OPINIONS

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Opinion of the European Committee of the Regions — Bridging the Investment Gap: How to tackle the challenges

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POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS

The current investment gap in Europe's cities and regions

1. notes that investment in Europe has decreased by 15 % overall as a direct result of the financial and economic crisis, that public investment has also fallen due to constraints introduced by budget regulation mechanisms at EU and national level, and that the level of total investment in the EU as a whole remains below pre-crisis levels in nominal terms, in 2015 almost EUR 60 billion lower than that in 2008 ([1]); considers that, as well as a drop in investment in absolute terms, the European Union is also suffering from a competitiveness deficit due to ageing infrastructure and insufficient investment in digital and ecological transition and innovation;

2. underlines that local and regional authorities (LRAs) are responsible for more than half of public investment in the EU, and that their investments in areas such as infrastructure, energy, public transport education, healthcare, and many more, have a direct impact on local economies, the dynamism of businesses, and the life and well-being of European citizens;

3. welcomes the European Parliament's call for a greater ownership at national, regional and local level of the formulation and implementation of growth and jobs strategies and welcomes the support for the CoR's demand for a code of conduct for the involvement of the local and regional authorities in the European Semester ([2]);

([1]) See Eurostat, dataset code: tec00011 'Gross fixed capital formation (investments)' and teina210, 'General government fixed investment'.

([2]) European Parliament resolution of 26 October 2016 on the European Semester for economic policy coordination: implementation of 2016 priorities (2016/2101(INI) '6. [The EP] fully supports the efforts made to ensure greater national ownership in the formulation and implementation of CSRs as an ongoing reform process; considers that, in order to increase national ownership and foster the effective implementation of CSRs, and in view of the fact that local and regional authorities have to implement more than half of CSRs, these should be clearly articulated around well-defined and structured priorities at European level, involving national parliaments, regional and local authorities where appropriate; reiterates that, in view of the distribution of powers and competences in various Member States, delivery on the Country-Specific Recommendations might improve with the active participation of local and regional authorities and, to this end, supports the proposal of a code of conduct for the involvement of the local and regional authorities in the European Semester as suggested by the Committee of the Regions; calls on the Member States to ensure a proper democratic scrutiny of their National Reform Programmes in their respective national parliaments;'

4. in this context, highlights that the current public expenditure on investment remains half of what it was before the crisis, which implies that hundreds of millions of euros worth of investments are not taking place each year in Europe's regions and cities;

5. recalls a joint survey by the European Committee of the Regions (CoR) and the OECD in 2015, in which 96 % of respondents representing cities and regions reported having gaps in public investment spending ([3]). This has been reconfirmed by a recent CoR survey ([4]) in which 75 % of respondents at local and regional level said they saw a significant decline in total investments in their city or region between 2008 and 2014 and only one third consider that the situation is getting better now;

6. echoes the OECD ([5]) and IMF's call for a coordinated global fiscal stimulus programme, in view of the currently limited room for manoeuvre in monetary policy, extremely low interest rates and the fact that the fiscal consolidation efforts of recent years have reduced the debt-to-GDP ratios of many countries and now offer room for manoeuvre. To successfully boost activity, the additional public spending should be proportionate and above all clearly focused on investments which favour growth, such as research and development, employee training and green infrastructure;

7. stresses that the potential of strategic investments in cities and regions is much higher than the general pre-crisis trends show, not least due to the extensive knowledge and competence development, drop in interest rates and the opportunities offered by digitalisation, the collaborative and circular economies and the existing scope for getting SMEs more involved in the increasingly global business environment;

8. reiterates that this sustained decrease in overall investment is unsustainable and that low investment is not only slowing down recovery, but also threatens the EU's future potential to grow and innovate by harming long-term economic performance and job creation;

9. stresses that investment in Europe's cities and regions is crucial — for driving sustainable growth and job creation across Europe, as well as sustaining existing jobs which are struggling due to current under-investment; thus urges the need to work on removing the obstacles to reaching pre-crisis investment levels in Europe, and invest in the true potential that regions and cities hold as the powerhouses of Europe;

10. supports the development at global, European and national level of 'patient capital' as part of a long-term approach to funding basic needs which do not fit the logic of annualised public spending or the usual quarterly approach of private finance. The focus in this should be on investing in measures to tackle climate change, on strategic infrastructure, as well as on innovation and access to scarce resources;

11. highlights the importance of having an overall vision on sustainable and smart investment as the key political priority for the 2015-2020 mandate ([6]). This opinion — among others and alongside the Bratislava declaration ([7]) and the CoR action plan on investment — is an instrumental stepping stone in this process;

([3]) CoR, *Results of the OECD — CoR Consultation of Sub-national Governments: Infrastructure planning and investment across level of government: current challenges and possible solutions,* March 2016. Available online here.

