Chapter 9

Digital, climate and cohesion challenges – investment in municipal infrastructure and capacity

Outlook, gaps and obstacles

Investment gaps continued to widen in critical areas. In the EIB Municipality Survey conducted over the summer of 2020, a majority of municipalities were dissatisfied with their infrastructure investments over recent years, notably outside of Western and Northern Europe, and especially where investments targeting climate change, digital and urban transport are concerned.

Regulatory red tape and availability of funding remain the principal obstacles to investment, cited by more than three-quarters of municipalities, with funding commonly a major obstacle. Overcoming these will be key to filling gaps.

Impact of Covid-19 on investment plans, by asset (in %)

The first wave of Covid-19 reinforced the view that digitalisation efforts need to increase and the focus on social infrastructure needs to be revived.

Taking on green and digital challenges

Climate-change related risks

Municipal digital sophistication and green administrative capacity are associated with greater optimism towards economic transition risks, while municipalities that have jointly developed these attributes are less pessimistic about physical risks.

Transition risk, by digital and green capacities (in %)

Physical risk, by digital and green capacities (in %)

Synthesising firm and municipal data

Digital and green administrative capacities are associated with a greater share of firms that are advanced in these respective areas - possibly suggesting a virtuous circle.

Digital and green adoption

Digital and green patents

Green and digital municipalities have, on average, a higher share of green and digital innovators in the same region.

Cohesion and funding composition

Sources of municipality investment funding

Municipalities in underperforming regions - dominated by Southern European countries - heavily rely on transfers, subsidies and grants from higher levels of government or the European Union to finance their investments.

At the same time, these municipalities suffer from a large investment mismatch in the sense that realised investment does not correspond to perceived infrastructure deficiencies. This is particularly true for urban transport infrastructure, where this mismatch is the largest.

Probability of increasing investment by share of transfers/grants

Possible explanations include fiscal constraints placed on central government or limitations placed on the appropriate use of capital transfers that are not aligned with local needs.

Probabilites of investment by share of transfers/grants

The full version of the Investment Report 2020/2021: Building a smart and green Europe in the COVID-19 era can be downloaded at:

www.eib.org/investment-report