
European Investment Bank

Market gap analysis for advisory services under the European Investment Advisory Hub (EIAH)

Synopsis

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This document is designed to present the main content and findings of the study “Market gap analysis for advisory services under the EIAH” in an abbreviated and accessible format, as well as indicating where further information can be found in the body of the report itself.

This study is a high-level stocktaking exercise designed to support the European Investment Bank (EIB) and the European Commission (EC) in setting out the strategy for the EIAH by helping to define the Member States (MS) and investment sectors where improving the uptake of advisory services could have the greatest impact on investment outcomes. This should inform decisions on how to allocate the EIAH’s limited resources to best achieve the objectives of the Investment Plan for Europe to bring high quality investment projects forward.

Key takeaways

Overall objective: to conduct an assessment of the existing situation with respect to investment-related project advisory activities and identify key technical and functional capacity gaps in advisory support throughout the EU.

Focused on bottlenecks addressable via advisory services, as opposed to making recommendations regarding institutional and policy arrangements, creating an enabling environment or adopting structural reforms.

Main sources of information: review of the available literature and consultations / interviews with investment stakeholders from the public and private sectors, all documented in a systematic and quantitative (Analytical Framework).

Key conclusion: needs for advisory services are not primarily caused by gaps in the supply of services, but rather by **market asymmetries** resulting in a disconnection between needs and existing supply.

Asymmetries impact the **availability** of, **access** to, and **affordability** of advisory services:

- **Availability** includes issues such as geographic dispersion of services providers, barriers to cross-border provision of services and mandate limitations.
- **Access** relates to difficulties in formulating requests, procuring and monitoring the services delivered, or an unwillingness to use external public or private sector service providers.
- **Affordability** can be a barrier in the case of cash flow constraints or lack of proper budgeting.

The **Sectors** identified with the highest priority advisory services needs are transportation and energy infrastructure, environment and resource efficiency, and SMEs and mid-caps.

The **Categories of services** where the greatest needs are identified are in project preparation, financial structuring, and capacity building.

The **Member States** with the greatest identified advisory service needs are Bulgaria, Croatia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia, and Slovakia.

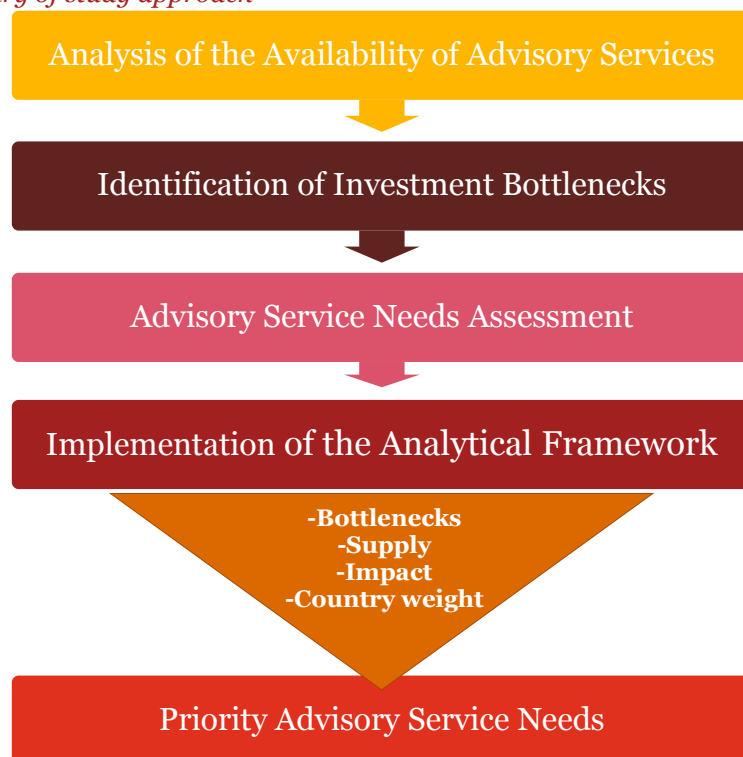
Approach

In order to be able to apply a systematic analysis of the investment advisory services market in the EU, we had to impose some structure on it. As such we narrowed our focus to six main investment sectors: **transportation and energy infrastructure, environment and resource efficiency, information and communication technology (ICT), research, development and innovation (RDI), SMEs and mid-caps, and human capital, social, culture and health**. We also tried to group all potential technical, financial and legal investment advisory services into one of seven categories: **project identification, project preparation, financial structuring, project delivery, procurement and state aid, capacity building and communication and awareness raising**.

Because comprehensive data on demand for, and public and private sector supply of advisory services is not readily available, we developed a customised approach for identifying and

prioritising Member States' investment advisory service needs. Our primary source of information was consultations with investment stakeholders, including 138 interviews with representatives from the public and private sectors covering the full range of Member States and sectors in the EU. We also drew on desk research of available literature and documentation, as well as our consortium's combined market knowledge.

Figure 1: Summary of study approach



The first step in our approach was to identify a list of major bottlenecks to investment affecting the Member States both horizontally, and at the sectoral level. The first draft of the list of bottlenecks was based primarily on desk research. This list was then validated and expanded during the course of three focus groups involving 8-10 participants each, and updated to reflect any additional input from interview subjects.

The list of investment bottlenecks were divided among those that can be addressed by advisory services, and those that cannot. Bottlenecks that cannot be addressed by advisory services were predominantly those related to structural issues outside the scope of the EIAH, and thus, the study. These include things like lack of fiscal space to fund new public investments, overly burdensome construction or environmental permitting procedures, or regulatory uncertainty due to frequent policy changes. All other bottlenecks were taken as evidence of a need for advisory services. The evaluation of individual identified bottlenecks is presented for each country in a specific fact sheets (see Annex 3 of the study). The result of this analysis is a list of advisory service needs by Member State and sector.

The second step of our data collection process involved interviews with EU investment stakeholders to validate and further develop the list of advisory service needs. Interviews were targeted at Member States and sectors with identified advisory service needs, and were designed to incorporate a variety of perspectives.