([4]) CoR, *Results of the CoR online consultation on obstacles to investments at local and regional level*. September 2016. Available online here.

([5]) See the Global Economic Outlook presented by the OECD on 28 November 2016: https://www.oecd.org/eco/economicoutlook.htm

([6]) CoR, *The political priorities of the European Committee of the Regions 2015-2020,* October 2015, Available online here.

([7]) CoR, *A fresh start for Europe: Regions and cities launch an investment plan for a citizen-centred EU:* http://cor.europa.eu/en/news/Pages/Regions-and-cities-launch-investment-plan-for-a-citizen-centred-EU.aspx and CoR Bratislava declaration 'Invest and Connect', July 2016 — available online here.

A holistic approach to investment in our regions and cities: the role of cohesion policy, the investment plan and other financial instruments

12. welcomes the initiatives of the European Commission and the European Investment Bank (EIB) and their crucial focus on boosting investment, and recalls the fruitful cooperation between the EIB and the CoR through their joint Action Plan ([8]);

13. highlights the measures put forward by the European Commission and the European Investment Bank (EIB) on implementing financial instruments involving several regions, as they contribute significantly to increasing liquidity in the markets and generating investment;

14. underlines that European investment tools can have a positive impact on public funds, notably in terms of prior administrative capacity, particularly where revenue-generating projects are concerned; which is why such tools should move towards the use of loans, innovative financial instruments and innovative public procurement; however, also highlights the role of grants as a crucial financial instrument in regions and cities for projects which address situations of market failure, or which do not generate sufficient revenues to attract investors;

15. stresses the importance of cohesion funding, which needs to continue to be the backbone of EU investment policy and to enhance partnership between European regions as a true expression of cooperation and solidarity: the future of cohesion policy is linked to the future of the EU. We therefore need to secure the role of cohesion policy in the EU beyond 2020 ([9]);

16. reiterates the need to assess all forms of funding: the MFF, Cohesion policy and ESIF, the Juncker Plan and EFSI as well as other financial instruments: they all have unique but not opposite philosophies and therefore should act complementarily, while operating in synergy where and if needed;

17. welcomes the principle of the extension of the EFSI ([10]) in terms of both duration and financial capacity, which provides an opportunity to fine-tune the existing procedures; notes however, that to make EFSI 2.0 a bigger success, the synergies with the European Cohesion Policy through ESIF need to be further clarified; considers that EFSI shall not be designed to replace existing EU cohesion policy instruments; given their role in proposing and planning medium- and long-term investments, calls for regional and local authorities to be more closely involved in the management of this fund, in particular in the establishment of financing platforms at regional or multi-regional level;

18. demands that more detailed information be made publicly available on EFSI-financed projects, in particular highlighting their additionality and complementarity when applicable. The CoR's closer involvement in the reporting and monitoring exercises helps the information flow between regions and cities; in this sense stresses the need to ensure a true additionality of projects financed through EFSI, in particular with respect to the use of funds from the EU budget, such as the Connecting Europe Facility and Horizon 2020;

19. calls for the EFSI not to be financed by other funds or competing programmes;

Obstacles to reaching the full investment potential of the EU's cities and regions

20. points out that tackling obstacles to investment involves far-reaching reforms at all levels of governance, aiming to remove administrative, regulatory and other types of barriers that deter investors, in order to improve the investment environment;

([8]) CoR, *EIB and Committee of Regions intensify cooperation to boost Europe's economic recovery*, September 2015, Press Release available here.

([9]) Draft *Opinion on the future of cohesion policy beyond 2020* 'For a strong and effective European cohesion policy beyond 2020' by rapporteur Dr Michael Schneider (EPP/DE).

([10]) For the CoR's position on the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub, please consult: the draft CoR opinion *EFSI 2.0* by rapporteur Wim van de Donk (EPP/NL).

