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DIW Weekly Report

A policy bulletin from the German Institute for Economic Research

16+17 2026

Economy. Policy. Science.

DIW BERLIN



145 Report by Geraldine Dany-Knedlik, Martin Gornig, Angelina Hackmann, and Teresa Schildmann

Municipal investment: Potential and limitations of the Special Fund for Infrastructure and Climate Neutrality

- German municipalities have recorded negative construction net investment for over two decades, indicating continued erosion of infrastructure
- The Special Fund can boost investment and modestly reduce regional disparities—but only if funds are used for additional investments
- Without improved financing and administrative capacity, the overall stimulus and redistribution effects remain limited, especially in financially weak regions

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DIW Weekly Report

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AT A GLANCE

Municipal investment: Potential and limitations of the Special Fund for Infrastructure and Climate Neutrality

By Geraldine Dany-Knedlik, Martin Gornig, Angelina Hackmann, and Teresa Schildmann

- Despite rising gross investment, municipal construction investment activity in Germany remains insufficient in real terms, with persistent negative net investment since 2002
- Regional disparities in per capita investment are substantial, although investment-weak regions have recently shown modest convergence
- The Special Fund for Infrastructure and Climate Neutrality (SVIK) provides up to €56 billion for municipalities, but its effectiveness depends crucially on the degree of investment additionality
- In a full additionality scenario, the fund could significantly increase investment and reduce inequality, whereas effects are much smaller under partial additionality
- Institutional and capacity constraints—including limited fiscal space and planning bottlenecks—are key barriers to translating funds into actual investments

The investment and redistribution effects of the Special Fund ***depend far more on whether funds are used for additional investment*** *than on how they are regionally allocated.*

FROM THE AUTHORS

"If the Special Fund is to actually lead to higher implementation and more regionally balanced investment activity, accompanying measures are needed: better funding for municipalities, reliable support structures and capacity building in planning and procurement."

— Teresa Schildmann —

Municipal investment: Potential and limitations of the Special Fund for Infrastructure and Climate Neutrality

By Geraldine Dany-Knedlik, Martin Gornig, Angelina Hackmann, and Teresa Schildmann

ABSTRACT

Municipalities play a key role in providing public services, but despite rising gross investment, there is a significant erosion of assets: real investment growth remains insufficient and net investment continues to be negative. The Special Fund for Infrastructure and Climate Neutrality (SVIK) can help strengthen local government investment activity and reduce regional disparities. Based on a scenario analysis at the district level, it is shown that the SVIK impact depends crucially on the use of funds for additional investments and the district-specific investment ratio. While full utilization for additional investments would provide significant impetus, enabling districts with low investment levels to catch up to a certain extent, the effects remain moderate if only partial additional investments are made and regional disparities hardly decrease. However, for the investments to be fully additional, municipalities need better funding, reliable support structures, and capacity building in planning and procurement.

Municipalities are the backbone of public services, but despite a recent increase in gross investment, real growth has lagged behind demand, and the negative net investment of municipalities since the 2000s indicates continued erosion of assets. Specifically, in recent years, financially weak municipalities have spent less money per capita on tangible investments than financially stronger ones. Against this backdrop, this Weekly Report examines the investment stimulus that the Special Fund for Infrastructure and Climate Neutrality (SVIK) can generate at the municipal level if the grants resulting from the SVIK

(a) are invested entirely as additional investments (*full additional investments* scenario), or (b) only flow into additional investments to the extent that public funds have already been used for investments in previous years (*partial additional investments* scenario).

Further, this Weekly Report examines the development of regional disparities at the district level, measured by the distribution of per capita investments, and the influence of different state-specific distribution rules.

This Weekly Report thus addresses key issues in German financial and infrastructure policy: the effectiveness of special funds, the resources available to local authorities, and the question of how federal distribution mechanisms (state-specific keys) influence investment inequalities. The analysis provides evidence-based starting points for reforms of needs-based distribution criteria, ranging from necessities in municipal funding to capacity building in planning and procurement.

Development of municipal investment activity remains insufficient

Total government spending on investment has risen significantly in recent years. In 2024, more than €130 billion was spent on public investment,[1] around 40 percent more than before Covid-19. At the same time, prices for capital goods,

1 Federal Statistical Office, Statistischer Bericht – VGR Investitionen (2025). EVAS number 81000.

DOI: https://doi.org/10.18723/diw_dwr:2026-16-1

especially construction services, have risen sharply. In real terms, this represents an increase of just under 12 percent. The relative importance of public investment as a percentage of gross domestic product rose sharply for all local authorities during the pandemic (Figure 1).

At the municipal level, the ratio of real municipal investment to gross domestic product rose by around 20 percent between 2018 and 2024. However, this did not match the high level of investment activity seen in the period following reunification. Adjusted for price changes, the share of municipal investment at that time was more than 60 percent higher than in 2024. Since around 80 percent of municipal investment is spent on construction work and since just under half of all government construction work is carried out by municipalities, the consequences of restrained municipal investment are particularly evident in the state of local infrastructure.

Net investment, i.e., investment minus the depreciation of the capital stock (depreciation), is a valuable indicator of the state of infrastructure.[2] While the federal and state governments have recorded predominantly positive net investment in construction services, this has been consistently negative for local authorities since 2002 (Figure 2). This means that for over two decades, local authorities have been investing less than is necessary to simply maintain the public capital stock.[3] Surveys of municipalities conducted by the German Institute for Urban Studies (DIfU), as part of the KfW Municipal Panel, estimate the cumulative investment requirement for 2024 at over €215 billion.[4] However, this also includes investments outside the construction sector and requirements for infrastructure expansion beyond the backlog.

