

EUROPEAN UNION



Committee of the Regions

ECOS-043

Brussels, 6 December 2005

OWN-INITIATIVE OPINION
of the
Committee of the Regions
of 16 November 2005
on
Competitiveness and decentralisation

THE COMMITTEE OF THE REGIONS,

Having regard to the decision of its Bureau of 21 January 2005, under the fifth paragraph of Article 265 of the Treaty establishing the European Community, to instruct its Commission for Economic and Social Policy to draw up an opinion on this subject;

Having regard to the Report from the High Level Group chaired by Wim Kok on *Facing the Challenge: The Lisbon Strategy for growth and employment (November 2004)*;

Having regard to the Communication from the Commission to the Spring European Council 2005, *Working together for growth and jobs: A new start for the Lisbon Strategy* (COM(2005) 24 final);

Having regard to the Commission Communication *Better Regulation for Growth and Jobs in the European Union* (COM(2005) 97 final);

Having regard to its opinion on the Commission Communication on the *Mid-term review of the Lisbon Strategy* (CdR 152/2004 fin)¹;

Having regard to the resolution of the Committee of the Regions on revitalising the *Lisbon Strategy* adopted on 24 February 2005 (CdR 518/2004 fin)²;

Having regard to the Wrocław Declaration adopted at the European Summit of Regions and Cities held in Wrocław, Poland, on 19 and 20 May 2005 (CdR 158/2005);

Having regard to its draft opinion on the *Integrated guidelines for growth and jobs (2005-2008)*, including a Commission recommendation on the *Broad guidelines for the economic policies of the Member States and the Community (under Article 99 of the EC Treaty)* and a Proposal for a Council Decision on *Guidelines for the employment policies of the Member States* (CdR 147/2005 fin);

Having regard to the Commission Communication (COM(2000) 196 final) on *Acting Locally for Employment – A Local Dimension for the European Employment Strategy*;

Having regard to the Commission Communication (COM(2001) 629 final) on *Strengthening the local dimension of the European Employment Strategy*;

¹ OJ C 43, 18.2.2005, p. 1.

² OJ C 164, 5.7.2005, p. 91.

Having regard to its opinion on the Commission Communication on Acting Locally for Employment - a Local Dimension for the European Employment Strategy (CdR 187/2000 fin);

Having regard to its draft opinion CdR 23/2005 rev. 2 adopted on 23 September 2005 by its Commission for Economic and Social Policy (Rapporteur: **Mr Anders Gustâv**, Mayor of Solna (SE/EPP)).

Whereas:

- 1) it is essential that local and regional authorities have the necessary powers and administrative and budgetary resources to play their natural role of promoting and managing competitiveness, innovation and cohesion policies, for the benefit of regional and local development;
- 2) decentralisation that is geared to the specific characteristics of each Member State enhances autonomy and local and regional democracy. It also goes some way to responding to public fears about globalisation and economic and social changes in the wider world;
- 3) tripartite contracts between European, national and regional levels, taking account, depending on the case, of the urban problems involved, are good instruments for ensuring better involvement and better sharing of responsibilities by all players concerned, in implementing European regional policy;
- 4) the challenges of a globalised economy, addressed in the *partnership for growth and jobs* laid down at the Brussels European Council on 23 March 2005 to revive the Lisbon Strategy could be met more effectively via a bottom-up approach drawing regional and local authorities into the framing and implementation of the national programmes that will flow from it, given their major role in creating an environment conducive to economic growth;

adopted the following opinion at its 62nd plenary session, held on 16/17 November 2005 (meeting of 16 November 2005).