21. recalls that investments at local and regional level are made across various cross-cutting sectors such as infrastructure, transport, education, research and innovation, environment, healthcare, social services, and other forms of societal and human capital, imperative to increasing the long-term impact of strategic investments;

22. observes that LRAs can be catalysts bringing together different public and private actors for investment projects, in particular in the case of larger projects or public-private partnerships; considers, however, the need to further promote cross-border connections and multi-level cooperation by actively promoting cross-regional investments to speed-up the Pan-European Single Market, in particular through the development of the Capital Markets Union (CMU), while at the same time continue to address regulatory and administrative challenges, through the EC's Better Regulation agenda, as a way of ensuring that policy objectives are reached in the most effective and least burdensome way;

23. highlights the importance of regional smart specialisation strategies as vehicles to co-create European partnerships for bench-learning and orchestrating high-quality multi-stakeholder and multidimensional investment projects; in this contexts underlines that tackling obstacles to investment can go hand in hand with the EU wide implementation of regional innovation strategies based on Smart Specialisation (RIS3), which can be a useful tool to focus policy support and investment on key priorities and challenges and thus stimulate private investment;

Territory related obstacles: heavy regulatory burden

24. points out that a significant share of obstacles to investment outlined in the European Semester are 'territory related' in the sense that they either are relevant to the functions of LRAs as regards investment, or there is potential for LRAs to contribute towards easing or removing them;

25. as a result, the current obstacles to investment might often have their roots — but consequentially also their solutions — at the local and regional level and within transnational cooperation;

26. stresses, however, that there is a great deal of diversity across Member States in investment patterns and barriers to investment, and therefore no one-size-fits-all solution exists;

27. observes that this is mainly due to the various different roles of LRAs in relation to investment: first and foremost, cities and regions are *investors*, as they are responsible for more than half (54 %) of EU's public investment. These investments are made in diverse and complementary sectors and functions: human capital, skills, education, healthcare, and many more. Cities and regions are thus *providers and enablers of services*. LRAs are also *planners*, given that they lead development strategies and by planning ahead, LRAs can focus policy support and investment on key priorities and challenges, and thus stimulate investment. Cities and regions are change *catalysers and regulators*, with regards to spatial planning and construction permits for instance. Finally, they are *investment partners*, bringing together different public and private actors for the realisation of investment projects ([11]);

28. welcomes the focus of the European Commission on the identification of such obstacles and challenges to investment in the European Semester, from the Annual Growth Survey (AGS) and its list of investment challenges to the Country Reports (CR) and Country Specific Recommendations (CSR); however, with a view to contributing to a more quality-focused EU approach to public spending, supports the proposal that under the European Semester CSRs should also contain minimum public investment targets, particularly in relation to current expenditure ([12]);

([11]) The multi-faceted roles of local and regional authorities with regards to public and private investment are explored in more details in a study commissioned by the CoR. See in particular Chapter 4: Metis GmbH, *Obstacles to investments at local and regional level*, Study commissioned by the CoR, 2016. Available online here.

([12]) This proposal would be in line with the recommendations made by the European Parliament in November 2012 in its Resolution on 'Social Investment Pact — as a response to the crisis'[1]: Report by Danuta Jazłowiecka (PL/EPP): http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0419+0+DOC+XML+V0//EN

29. reiterates in this regard its call for the European Commission to present a White Paper setting out an EU-level typology for quality of public investment in the accounts of public expenditure according to its long-term effects ([13]);

30. also points to its proposal ([14]) for the European Commission to officially approve the recommendation by the Organisation for Economic Cooperation and Development (OECD), which sets out a series of principles for public investment ([15]) (March 2014); welcomes the fact that throughout the areas of policy action (coordination of public investment, capacity-building, setting of framework conditions), the recommendation recognises the important and growing role of regional and local authorities in planning and implementing public investment;

31. highlights that of the 178 territory-related issues raised in the 2016 CRs spread across all countries and policy areas, almost 60 %, address obstacles to investment, mainly consisting in burdensome horizontal and sectoral regulations, insufficient quality of public administration, specific barriers in the labour market as well as in the market of funding for small and medium-sized enterprises ([16]);

32. underlines that the recent CoR survey of local and regional authorities reconfirms that burdensome rules affecting the investment and business environment, labour market, retail trade and other areas, as well as costly/long/burdensome administrative procedures to launch, extend or close an activity, and judicial procedures being too slow or burdensome, are indeed deemed obstacles to investment by approximately 9 out of 10 respondents;

33. recommends that the identification of challenges to investment remains a principal focus of the European Semester, including yearly updates of the Challenges to Member States' Investment Environments presented alongside the AGS for the first time in November 2015;

34. urges for a stronger and more structured involvement of local and regional authorities in the European Semester to effectively address these territory-related challenges to investment; calls on the European Parliament to involve the CoR in this process by active participation at the inter-parliamentary meetings on the European Semester;

Lack of administrative capacity at local and regional level

35. recalls the need for further simplification of EU shared management funds, in particular with regards to the use of financial instruments highlighting the importance of increasing administrative capacity and institutional expertise of public authorities by bridging the EU's investment gap;

