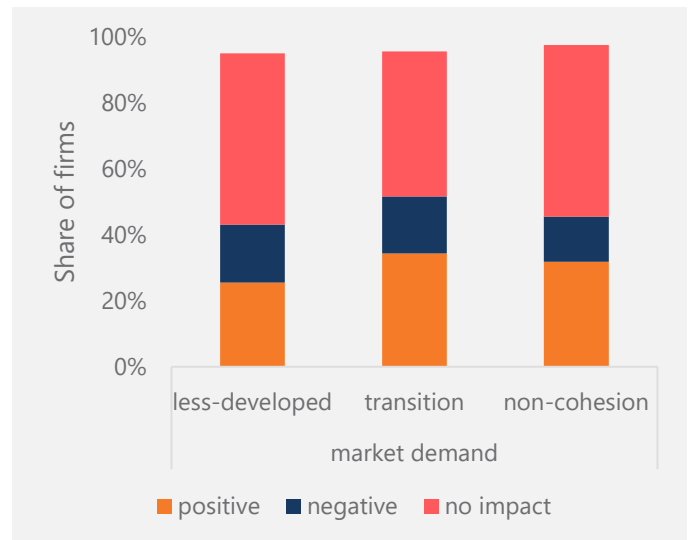
Climate Change and Energy Efficiency

On average, only one in three firms across the EU (33%) think that the transition to a low-carbon future will have a positive impact on market demand over the next five years, while 15% think there will be a negative impact and 49% no impact for their business.

Firms in cohesion regions appear slightly more sceptical about the impact on demand with 70% expecting a negative impact or no impact at all (compared to 66% in non-cohesion regions). Less-developed regions also have the lowest share of firms expecting a positive impact (26% compared to 34% in transition and 32% in non-cohesion regions).

REDUCTION IN CARBON EMISSIONS OVER NEXT FIVE YEARS BY REGIONAL GROUP (NET IMPACT %)

ON MARKET DEMAND



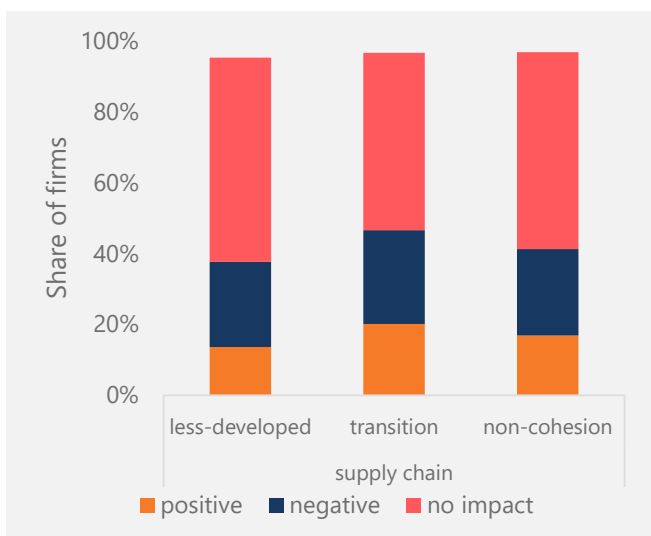
Q. What impact will the transition to a reduction of carbon emissions have on market demand over the next five years?

Base: All firms (data not shown for those who answered don't know / refused)

Similar patterns emerge for the expected effects on the supply chain and reputation.

Firms in less-developed regions appear slightly less optimistic, with 14% expecting positive effects on the supply chain (compared to 20% in transition and 17% in non-cohesion regions). Firms in less-developed regions also appear least optimistic about the potential reputational benefits with 29% expecting positive effects (compared to 39% and 38% in transition and non-cohesion regions respectively).