1. Committee of the Regions' views

The Committee of the Regions

1.1 Competitiveness is improving in the regions, towns and municipalities

- 1.1.1 **notes** that the European Council's objective for the Lisbon Strategy was that the EU would improve competitiveness and growth, create more and better jobs and ensure sustainable ecological and social development. The European Union would become the world's leading economy by 2010. Five years after the Lisbon summit, the European Commission notes that very little has been achieved. The Lisbon Strategy therefore needs to be relaunched, and the Member States given more responsibility for implementing the strategy;

1.1.2 **delivers**, against this background this own-initiative opinion on decentralisation and competitiveness. The aim is to show the importance of decentralisation to competitiveness and to identify the key local and regional factors that help to boost competitiveness and growth. The Committee of the Regions does not believe that strong competitiveness and sustainable development are mutually exclusive. Contributing to sustainable development is a shared responsibility for all countries, citizens, municipalities, cities and regions. The fact that the opinion focuses on competitive conditions is in no way intended to disregard efforts to achieve sustainable development;

1.1.3 **underlines** that the key factors for increased competitiveness identified in the opinion are ones that municipalities, cities and regions have the power to influence. It is important to introduce a micro-perspective to the competitiveness debate and to show how the local and regional level in Europe can contribute to it specifically. Consequently, the opinion also suggests specific competitiveness boosting measures that can be adopted at local and regional level.

1.2 **Europe needs more entrepreneurs and successful small businesses**

1.2.1 **notes** that the post-war decades saw remarkable development in Europe. Production per inhabitant in Western Europe rose from 40% of the US level at the end of the war to 70% in 1970, a relative level that has remained unchanged ever since. Growth and the expansion of welfare systems went hand in hand and the recent problems experienced in funding welfare have coincided with lower growth;

1.2.2 **stresses** that post-war development created many major world-leading companies with good prospects, but they cannot single-handedly deliver a competitive Europe. What Europe needs is not just for today's competitive companies to keep up with global competition; it also needs new companies that can branch out and replace the jobs that disappear when other companies are forced out by competition, relocate abroad or cut back on production;

1.2.3 **notes** that most new companies start out as small-scale local businesses. The local enterprise culture, attitudes towards enterprise and the availability of staff, skills and finance are of major importance to the number of new entrepreneurs we can expect to see.

1.3 **Competitiveness is built from the bottom-up**

1.3.1 **considers** that as public players and democratic institutions, the local and regional authorities have an important influence on the soil that companies take root in and the climate that helps them to flourish. They are democratic focal points for businesses and citizens, and the current debate and cooperation efforts to develop the local environment is crucial to development throughout Europe. To highlight the part Europe's municipalities and regions have to play in securing growth is not to detract from the Member States' crucial responsibility, but it does

provide the debate on competitiveness and growth with a much-needed grass-roots perspective, i.e. the level closest to citizens, whether they be employees, entrepreneurs or job seekers. The drive to boost competitiveness therefore needs to be underpinned by subsidiarity and decentralisation. Decisions need to be taken close to those affected by them, and local and regional development potential must be recognised;

- 1.3.2 **notes** that the role of local and regional administration in achieving competitiveness objectives varies between Member States. In those Member States where decentralisation is far advanced and local administration has a relatively independent financial position (a major part of local expenditure is covered directly by personal and business taxes and revenue from charges), there is obviously a strong motive for the local level to promote employment, job quality, entrepreneurship and a favourable business climate, training and innovation services, and the quality of the environment. This has the effect of strengthening the commitment of the local and regional level to implementing competitiveness objectives. Greater "ownership", as called for by the European Council, only comes about through genuine opportunities to participate and exert influence. The fact that local administration is close to the people leads to greater transparency and effectiveness in the realisation of the competitiveness objectives;
- 1.3.3 **emphasises** that the regional diversity that is increasingly a feature of Europe should be seen as an asset. This is a question of building on every region's specific circumstances. These vary considerably between cities, growth regions, upland areas, rural areas, declining regions and restructuring areas. There is no European model that can suit everyone. Growth regions, for example, are extremely important for development throughout the EU and their potential should be recognised. There are always some regions at the top of the growth league, **in any case**, but by building on each region's comparative advantages the leaders can act as a dynamo **and develop regions according to their own circumstances**. Europe cannot afford to let either stronger or weaker regions be hamstrung in their development. Competitiveness and entrepreneurship cannot be improved without building on existing circumstances and opportunities in Europe's regions, cities and municipalities;
- 1.3.4 **underlines** that Europe's regions, cities and municipalities are different but that they all have the potential and responsibility to contribute to greater competitiveness; it is also in their interest to do so.

