



Committee of the Regions

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**OPINION
of the
Committee of the Regions
on
THE EUROPEAN ECONOMIC RECOVERY PLAN AND THE ROLE
OF LOCAL AND REGIONAL AUTHORITIES**

THE COMMITTEE OF THE REGIONS ISSUES THE FOLLOWING RECOMMENDATIONS:

- welcomes the clear message of EC President Barroso at the G-20 summit in London on 2 April 2009, where he underlined the importance of five coordinated actions for the economic recovery: the world-wide coordination of fiscal stimuli; the creation of lasting demand with confidence stimuli; thirdly the need for a global governance stimulus; fourthly trade stimuli; as well as development and climate change stimuli
- in view of the expected asymmetric impact of the crisis across different regions, underlines the importance of the aim of territorial cohesion in the context of the proposed measures to save or create jobs and to stimulate economic activity
- supports the European Union's approach of providing the massive support needed for economic recovery both by seeking to boost purchasing power and through measures in the key areas of the Lisbon Strategy (competitiveness and innovation, sustainable development and social cohesion)

Rapporteur:

Mr Dietmar Brockes (DE/ALDE), Member of the North Rhine-Westphalia Landtag

Reference document

Communication from the Commission to the European Council on *A European Economic Recovery Plan*

COM(2008) 800 final

I. GENERAL

The Committee of the Regions:

1. is extremely concerned about the rapid deterioration of the economic situation in the EU Member States and in their regions and municipalities as well as the fact that the crisis has had a huge impact on the entire world economy;
2. is pleased that the European Commission has rapidly put together an economic recovery package in response to the global financial and economic crisis, and at the same time notes that the economic forecasts on which the package is based have already been revised downwards in the light of development;
3. welcomes the clear message of EC President Barroso at the G-20 summit in London on 2 April 2009, where he underlined the importance of five coordinated actions for the economic recovery: the world-wide coordination of fiscal stimuli; the creation of lasting demand with confidence stimuli; thirdly the need for a global governance stimulus; fourthly trade stimuli; as well as development and climate change stimuli;
4. stresses that the global financial and economic crisis represents a test for the market economy; and therefore calls on all those bearing responsibility in the economic sphere, to react to the crisis with determination and in a cool-headed way, and to give courage to the citizens by setting good examples;;
5. sharply criticises the excesses of the financial capital sector as evidenced by its use of leveraging and derivatives such as collateralised debt obligations, asset backed securities and credit default swaps, as well as the lack of control of national, European and international supervisory authorities and institutions, and the weakness of the financial regulation;
6. calls on the EU Commission and the Member States, in the forthcoming discussions on a new worldwide financial order, to push for a proper and effective overhaul of the entire financial system (including investment banking, hedge funds and private equity) that will prevent a recurrence of these excesses. This must include:
 - an end to the system of conduit banks and the setting of obligatory crisis-safe basic capital quotas for financial institutions,
 - the prohibition of such derivatives which, by the nature of their structure, cannot be regulated or contain unpredictable systemic risks in spite of regulation,
 - the prevention of incentive systems in the financial sector (bonuses, tax benefits etc.) that promote systemic risks,
 - a public set of articles of association for credit rating agencies and internationally organised monitoring of such bodies;

7. is more than ever convinced that the real economy and its financial system have to serve the people; considers that regulation and control in particular of the rules under the Basel II Accord need to be extended to all actors of the financial system, also including hedge funds, private equity and other non-regulated financial bodies;
8. considers that the structural and fundamental reform of the global financial system is just as important as the measures to support the economy taken by the EU and the Member States as a result of the current economic crisis; new confidence in the financial markets will prevent the entire market economy from falling into lasting disrepute. Only a clear, effective, understandable, and well-communicated correction of the current turbulence on the parts of the financial markets will re-create this confidence;
9. considers that extraordinary times call for extraordinary measures; the important thing now is to act quickly, putting aside established ways of thinking and upholding the Maastricht criteria in their revised form and to improve the flexibility of the Stability and Growth Pact's criteria for public finances (public debt and deficit);
10. in view of the expected asymmetric impact of the crisis across different regions, underlines the importance of the aim of territorial cohesion in the context of the proposed measures to save or create jobs and to stimulate economic activity;
11. notes that Member States and their local and regional authorities provide the lion's share of the public services that have the most direct impact on people's capacity to deal with the global economic crisis; that in view of the significant budgetary restrictions in the Member States, the capacity of their authorities to perform their tasks will be limited; but that, even under these circumstances, the rule of law must be upheld throughout the European Union and in each Member State, since it is the cornerstone of citizens' trust in government;

General assessment of the European Economic Recovery Plan

12. welcomes the fact that the European Commission has drawn up the European Economic Recovery Plan swiftly and decisively in order to put a stop to the downward economic spiral;
13. emphasises that the EU Member States must act as a Community in this crisis and cannot relapse into nationalistic and protectionist behaviour;
14. underlines, therefore, the need for close EU coordination and a decidedly European approach that will provide a common framework for action for national measures that are tailored towards the specific economic situation and capacity of public budgets in individual Member States, keeps a strong view, that affecting basic functions of local governments sector by governments of some Member States disenables substantially those Member States in particular and more widely entire European Union from reaching Lisbon goals and deepens inequalities between development of different European regions;