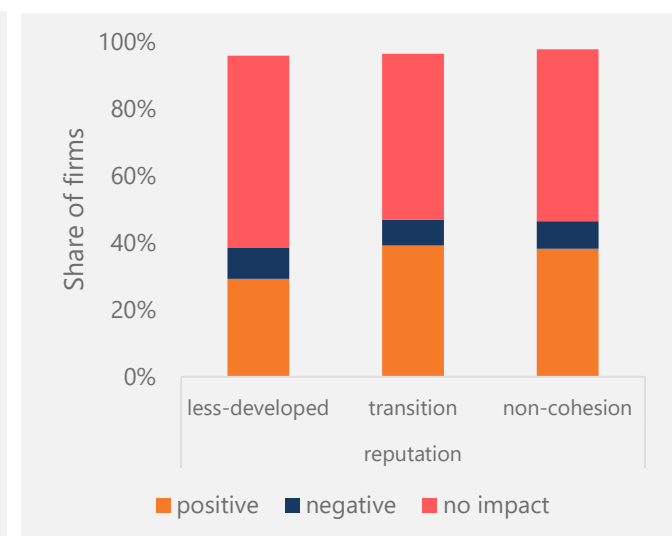
ON THE SUPPLY CHAIN



Q. What impact will the transition to a reduction of carbon emissions have your supply chain over the next five years?

Base: All firms (data not shown for those who answered don't know / refused)

ON REPUTATION



Q. What impact will the transition to a reduction of carbon emissions have on your reputation over the next five years?

Base: All firms (data not shown for those who answered don't know / refused)

Climate Change and Energy Efficiency

While more firms in less-developed regions expect climate change to have an impact, fewer have already invested to tackle this.

Less than 35% of firms had already invested at the time of the interview, compared with more than 45% in both transition and non-cohesion regions.

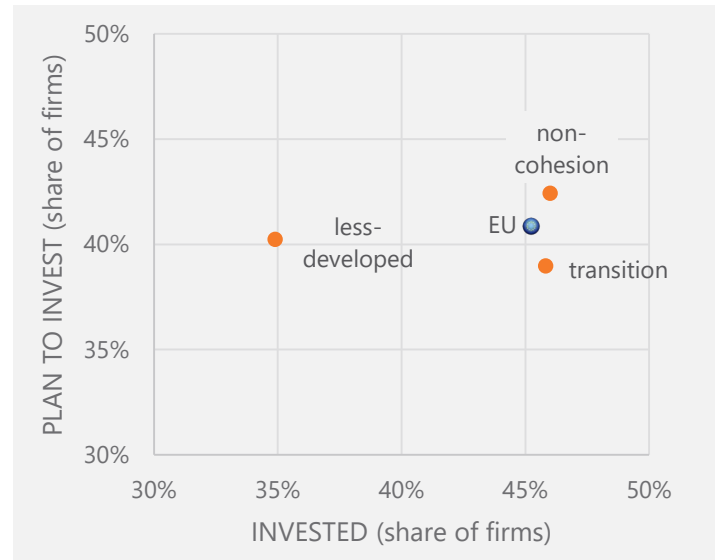
On top of having already invested more, non-cohesion regions have slightly bigger plans to invest in tackling the impact of climate change than the other regions. This may reflect a better position to tap finance for climate-related projects, but also that climate issues becoming more institutionalized in firms, and some businesses are going through a deeper transformation, requiring more than one-off investments.

At the other end, the lower investment of firms in less-developed regions goes hand in hand with less planning (the share of firms neither having invested nor planning to do so is 42% there compared to 29% in transition regions and 32% in non-cohesion regions). Partly, this may reflect the more challenging investment environment and uncertainties. Some firms may also adopt a 'wait and see' attitude given regulatory uncertainties.

Firms in transition regions have the highest share of firms that have invest, but with no further investment plans (32% vs. 18% in less-developed and 25% in non-cohesion regions). The share of firms not having invested yet but planning to do so is at similar levels across regions, i.e. around one in four in cohesion and at 22% in non-cohesion regions.

Differences in firms' investment plans to tackle climate change are likely to pose a challenge to realising the green transformation across EU regions. In particular, stepping up investment activities in less-developed regions and enhancing it in transition regions will be important to address the climate challenge and put firms in a position to realize opportunities from greening.