1.4 **Factors in increased competitiveness**

- 1.4.1 **emphasises** that a dynamic business environment is key to a competitive Europe. The factors contributing to an environment that is conducive to business start-ups and growth have been identified by a number of observers. The Wim Kok Report lists measures to reduce the administrative burden, improve legislation, make it easier to start a new business and create a supportive environment for business. The Commission working paper on *Benchmarking Enterprise Policy*, SEC(2004) 1427, also points out a number of factors such as access to financing and the importance of innovation and knowledge spill-overs. The Commission

Communication on *Better regulation for growth and jobs in the European Union*, COM(2005) 97, also points to the vital importance of legislation to the business environment and consequently recommends less – but more appropriate – legislation;

1.4.2 **considers** that regions, cities and municipalities can often help to bolster the factors that encourage competitiveness. The Committee of the Regions would highlight the following factors that can be most obviously influenced by the local and regional authorities:

- a) **Society's ability to deal with structural change.** The ability to deal with both slow and sudden structural change, such as major business closures, varies. The chances of coping with structural change increase where there is a broad-based, efficient local and regional leadership and a society that promotes continuous learning.
- b) **Attitudes towards enterprise and entrepreneurship.** Some regions are characterised by an enterprise culture that makes them competitive. Even though it takes some time to create such a culture it is fully possible to develop one.
- c) **Appropriateness and implementation of legislation and regulation.** The framework of legislation surrounding business needs to be appropriate and to target clear objectives, and rules and regulations must be implemented objectively and sensitively. This calls for a public administration that is able to promote competitiveness.
- d) **Access to innovation and research results.** More results of research need to be translated into market products and innovation needs to be applied more quickly. This requires a continuous learning society and a local and regional enterprise culture.
- e) **Access to knowledge and staff.** The learning society needs to make access to knowledge easier. Matching job-seekers with employers must be simplified through better access to jobs and a less rigid labour market.
- f) **The role of the local and regional market.** Competitiveness cannot be considered separately from global, European, national, regional or local levels of competition. Making high levels of competition possible in local and regional markets calls for an administration that strives to promote competitiveness. Local and regional administrations have a responsibility to promote efficient local and regional markets.
- g) **Access to financing.** There are fewer and fewer financial institutions focusing on small businesses. This makes it more difficult for small firms to gain access to finance and risk capital. In order to strengthen an entrepreneurial culture, regional intermediaries and services are needed to smooth the way for businesses to access financing.

- h) **The impact of local and regional taxation on enterprise.** Public authorities depend on tax revenue to perform their duties. At the same time, tax levels impact directly on costs, e.g. labour costs. Setting taxation at levels that have the least negative impact on business while safeguarding the income they need is a challenge both for the leadership and the administration;

1.4.3 **underlines** that local and regional authorities account for a significant slice of the EU economy. The way tax and fee-based public measures are dealt with also impacts on European competitiveness. The following factors have specific bearing on the public administration's competitiveness:

- a) **The efficiency of public administration.** Increased public sector productivity has a positive effect on competitiveness. Better use of resources makes it possible to deliver quality services. Striving for efficiency gains calls for a competitive administration that delivers low-cost, quality services.
- b) **Creativity in the provision of services.** In accordance with the principle of subsidiarity, local and regional authorities are free to choose how to provide public services. There are many alternative ways to ensure delivery of high quality services and a sign of a competitive administration is the willingness to constantly assess and explore creative forms of service delivery in order to enhance efficiency.

1.4.4 **considers** that in order to influence increased competitiveness factors, local and regional authorities must rise to the challenge to develop leadership, create an enterprise culture, competitive administration, a learning society, and facilitate access to jobs and services;

1.4.5 **notes** that the extent to which a rural municipality, a region or a city can influence factors in strong competitiveness depends on circumstances such as formal skills, the extent of national legislation, the structure of the business community and many other factors that are key to local or regional policy options. Notwithstanding the major differences in circumstances, it must be stressed that all local and regional authorities in Europe can adopt measures to boost competitiveness. Even in cases where responsibility lies with another body, it is always possible to work for greater interplay with those responsible. The Committee of the Regions offers the following 26 examples of specific measures to boost competitiveness.

