

## Local finances in the time of crisis Lessons learned and how to boost investments towards sustainable recovery in the wake of the Green Deal

### Background:

COVID-19 is probably the major event of the decade, deeply affecting the organisation of our societies at all levels and leaving long lasting social, economic, and environmental impacts. Local and regional governments in particular have been especially affected. As shown in an early and rapid [CEMR analysis](#) of the impact of COVID-19 on local and regional governments' finances, they had to face additional expenses to protect the citizens, civil servants and front-line workers, as well as to ensure good implementation of measures often decided by the national governments.

At the same time, the COVID-19 crisis also impacted their revenues, diminishing most of the revenues from taxes such as on businesses (which had to close), inhabitants (losses of employment or part time inducing less taxes) and on cultural and tourism activities that can be a major source of revenues. The impact of COVID-19 on subnational finance as well as on multi-level governance – and how to enhance resilient recovery at the local level – is being documented by many researches works such as from the OECD<sup>1</sup> and ESPON<sup>2</sup> among others.

In times of economic crisis, counter cyclical measures are needed to stimulate innovation and answer the pressing social needs of the most affected and vulnerable population. This is the rationale behind EU and national recovery packages and economic stimulation. But when it comes to local and regional public investments, Europe is lagging behind. Before the COVID-19 crisis, subnational investments in Europe represented only 1.2% of GDP<sup>3</sup>. On the other hand, and to achieve our common objectives (Paris Agreement, SDGs), the current levels of investment are still insufficient. The European Commission estimates that Europe needs about €260 billion in extra investment every year over the next decade<sup>4</sup>. Unlocking the potential of local and regional public investments to contribute to this effort is therefore essential.

After dealing with the most pressing issues to protect the population and provide with uninterrupted public services, towns and regions have been looking at ways to “build back better”. This new approach, enshrined in the European Green Deal, the new European strategy for growth adopted by the Commission end 2019, aims at achieving a transition to

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<sup>1</sup> <https://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/> and <http://www.oecd.org/coronavirus/policy-responses/building-back-better-a-sustainable-resilient-recovery-after-covid-19-52b869f5/>

<sup>2</sup> <https://www.espon.eu/covid19>

<sup>3</sup> [http://www.sng-wofi.org/reports/Key\\_Findings\\_2019.pdf](http://www.sng-wofi.org/reports/Key_Findings_2019.pdf)

<sup>4</sup> <https://www.europarl.europa.eu/news/en/headlines/economy/20200604STO80509/eu-defines-green-investments-to-boost-sustainable-finance>

more inclusive, more resilient societies with net-zero GHG emissions, circularity and much reduced impacts on nature.

CEMR multi-annual strategy includes the objective 3.2: *“Local and regional governments have the capacities, skills, resources and funds to invest in the sustainable and long-term growth of their territories”*. Advocating for local self-governance and for sufficient financial resources for local authorities in particular is one of the core issues for CEMR, in line with article 9 of the [European Charter of Local Self-Government](#) “financial resources of local authorities”. The two objectives of the 4<sup>th</sup> pillar of the multi-annual strategy “PLANET: Towards greener space” also fully embed the vision of a climate neutral Europe managing resource in a sustainable manner.

In this sense, CEMR fosters the collection of data to assess the situation in the countries of its members and facilitates exchanges between national associations of local and regional governments on the national policy frameworks regulating subnational finances in each state.

Common points of concern help to shape our advocacy work, calling for enabling conditions or support from the national, European or international level. For this, CEMR is regularly looking for accurate data and knowledge on the state of subnational finance in Europe.

In 2012, CEMR published with the support of Dexia Crédit Local, an analysis of the trends and evolutions of [Subnational public finance in the European Union](#). This study came shortly after another major economic event: the 2008-2009 global economic crisis. It provided a complete analysis of the macro-economic environment and public finances, the state of local and regional governments’ revenues and taxes, as well as their expenditures and investments and gave an overview of LRGs revenues, budget balances and levels of debt.

In the current context, we aim to renew the analysis of the trends and evolutions of subnational governments finance over the last 10 years. The aim of this exercise is to understand how local and regional finances evolved after the 2008-2009 economic crisis, the measures initiated, and the political decisions taken to stimulate and promote the economic and financial recovery and their subsequent impacts. **How did local and regional governments’ finances develop since, and how have the measures taken impacted their financial situation?**

In the context of the European Green Deal, and the EU drive for a recovery through a green and digital transition, this new research will include a specific focus on the sustainable dimension of subnational finance and investments. It will in particular explore the types and evolution trends of sustainable investments that municipalities and regions engaged in the recent years; **how sustainable finances have been integrated in the local and regional strategies for growth and what are the outcomes today?** What instruments are put in place to support this transition such as the green public procurement or public-private partnerships?

This analysis will draw lessons and provide recommendations to prepare for a sustainable recovery from the COVID-19 crisis, showing potential risks and opportunities for local and regional finance and investments. It will showcase new tools and instruments to be developed, and it wants to be a tool for change.