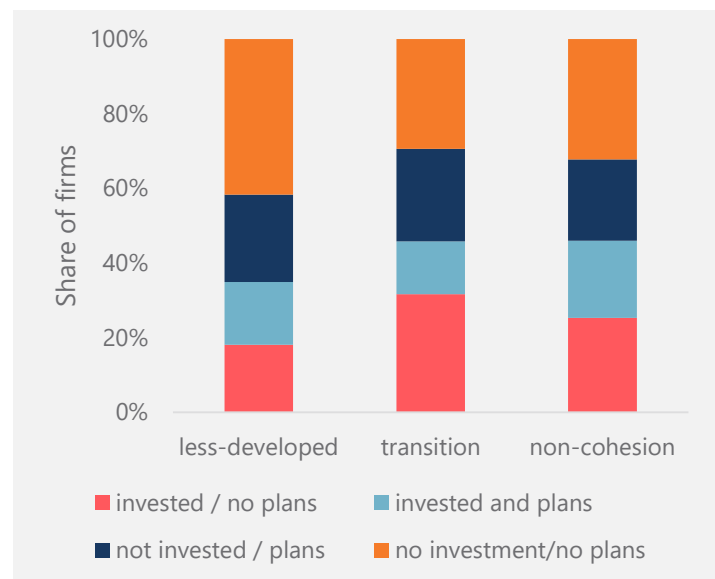
INVESTMENT (PLANS) TO TACKLE CLIMATE CHANGE IMPACT



Q. Now thinking about investments to tackle the impacts of weather events and reduction in carbon emissions, which of the following applies?

Base: All firms (excluding don't know/refused responses)

POSSIBLE INVESTMENT COMBINATIONS TO TACKLE CLIMATE CHANGE IMPACT



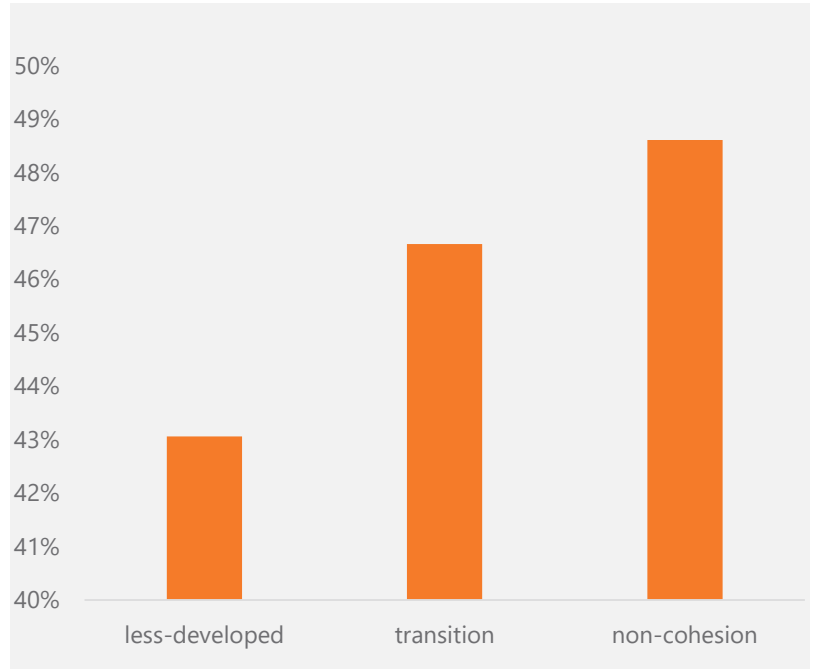
Q. Now thinking about investments to tackle the impacts of weather events and reduction in carbon emissions, which of the following applies?

Base: All firms (excluding don't know/refused responses)

Climate Change and Energy Efficiency

Also when focusing on investment in energy efficiency, we see that more firms in non-cohesion regions invest than firms in transition and less-developed regions. The share of firms investing in energy efficiency in non-cohesion regions was 49% in the financial year 2019, compared to 47% in transition regions and only less than 43% in less-developed regions. Less-developed regions lag behind in terms of investment in energy efficiency in spite of a high share of corporates citing energy as an investment barrier, especially in that region.

