



**Local & Regional
Europe**

Boosting public investment capacities at local and regional level

The opportunity of the reform of the EU economic governance framework

CEMR position paper

January 2022

COVID-19 crisis has casted new unexpected economic scenario for Europe. All sectors and all levels of our society have been severely impacted. Local and regional governments have been at the frontline of the pandemic crisis, delivering essential services to the population, and putting in place the safety rules decided at national level. Because of this role, they were also severely impacted by the financial and economic consequences of COVID-19. Throughout Europe we noted the “**scissor effect**”: municipalities and regions had to spend more to ensure safety of their inhabitants but also supporting local businesses, while losing important part of their revenue with diminution of their income from taxes and fees - insufficiently compensated by Member States.¹

The European Union as well as Member States at national level have adopted various sets of measures, from new and temporary ones such as the State Aid Temporary Framework, to the €806.9 billion “Next Generation EU” package. This largest ever stimulus package of instruments complements the EU’s long-term budget (2021-2027) with the objective to **boost recovery towards a greener, more digital and more resilient Europe**.

Another major measure adopted by the EU and its Member States is the activation of the general escape clause from the Stability and Growth Pact, i.e., governments are temporarily exempted from rules constraining public debt and deficit. At the same time, in 2021 the European Semester process has been adapted and aligned with the Recover and Resilience Facility. We believe that this context opens the door to a **reform of the EU economic governance system**.

In Europe, 45% of public investments is conducted by local authorities and the subnational governments public spending represented 1.2% of GDP before COVID19 pandemic, which was already estimated quite low by the OECD². Following the economic crisis of 2008, it took a decade before subnational governments’ finance recover to pre-crisis level, so it is likely that their capacity to invest will be seriously impacted also in the mid to long term by the COVID19 crisis, at a time where investment and economic stimulus is actually most needed. Therefore, the Council of European Municipalities and Regions (CEMR) calls on the EU and the Member States to seriously take into consideration the need to **boost public investments at local and regional levels to achieve a truly sustainable recovery by:**

- **Better coordination between European, national and local level** on EU economic governance. A new framework should allow for true exchanges between representatives of local governments, EU Member States and the EU Institutions. A code of conduct should make the Partnership Principle also mandatory for the future of the European Semester. Only through multi-level dialogue, can we collectively remove the barriers to subnational investments. When drafting country recommendations, the European Commission should systematically consult the national associations representing local and regional governments in the country.
- The European Semester, as an instrument for fiscal discipline, is **not the right instrument to relaunch growth and to allow strategic investments in the EU**. If the Semester is going to become the main mechanism of policy coordination between European, national and sub-national levels of government, it will have to move away from the pure macroeconomic and budgetary surveillance, thus transforming into a **more flexible platform** that can adapt to the fast-changing needs of the European economy and society and that “**do no harm**” to other EU policies such as **Cohesion Policy or the Green**

¹ CEMR, [Uncertainty Amidst Recovery – 2021 Estimates of COVID’s impact on local and regional finances](#), October 2021

² OECD-UCLG, 2019 [Report World Observatory on Subnational Government Finance and Investment](#) - Key findings

Deal. Furthermore, it should be avoided that the fiscal consolidation pressure imposed by the Covid-19 pandemic and/or by the European Semester won't be just shifted to the local level.

- **A municipal and regional investment backlog** has been observed in several European countries, before the COVID-19 crisis. In period of crisis, municipalities and regions will use their limited resources to ensure the running of their administration and delivery of essential services. The long-term investments, especially for sustainable development, green and digital transitions (renovation of building and infrastructure for instance) may be postponed. But the longer it will take, the more expensive it will become for local and regional governments. It is therefore urgent to take **the necessary measures at EU and national level to reduce this investment backlog.**
- **Subnational governments need sufficient fiscal autonomy and financial capacity to undertake investments**, but also, they need necessary skills and competences. We call on the European Commission to include in its recommendations for country reforms an evaluation of subnational investment levels, and come up with proposed suggestions to further boost local and regional public investments, **in full consultation of the representatives of local and regional governments.**
- **More flexibility and opportunities for subnational governments borrowing.** The Stability and Growth Pact still constraints the capacities of local governments to borrow by including them in the calculation of national debt. We argue that more flexibility should be granted for local and regional governments, particularly when investing for long term and sustainable development.
- **Creation of a European municipal and regional bank within the EIB** that could assist municipalities and regions in using bonds especially green, digital and social “mini-bonds” more adapted to the specificities of subnational governments. Such structure could also facilitate **pooling of resources by European municipalities** towards joint investments which would be less costly if done through mutualisation. The EIB could offer lower borrowing rates to municipalities and regions, even more so if it is to finance sustainable and climate related projects.
- **Supports municipalities through capacity building** so that they can participate and drive the provision of services, especially in the health and care sector, and can take strategic decision on infrastructures. Fosters the creation of local social enterprises and use Corporate Social Responsibility to encourage commercial enterprises to invest in local communities. Banks should communicate publicly on the share of loans they provide to social economy enterprises, and contributing to inclusive growth (e.g., loans to women-owned start-ups and companies.)
- Local and regional governments **are willing to contribute to the EU Green Deal and the green and digital transitions.** They are already engaged in the process with concrete actions such as sustainable mobility plans, improving energy efficiency of public buildings or providing digital public services. But achieving these objectives require long term investments which are very difficult to engage for municipalities and regions alone. In the current context, following the COVID-19 crisis impact on local and regional governments and inflation, many municipalities are already being forced to cancel planned investments.
- During the implementation of the National Recovery and Resilience Plans, Member States must ensure they are working in full partnership with all levels of governance, and use this

opportunity to evaluate the potential of the local and regional governments to contribute to investments in line with the recovery plans, but also seize this opportunity to identify potential and difficulties that they could face because of national or European legislation. In particular, the EU and Member States must ensure that local **sustainable and green investments won't be artificially constrained** by the EU or national rules when they are needed for common good and well-being of EU citizens.

- The future EU economic governance framework should allow for a **differentiation between long term and sustainable investments for the future** and current expenditures investments. Currently the EU economic governance is based on a yearly calculation of debts, spending and investments. This yearly calculation means that local and regional governments' investments for long term and structural projects will necessarily be considered as structural deficit. This consideration would change if **local and regional public investments could be accounted for in a much more long-term perspective.**



Contact

Marine Gaudron
Policy Officer - Economic, Social and Territorial
Cohesion & Local Finances
Square du Meeûs 1 - 1000 Brussels
Tel. +32 2 213 86 93
marine.gaudron@ccre-cemr.org



About CEMR

The Council of European Municipalities and Regions (CEMR) is the broadest organisation of local and regional authorities in Europe. Its members are over 50 national associations of municipalities and regions from 41 European countries. Together these associations represent some 150 000 local and regional authorities.

CEMR's objectives are twofold: to influence European legislation on behalf of local and regional authorities and to provide a platform for exchange between its member associations and their elected officials and experts.

Moreover, CEMR is the European section of United Cities and Local Governments (UCLG), the worldwide organisation of local government.

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