In total, we conducted 138 interviews involving more than 180 individual participants both in person and over the phone. Subjects included public sector institutions at the EU, national and sub-national levels, as well as private sector investors, project promoters, technical experts and industry associations. Many interview subjects, particularly from the private sector, were selected for their ability to comment on multiple sectors and geographic regions. This ensured that we had multiple sources of input for each identified need. During the interview process, we gathered information on the severity of bottlenecks, the specific advisory services needed to address them, the availability of

existing advisory services, and the potential impact of improving the uptake of advisory services. This information is also included in the above-mentioned Member State fact sheets.

The input from the interviews is subsequently synthesised in a more systematic way in our Analytical Framework. Here we generated a quantitative priority score for every combination of the 28 Member States, six investment sectors and seven categories of advisory services covered in the study. This score reflects both horizontal and sector specific advisory services needs in a way that is consistent and comparable across the EU.

The result of this methodological approach is a comprehensive account of the needs for investment advisory services in the EU. These results are presented at the level of categories of advisory services, where Member State-sector-service combinations can be ranked based on the priority scores from the Analytical Framework. Top priority sectors and categories of services are developed in greater detail, including by defining the specific priority advisory service needs.

The results are also analysed from a geographic perspective to identify which Member States have the highest priority needs for advisory services, and what are the top advisory services needed. Member States are organised into four categories according to priority, and some consideration is given to the diversity of needs among sub-national geographies.

Output of the Analytical Framework

Analysing the output of the Analytical Framework and the qualitative analysis in the Member State fact sheets and sectoral overviews allowed us to identify the highest priority advisory service needs by Member State, sector and category of services. The table below presents a summary of the output of the Analytical Framework. The scores have been converted to a scale ranging from 1 - 100 at EU level for ease of comprehension, with higher scores indicating higher priority advisory service needs.

Table 1: Priority sectors and service categories

	Trans. & Energy	Environ-ment	ICT	RDI	SMEs	Human Capital	Service Category Average
S1: Identification	81	94	48	65	66	66	70
S2: Preparation	95	90	50	73	79	73	77
S3: Fin. Structuring	89	88	47	82	96	69	79
S4: Delivery	72	73	51	64	70	69	66
S5: Proc. & State Aid	77	76	42	67	74	71	68
S6: Capacity	99	91	66	96	94	97	91
S7: Communication	72	83	48	70	72	71	70
Sector average	84	85	50	74	79	74	

In addition to the headline findings, a number of key results emerge from this EU level summary table. First, that advisory service needs affect all possible combinations of sectors and categories of advisory services. This makes sense given the presence of horizontal bottlenecks, but it bears repeating that there is no sector or category of service where there are no needs. The greatest need from either the sectoral or category of service perspective is for capacity building. The notable score in this area is related to the broad definition of the category, namely anything that can be done to support private promoters or public administrations in managing their investment projects.

Second, the need for project identification services are far higher in transport and energy infrastructure and environment and resource efficiency than for other categories. In the environment and resource efficiency, this reflects the strong and fast-growing policy driven demand for investment in this area, the use of innovative technologies and financing approaches, and the relatively small size and geographic dispersion of many different kinds of projects, particularly in energy efficiency. In contrast, the strong need for project identification support in transport and energy infrastructure is a result of the high value and long duration of projects.

Finally, the ICT sector stands out for having needs that are far lower than the other investment sectors. As mentioned above, this is not to imply that there are no advisory service needs in this sector, or that there are no bottlenecks to investment. Rather, investment in ICT was seen as a lower policy priority than other sectors, and the bottlenecks facing the ICT sector are predominantly structural, and thus cannot be addressed by advisory services, so the expected impact of improving uptake of advisory services is also lower. As a result, priority scores in this area were among the lowest covered in the study.

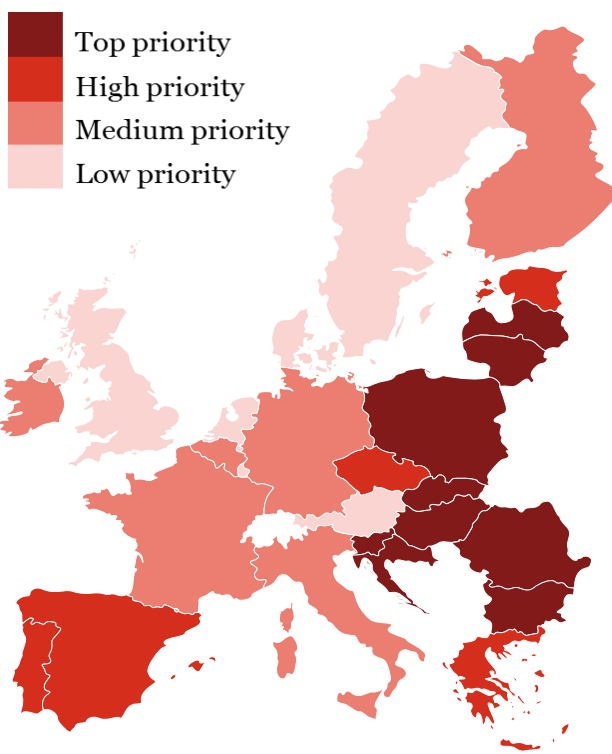
Priority Regions

In terms of geographical distribution of advisory service needs, the analysis allowed us to group each Member State into one of four categories based on the extent of their needs (see Figure 2). The Member State groupings are strongly correlated with traditional measures of economic development and capacity of public administrations. Member States with lower per capita incomes had consistently higher priority needs than their more developed neighbours.

By sector, the top priority Member State needs focus more on transportation and energy infrastructure and environment and resource efficiency, while lower priority Member States were more focused on SMEs and midcaps and RDI. From the services perspective, the higher priority Member States have greater needs in project preparation and financial structuring while lower priority Member States were more focused on communication and awareness raising. Capacity building is a high priority across all Member States and sectors.