36. observes that the respondents to the CoR survey on obstacles to investment ([17]), most of them representing local or regional authorities themselves, highlighted administrative capacity of LRAs as a challenge to investment in their city or region. Indeed, the capacity to get involved in public private partnerships (PPPs) was deemed a challenge or major challenge to investment by 71 %, while 70 % said it was a challenge or major challenge to managing public procurement, in particular more complex procedures ([18]);

37. points out that lack of administrative capacity is not limited to a few of the EU's less developed Member States and regions, since in the 2016 CSRs, 20 out of 28 Member States were addressed recommendations to improve the quality of public administration, including at subnational level ([19]);

([13]) CoR opinion on Promoting quality of public spending in matters subject to EU action (CdR 4885/2014 — rapporteur: Catiuscia Marini (IT/PES), 3 December 2014).

([14]) Ibid.

([15]) http://www.oecd.org/gov/regional-policy/oecd-principles-on-effective-public-investment.htm

([16]) CoR, *Territorial Analysis of the Country Reports and accompanying Communication*, Report of the Steering Committee of the Europe 2020 Monitoring Platform. May 2016. Available online here.

([17]) See footnote 4.

([18]) See footnote 4.

([19]) See footnote 16.

38. urges the Commission and Member States to step up efforts to cut administrative burdens and also develop new initiatives and strengthen existing ones in order to increase knowledge, skills and competencies needed for public-private partnership processes and administrative efficiency, in particular that of local and regional authorities, and especially considering the multiple roles they play with regards to investment (planner, investor, investment partner, regulator, provider and promoter/facilitator);

39. highlights that strategic investments in complex global settings call for new types of administrative and managerial capacities to enhance future business model development and value creation, engaging the for-profit and non-profit organisations in the local and regional value creation ecosystems;

40. highlights that effective tools to increase administrative efficiency include competence development by the help of exchanges, expert missions, study visits and workshops between LRAs as peers; also refers in this sense to the model used by the 'TAIEX REGIO PEER 2 PEER' tool ([20]), which deserves to be emulated and broadened;

41. stresses the difficulty to effectively make use of financial instruments regarding the administrative capacity of local and regional authorities, as highlighted by the CoR survey ([21]); commends in this regard, the establishment of the Fi-Compass platform ([22]), as well as the Commission's 'off-the-shelf' financial instruments ([23]), both of which are valuable initiatives in particular for LRAs with larger administrative capacity challenges; encourages LRAs to make use of these tools to mobilise further private and public resources for their investment projects; and stresses the Committee's readiness to work together with the European Commission to facilitate and promote this initiative;

Lack of awareness in regards to funding, financing and investment opportunities

42. underlines that, while the local and regional authorities have a crucial role to play in successful implementation of EFSI, they have little awareness of it. A CoR survey of LRAs found that only 7 % of respondents considered themselves 'well informed' about how EFSI could be used in their city or region, with a further 18 % somewhat informed, while 35 % declared they had only basic information, and 39 % considered themselves 'not informed' ([24]);

43. highlights that this lack of awareness extends to other initiatives associated with EFSI: 73 % of respondents to the CoR survey stated that they were 'not informed' about the possibility of setting up investment platforms to finance investments in their city or region with support from EFSI, while only 2 % stated they were 'well informed' about the European Investment Project Portal or the European Investment Advisory Hub ([25]);

44. calls on the Commission and EIB to do more to improve the awareness and understanding of the EFSI and associated initiatives such as the advisory hubs of public and private actors at local and regional level, as the current situation threatens the success of the Investment Plan;

45. suggests working with LRAs, the CoR, its networks, and national and regional promotional banks and other institutions, in order to identify national and regional examples of successful projects and affirms the CoR's readiness to support the bench-learning potential of regions and cities through exchange of best practices, thereby creating a critical mass of beneficiaries and managing authorities;

([20]) More information on the TAIEX REGIO PEER 2 PEER tool: http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/taiex-regio-peer-2-peer

([21]) Two thirds of survey respondent stated that using innovative financial tools, including financial instruments, was a challenge or major challenge to investment in their city or region. CoR, *Results of the CoR online consultation on obstacles to investments at local and regional level*. September 2016. Available online here.

([22]) More information on the Fi-Compass platform can be found here: https://www.fi-compass.eu/

([23]) More information on the off the shelf products can be found under 'EC Regulatory Guidance' here: https://www.fi-compass.eu/resources

([24]) See footnote 4.

([25]) See footnote 4.