1.5 **Specific measures to boost competitiveness**

Competitive leadership

1.5.1 **Shape leadership in a cooperation venture that can handle structural change.** Experience shows that it is necessary to have an open dialogue and broad-based cooperation with all stakeholders. By leadership, we do not just mean political leadership, but the combined

leadership available in a municipality or region. It is a question of contributing – continually and in the long-term – towards interaction and understanding between the various players in the community by clarifying roles and responsibilities. Civil society and businesses are clearly part of this leadership. Cooperation paves the way for strategic development efforts and it contributes to that pooling of knowledge, social network and trust that is the hallmark of successful regions. Local and regional leadership needs to constantly update its common perception of its environment in order to prepare properly for any future structural change.

- 1.5.2 **Put development issues on the agenda.** It is natural that the local and regional debate should focus heavily on publicly-funded services. It is also important to ensure that economic development issues are not neglected. Political leadership has a duty to put development issues on the agenda, and particularly the link between local and regional competitiveness and well-being in a globalised world. Trade has made Europe rich, but today fear of competition often gains the upper hand and people too often fail to see the opportunities. People feel more reassured if development issues are high on the agenda and if politicians speak more of the opportunities afforded to boost prosperity and well-being.
- 1.5.3 **Develop local and regional action plans to boost growth.** National Lisbon plans are being implemented as part of the Lisbon process. But cities, municipalities and regions also need to plan for growth. Irrespective of the different local and regional conditions, action plans must be taken forward in order to boost competitiveness and harness the different comparative advantages in Europe's various regions.
- 1.5.4 **Participate actively and constructively in national and European development policies.** European and national development plans need the active participation of committed local and regional leadership. The different levels in the European Union are interdependent and it is only through constructive cooperation in which the EU, the Member States and the **regional and local** level actively contribute that Europe's full potential can be released. It is especially important in those countries that receive Structural Fund aid from the European Union.
- 1.5.5 **Learn from the best.** One of the keys to success is to be open to the strategies and approaches that can best advance one's own city or region. A useful way to check the status and strategies of one's activity is to compare them with those that have proved successful. Results-focused study visits with the broad participation of businesses, universities and local newspapers are examples of how this type of learning can be organised. Highlighting one's own town's or region's performance through benchmarking should also be welcomed.
- 1.5.6 Recognise that diversity and regional identity are important factors in heightened regional competitiveness. Local and regional leadership needs to work harder to enhance local and regional appeal, building on each region's comparative advantages. Europe's diversity must also be a competitive advantage.

Culture of enterprise

- 1.5.7 **Introduce entrepreneurship in schools.** Help to ensure that lifelong learning does not just mean learning how to be an employee. Introduce entrepreneurship in schools both as a specific subject and as an important part of the curriculum. Learning about enterprise and undertaking traineeships in companies enhances students' understanding of society and increases their potential to choose the type of employment they wish to pursue. Engaging in dialogue with local and regional employers also increases the chances of tailoring learning to labour market needs.
- 1.5.8 **Solid consultancy services for new entrepreneurs and for second-time-around entrepreneurs.** It is important that entrepreneurs who come up with an idea and have the drive to carry it through should have easy access to relevant advice. Employees that choose to work for themselves also need access to information and advice. Furthermore, the experience gained from a failed entrepreneurship may contribute to the creation of a successful one.
- 1.5.9 **Set up "first-stop-shops" for businesses, focusing on advice, support and funding.** Both entrepreneurs and established firms need advice and support. An established entrepreneur needs to work hard to maintain competitiveness and access to professional support and advice is extremely valuable. Support may be required in contacts with the authorities, in which case a "first-stop-shop" can act as a go-between. Access to financing is also very important and a centre to facilitate access to capital could provide valuable help for some entrepreneurs. There are fewer and fewer local banks and, as a result, the banks are less likely to be aware of local conditions. Lack of finance is a national and European problem, but the municipalities and regions can help to mitigate the effects.
- 1.5.10 **Train civil servants in the meaning of "enterprise".** A better understanding of the enterprise culture is needed if local and regional authorities are to help rather than hinder enterprise and entrepreneurship. This is not to call into question the public authorities' commitment or special circumstances; put simply, a civil servant with a broader understanding of society's various parts is better placed to make informed decisions.
- 1.5.11 **Set up consultative councils with entrepreneurs and employee representatives.** Local and regional democracies make independent decisions based on the mandate voters have given them. If decisions are to be taken in the most businesslike way, a continuous dialogue is needed with the different community players and citizens. In order to safeguard employment and boost growth it is important to maintain a dialogue with local and regional businesses and with employees. A consultative council where politicians, businesses and employees can meet could provide a way to strengthen the basis for political decisions.