SHARE OF FIRMS INVESTING IN MEASURES TO IMPROVE ENERGY EFFICIENCY

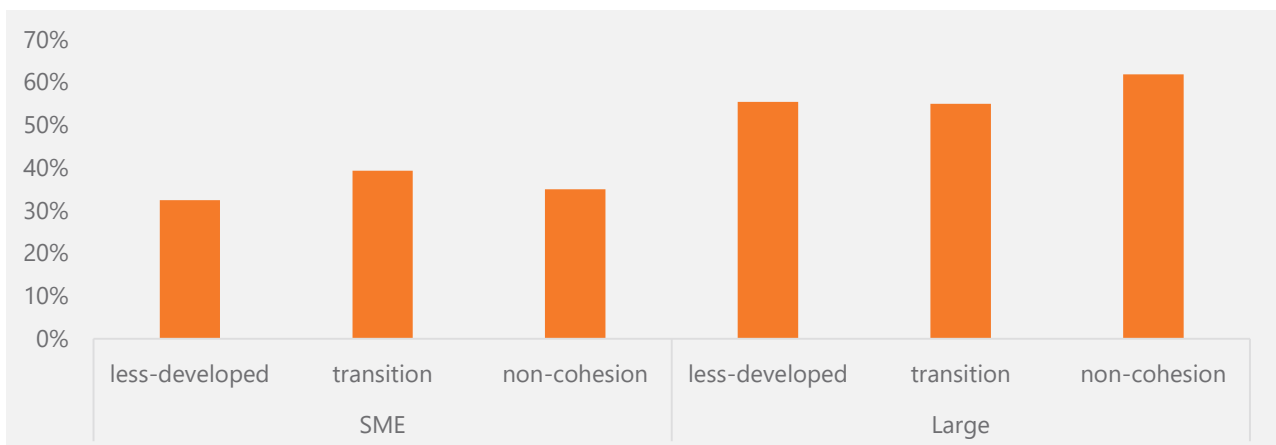


Q. What proportion of total investment in the last financial year was primarily for measures to improve energy efficiency in your organisation?

Base: All firms

Larger firms are most likely to invest in measures to improve energy efficiency, across all EU regions. In non-cohesion regions, more than 60% of large firms have invested in energy efficiency measures in the financial year 2020. SMEs in less-developed regions have the lowest share with just about one in three firms (32%) having invested in energy efficiency improvements.

SHARE OF FIRMS INVESTING IN MEASURES TO IMPROVE ENERGY EFFICIENCY BY REGIONAL GROUP AND SIZE

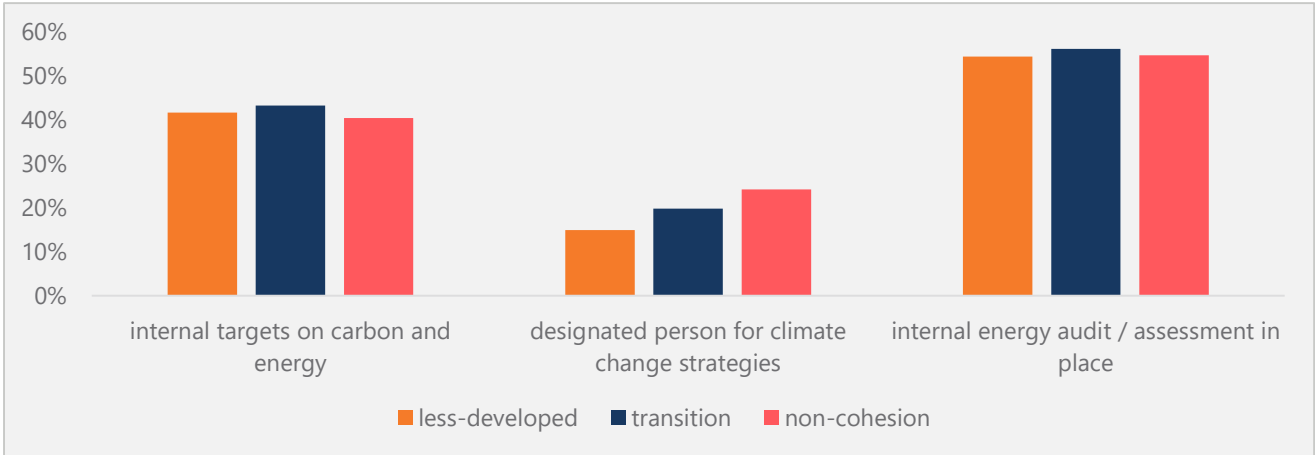


Q. What proportion of total investment in the last financial year was primarily for measures to improve energy efficiency in your organisation?

