EUROPEAN UNION

Committee of the Regions

ECOS-V-059

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OPINION

Long-Term Financing of the European Economy

THE COMMITTEE OF THE REGIONS

- stresses that the conditions for financing of the real economy are fundamentally reshaped by the on-going financial, economic and social crisis. Against this backdrop, the public and private long-term investments are increasingly complementary. Indeed, public investment is not only a stimulus for private investment but constitutes most often a prerequisite for setting the appropriate structural conditions of a regional economy and plays a role as an automatic stabilizer, that is to say a countercyclical buffer in times of negative economic conditions;
- feels that regional and municipal banks could play a special role in some Member States in relation to long-term financing, as they have the best knowledge of a given region's economy, and are often in a position to pursue effective and efficient long-term economic financing policies in that region;
- feels that pension funds are the most strongly predisposed to invest resources long-term given that they have long-term liabilities to meet; encourages EU, national and regional institutions to establish guarantee schemes in order to reduce risks and encourage investors to use pension and insurance scheme resources for long-term financing;
- encourages local and regional authorities to carry out structural investments with yields sufficiently high to make cooperation on infrastructure project implementation attractive for infrastructure investment funds.

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Reference document

Communication on Long-Term Financing of the European Economy
COM(2014) 168 final

Opinion of the Committee of the Regions – Long-Term Financing of the European Economy

I. POLICY RECOMMENDATIONS

THE COMMITTEE OF THE REGIONS

1. welcomes the European Commission's communication to the Council and the European Parliament on the long-term financing of the European economy, which represents an acknowledgement of long-time financing as an essential factor in overcoming the economic crisis and putting European business on track towards stable and competitive growth;

2. believes that the actions proposed in the communication will contribute to establish basic principles for the financing of the European economy, which, can stimulate job creation;

3. long-term financing of the European economy will contribute to increase the possibilities for funding of major infrastructure investments, which will make it easier for local and regional authorities to implement these projects;

4. to this end, long-term financing sources should be targeted at economic projects consistent with EU policy objectives and the Europe 2020 strategy, at the same time as reflecting the climate and energy package for 2030;

5. is confident that suitable legal regulation of the European economy's long-term economic financing system will overcome risk aversion among potential investors;

6. calls therefore for an EU policy framework to promote the quality of public investment in matters subject to EU action as outlined in the European Council conclusions from December 2012 which called on Member States and EU institutions to "(exploit) *the possibilities offered by the EU's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives (...) in the preventive arm of the SGP*[1]";

7. stresses that the conditions for financing of the real economy are fundamentally reshaped by the on-going financial, economic and social crisis. Against this backdrop, the public and private long term investments are increasingly complementary. Indeed, public investment is not only a stimulus for private investment but constitutes most often a prerequisite for setting the appropriate structural conditions of a regional economy and plays a role as an automatic stabilizer, that is to say a countercyclical buffer in times of negative economic conditions. Public investment is also about implementing objectives of general interest in areas (such as education, training, research, infrastructure, health, environment…) where public intervention is needed because the wider benefits to society are not matching private investment patterns and thus market failures are likely to lead to under-expenditure;

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1 Conclusions of the European Council of 14 December 2012 on completing EMU, point 2.

8. argues that financing mechanisms should be assessed as part of a complete reform of working life. With the right rules in place, the conditions could be created for a significant reform of working life and job creation enabled by digitalisation. There could also be greater capacity to channel savings through an open, secure and competitive financial sector. In combination, this would boost the competitiveness of the European economy and industry;

BANKING SECTOR

9. underlines that any regulation on capital requirements in relation to liquidity management should take into account the impact of such regulation on banks' capacity to lend at long maturities;

10. feels that regional and municipal banks could play a special role in some Member States in relation to long-term financing, as they have the best knowledge of a given region's economy, and are often in a position to pursue effective and efficient long-term economic financing policies in that region;

11. also points out that - particularly for SMEs - financial reporting systems should be sufficiently transparent and credible to enable banks located outside the company's region of operations to take decisions on financial support;

12. reiterates its support[2] for the proposal to structurally reform the European banking sector[3], by separating financial activity in the form of loans to business from speculative activity. Such regulation should help to limit the use of deposits to finance speculative activities, and to channel funding into the real economy;

INSURANCE SECTOR

13. calls for conditions to be put in place enabling long-term financing of the economy by insurance companies. This could involve investments in infrastructure, SMEs and social enterprises;

14. feels that pension funds are the most strongly predisposed to invest resources long-term given that they have long-term liabilities to meet; encourages EU, national and regional institutions to establish guarantee schemes in order to reduce risks and encourage investors to use pension and insurance scheme resources for long-term financing;

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2 See CoR opinion ECOS-V-055, 26 June 2014.