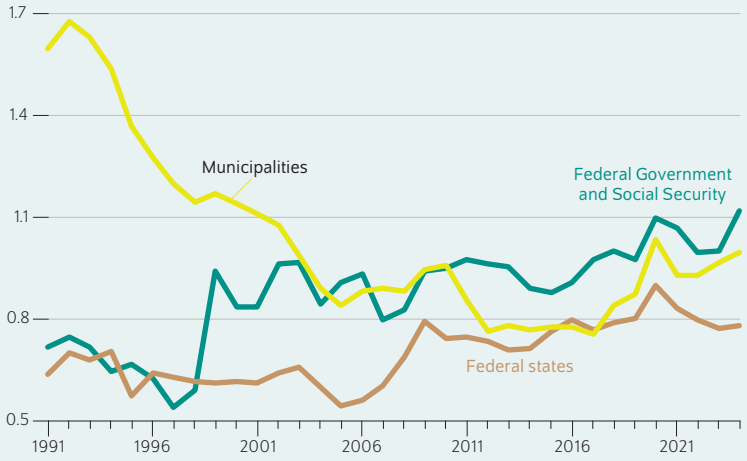
Local authorities cite their structurally inadequate financial resources as the primary reason for the long-term weak investment activity.[5] In particular, the sharp rise in social spending, which is largely determined by federal policy regulations, limits the scope for investment. A short-term solution is not currently available.[6]

Investment-weak regions are showing modest convergence

In addition to the macroeconomic view of municipal investment activity, the regional distribution of investment is of particular socio-political importance. If we can assume, as a first approximation, that a district's investment needs are related

Figure 1

Price-adjusted public investment in relation to gross domestic product
In percent



Notes: First, the nominal sub-aggregates (construction investment, equipment investment, other fixed assets) are price-adjusted using their respective deflators. The price-adjusted sub-aggregates are then summed to form a volume index and divided by price-adjusted gross domestic product (price base for all series: 2020).

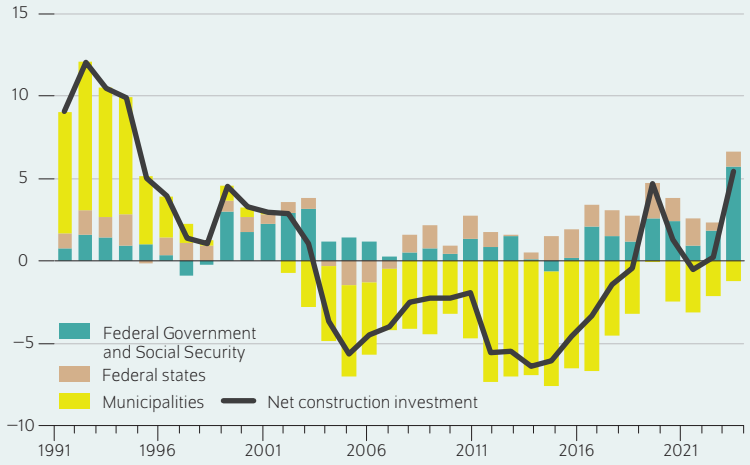
Source: Federal Statistical Office; own calculations.

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The relative share of public investment in economic output is slowly rising.

Figure 2

Net construction investment by government level
In billions of euros



Source: Federal Statistical Office; own calculations.

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Municipalities have been recording negative net construction investment for years.

2 Martin Gornig, Claus Michelsen, and Kristina van Deuverden, "Local Public Infrastructure Showing Signs of Wear and Tear," DIW Weekly Report, no. 42/43 (2015) (available online, accessed on February 24, 2026. This applies to all online sources in this report, unless otherwise noted).

3 Joint Economic Forecast Project Group, "Geopolitischer Umbruch verschärft Krise – Strukturreformen noch dringlicher," Joint Economic Forecast Spring 2025, Chapter 4 (in German; available online).

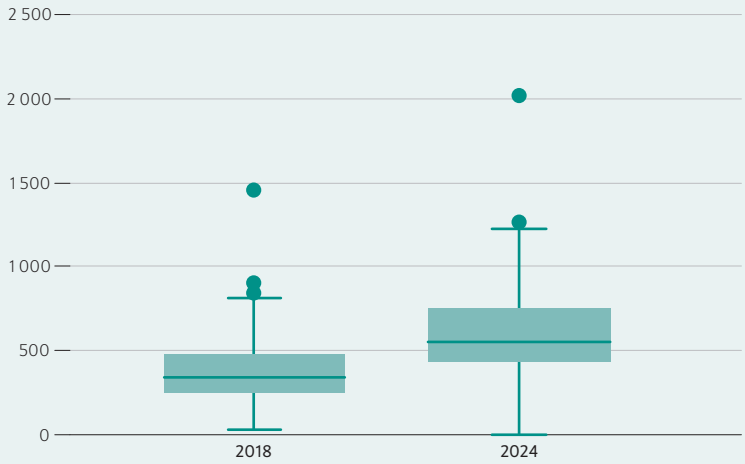
4 Christian Raffer, Henrik Scheller, and Frida von Zahn, "KfW Kommunalpanel 2025," KfW Bankengruppe, Frankfurt am Main (2025) (in German; available online).