Finally, despite the differences in priority services and sectors among Member State groupings, there is a clear hierarchy of needs among groups, with a sharp drop in priority scores from one group to the next. That is to say that the priority needs in the top priority Member State grouping all score higher than the priority needs in the high priority Member State grouping, those needs all score higher than the priority needs in the medium priority Member State grouping, and those needs in turn all score higher than the needs in the low priority grouping (see Chapter 5 of the study for the full scores by grouping).

Figure 2: Advisory service needs by Member State



Nine Member States were identified as having the top priority needs for advisory services support: **Bulgaria, Croatia, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia, and Slovakia**. As mentioned above, these nine Member States are among the least economically developed in the EU, and are often cited by the EC as facing particular challenges with public administrative capacity.

Their lower level of economic development means that investment in basic infrastructure projects is a key policy priority. However, the weakness of administrative capacity in the public sector means that these types of large, complex projects face a number of major bottlenecks. Top priority Member States are also characterised by their strong reliance on EU programmes for providing technical assistance and other forms of support at little or no cost. This undermines the **willingness to use private sector** advisory services providers, and the strength of local

advisory services markets.

SMEs and midcaps are a second tier need in the top priority Member States, particularly in terms of improving access to finance. The lack of a strong entrepreneurial culture in these Member States is reflected in both the unaccommodating regulatory environment and lack of robust financing options.

The high priority Member State grouping includes: **Cyprus, Czech Republic, Estonia, Greece, Malta, Portugal, and Spain**. While geographically more diverse than the top priority Member States, this grouping can be characterised as including some of the EU's smallest Member States, and those that were most affected by the economic crisis. Member States in this grouping also feature public administrations that have comparatively less capacity than those in the medium and low priority groupings.

For the high priority group, the **environment and resource efficiency** sector stands out as having the greatest needs for advisory services, driven by the strong policy imperative to invest in this sector combined with the less developed administrative capacity. **Transport and energy infrastructure** is a secondary need as the core infrastructure is better developed in the high priority group. Across all sectors, the predominant service need was for **capacity building**, followed by **project preparation** and **financial structuring**.

The medium priority Member State grouping consists of: **Belgium, Finland, France, Germany, Italy and Ireland**. This group features a far higher degree of economic development and administrative capacity, as well as more robust national and local supply of advisory service providers. As such, there is a sharp drop off in the intensity of advisory services needs compared with previous groups.

The needs for intensive pre-signature support are significantly lower than for the higher priority Member States. As usual, **capacity building** remains the top priority category of services. Compared with the top and high priority groups, the magnitude of the need here is quite limited, and directed more toward enhancing already well-functioning services, and disseminating best practices. **SMEs and mid-caps** are a much higher priority sector in these more developed Member States. Access to finance is much less of a barrier due to the more developed capital markets, however there is still room for improvement in supporting entrepreneurs. The **RDI** sector emerges as an important secondary priority among this group as they have far more advanced RDI infrastructure, and technology transfer and commercialisation channels.

Austria, Denmark, Luxembourg, the Netherlands, Sweden, and the United Kingdom make up the low priority Member State grouping as the strongest economies with the fewest barriers to investment and least needs for advisory services. The needs that do exist once again focus on higher skilled sectors **SMEs and mid-caps** and **RDI**. In terms of services, the greatest needs are in capacity building, to be understood as referring to the dissemination of best practices and cutting edge approaches, and to helping connect project promoters and public administrations with the available support that best suits their needs.

Priority Sectors

The three investment sectors that emerged as having the highest priority needs are:

- Strategic transport and energy infrastructure;
- Environment and resource efficiency;
- SMEs and mid-caps.

A detailed discussion of the investment environment, main bottlenecks faced, and an overview of specific advisory service needs by Member State for all six sectors is presented in Chapter 4 of the study. Chapter 5 also includes a summary of the top priority specific advisory service needs by sector, with a focus on the priority sectors listed here.

Strategic transport and energy infrastructure

As the investment sector with the greatest needs among the top priority Member State grouping, **strategic transport and energy infrastructure** stood out as a key priority for the whole EU. For the less economically developed Member States in this grouping, core infrastructure

development is a top investment priority due to the fundamental role it plays in supporting economic growth and integration. However, these Member States tend to have the least administrative capacity for implementing such projects, and the least developed local advisory services markets. As a result, their needs for advisory services support are the greatest.

The key bottlenecks in this sector involve securing funding and financing for projects. Structural issues like the lack of fiscal space in the public sector, weak revenue streams for certain kinds of projects, and uncertainty surrounding the balance sheet treatment of PPPs mean that financial structuring advice can play a crucial role in advancing high quality investment projects.

There are a number of other bottlenecks that are particularly relevant in the top priority Member State grouping that can be addressed or mitigated through project preparation support. First among these is the mismatch between the lower levels of administrative capacity and the greater size, complexity and duration of major infrastructure projects. In addition, infrastructure projects in top priority Member States tend to face more challenging and less stable regulatory and legislative frameworks. Another bottleneck affecting, but not limited to top priority Member States, are the challenges involved in cross-border projects, for example in the TEN-T and TEN-E networks. This sector is also impacted by horizontal needs for capacity building services, particularly among smaller, sub-national administrations which undertake infrastructure investment projects less frequently.

The Member States with the highest priority needs for advisory services in this sector are those where the infrastructure and the public administrations responsible for overseeing investment are least developed. These include **Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and Slovakia.**

Environment and resource efficiency

Because investment in this sector is primarily driven by the EU-wide goal of promoting sustainability and mitigating and adapting to the risks posed by global climate change, environment and resource efficiency is a policy priority in all Member States. However, the countries in need of the greatest support in order to meet these goals tend to be those in the top and high priority Member State groupings, including **Bulgaria, Cyprus, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovenia and Slovakia.**

The primary challenge facing the environment and resource efficiency sector is that the field is so fast moving. The urgency of addressing environmental and energy sustainability challenges requires a sharp increase in investment in this area. The introduction of new technologies and desire on the part of project promoters and public administration to adopt innovative and “future proof” approaches requires substantial market knowledge and technical expertise to evaluate, price, and validate projects. Many investment projects in this sector generate either revenue or cost savings that make them amenable to the use of financial instruments, but local actors in particular lack experience implementing them. In addition, investments in waste and water management face the kinds of challenges inherent to big infrastructure projects, while energy efficiency projects are often too small to justify the transaction costs of financing. Finally, legislative and regulatory incentives are often a work in progress, and subject to change.