## Objectives for CEMR

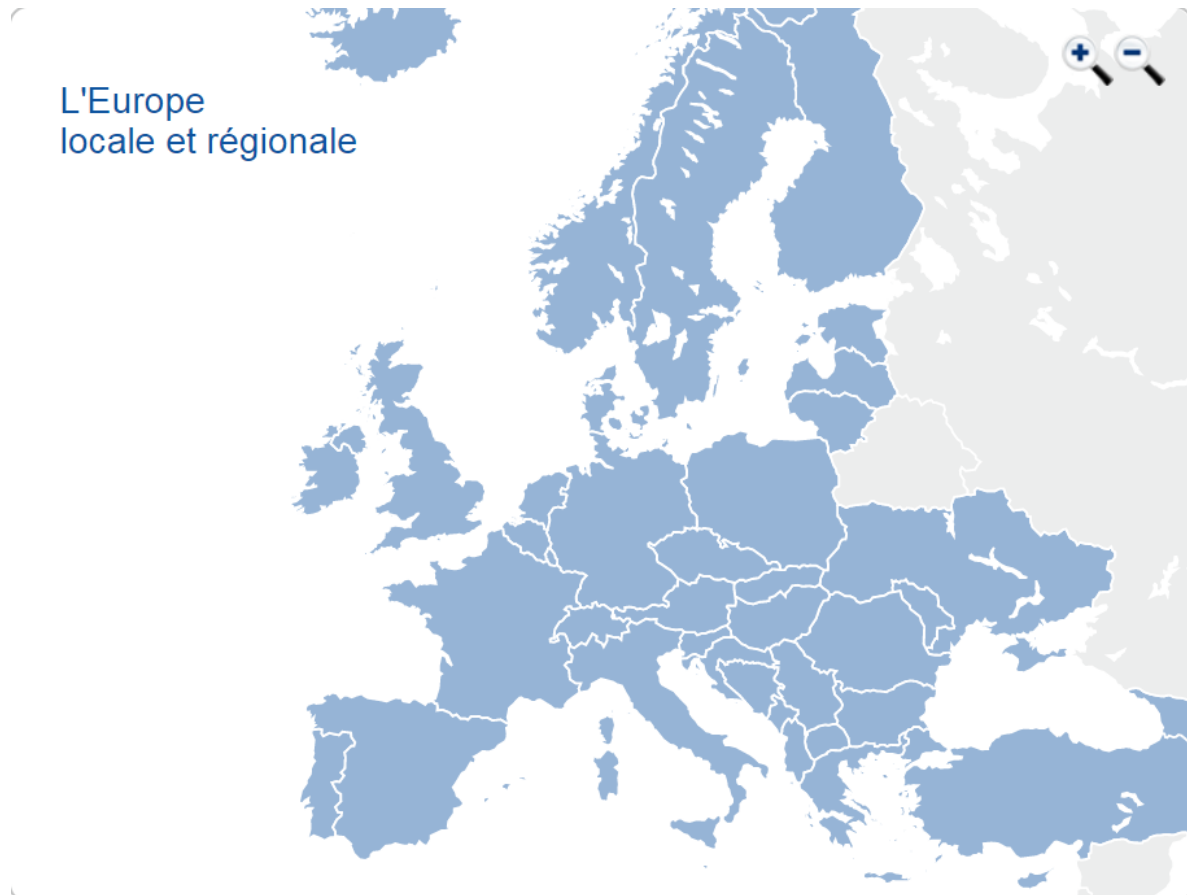
- Provide deep insight into the evolution trends of subnational finances after the economic crisis of 2008-2009 until today, with a specific focus on green and sustainable investments.
- Raise national and European level policy-makers' awareness on the critical situation of subnational finances post COVID-19, and its impact on the ability of the subnational level to contribute to European sustainable recovery through long term and green investments.
- Drawing lessons from the 2009 economic crisis, and propose options to (re-)establish a sound situation for subnational finance and investment capacities.
- Take stock of the evolution of sustainable finance at local level and assess the contribution of the local level to the European and global objectives for climate change and sustainability such as the EU Green Deal or the Paris agreement.

## Content of the publication – provisional outline

- Introduction and methodology
- Part 1: Overview of local finances in Europe (10 pages)
  - Broad presentation of the macroeconomic environment and public finances at local and regional level based on Eurostat (and other sources) data in all CEMR member countries.
  - Lessons learned in the past compared to last financial crisis: did countries implement green investments and what was the impact?
    - Investments' stimulations worked or not?
- Part 2: Zoom on focus countries (together with members willing to participate)\* max 4 page by country (7-10 countries = 20-30 pages)
  - Local finances and link to sustainable investments
  - Best practices implemented by local and regional governments (LRGs)
    - France: Banque Postale
    - Austria: KDZ
    - Non EU members : NALAS
    - Belgium (Wallonia tbc)
    - Others (tbd)
- Part 3: Green recovery (10 pages)
  - Analysis of the Resilience and Recovery Facility (RFF) national plans: what are the green investments directed to LRG? Do they match with their needs?
  - Conclusions, based on existing analysis from CoR (ECON) and other sources (like Eurocities and Energy Cities) and feedback from our associations
  - Best practices implemented by LRGs in terms of green investments
- Recommendations on improving local finances in terms of crisis (including sustainable investments).

### The publication shall:

- Cover all CEMR 40 countries
- Express currencies in euro.
- Not exceed 70 pages



### Possible methodology

- Data should come from official sources (Eurostat, national data, OECD, EU, etc.)
- For non-EU member-states, global sources need to be investigated (*World Observatory on Subnational Governments Finance and Investments*, others...)
- Take into account existing publications and relevant studies on the impact of covid19 on subnational finances (CEMR, Committee of the Regions, OECD, UCLG, etc.) and ensure complementarity with existing initiatives such as the World Observatory on Subnational Governments Finance and Investments
- consultation of the members *tbc* eg. national information on fiscal/financial organisation in country, surveys, etc. (link with the [World Observatory on Subnational Governments Finance and Investments](#))

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