A learning society

- 1.5.12 **Promote teamwork between educational institutions, companies, organisations and employees.** Learning does not end with school and we need to bolster life-long learning in order to meet new skills requirements. Local learning centres, for example, could provide a better supply-demand match in education. Education needs to be tailored to entrepreneurs and their employees. Significantly more evening courses should be offered, for example.
- 1.5.13 **Expand cooperation with universities and colleges.** It is important to encourage people to enter higher education and to improve the availability of academic education and further training. Generally speaking, cooperation with academia needs improving so that more research will be applicable and meet the needs of business and the public sector. The interplay between academia and the community that is a feature of American universities helps to create growth and municipalities and regions need to strive to enhance this interplay. At the same time, the universities need to be given more incentive to interact.
- 1.5.14 **Help to disseminate research results.** More widespread application of the fruits of research is a challenge for Europe. Contact points for the dissemination of research results and innovation need to be located near companies that can benefit from new knowledge and new ideas.
- 1.5.15 **Promote business clusters.** Companies operating within the same sector and that are geographically close could develop business clusters where services, staff and ideas can flow between companies. Clusters enhance development of best practice and competitiveness through the close interplay between individuals and companies within the same sector and skills area. These should be facilitated through better access to best practice and access to trained staff. Promoting clusters must be an important part of regional and local planning.

Competitive administration

- 1.5.16 **Use spatial planning as an active instrument to boost competitiveness.** Spatial planning is crucial to the type of local market that is created. Planning impacts on access to business premises and freedom of establishment. The way a market operates also depends on the availability of shops and services for customers. Good public communications play an important role here. In Europe there is freedom of establishment but unless local and regional spatial planning is used properly it can, in practice, hinder the establishment of companies. Regional and local planning – whether in rural or urban areas – must be more growth and development-oriented.
- 1.5.17 **Set efficiency improvement objectives for public services.** In Europe, locally and regionally produced publicly funded services account for a significant part of the economy. How these resources are used is important not just in terms of the service citizens receive but

also in terms of competitiveness. Better use of tax revenue has a positive impact on the whole economy and on employment. Continuous efficiency gains in public services enhances public sector productivity and gives more freedom in the choice of tax rates and service levels. In order to increase public sector efficiency gains, good follow-up systems are needed, along with the chance to compare and expand in line with best practice.