As such, the greatest advisory service needs in this sector are in project identification, **project preparation**, and **financial structuring**. **Capacity building** is a horizontal need that also affects this sector.

SMEs and mid-caps

Given the outsized role that smaller firms play in driving innovation, job creation and growth, investment in the SMEs and mid-caps sector is both an economic and a policy imperative EU-wide. In addition, because SMEs and midcaps are in fact a class of firms rather than an industry, support targeted to this sector will accrue to other sectors as well, particularly **RDI, ICT and health**. However, given the greater focus on core infrastructure and sustainability in the top priority Member State grouping, this sector should be considered a second tier priority.

The key advisory services needs for SMEs and mid-caps are related to the issue of access to finance, and specifically in helping SMEs to better speak the language of potential financiers. Thus SMEs

often need support developing their business case for a planned investment, and in identifying, and speaking to the interests of potential investors. From the other side of the table, there is a strong need for better **communication and awareness raising** to allow SMEs to navigate the field of existing advisory services programs, initiatives and support. Some needs have also been identified in **project delivery** in terms of coaching and mentoring activities for SMEs.

Because most existing advisory services initiatives targeting SMEs and mid-caps operate on the national and often subnational level, further analysis of this sector should focus on getting a better understanding of the availability of services in a subset of Member States.

The Member States identified with the greatest needs in the SMEs and mid-caps sector are: **Bulgaria, Croatia, Greece, Hungary, Lithuania, Poland, Portugal, Romania, and Slovakia**. However, while the highest priority scores were in the top and high priority groupings, the greatest expected impact of improving uptake of advisory services was in the medium and low priority Member States where capital markets and regulatory barriers are generally more amenable to smaller firms.

Other sectors

Despite the key role that the **ICT sector** plays in supporting economic growth and integration, it was not included as a priority sector for two reasons. First, because a substantial share of investment in this sector is done by large corporates, which due to their size and resources tend to have fewer needs for, and experience fewer challenges in accessing needed advisory services than public administrations and other classes of project promoters. Second, the major bottlenecks to investment in this area are overwhelmingly structural, and thus cannot be addressed by advisory services.

The greatest priority needs identified were in **project preparation** and **financial structuring**, as well as in the horizontal category of **capacity building**, particularly affecting **Bulgaria, Croatia, Cyprus, Hungary, Poland, Portugal, Romania, Slovenia, Slovakia, and Spain**.

Like SMEs and midcaps, the **RDI sector** has a transversal element in that it is not industry specific. Lack of alternative forms of finance, ineffective public funding of RDI, and lack of collaboration between the public and private sector are the most pressing issues hampering investment in RDI. However, investment in this area is considered secondary to basic infrastructure and sustainability needs among the top and high priority Member States with the greatest advisory services needs, notably **Bulgaria, Croatia, Estonia, Greece, Hungary, Lithuania, Poland, Romania, Slovenia and Slovakia**.

Finally, in the **Human capital, social, culture and health sector**, we identified a number of needs in **project preparation** and **capacity building**, as well as in **financial structuring**. However, the most important bottlenecks facing this sector are primarily structural, and cannot be addressed by advisory services. The Member States identified with greatest needs in the human capital, social, culture and health sector are: **Bulgaria, Croatia, Greece, Hungary, Lithuania, Poland, Portugal, Romania, Slovenia and Slovakia**.

Priority Services

Finally, we look at the output of the Analytical Framework from a perspective not taken up to this point, the categories of advisory services. Based on our analysis, the top advisory services needs are in the following three categories:

- Project preparation;
- Financial structuring;
- Capacity building.

As mentioned above, the consistently high priority scores for **capacity building** across all six investment sectors in this study was one of the clearest conclusions to emerge from the Analytical Framework. The primacy of this need also cut across Member State groupings, which indicates that the specific priority needs that underlie these scores vary substantially among Member States.

In addition, **project preparation** and **financial structuring** emerged as the next two highest priority advisory service needs. The need for these two types of services is closely related to the issue of administrative capacity among public administrations, and is strongly driven by the results from top and high priority Member State groupings. Both are important steps in the pre-signature part of the investment cycle, and frequently require the kinds of specialised technical, financial and legal that external advisors are well suited to provide.

Capacity building

The broad range of advisory services that could potentially be categorised as capacity building, and the simple fact that all private promoters and public administrations have at least some potential to improve their capacity to deliver investment projects, likely explains the very high priority scores for this service category. And while to some extent these score may reflect a general need for improvement in the management of investment in a given sector, a number of specific needs were identified.

The Member States identified with the greatest needs in capacity building are those that generally have less developed public administrations, such as: **Bulgaria, Croatia, Hungary, Lithuania, Latvia, Malta, Poland, Romania, Slovenia and Slovakia.**

It bears mentioning that while capacity building was identified as the category of services with the greatest needs, it was also the category best represented among the existing capacity building programmes and initiatives identified at the national and EU-wide levels (see Chapter 3 of the study). This juxtaposition should be taken account by the EIAH in crafting a strategy to address the identified need for advisory services.

Project preparation

The project preparation category covers a number of activities critical to bringing projects to the stage where they can obtain financing. This includes compliance with environmental and climate adaptation regulations and guidelines, labour law and other project eligibility requirements, conducting pre-feasibility and feasibility studies, developing technical specifications, and complying with eligibility criteria for public funding sources. Unnecessary delays in completing project preparation activities, or in doing them in the right order, can result in cost overruns, or in otherwise worthwhile projects not going forward.

Project preparation has been identified as a key area where advisory support is needed, in particular in the sectors with larger, more complex investment projects, including **transport and energy infrastructure** and **environment and resource efficiency**, and in particular in cross-border projects. It is also relevant wherever climate change mitigation or adaptation are incorporated into the project.