Base: All firms

Climate Change and Energy Efficiency

ENERGY TARGETS, MANAGEMENT AND INTERNAL AUDIT



Q. In 2019 and under normal conditions, did your company set and monitor internal targets on carbon emissions and energy consumption?

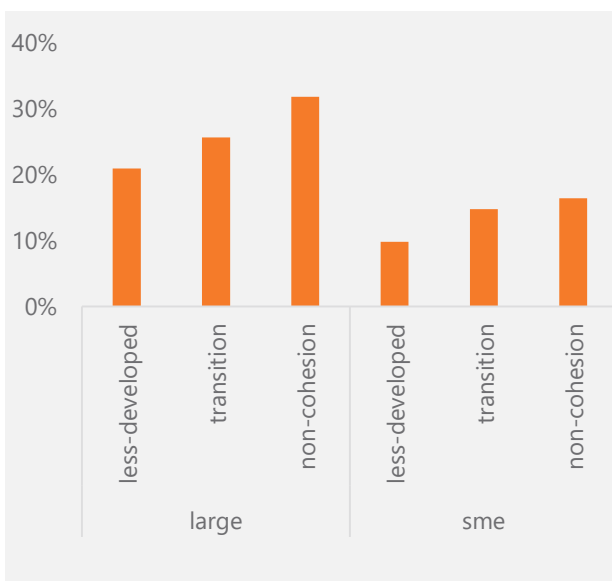
Q. In 2019 and under normal conditions, did your company have a designated person responsible for defining and monitoring climate change strategies?

Q. And can I check, in the past four years has your company had an energy audit? By this, I mean an assessment of the energy needs and efficiency of your company's building or buildings

Base: All firms

Firms in less-developed regions are least likely to have designated a person responsible for climate change strategies in their company (15% versus 20% and 24% in transition and cohesion region respectively). Nevertheless, a similar share of firms across all regions set internal targets on carbon and energy and have an internal energy audit or assessment in place. These latter factors could however be strongly impacted by EU regulation. For example, a large set of firms are bound to have an internal energy audit and thus targets in place.

DESIGNATED PERSON FOR CLIMATE CHANGE STRATEGIES



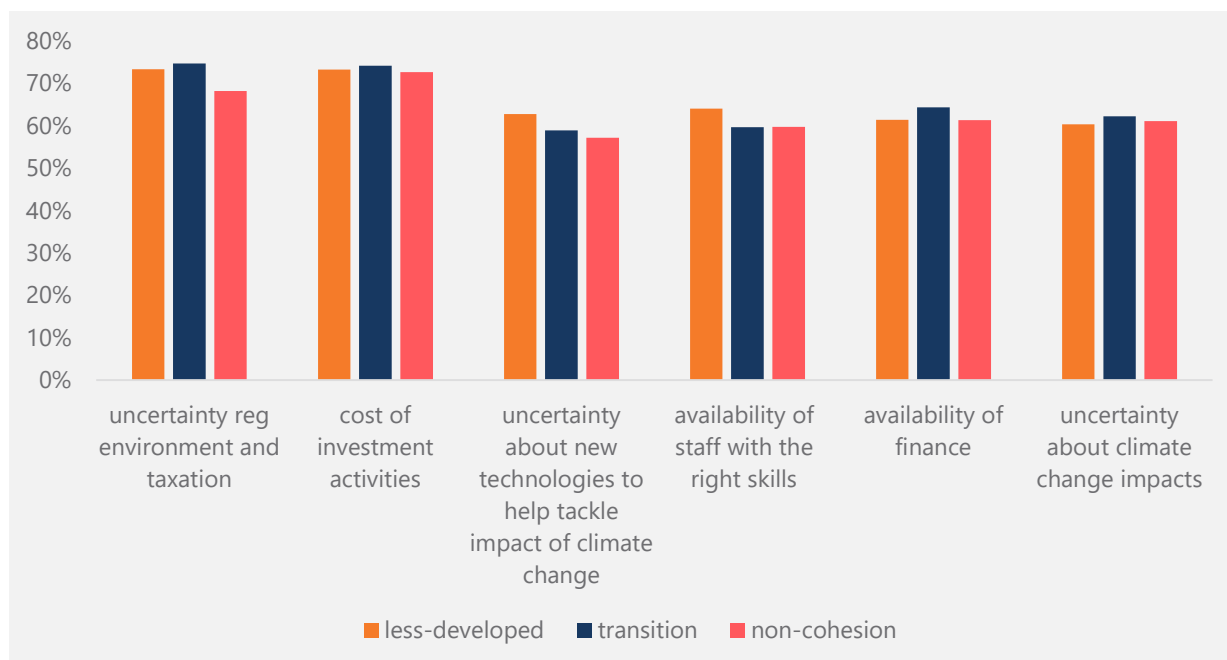
While the differences between regions largely hold across size classes, large firms are overall more likely to have a designated person for climate change strategies. Still, even in large firms in non-cohesion regions only 32% of companies have such a person or team in their company, falling to only 21% in less-developed regions. In order to reach the climate targets, it is important for firms to fully embrace the transition challenge. Having a designated person signals a larger focus on achieving the transition.