5 German Association of Cities, "Städtetag Aktuell," Issue 1 (2026), Berlin/Cologne (in German; available online).

6 Ronny Freier et al., "Kommunaler Finanzreport 2025," Bertelsmann Foundation, Gütersloh (2025) (in German; available online).

Figure 3

Distribution of per capita investment in fixed assets at the county level in 2018 and 2024
In euros



Notes: The boxes show the interquartile range (middle 50 percent of values), the lines within them show the median, the "whiskers" show the range excluding outliers, and the circles show extreme values beyond that range.

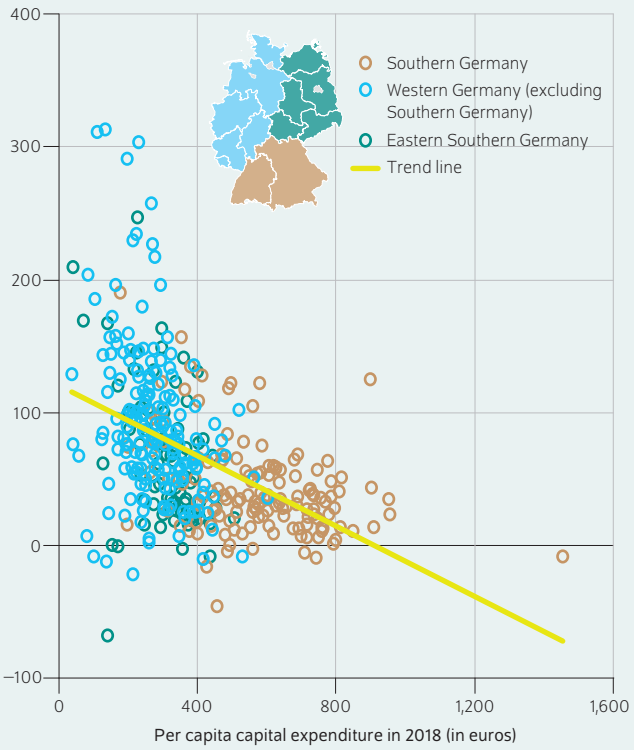
Source: Accounting statistics of municipal core budgets, Regional Database of the Federal and State Statistical Offices; own calculations.

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The dispersion of investments is increasing.

Figure 4

Growth and per capita investments at the district level
Percentage growth between 2018 and 2024



Source: Accounting statistics of municipal core budgets, Regional Database of the Federal and State Statistical Offices; own calculations.

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Districts with low investment are catching up.

to its population size, then very different levels of investment per capita may indicate a divergence in living conditions.

Although municipal per capita expenditure on tangible investments rose on average between 2018 and 2024, there is still a marked regional variation (Figure 3).[7] In 2018, the figures ranged from €37 in the independent city of Wilhelmshaven to €1,456 in the district of Dingolfing-Landau. By 2024, this variation had increased further, as had the number of districts with particularly high investment levels. The peak value was now €2,016 in the district of Tirschenreuth. The strong spatial concentration of high investments is also striking: With the exception of the district of Fulda (Hesse), 24 of the most investment-intensive districts are in Bavaria.

Despite increasing dispersion, districts with low investment levels have tended to catch up more strongly in recent years. Between 2018 and 2024, there was a clear negative correlation between the initial level of per capita real investment and subsequent growth (Figure 4). Districts with low initial values recorded above-average growth, while districts with high investment, especially in Bavaria, showed lower growth rates. Geographically, the strongest catch-up movements can be observed primarily in eastern Germany and in parts of the old federal states outside southern Germany.

This catch-up process is likely to have been facilitated by the Municipal Investment Promotion Act (KInvFG). The program, which has been implemented in two tranches since 2015, was explicitly aimed at supporting financially weak municipalities in investing in key infrastructure areas and reducing regional disparities. A preliminary evaluation by the Federal Ministry of Finance confirms this effect.[8] Subsidized municipalities increased their investments in tangible assets by around 77 percent between 2015 and 2023, while non-subsidized municipalities recorded growth of only 48 percent.[9]

Against this backdrop, the key question is whether the Special Fund for Infrastructure and Climate Neutrality (SVIK), with significantly higher total funds and an investment horizon

7 Capital expenditure at the municipal level largely comprises construction investment and, to a lesser extent, investment in equipment such as vehicles. The data basis for this and the following sections is the accounting results of the core municipal budgets available for 2018-2024 at the level of districts and independent cities. The term "capital expenditure" covers payments from investment activities for capital expenditure recorded in accordance with double-entry municipal accounting law. City-states are excluded from the analysis. Source: Regional database of the Federal and State Statistical Offices.

8 Federal Ministry of Finance, "Evaluierung des Infrastrukturprogramms nach dem Kommunalinvestitionsförderungsgesetz (Kapitel 1) – vorläufige Bilanz," (2025) (in German; available online).

9 There is no publicly available list of the funds drawn at municipal or district levels, so that the share of the change in per capita investments in real assets shown in Figure 4 that can be explained by the KInvFG cannot be determined.