46. welcomes the European Commission's efforts to increase awareness of financing possibilities during their investment roadshows in Member States;

47. points out a mismatch of advisory and awareness raising strategies, and is concerned that the sole advisory role of existing hubs could be insufficient to identify and attract new projects in regions that have low awareness of investment opportunities;

48. stresses that it should be ensured that the EFSI does not increase disparities in terms of cohesion within the EU, services and incentives should be put in place to address the geographical imbalance, including broadening the range of general objectives eligible for EFSI support, improving or even decentralising advisory and expert services and strengthening the role of the European Investment Advisory Hub, as well as making better use of the European Investment Project Portal, which aims at bridging the gap between EU project promoters seeking financing and investors across the globe seeking investment opportunities;

Economic governance and fiscal framework

49. underlines that, in order for our economies to attract more investments and capital, fundamental changes regarding the economic and fiscal framework are necessary, which need to be coupled with increased efforts to remove regulatory obstacles; even though economic governance and fiscal rules may not be directly considered an element of the investment environment or an obstacle to investment, they form an overarching framework in particular from the perspective of public investment;

50. is deeply concerned that public investment is often cut in times of crisis, since it is less visible and politically easier to decrease than many other types of public spending, in particular the fundamental investments in human capital, health and education that deliver high long-term returns; therefore stresses that future sustainable growth and well-being are dependent especially on improving the economic climate for start-up and growth companies as well as attracting private investments and maintaining long-term public investments which should be preserved even in times of fiscal consolidation;

51. observes that — even though the CoR supports a strong rules-based approach to fiscal policy — renewing public investment could be difficult within the constraints of the current fiscal rules, and thus stresses the need to look into a more favourable approach to investment, in particular but not limited to PPPs, that ensure both a full application of fiscal rules, while at the same time seek to maximise investment opportunities in Europe's regions and cities;

52. a good solution could be found within the current fiscal framework, notably in the debt brake of a structural deficit for the medium term objective (MTO) contained in the SGP and the Fiscal Compact. To ensure there is enough room to invest while respecting the fiscal rules there should be a fixed real deficit for public investments for local and regional governments; which would not be counted as part of the structural deficit to be measured against the MTO;

53. recalls, in this context, its opposition to the suspension of the ESIF as a direct consequence of macroeconomic conditionality in the framework of the Stability and Growth Pact, since this would have negative effects on the implementation of EU co-funded projects, and more broadly worsen the investment situation of the Member States and regions concerned;

54. reiterates the demand for public spending by Member States and local and regional authorities under ESIF and EIB co-financing not to be included in structural expenditure as defined in the SGP, given that such investments are by definition of general European interest and have a proven leverage effect when it comes to fostering economic growth;

Looking for solutions: increasing the potential for local and regional investment

55. recalls that the CoR's top priority is to kick-start the EU's economy based on a bottom-up approach by stimulating targeted investment based on local needs, drawing on best practices at grass-roots level and encouraging a new entrepreneurial spirit; and stresses the need to create an innovative and entrepreneurial Europe that is citizen-focused;

56. stresses the CoR's commitment to support cities and regions to perform all of their roles better: by facilitating peer-to-peer practices tying together knowledge and stimulating match-making in increasing European partnering to, build up the necessary capacity to co-create high-quality and complex projects by using financial instruments, ESIF and EFSI, as well as others;

57. highlights the importance of data on currently existing investment projects at grassroots level, which is currently underdeveloped but is of great added value to all levels of governance; proposes, therefore, the establishment of a European Scoreboard on local and regional investment and calls on its members to share their projects, testimonials and concerns, in order to establish such a database;

58. highlights the need to continue the EU's work on cutting excessive red tape, in order to make the investment environment more accessible for new — but also already existing — businesses; underlines that, even though cities and regions can do much at their level to lighten regulatory burden, their actions must be complemented by initiatives at the national and European levels;

59. reiterates that investment is not just about transport and other infrastructure, but also needs to be targeted at human capital, skills, education, research and innovation, smart energy networks, housing, social and health facilities, and in support for the start-ups and scale-ups of innovative and dynamic enterprises;

60. recalls that investment plans should aim at creating a greener, smarter, more inclusive and more territorially-balanced economy for the EU to remain competitive on the global scene;

61. is committed to look for solutions with the private sector for more investments in cities and regions, which is also the key political message coming out of the Bratislava Declaration 'Invest and Connect' adopted by the CoR on 8 July 2016 ([26]).

Brussels, 8 February 2017.

The President
of the European Committee of the Regions

Markku MARKKULA

([26]) See footnote 7.