The Member States identified with greatest needs in project preparation are: **Bulgaria, Croatia, Greece, Hungary, Lithuania, Latvia, Poland, Romania, Slovenia and Slovakia.**

Financial structuring

Needs for financial structuring advisory services were identified in all sectors, most notably in SMEs and mid-caps, environment and resource efficiency and transport and energy infrastructure. These needs exist both at project level, and in relation to the kinds of financing structures available on the market.

At project level, advisory support is needed to identify and elaborate financial structuring of projects in order to better fit available financing types to project needs, and to improve their access to finance. This is particularly the case for RDI projects, which often have high-risk profiles and limited ability to post collateral. PPPs are another case where financial structuring advisory is often needed, in particular high-level or second opinion type of advice. Grouping small projects together in investment programmes or investment platforms is another area where the use of external financial structuring support can help to overcome investment bottlenecks.

The expanded use of FIs in the current programming period is another driver of needs for financial structuring advisory services, particularly in those sectors with less experience in using FIs. The

desirability of blending different sources of EU funding, such as combining FIs and grants, is another source of needs for specific project types.

Developing alternative forms of financing is a third driver of needs for financial structuring advisory services, particularly in the RDI sector where there is often a lack of appropriate financing schemes for high risk projects. Here as well, the possibility of blending funding sources, such as FIs, grants, and private funds, can result in more adaptable solutions, but also adds to the administration and compliance burden. On the other hand, it could also be an issue of strengthening communication and awareness on already existing instruments for RDI projects such as InnovFin.

Another area identified with needs for advisory support is in aggregating small projects in investment platforms in particular for energy efficiency, renewable energy sources and ICT projects. This is often necessary to overcome the high relative transaction costs of smaller projects. However, here as well, structuring the right solution is in itself complex.

The Member States identified with greatest needs in financial structuring are: **Bulgaria, Croatia, Greece, Hungary, Lithuania, Poland, Romania, Slovenia, and Slovakia.**

Other services

In addition to these priority services, lower priority advisory service needs have also been identified in the other service categories in Chapter 5 of the study. The countries identified with greatest needs in **project identification, project delivery, and procurement and state aid** are primarily those from the top priority Member State grouping: **Bulgaria, Croatia, Hungary, Lithuania, Latvia, Poland, Portugal, Romania, Slovenia and Slovakia.**

Conclusions

Based on the information collected through the desk research, focus groups, and stakeholder consultations, and systematised through our Analytical Framework, we have been able to form a comprehensive picture of existing needs for investment advisory services in the EU. One of the key conclusions of this analysis is that needs exist in all Member States, investment sectors and categories of advisory services.

Given the scale of needs identified, an entity like the EIAH, whose primary mission is to connect public administrations and project promoters with advisory services, could potentially have a major impact on investment outcomes in the EU. However, given the EIAH's limited resources, its ability to improve investment outcomes will depend on it adopting a carefully targeted strategy. Such a strategy must answer two main questions:

- Where should the EIAH focus its efforts?
- What should the EIAH do?

This study is designed to inform the response to the question of where the EIAH should focus its efforts by identifying the Member States, investment sectors, and categories of advisory services with the highest priority needs, taking account of the scale of the investment bottlenecks faced, the ease of access to advisory services, and the impact that greater use of advisory services could have on investment outcomes. This information, including specific examples of priority needs from the perspective of each of these three main criteria, is presented in Chapter 5 of the study.

In order to answer the second question, about what the EIAH should do, we must first establish the fundamental problem it is trying to solve.

The original assumption underlying this study was that the fundamental problem in the investment advisory services market is the existence of gaps: Member States or sectors or categories of advisory services where project promoters and public administrations have advisory service needs that the market is not able to fulfil. And if the fundamental problem is gaps in market supply, the obvious solution is to expand existing services or create new ones.

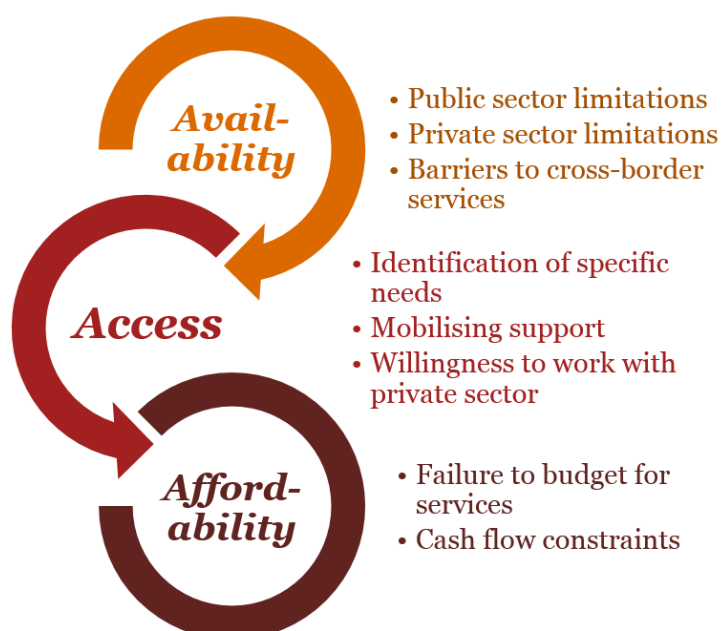
However, throughout the course of this study, we were confronted with evidence challenging this assumption. In considering the public and private sector supply of advisory services, we found a robust and mature market of public and private service providers in all sectors and all categories of services, and able to operate in all Member States. More importantly, we did not find any evidence that the reason project promoters and public administrations do not make use of advisory services is the lack of adequate supply. As such, we concluded that **gaps in the supply of advisory services are not the fundamental problem** underlying the persistence of advisory service needs.

Instead of gaps, what we found were a number of disconnects between advisory service needs and the supply. We heard from investors who told us that project promoters were unaware or unconvinced of the value advisory services could bring to their project. We heard from policymakers and promotional banks that SMEs often struggle to navigate the market of existing services. We heard about public administrations who were unwilling or unable to pay for services that they considered should be provided free of charge by, for example, EU institutions or national authorities.