Table 1

Distribution of SVIK funds at the state level

State	Allocation according to the Königstein Key (in billions of euros)	Share of grants allocated to municipalities (in percent)	Total allocation to municipalities (in billions of euros)
Baden-Württemberg	13.1	66.7	8.8
Bavaria (*)	15.7	65.0	10.2
Brandenburg	3.0	50.0	1.5
Hesse	7.4	63.0	4.7
Mecklenburg-Western Pomerania	1.9	60.5	1.2
Lower Saxony (*)	9.4	60.0	5.7
North Rhine-Westphalia	21.1	60.2	12.7
Rhineland-Palatinate	4.8	60.0	2.9
Saarland	1.2	52.9	0.7
Saxony	4.8	58.5	2.8
Saxony-Anhalt	2.6	60.0	1.6
Schleswig-Holstein	3.4	62.5	2.1
Thuringia (*)	2.5	59.9	1.5
Total	91.2		56.4

Note: (*) indicates that no information on the allocation scheme is available and therefore the 80–20 rule is applied.

Source: Compiled by the author based on press releases and publications from state governments.

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extending to 2036 (but without a clear focus on financially weak municipalities), can achieve similar or even stronger regional balancing effects.

Distribution of funds from the SVIK largely based on population

The State and Municipal Infrastructure Financing Act (LuKIFG) lays down the legal basis for the use of SVIK funds provided by the federal government. According to Section 1 LuKIFG, €100 billion is available for public infrastructure investments at the state and municipal level through 2036.[10]

The €100 billion is distributed among the federal states according to the "Königstein Key" ("Königsteiner Schlüssel"), which is based two-thirds on tax revenue after fiscal equalization between the federal states and one-third on population (Table 1).[11] Each federal state determines the share of funds allocated to the municipal level and how the funds are distributed among districts, independent cities, and municipalities. The analysis of the scenarios only considers territorial states. According to the "Königstein Key," these receive a total of €91 billion and pass on an average of around 60 percent of the funds to their municipalities. The share is highest in Baden-Württemberg, at just under two-thirds, while Brandenburg comes in last with 50 percent. The distribution keys to the municipalities also vary considerably.[12] Thuringia, for example, has decided to distribute 90 percent of the municipal share according to population and 10 percent according to fiscal weakness, while Brandenburg uses a 50:50 mix of population and financial strength-based key allocations.[13] For those states that have not yet published their distribution formula, it is assumed that 80 percent of the funds are allocated according to population and 20 percent on the basis of inverse financial strength.[14] Distribution is thus largely based on the population. Financial strength influences the distribution in different ways: according to the "Königstein Key," financially stronger states benefit, but within the states, financially weaker districts usually receive slightly higher shares.

A key point of the legislation concerns the issue of additionality. The draft bill of the LuKIFG contained a passage that was intended to ensure that the states and municipalities use the funds in addition to investments already planned. However, this provision was deleted in the adopted version.[15] This leaves open the question of whether the Special Fund will really trigger new investments or whether it will partly

10 Investments are eligible for funding through December 31, 2042, provided they have been approved by December 31, 2036 (Section 4 LuKIFG).

11 In reality, however, financial strength plays hardly any role (see Marco Schmand, Constantin Tielkes, and Felix Weinhardt, "Königsteiner Schlüssel verteilt Gelder und Aufgaben zwischen Bundesländern kaum nach Wirtschaftskraft,"DIW Weekly Report, no. 18 (2023) (in German; available online)).

12 The authors thank research assistant Marlon Böhmer for his outstanding support in investigating the distribution rules for the Special Fund at the state level and preparing the regional data.

13 The allocation scheme has been simplified in part: Often, the majority of the funds are distributed according to a fixed scheme, but a smaller portion of the funds is used to supplement investment promotion programs, the distribution of which among the districts is unpredictable. Thus, it is assumed that these funds are also distributed according to the fixed scheme. This can lead to an underestimation of the distribution of funds to financially strong districts, as they often have more resources to apply for funding programs and initiate eligible projects (cf. Raffer et al. (2025), op. cit.).

14 Inverse financial strength is defined here as the reciprocal of the ratio of a district's per capita tax revenue to the tax revenue of all districts in the higher-level federal state for the year. The lower (higher) the district's own tax revenue is compared to the federal state average, the higher (lower) the share of grants from the SVIK pot.

15 The draft bill contained the following paragraph: "The funds granted under § 1 are to be used for additional investment measures. The additional nature of the investments must be evident in relation to the dynamic sum of the consolidated investment expenditures of the respective state, including its municipalities." Source: Federal Ministry of Finance, "Entwurf eines Gesetzes zur Finanzierung von Infrastrukturinvestitionen von Ländern und Kommunen," (2025) (in German; available online).