Q. In 2019 and under normal conditions, did your company have a designated person responsible for defining and monitoring climate change strategies?

Base: All firms

Climate Change and Energy Efficiency

BARRIERS TO INVESTING IN ACTIVITIES TO TACKLE CLIMATE CHANGE BY REGIONAL GROUP



Q. To what extent is the following an obstacle to investing in activities to tackle weather events and emissions reduction? Is it a major obstacle, minor obstacle or not at obstacle at all?

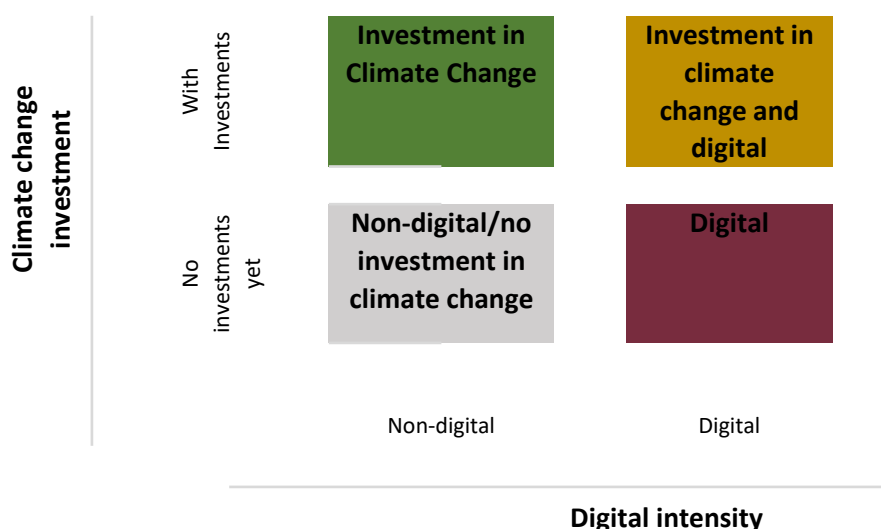
Base: All firms (data not shown for those who said not an obstacle at all / don't know / refused)

The two most reported obstacles to investment to tackle climate change are uncertainty about the regulatory framework and the cost of investment activities. Both issues are most pronounced in transition regions, where three out of four firms reporting regulatory uncertainty and investment costs as obstacles.

In non-cohesion regions, technological uncertainty is reported somewhat less frequently as an issue limiting investment activities. This is combined with fewer firms seeing the availability of skills as an obstacle. In turn, having the right people in place to plan and implement climate-related investment, helping to navigate technical but also regulatory difficulties, may help firms in respective locations to undertake climate-related investment in respective regions. Being in a position to act and, starting to prepare businesses and building sustainability into business models may also add to firms' greater confidence in being able to navigate changes to come.