In short, we became convinced that instead of market gaps, **the fundamental problem is market asymmetries**.

We identified three main types of asymmetries affecting the investment advisory services market: availability issues, access issues, and affordability issues. In economic terms, these asymmetries between supply and needs can be considered market failures, thereby justifying a public intervention to overcome them. The following sections develop the nature of the asymmetries identified in greater detail.

Figure 3: Advisory service market asymmetries



Availability issues

The first type of market asymmetry identified are availability issues, meaning aspects primarily on the supply side of the market that can constitute barriers to the use of investment advisory services.

To reiterate, this is not a question of shortage of supply. In fact, it is the conclusion of this study that the market for technical, financial and legal advisory services is not supply constrained. This is particularly true in the case of the following service categories: project identification, project preparation, financial structuring, project delivery, and procurement and state aid.

However, although insufficient supply is not the primary driver of investment advisory service needs in the EU, that is not to say that there are not limitations in supply that can impose a premium on advisory service consumers. We have identified three kinds of **availability asymmetries** that can result in delays or added costs. These include:

1. **Public sector capacity constraints.** Public sector advisory service providers are limited in the number and kind of projects they can support by their annual budgets and mandates.
2. **Private sector capacity constraints.** Private sector advisory service providers allocate their resources to respond to demand trends, but may face challenges or delays when redeploying capacity to respond to new developments or uncommon requests.
3. **Barriers to cross-border service provision.** Despite the success of the European Single Market policy, barriers to cross-border procurement and provision of advisory services remain an issue that can impact cost.

Public sector providers play a crucial role in the advisory services market, in particular helping to overcome many of the market asymmetries currently under discussion, including willingness to involve private providers, and affordability. However, because public sector services are typically provided to project promoters or public administrations at little or no direct cost, the number of projects that can be supported is constrained by the annual budget of the programme or initiatives under which it is offered. This is the case for example with some existing EIB advisory services activities, such as InnovFin Advisory. Furthermore, many public sector providers are restricted in the kinds of projects they can support or the kinds of beneficiaries they can work with, by their mandates, or by the rules governing their activities. As a result, not all projects that could benefit from support from public sector provided advisory services in a given year are able to access that support.

In contrast, because private sector providers charge fees for their services, they are not constrained by annual budgets. However, they are constrained by the need to generate revenues. As such, firms will tend to scale their operations and allocate their resources geographically to respond to trends in demand for their services.

In theory, given the existing marketplace of providers, and the reduced limitations of the European Single Market, private sector supply should be able to meet demand wherever it can arise, so long as the project promoter or public administration is willing to pay for it.

In practice, reallocating resources to respond to demand can result in increased costs or delays. For example, at the sectoral level, it was noted that availability of locally provided advisory services in the ICT sector, and the human capital, social, culture and health sector grouping, were more limited in some Member States than others. It was also commented in a number of interviews that advisory services were more readily available in urban centres than in rural areas, and for project preparation and financial structuring than for project identification and delivery. That is, at any given time, private sector providers are best equipped to meet demand in those Member States, sectors, and regions where private sector advisory services are most often demanded.

Finally, as previously mentioned, the ability of private sector supply to meet demand anywhere in the EU is dependent on the ability of service providers to work across borders. The successes of the Single Market Policy mean that the barriers to purchasing advisory services cross-border are for the most part quite modest. Furthermore, there may be limitations especially in the legal and technical expertise when it comes to dealing with projects that require more local knowledge or with cross-border projects. As such, most stakeholders agreed that in the vast majority of cases, those services that are not provided locally could nonetheless be obtained from elsewhere without major difficulty.

There are, of course, some barriers to purchasing cross-border advisory services, such as language, exchange rate risk, and in some cases the process of researching, procuring and implementing a cross-border service itself can result in substantial delays to a project, and additional costs.

Overall, issues of advisory services availability only affect a subset of Member States and sectors, and the bottlenecks they produce, in terms of project delays and added costs, are usually marginal in nature. However, in the event that the premium imposed by capacity constraints or cross-border are sufficiently great, the distinction between an asymmetry and a gap may become less clear cut, as does the decision about the appropriate solution.

Access issues

Access to services refers to the ability of project promoters and public administrations to close the gap between the needs of their investment project and the services that could help address them. We have identified three ways in which the access to services can be impeded:

1. **Identifying specific advisory needs of projects.** Project promoters and public administrations often lack the capacity to properly assess the development of their own investment projects. Either they do not know what their project needs to progress are, or they have identified a need, but are not aware of advisory services that can address it.

2. **Mobilising advisory services.** Sometimes project promoters and public administrations know what they need, but they do not know how to go about getting it. This is particularly true of public administrations, which are typically required to secure advisory services by means of public procurement procedures. Lack of market knowledge, or of technical expertise in preparing terms of reference and evaluating bids, and reliance on lowest price criteria often result in unnecessary delays and provision of low quality work.
3. **Willingness to involve private providers.** In other cases, project promoters and public administrations are unwilling to bring in private sector advisory service providers for “cultural” reasons. For some, this reflects an expectation that such services should be provided free of charge by their government, or by an international body. In other cases, it reflects the assumption that any necessary competences can be located within the organisation or administration, and thus outside advisors are unnecessary.

One important driver of persistent advisory services needs that was introduced in the focus groups, and came up frequently in stakeholder interviews, was the inability of project promoters and public administrations to identify the specific needs of their projects. In other words, the project is facing a bottleneck that could be addressed with advisory services, but either there is a failure to properly diagnose the need, or a lack of awareness of the existence of relevant available services. Either way, the result is a need for advisory services that fails to be expressed as a demand.

The issue of identifying specific advisory needs is a particular problem for **project preparation** and **financial structuring** services, and on smaller and medium sized projects. It is a common issue for SMEs, often arising when they have to present their investment plan or business case to potential investors or lenders.