Box

Calculation of the district-specific investment ratio

In the partial additional investment scenario, the district-specific amount of additional investment is calculated on the basis of an estimated investment ratio. In a first step, the relationship between the investment ratio and the per capita budget balance is estimated using a pooled least squares regression across districts. The investment ratio $\left(iq_{it} = \frac{I_{it}}{E_{it}^{Zuw}}\right)$ is defined as the ratio of investment expenditure (I_{it}) of a district to grants received $\left(E_{it}^{Zuw}\right)$. The per capita financing balance $\left(\frac{F_{it}}{Pop_{it}} = f_{it}\right)$ is adjusted for the elements that make up the investment ratio (on the revenue side for grants, on the expenditure side for investments). The estimation period is 2018 to 2024.

$$iq_{it} = \beta_0 + \beta_1 f_{it} + \varepsilon_{it}.$$

The standard errors are clustered at the district level, specifically to control for serial correlation. Further specifications also include time dummies for the Covid (2020-2021) and post-Covid (2022-2024) periods (regression (2)) as well as the interaction of the budget balance with these dummies (regression (3)). The three specifications reveal a robust positive correlation between the investment ratio and the budget balance (Table). The highest estimation quality, measured by the coefficient of determination, is found in regression (3). It shows that a €1 increase in the per capita fiscal balance in the post-COVID phase (2022-2024) is associated with an investment ratio that was just under 0.03 percentage points higher; before COVID, the correlation was slightly higher at a good 0.04 percentage points. With a balanced budget balance (=0), the expected investment ratio of a district in the years 2022-2024 was around 65.5 percent.

The district-specific investment ratio used below, which serves as a proxy for additionality, corresponds to the estimated value from the above regression (3) for the year 2024 $\left(\widehat{iq}_{i;2024}\right)$.[1] This estimated investment ratio can then be used to calculate the district-specific additional investments resulting from the grants from the Special Fund as follows: $\triangle I_{it} = \widehat{iq}_{i;2024} \triangle E_{it}^{Zuw}$.

1 This approach implies that the financing balance (adjusted for investments and grants), which has been becoming more negative on average for several years, will not decline further but will remain at the 2024 level. This assumption seems rather conservative, given that a record deficit in municipal budgets is looming for 2025, cf. press release of the German County Association dated January 8, 2026, "Schlimmer geht immer: Aktuelle Zahlen bestätigen dramatische Schieflage in den Kommunalfinanzen," (in German; available online).

Table

Estimation of the investment ratio

	(1)	(2)	(3)
Constant	62.4806***	58.2078***	65.9304***
Adjusted net lending per capita (abbrev.: Fin)	0.0288***	0.0318***	0.0437***
Covid dummy (2020–21)		4.5721***	−2.9611
Post-COVID dummy (2022–2024)		13.0984***	0.4151
Fin x Covid Dummy			−0.0117***
Fin x Post-Covid Dummy			−0.0166***
Number of observations	2,775	2,775	2,775
Coefficient of determination	0.506	0.563	0.586

Notes: *** indicates significance at the 1% level. The coefficient of determination indicates how well the variance of the dependent variable is explained by the regression. The value ranges from 0 to 1; the higher the value, the greater the explanatory power.

Sources: Own calculations; accounting statistics of municipal core budgets. Forecast period: 2018–2024.

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finance projects that would have been carried out anyway. The overall effect would then be, in part, a "shunting yard" that does not significantly increase investment compared to the status quo without the Special Fund, but only creates leeway for municipalities in other areas, for example for consumptive expenditure. In addition, capacity bottlenecks in the construction industry as well as construction planning and administration could prevent new projects from being initiated.[16] Against this background, the following two alternative scenarios are considered to illustrate the possible investment effects of the SVIK:

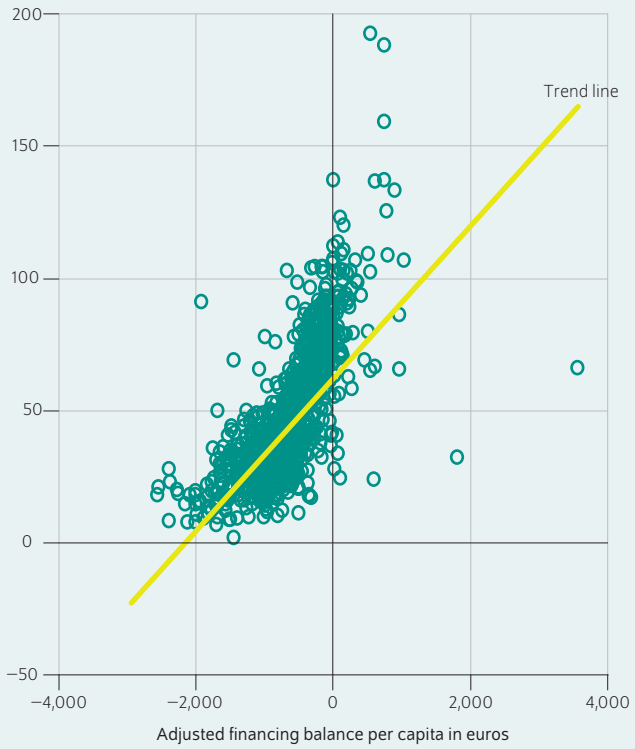
Full additional investment scenario: All funds are invested entirely in additional projects and, under the status quo, investment would have remained at the 2024 level – this represents the upper impact margin.

Partial additional investment scenario: Only part of the grants materializes in additional investments (also compared to 2024). The estimated propensity to invest is derived from the historically observed correlation between investments and grants, taking into account the respective per

16 Martin Gornig and Claus Michelsen, "Kommunale Investitionsschwäche: Engpässe bei Planungs- und Baukapazitäten bremsen Städte und Gemeinden aus," DIW Weekly Report, no. 11 (2017) (in German, available online).

Figure 5

Relationship between the budget balance and the investment ratio (2018–2024)
Investment ratio in percent



Notes: The investment ratio is defined as the ratio of disbursements for fixed investments to receipts from grants and general allocations. The adjusted budget balance equals total receipts excluding grants and general allocations minus total disbursements excluding fixed investments.