- 1.5.18 **Assess the impact of decisions on the enterprise culture.** Public agencies need to take account of the impact of their decisions on different citizens and, for example, on the environment. Just as environmental impact statements are drawn up, the same should be done for enterprise and employment. Existing rules also need to be overhauled in order to eliminate any rules that give rise to unnecessary costs and that hamper business competitiveness.
- 1.5.19 **Assess and explore creative forms of service delivery.** In accordance with the principle of subsidiarity, local and regional authorities should seek to enhance the efficiency of service delivery through assessing and exploring creative forms of delivery, such as outsourcing, which in turn could stimulate local and regional markets.
- 1.5.20 **Improve procurement skills.** Make public procurement an active, transparent instrument for promoting competition. It is important to perfect procurement skills in order to improve quality and consistency in tender assessments. Procurement centres can often be established with several public authorities working together in order to secure a high level of competence.
- 1.5.21 **Promote small businesses in procurement procedures.** While it is important to coordinate cross-municipality procurement skills, it is also important to ensure this does not lead to bundling tenders together into major ventures that are impossible for small businesses to handle. Instead, big tenders should, as far as possible, be divided up into several smaller tenders, which would favour small businesses. The administrative burden in tender procedures is often far too big for small businesses. Tender applications and procedures should, as far as possible, be standardised and uniform regional, national and European standards should be established. The use of information technology both for procurement and smaller buy-ins must be increased.
- 1.5.22 **Greater use of e-administration.** In order to save costs both for citizens, companies and administrations, e-administration needs to be rolled out. Good e-administration improves service, frees up resources for core activities and makes more frequent electronic exchanges of information between public institutions easier.
- 1.5.23 **Increase employment and reduce benefit dependency.** General economic and social policy at regional and municipal level must focus more on employment, giving more people the opportunity to work and reducing benefit dependency. Increasing employment is always the best way to ease social problems. The impact of social policy on employment should be continuously assessed in order to improve procedures. **Technical meetings should also be held to share best practice in this area.**

1.5.24 **Empower the workforce.** Help to empower the workforce by providing more child-care and social initiatives for better integration of unemployed immigrants into working life. In this context, it is important to push for greater equality of opportunity. Equal opportunities in the labour market is very important for growth. Older people of pensionable age who want to continue working also constitute a resource and, rather than being prevented from doing so, this should be welcomed by society.

Accessible jobs and services

1.5.25 **Expand the labour market through better communications.** The economic success of major cities depends in part on the ready availability of labour and jobs, and on the fact that distances are close and communications good. It makes it easier to match job vacancies with jobseekers. For the individual employee, the importance of having access to a large labour market cannot be underestimated. It is therefore important to expand infrastructure and general communications so that access to job vacancies can be improved. Border regions must ensure that commuting across regional boundaries does not cost more than commuting within the region.

1.5.26 **Ensure ease of access to broadband services.** Local and regional authorities can help to ensure that market-driven broadband services are rolled out. Broadband makes services more accessible and facilitates teleworking.

2. Recommendations for increased local and regional competitiveness

The Committee of the Regions

2.1 **undertakes** to keep the debate about local and regional competitiveness alive and urges Europe's municipalities, cities and regions to pursue the debate in their own democratic assemblies. Competitiveness is achieved from a bottom-up perspective, and it is here that this debate – crucial to Europe's future – must be pursued and words turned into action.

2.2 **urges** Europe's municipalities, cities and regions to consider the report's examples of specific measures to boost competitiveness, and to establish local and regional growth plans that target greater competitiveness. The plans should list measures that are appropriate for local and regional circumstances.

2.3 **urges** the Member States to recognise the role played by the municipalities and regions in growth and competitiveness and to simplify matters for local and regional development potential by ensuring the local and regional level has ample room for manoeuvre on development policy. The preparatory work for Member States' national reform programmes should include an evaluation of the role of the local and regional levels in implementing various economic and employment policy guidelines. In this connection, it is important for

cohesion policy to focus on achieving the Lisbon objectives and make specific provision for the practical role of cities and local authorities.

- 2.4 **urges** the Member States and the Commission to recognise the important role played by Europe's growth regions and major city regions in the development of the entire European Union. Regions that are lagging behind need to feel the pull of Europe's economic engines.
- 2.5 **urges** the Commission to vigorously promote European learning on regional growth and competitiveness. Strategic initiatives are needed in order to learn about best European practice and examples from other parts of the world. Thematic benchmarking, where similar regions are compared with each other, should be promoted.
- 2.6 **urges** the Commission to draw up annual regional competitiveness reports describing conditions in the regions with the aim to facilitate thematic benchmarking and best practice. The Committee of the Regions would gladly support the Commission in this work.
- 2.7 **intends** to contribute actively to the preparations for the Spring European Council meeting and to the evaluation of the national action plans.

Brussels, 16 November 2005

The President
of the
Committee of the Regions

The Secretary-General
of the
Committee of the Regions

Peter Straub

Gerhard Stahl