The issue of mobilisation of advisory services is a distinct problem, more commonly associated with public administration that procure only infrequently, notably those that operate at the regional and local level as opposed to national level bodies. In this case, the underlying need is expressed as a demand, but there is a disconnect between the need and the service provided. This can be due to lack of market knowledge, whereby the procurer is unaware of the kinds of services the market can and cannot supply; to poorly written tender documents that inadequately specify the services needed, or qualifications required of providers; reliance on lowest price only award criteria rather than using a value for money approach; or failure to properly monitor the provider on the job. Mobilisation issues often result in poor **quality** of advisory services.

Unwillingness to involve the private sector is another issue that primarily affects public sector lead projects. The analysis made and the feedback received through the interviews suggest that public sector promoters are sometimes reluctant to involve private sector service providers. Member States in the top and high priority Member State groupings in particular rely heavily on investment project support provided free of charge by, for example, the EC under the EU’s Cohesion Policy, or by international organisations like the World Bank. As a result, some project promoters and public administrations in these Member States consider paying for privately provided advisory services a misallocation of resources, or decline to consider it at all. On the other end of the spectrum, we heard from stakeholders in one highly developed Member State that, given the highly developed public administration, private providers cannot bring added value, and are thus unnecessary.

In the case of each of the access issues presented above, the fundamental problem is not the lack of supply, but an asymmetry between needs and supply that either prevents the need from being expressed as a demand, adds a cost or time premium, or results in poor quality of services. The EIAH could potentially play an important role in addressing this asymmetry, particularly for public sector entities. This is described in greater detail below.

Affordability issues

In addition to the issues with the access of services discussed above, the affordability of advisory services can also be a barrier to the advancement of an investment project. Affordability can be an issue in one of two ways:

1. **Not budgeting for advisory support.** Project promoters and public administrations often underestimate or even fail to include the cost of necessary advisory services in their project

budgets due either to a lack of understanding of the need, not appreciating the potential added value of advisory services, or a desire to hold down top line project costs.

2. **Genuine cash flow constraints.** Sometimes, project and owners are genuinely cash constrained in their ability to pay for needed advisory services, resulting in delays. This is particularly true for municipalities and other sub-national administrations, as well as for SMEs.

The failure to budget for advisory support is primarily due to the longstanding perception that investing in project preparation is not cost effective, and thus not strictly necessary for the success of a project. As a result, even large-scale projects can find themselves in a situation where they face an advisory services related bottleneck, but lack the funds to cover vital technical, legal, or financial support.

This observation was more frequently found in the Member States with less experience preparing and implementing large infrastructure projects, or managing EU Funds. In particular, public administrations in the top priority Member State grouping experience affordability issues at all levels of government. In more developed Member States with more experience and administrative capacity to manage large investment projects, this issue is generally limited to the local level.

On the private sector side, SMEs are most frequently affected by affordability due to lack of cash on hand, resulting in poorer quality of their investment proposals and business plans. Those constraints are closely linked with the nature of start-ups and small businesses, and lack of management experience. SMEs tend to rely on their own internal expertise, or on free or reduced fees public sector service providers.

Mid-caps and large corporate are less affected by affordability issues. Larger companies tend to have fewer cash flow constraints, more internal competences, more experience dealing with investors and institutions, and greater familiarity with the project assessment criteria. Moreover, those companies tend to have existing relationships with trusted service providers.

In conclusion, the primary cause of persistent needs for advisory services are issues of the **availability, access, and affordability** of existing services rather than a shortfall of supply. As such, in order to fulfil its mandate, the EIAH should target its strategy to address these market asymmetries. The final chapter of the study lays out some recommendations on how to do so.

Recommendations for the EIAH

Based on our analysis, we have concluded that there are substantial needs for investment advisory services throughout the EU, and that project promoters and public administrations often have to overcome significant market asymmetries to access the services they need. The EIAH, as a centralised, EU-wide organisation dedicated to facilitating access to investment advisory services, has enormous potential to impact this market to improve the quality of projects, and to move them forward more efficiently and effectively. In order to do so, the fundamental problem that the EIAH's strategy has to address is the existence of market asymmetries between their needs for advisory services and the available supply.

Fortunately, the EIAH has already begun this work. Since its creation in 2015, the EIAH has been processing requests from project promoters and public administrations and connecting requestors with existing advisory services support within the EIB as part of the EIAH's gateway role. It has also begun building relationships with partnering organisations, particularly among National Promotional Banks, to expand the menu of advisory services it can connect requestors to. Connecting requestors with existing advisory services is core to the EIAH's mission, and should continue to be so going forward.

However, in developing its longer-term strategy to more directly target the fundamental problem of market asymmetries in the availability, access and affordability of advisory services, **we recommend that the EIAH focus on providing access to strategic project support.**

Strategic project support

The concept of strategic project support is relatively new, and as such, requires a bit of context and explanation. Throughout this study, we have defined investment advisory services as the range of technical, financial and legal support that can be provided in one for the seven categories of services defined in Chapter 2 of the study. This classification tends to emphasize targeted, one off services requiring specialised expertise; the need to bring in an economist to conduct a cost-benefit analysis, an engineer to do a feasibility study, or a finance expert to set-up an equity instrument. And as detailed throughout this study, these kinds of services are made available throughout the Union by a wide range of stakeholders, both public and private.

However, there is another kind of investment advisory service that is touched on, but not well represented in our seven categories, which we are calling **strategic project support**. The idea behind strategic project support is not the mobilisation of highly specialised technical expertise to meet a one-time need, but a kind of high level project facilitation to help improve the planning and execution of investment projects.

One of the core functions of strategic project support would be to help mitigate the market asymmetries that act as barriers to the use of traditional technical, financial and legal advisory services. In other words, to be an active facilitator of advisory services uptake.