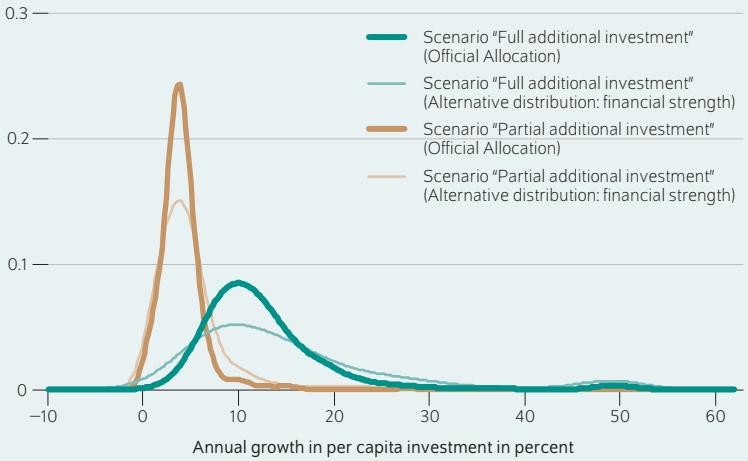
Source: Accounting statistics of municipal core budgets, Regional Database of the Federal and State Statistical Offices; own calculations.

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Financially weak districts invest a smaller proportion of their grants.

Figure 6

Density function of investment growth (full additional investment scenario vs. partial additional investment scenario)
Density



Note: Growth rates higher than 50 were set to 50 for better visibility.

Source: Accounting statistics of municipal core budgets, Regional Database of the Federal and State Statistical Offices; own calculations.

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When fully additional investments materialize, district investment grows at a faster rate and exhibits greater variation.

capita budget balance of a district (box). The focus on the budget balance as a key determinant of the propensity to invest is motivated by the clearly positive correlation with a district's investment ratio in the past (Figure 5). Thus, it provides a realistic reference point for the question of how much of the SVIK funds can actually be converted into tangible investments in view of the financial and capacity constraints of local governments. This scenario does not represent a causal reaction estimate, but rather a projection-preserving representation of historical implementation patterns under fiscal restrictions.

SVIK increases investment and can reduce inequality

The scenario analysis shows that the effects of the Special Fund depend heavily on the proportion of the grants that are implemented as additional investments in physical assets. In the "partial additional investment" scenario, the district-specific investment ratio reduces investment growth rates (Figure 6). Compared to the *full additional investment* scenario, these are also much more concentrated, such that redistribution effects are lower. If, in addition to the official distribution of funds, an alternative distribution based on the inverse financial strength of the municipalities is considered, the result for both additionality scenarios is a slightly more heterogeneous distribution and a stronger right edge of the distribution.[17]

Comparing the effects of the additionality scenarios on regional inequality, it can first be noted that the Special Fund reduces the inequality of municipal investment activity at the ends of the distribution compared to 2024 (Table 2).

The level of annual per capita investment in fixed assets that 90 percent of districts exceed increases by nearly 18 percent in the *full additional investment* scenario. By contrast, the threshold above which ten percent of districts lie rises by only 7.5 percent. In the *partial additional investment* scenario, the effects are significantly smaller. Although both values increase here as well, they do so to a lesser extent and the ratio between them changes little. A similar pattern emerges when the distribution is considered by inverse fiscal capacity:

17 Another alternative distribution scenario based solely on the population share of a district in relation to the population of the federal state leads to a very similar distribution of growth rates as the official allocation key.

Table 2

Change in the distribution structure of annual per capita investments between 2024 and various scenarios

2024 (level)		Total	P10	P90
		in billions of euros	Per capita	
		45.4	336.79	935.12
Change compared to 2024:		in billions of euros	in percent	in percent
Scenario with full additional investments	Official allocation	4.7 (Total over 12 years: 56.4)	17.95	7.5
	Alternative allocation: inverse financial strength	4.7 (Total over 12 years: 56.4)	21.67	9.25
Scenario with partial additional investments	Official distribution	1.48 (Total over 12 years: 17.8)	4.29	3.25
	Alternative distribution: inverse financial strength	1.43 (Total over 12 years: 17.1)	5.62	4.28

Notes: The P10 and P90 percentiles indicate the values below which 10 and 90 percent of the districts lie, respectively. 90 percent and 10 percent, respectively, lie above the corresponding values.

Reading guide: Compared to 2024, the value of per capita capital investments above which 90 percent of districts lie increases by 17.95 percent in the scenario of full additional investments and official distribution.

Source: Own calculations.

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inequality in per capita fixed-asset investment at the outer edges of the distribution changes only marginally.

In aggregate, the additional SVIK investment of the federal states considered here amounts to €56.4 billion in the *full additional investment* scenario. If the *partial additional investment* scenario is assumed, the additional investments are significantly lower. These amount to €17.8 billion under the official distribution key and €17.1 billion if the alternative distribution of funds according to inverse financial strength is assumed. Financially weaker districts have lower investment rates. Therefore, reducing inequality by explicitly allocating funds to these regions is accompanied by a reduction in the overall investment stimulus of around €700 million.

Overall, both the level and the regional distribution of investment are driven less by the allocation rule than by assumptions about investment additionality.