15. backs the proposals for investment in energy and broadband infrastructure projects presented by the European Commission as part of the implementation of the EU Economic Recovery Plan endorsed by the European Council in December 2008 and in March 2009; considers however that both the limitation of the Commission's margin of manoeuvre to unspent money from the EU budget and the excessively long negotiations with Member States on the use of that money underline the need - as the CoR has also emphasised in its opinion on the budgetary mid-term review¹ - for a structural reform of the EU budget and in particular for its increased flexibility;
16. supports the European Union's approach of providing the massive support needed for economic recovery both by seeking to boost purchasing power and through measures in the key areas of the Lisbon Strategy (competitiveness and innovation, sustainable development and social cohesion);
17. welcomes the 19-20 March European Council's commitment to the renewed Lisbon Strategy for Growth and Jobs and underlines the high topicality of the ongoing work on the future of the growth and jobs strategy after 2010. Recalls against this background that the Committee of the Regions has decided to launch a consultation of the European local and regional authorities on the future of the growth and jobs strategy after 2010²;
18. welcomes the explicit recognition by the 19-20 March European Council of the priority to tackle the social impact of the crisis by "stimulating employment, in particular by promoting the acquisition of the new skills required by new jobs, [... by]) building on solidarity and [by] allowing social protection systems to fully play their role as automatic stabilisers [...]" (Conclusions point 19);
19. regrets that at its last meeting, held in Brussels on 19 and 20 March 2009, the European Council failed to expressly recognise the importance of local and regional authorities in combating the economic crisis.
20. calls on the Commission to advocate long-term reorganisation and stabilisation of the world's financial systems in international negotiations;
21. believes that public investment and financial incentive programmes designed to support economic recovery must also help further the transition to a low-carbon economy, and calls on the Commission and the Member States to frame their economic recovery plans and programmes accordingly. The EU's post-2012 climate projection goals must not be jeopardised by the current financial crisis;

¹ CdR 16/2008 fin.

² <http://www.cor.europa.eu/pages/EventTemplate.aspx?view=folder&id=bb54a097-28c8-4025-88cc-b9f8a63caeb7&sm=bb54a097-28c8-4025-88cc-b9f8a63caeb7>.

22. calls on Member States to quickly draw up national economic recovery plans, if these are not already in force, and to make available the appropriate resources for financial implementation;
23. when national recovery plans are drawn up, it is vital that accurate assessments be made of the long-term economic and social impact of the proposed measures to promote savings in the countries concerned. Ill-thought out measures may produce some small savings, but the losses might well exceed the gains, and could grow still further over time; conversely, indebtedness can limit the room for manoeuvre in national budgets; every item of expenditure must therefore be vetted to ascertain whether it is necessary and economical;
24. urges that the European structural funds be used to accelerate investment and modernise European infrastructure;
25. urges the Commission and Member States to propose additional flexibilities under the EU's structural funds which help resolve current difficulties in accessing public and private sector match-funding;
26. asks the Commission to examine how derogations might, in the short term, offset the mechanisms of financial and budgetary rules that may, under current circumstances, serve to intensify the crisis;
27. calls on the Member States, in particular those of the Eurozone, to explore the possibility of a comprehensive European loan, and other possibilities guaranteed jointly by all Member States;
28. supports the recent Commission proposal to give more flexibility to the European Globalisation Adjustment Fund so that this instrument can be used effectively in mitigating the negative effects of the crisis on the labour markets; recalls in this context that it had suggested many of the changes now proposed by the Commission already in its original opinion on the EGAF in 2006 and welcomes the fact that these suggestions are now being taken up;

Regional and local dimension of the economic crisis

29. points out that many public grassroots infrastructure and development projects are implemented at local and regional level by the relevant local and regional authorities; they are responsible for one third of public spending and for more than two thirds of public investment in the EU;
30. would like to draw attention to the fact that many local and regional authorities have become involved, in recent years, in cross-border leasing arrangements for vital infrastructures, many

of which are now under threat because of the financial crisis and the insufficient information on which many of them were based. Many of these schemes carry still unquantifiable financial and legal risks and therefore concerted action might be necessary in order to limit the potentially very harmful consequences for citizens of problems caused by such schemes;