The concept of strategic project support, and many of the specific activities that this kind of service could include, are based on suggestions put forward during the focus groups and stakeholder interviews with participants from a range of Member States and sectors who thought that this was something not provided by the market, and that it could add substantial value for project promoters and public administrations operating in their field. This indicates that a demand for this kind of support already exists. In fact, as this kind of service is not currently broadly offered by either public or private providers, it could even be considered as a gap. It also indicates that providing such a service would help ensure the EIAH is providing real added value given the kinds of services already being offered by other market players.

In order to be effective, it is important to define what strategic project support is not. First, it is not a comprehensive service covering all possible activities and actions. Specifically, it does not include providing one-off technical, financial and legal advisory services already offered by public and private providers. In order to maximise the number of investment projects the EIAH can support, the strategic project support service must be targeted in focus, and light in its labour intensity. Second, strategic project support **does not mean managing projects on behalf of project promoters and public administrations**. Taking on a management role on a requestor's behalf would likely exceed the EIAH's mandate, and at the same time deprive the requestor of valuable capacity building experience.

Therefore, strategic project support should be a targeted in both scope and intensity. Thus, it can include among other things, evaluating and developing project plans and budgets; anticipating potential risks and bottlenecks; reviewing cost-benefit analyses, business plans and other key project documents; promoting best practices; identifying needs for advisory service support; helping with terms of reference, and evaluation of bids; ensuring quality delivery of advisory services by external providers; and otherwise acting to facilitate the advancement of investment projects.

Most importantly, strategic project support directly addresses the underlying causes of persistent advisory services needs identified in this study, namely the issues of availability of, access to, and affordability of advisory services. For example:

Availability issues are by definition driven by the supply side of the market, but strategic project support can play a role in mitigating them by providing:

- **Market Insight.** The EIAH can provide a substantial benefit to requestors by sharing insights about the advisory service market that come from their EU-wide perspective. This includes knowledge about public and private providers based outside the requestor's locality, and how to take advantage of cross-border procurement opportunities.

Access issues include the market asymmetries that the EIAH is best positioned to address. In the first instance, this means directly connecting requestors with services offered by the EIB and its partner organisations. Through strategic project support can also help with:

- **Identifying specific advisory needs.** The first step in EIAH's strategic project support offers should be a screening process to evaluate what stage in the investment cycle a requestor's project is at, and what kinds of advisory services could be needed to improve the quality and contribute to the successful implementation of a project;
- **Mobilising services and ensuring quality.** Where specific technical, financial, or legal advisory services are needed, EIAH could support requestors to translate the need into a demand by helping prepare procurement documents and evaluate tenders, and in monitoring the quality of the delivery of those services in line with the needs of the project; and
- **Willingness to use private providers.** The recommendation of the EIAH will play an important role in convincing project promoters and public administrations of the potential added value of external advisory services support generally, and of private providers where appropriate.

Affordability issues are fundamentally a question of either information asymmetry, or access to finance. The former is a clear example of where the EIAH can facilitate investment simply by sharing its knowledge, and the weight of its opinion, about the potential added value of advisory services. The latter is the EIB's core competency. And EIAH services are provided free of charge for public administrations below cost for SMEs, further mitigating affordability issues for those most likely to be impacted by them. Thus the EIAH could support with:

- **Budgeting for Advisory Services.** EIAH can help develop project plans that incorporate the costs of necessary advisory services, and validate their added value; and
- **Cash flow constraints.** In cases where ability to exploit advisory services is limited by liquidity constraints, the EIAH can help provide access to finance, or even allocate some of its budget to subsidising services.

More in-depth analysis of the types of strategic support that would have the greatest impact on investment outcomes, challenges to provision of that support, and good practices would allow to define areas where the EIAH's intervention would require the greatest efforts and would have the greatest impact in qualitative project development and developing quality projects in general.

Other recommendations

In addition to the developing the strategic project support role described above, a number of other recommendations for the EIAH emerged during the course of this study.

Coordinating public sector supply

Another way in which the EIAH could work to facilitate use of advisory services is by taking an active role in coordinating public sector service providers. This study does include a preliminary mapping of existing advisory services programmes and initiatives on EU and national level by sector. Analysis of this mapping clearly indicates that there are both overlaps and gaps in coverage and types of services provided by public sector providers from Member State to Member State, and from sector to sector. In addition, we have observed that in many cases, individual organisations in the advisory services market are not even aware of other providers or their service offering.

The EIAH could address this issue by helping to coordinate, and facilitate communication among existing service providers. Coordination of service providers would make it easier for the EIAH to direct requestors to the service that is most suited to their needs.

One way to promote this kind of coordination is by establishing one or more networks of experts. This is an approach that has proven productive for EIB's European PPP Expertise Centre (EPEC), a membership based network. One of EPEC's key roles is to facilitate its network of members in sharing good practices amongst themselves, including on the use of advisory services. Another

example of productive coordination of service providers is the fi-compass platform, which performs a similar role for Managing Authorities and others in the use of ESIF Financial Instruments.

Most importantly, the EIAH's involvement will allow similar organisations, or those offering similar services, to benchmark their own services and exchange on how to improve them. This would allow them to improve upon or expand their current service offer. Another element of this function could be to facilitate secondments or other forms of peer-to-peer exchanges.

Future research should focus on identifying a shortlist of candidate services to be promoted from among the priority sectors and regions. Preliminary conversations with target organisations could be used to gauge interest in adopting the service.

Tailored project support

Finally, in exceptional cases in which issues of access or affordability of advisory services became excessively burdensome, it may be justifiable for the EIAH to provide advisory services directly to the requestor. For example, if a given advisory services is not available locally, and cross-border procurement of services would result in significant project delays or cost premiums, the EIAH could potentially take responsibility for providing the necessary experts.

Tailored project support could also be relevant for cross-border projects that involve several public promoters and other types of stakeholders from Member States where consensus on some issues is more difficult to achieve. In this context, a direct or closer involvement in some of the phases of the project development may require more active role of the EIAH.

Final Comment

In conclusion, it bears stating explicitly that the EIAH almost certainly cannot fulfil all of the above-mentioned functions with existing resources. An essential goal of the strategy making process should be to focus on those functions expected to have the greatest impact following the adage that it is better to do a few things well than many things poorly.