Regionally heterogeneous effects driven by differences in investment ratios

The estimated investment ratios for 2024 show a pronounced regional dispersion. In the district of Tirschenreuth (Bavaria), the investment rate is 94.4 percent, while in the Uckermark (Brandenburg) it is -13.7 percent.[18]

This regional heterogeneity in the investment ratio means that the effects of the Special Fund differ significantly between the *full additional investment* scenario and the *partial additional investment* scenario (Figure 7). In Bavaria, where the average investment ratio is high, the differences between the two scenarios are smallest. The same applies to many districts in Baden-Württemberg and northern Germany. The greatest differences between these two scenarios arise for regions in eastern and central Germany, the Ruhr area, and southwestern Germany. If the Special Fund's resources were actually invested entirely as additional investment, the districts of Wilhelmshaven, Flensburg, and Jena would be among the biggest winners. In Jena, investment growth would be 97 percentage points higher than in the *partial additional investment* scenario.[19]

Finally, it appears that the districts with the highest investment growth in the case of full additionality are primarily those that had comparatively low per capita investment in 2024. This pattern suggests a process of catching up (Figure 8). However, this scenario assumes that municipalities that have invested little to date have sufficient capacity in their local government or can increase this capacity sufficiently to significantly raise their investment ratio. In the *partial additional investment* scenario, on the other hand, investment growth is distributed much more evenly across districts and is largely independent of the 2024 investment level. Thus, the redistribution effects here are rather small and there are fewer requirements for capacity expansion in municipal administrations.

Conclusion: Accompanying measures are necessary, especially for financially weak municipalities

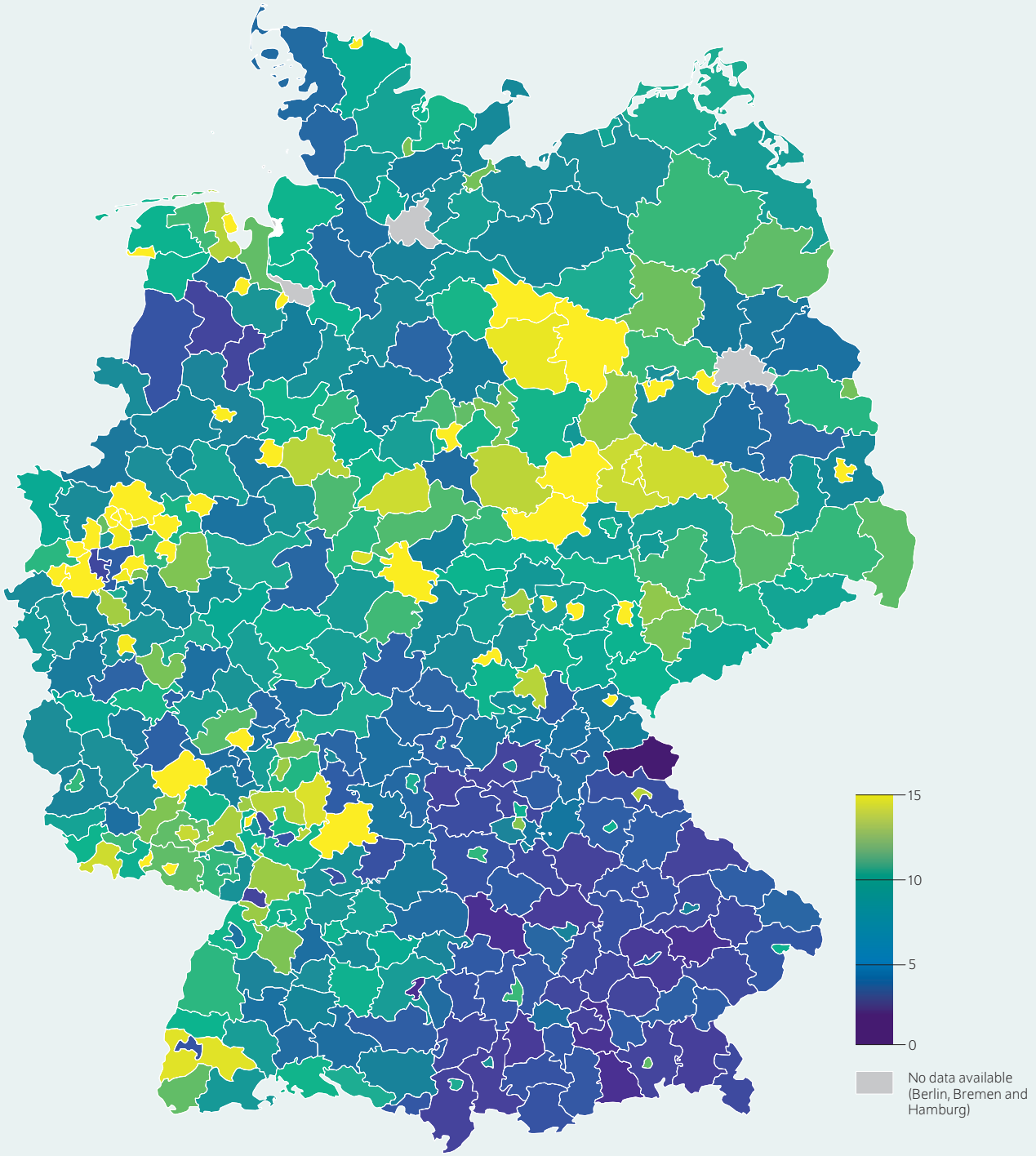
Through the Special Fund for Infrastructure and Climate Neutrality, the federal states will make a total of around €56 billion available to their municipalities for investment through 2038. This corresponds to about €4.7 billion per year, thus around 10 percent of today's municipal investments in physical assets of just under €46 billion. Although the investment backlog that the Special Fund is intended to address primarily affects municipal infrastructure, municipalities (and city states) will ultimately only have access to around 13 percent of the overall Special Fund.