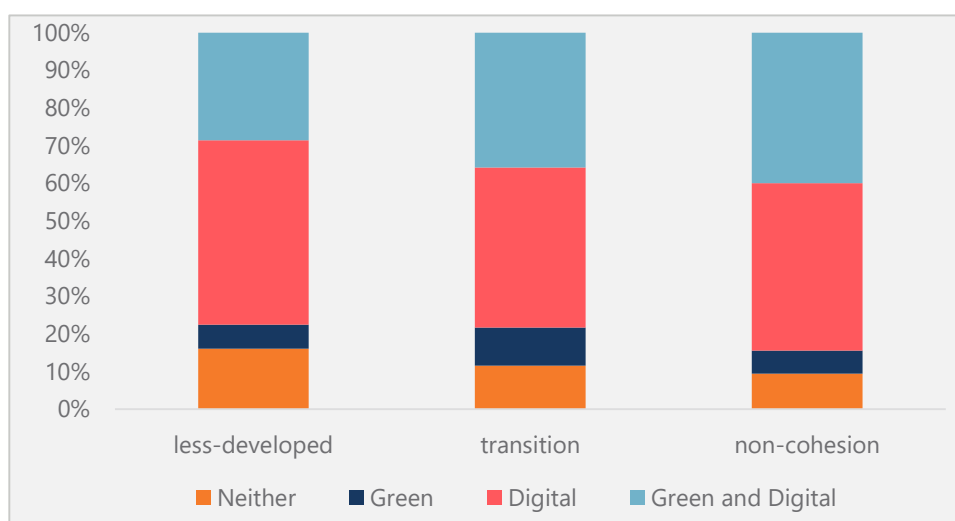
A smart and green Europe

The green and digital transition are key priorities of Cohesion Policy for the next years in order to build a smart and green Europe. One important element is the contribution of digital technologies to greening the economy (EIB IR, 2021). Digital technologies are put forward as critical enablers of the green transition and meeting the sustainability goals defined in the European Green Deal. If emerging digital technologies are properly employed, they could play an essential role in tackling environmental challenges (Lacy and Rutqvist, 2015). Recent reports claim that although the ICT sector and its recent digital advances are contributing to growing energy consumption, the net benefits outweigh the costs (GeSI 2019; IPCC, 2021).



In contrast to less-developed regions, firms in non-cohesion regions have a substantial share of firms active in both green and digital (nearly 40%). Less-developed regions on the other hand have less than 30% of firms active in both domains. In addition, less-developed regions still have 16% of firms who are not investing in climate change and also have no digital technology implemented yet. This contrasts with less than 10% of firms in this situation in non-cohesion regions.

GREEN AND DIGITAL FIRMS ACROSS THE DIFFERENT REGIONS



Q : Green: Now thinking about investments to tackle the impacts of weather events and reduction in carbon emissions, which of the following applies?

Digital: Can you tell me for each of the following digital technologies if you have heard about them, not heard about them, implemented them in parts of your business, or whether your entire business is organised around them?

Base: All firms

EIBIS 2020 – EU Technical Details

REGIONAL CLASSIFICATION INFORMATION

For the purpose of this publication, we classify firms' responses depending on their location in cohesion (less-developed, transition) and non-cohesion regions. To better reflect the contribution of different firms to economic output, data are weighted by gross value-added. In order to adapt the survey to this regional approach, 114 NUTS were identified for weighting and NUTS-specific value-added weights were created. The target weights were slightly adjusted so that each country total was the same as the Structural Business Statistics (SBS) size/sector country totals.

GLOSSARY

Investment	A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company's future earnings.
Investment cycle	Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee.
Less-developed region	NUTS2 regions with GDP per capita < 75% EU-27 average.
Non-cohesion region	NUTS2 regions with GDP per capita > 100% of EU-27 average
NUTS2	Nomenclature of territorial units for statistics (NUTS). NUTS2 refers to the basic regions for the application of regional policies.
Transition region	NUTS2 regions with GDP per capita between 75% and 100% EU-27 average
SME	Firms with between 5 and 249 employees.
Large firms	Firms with at least 250 employees.
EIBIS 2020	The current wave of the EIB Investment Survey, with interviews carried out between May-August 2020.

Note : the EIBIS 2020 overview refers interchangeably to 'the past/last financial year' or to '2019'. Both refer to results collected in EIBIS 2020, where the question is referring to the past financial year, with the majority of the financial year in 2019 in case the financial year is not overlapping with the calendar year 2019.

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