31. calls on the Council, the Commission and Member States to take account of the important role of local and regional authorities in overcoming the economic and financial crisis; calls Member States to avoid direct budget cuts from local government sector, which has already suffered from decreased incomes resulted by economic crisis;
32. draws attention to the best practices of several Member States, which in regardless of economic situation have found ways to support local governments for compensating their increased needs for public services by providing to local governments additional loans and extra funding;
33. notes that past consolidation efforts, insofar as they were detrimental to public net investment, allowed public capital stock to diminish; therefore there is now a need to catch up as far as public investment is concerned, primarily at local and regional level, in terms of public infrastructure, roads, kindergartens, schools, universities, hospitals, installation of cabling for broadband services, energy efficiency, etc.; on the other hand, consolidation efforts geared to curbing consumer spending must be stepped up in order to pre-empt debts and leave future generations with room for manoeuvre;
34. asks the Commission to submit a proposal for rules on the granting of microcredit within the EU. This proposal should seek to establish basic parameters for awarding microcredit so as to avoid any distortions of competition and make it easier to secure cross-border access to microcredit and co-financing from the EU budget. In this regard, the Committee of the Regions backs the Jasmine initiative announced by the European Commission and the European Investment Bank in September 2008;

Contribution of local and regional authorities to overcoming the crisis

35. stresses that measures to boost the economy must be taken at all regional levels of the EU in accordance with the subsidiarity principle; it would be appropriate in principle to adopt additional measures that can be implemented quickly in order to boost demand without delay; advance payment of EU funds would, among other things, help to ensure that measures begin to be implemented quickly;
36. thinks that measures must also prove to be worthwhile over the long term and effective within the framework of the Lisbon Strategy; not only the measures themselves, but also the follow-up costs must be fundable;

37. calls on the Commission to ensure that procedures for awarding contracts in the low-investment area, especially for regional and local authorities, are simple and flexible. This will ensure that funds flow quickly and SMEs and craft businesses can obtain contracts more speedily, helping them to safeguard jobs;
38. welcomes the fact that the Commission has made proposals to speed up and simplify procedures for administering structural funds in Member States; only if these procedures are simplified significantly can infrastructure projects be implemented and paid for quickly using structural funds;
39. stresses that the European Commission must step up its efforts in this direction and consider the possibility of revising the institutional framework of cohesion policy more broadly in order to make its implementing procedures simpler and more flexible (management, monitoring, checks) with a view to making investment substantially more attractive and speedy;
40. asks the Commission for its cooperation and support in answering the question as to how local and regional authorities with limited finances may participate in the programmes, not least with the objective of cohesion in mind; It has to be considered whether new co-financing rates are to be elaborated, aiming at making use of EU-funding easier;
41. therefore asks the Commission to take action that supports local and regional authorities, and SMEs, to more easily access or provide match-funding as appropriate. Although the CoR welcomes the initiative to increase pre-financing to EU projects, the current difficulties in securing significant co-financing will limit what can be achieved in practice;
42. stresses that special support measures at regional and local level in regions with faster-growing unemployment rates should be considered; In this context, a possible review of the regional State aid map should be considered;
43. urges that measures be selected in such a way that they benefit small and medium-sized enterprises;
44. expects the Commission to calculate the value of grants in a way that is appropriate to the financial crisis, especially for small and medium-sized enterprises; points to the particular need to boost and provide for mutual guarantee and risk capital schemes, on an extraordinary, urgent basis, in order to make it easier for SMEs to access suitable funding, especially in the current situation which affects them particularly;
45. believes it is essential to provide comprehensive support for measures relating to vocational training and skills, and asks the Commission to consider proposing additional flexibilities to allow regional development programmes to re-profile their spending to support European Social Fund priorities, such as re-skilling and reducing unemployment;

46. points to tried and tested tools such as offers of consultation, network-building, information centres providing effective support for businesses in difficulties; the focus of the measures should be chiefly small and medium-sized enterprises, which in spite of having a solid basis are affected by the economic crisis; it is these enterprises that will help to boost the recovery once the crisis is over;
47. calls on the Commission to carry out an initial assessment in June and check the extent to which measures applied at both Community and Member State level have taken effect and whether a second programme is necessary;
48. urges that the regions assess the implementation of measures within the framework of the best practice approach;
49. instructs its president to forward this resolution to the European Commission, the European Parliament, the Council and the Member State holding the EU Council presidency;
50. draws attention of the European Commission to the need for assurance unconditional compliance of European Charter of Local Self-Government by all Member States.

Brussels, 22 April 2009

The President
of the Committee of the Regions

Luc Van den Brande

The Secretary-General
of the Committee of the Regions

Gerhard Stahl

II. PROCEDURE

Title	The European Economic Recovery Plan and the role of local and regional authorities
Reference(s)	COM(2008) 800 final European Economic Recovery Plan
Legal basis	Article 265 of the Treaty
Procedural basis	
Date of Commission referral	28.11.2008
Date of Bureau decision	16.01.2009
Commission responsible	Commission for Economic and Social Policy
Rapporteur	Dietmar Brockes, Member of the North Rhine-Westphalia Landtag
Analysis	-
Discussed in commission	19 February 2009
Date adopted by commission	19 February 2009
Result of the vote in commission	Adopted by majority
Date adopted in plenary	22 April 2009
Previous Committee opinion	<ul style="list-style-type: none">- Statement of President Luc van den Brande on behalf of the Committee of the Regions on the financial crisis and the impact for the citizens and for the regions and cities in Europe, 9 October 2008- CdR 397/2008 Resolution of the Committee of the Regions on the financial crisis, 26/27 November 2008