18 A negative estimated investment propensity is possible if the respective district's budget balance (excluding payments for investments and grants received) was strongly negative in 2024. Apart from the district of Uckermark, this affects four other districts (Essen, Baden-Baden, Stuttgart, and Ostprignitz-Ruppin). In the scenario analysis, the investment ratios for these districts were set to zero.

19 When interpreting individual district results, it should be noted that the calculations are based on the budget balance for 2024, which means that special effects in budget development in that year may influence or distort the investment ratio.

Figure 7

Difference in the percentage increase in per capita capital investment between the additionality scenarios
In percentage points



Notes: For better readability, the values are capped at 15 percentage points. The distribution of SVIK funds in the additionality scenarios is assumed to follow the official allocation formula.

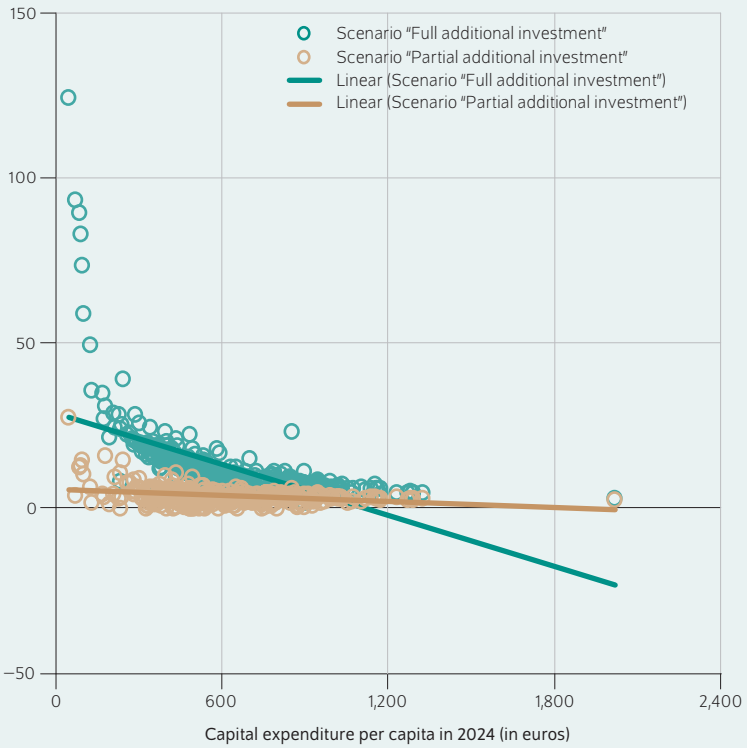
Source: Accounting statistics of municipal core budgets, Regional Database of the Federal and State Statistical Offices; own calculations.

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Outside Bavaria, the scenarios have very different implications for investment activity.

Figure 8

Scenario-dependent growth and per capita investment in 2024
Growth in per capita fixed investment in percent



Notes: The distribution of SVIK funds in the additionality scenarios is assumed to follow the official allocation formula.

Source: Accounting statistics of municipal core budgets, Regional Database of the Federal and State Statistical Offices; own calculations.

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With full additionality, districts with low investment levels benefit the most.

As the scenario calculation shows, these funds would lead to an equally large increase in investment activity and slightly reduce inequality between regions if they were to be invested entirely in additional investments. Nevertheless, given the investment backlog that has built up over the years, even this would not be enough to strengthen municipal capital stock in the long term. The more realistic scenario, however, is that municipalities will invest less than 100 percent of the grants from the Special Fund. In this scenario, financially weak districts will invest a smaller proportion of their funds, as in the past. Accordingly, the overall stimulus is significantly reduced by about two-thirds, and regional inequality decreases only slightly. When interpreting the results of this scenario, it should be noted that the estimated investment ratio may somewhat underestimate actual investment behavior in light of the Special Fund. Given existing investment backlogs and the explicitly investment-oriented nature of the grants, it is plausible that the propensity to invest will be higher in the future than the historical relationship suggests. While the *full additional investment* scenario marks the upper limit of the effect, the *partial additional investment* scenario can thus be understood as the lower limit.

At the same time, the results highlight the practical implementation dimension: if all funds were to result in additional investments, investment growth in a good eight percent of cities and counties would exceed 20 percent compared to 2024; individual counties would even nearly double their investments, including cities such as Jena, Flensburg, Wilhelmshaven, and Salzgitter. In order for these investment increases to be implemented, the municipalities would need to have sufficient capacity to award and plan investment projects. These capacities are unlikely to be sufficient, particularly in financially weak districts that have invested little in the past. If the Special Fund is to actually lead to higher implementation and more regionally balanced investment activity, accompanying measures are needed: first, better funding for municipalities, then reliable support structures and capacity building in planning and awarding contracts. Without these additions, the Special Fund will remain an important but limited contribution to the stabilization and modernization of municipal infrastructure.

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