3 COM(2014) 043.

15. in view of low annual returns on pension funds and long-term insurance schemes, due in part to national fragmentation of markets, urges the Commission to consider creating a new portable European savings product certified by *a European passport for savings/pensions products based on that which already exists for unit trusts.* Such a system should ensure that personal pension products are able to provide secure and efficient financing of long-term investments;

16. feels that public finances are not yet being sufficiently harnessed, a situation reflected in excessively low returns on public investments and the limited leverage capacity of private investments, reducing their contribution to economic growth;

CAPITAL MARKETS

17. feels that as part of efforts to diversify financing sources for the European economy, the best possible conditions must be put in place for the development of European capital markets, with financial instruments structured so as to enable investment in listed SMEs;

18. believes that knowledge on the functioning of capital markets must be disseminated among entrepreneurs and potential investors. In this connection, EU institutions and agencies will have to work together with national and regional institutions on current measures to enhance scope for capital to support the economy, including SMEs;

19. draws attention to the development of private equity markets in some EU countries, and to the growing number of European issuers on the US private equity market. Calls on the European institutions to adopt rules removing the barriers inhibiting the development of such markets, particularly in relation to information concerning issuers;

20. calls on the Commission to speed up work on defining EU rules on credit rating and assessing the feasibility of harmonising/increasing the comparability of SME data across the EU;

INFRASTRUCTURE FINANCING

21. given that the ordinary sources of funding for infrastructure investments are running out, feels that a new approach to financing is needed, taking into account all the policies currently implemented by the EU. This approach should consider various financing sources, including private ones, as well as the state of infrastructure development in the different Member States;

22. is disappointed at the European Commission's lack of ambition in terms of introducing a European savings account, reflected in its announcement that "*the Commission services will undertake by the end of 2014 a study of possible market failures and other shortcomings*

regarding cross-border flows of savings, including an overview of national savings account models and an assessment of the opportunity of introducing an EU savings account"[4];

23. encourages local and regional authorities to carry out structural investments with yields sufficiently high to make cooperation on infrastructure project implementation attractive for infrastructure investment funds;

24. feels that it is essential to disseminate private equity infrastructure investment best practices among both public institutions and potential investors. Best practices can be used to develop procedural models to improve the infrastructure funding process;

25. feels it is important to support all local and regional investment initiatives to fund infrastructure from private equity linked to the area in which that infrastructure operates, thus significantly helping both investors and residents to identify with and assume responsibility for projects;

26. fully agrees with the statement that attracting capital for the long-term financing of the European economy is largely dependent on the regulatory and business environment of the European economy as well as of the national economies of EU Member States;

FINAL REMARKS

27. believes that the following measures by the European institutions set out in the Communication are of great importance:

   - corporate governance based on employee financial participation. This should help to enhance the quality and efficiency of work, ensuring a long-term orientation, which is a major consideration for potential investors. Such an approach to corporate governance means greater job security, which is important for local and regional communities;
   - clear and comprehensive reporting on corporate governance and reliable information channels enable investors to take the right decisions, keeping in mind the needs of SMEs, which have greater difficulties in taking investment decisions due to their more limited access to consultancy;
   - defining accountancy standards conducive to long-term investments and making it possible to apply simplified accountancy standards to listed SMEs while maintaining an adequate level of investor trust;
   - a self-standing accounting framework for non-listed SMEs, which should activate cross-border groups, the emergence of which is being held back by the fact that SMEs are subject to national accountancy standards;

4 Communication from the Commission, p. 8.

- eliminating the preference for debt financing of companies over equity financing, by enabling deduction of the costs incurred in raising equity, or by ending deduction of interest costs;
- ending legal differences between countries, which are hampering long-term cross-border investments and thus affecting the ability of firms to get established and grow, particularly SMEs, and especially those in poor financial condition.

Brussels, 7 October 2014

The President
of the Committee of the Regions

Michel Lebrun

The Secretary-General
of the Committee of the Regions

Jiří Buriánek

II. PROCEDURE

Title	Long-Term Financing of the European Economy
Reference(s)	Communication from the European Commission to the European Parliament and the Council – for a Long-Term Financing of the European Economy COM(2014)168 final
Legal basis	Article 307(4) TFEU
Procedural basis	Opinion on the basis of a consultation (Rule 41(a))
Date of Commission letter	26 March 2014
Date of Bureau/President's decision	N/A
Commission responsible	Commission for Economic and Social Policy (ECOS)
Rapporteur	Witold Krochmal (PL/EA) Member of the City and Municipal Council of Wołów
Analysis	11 June 2014
Discussed in commission	15 July 2014
Date adopted by commission	15 July 2014
Result of the vote in commission	Unanimous
Date adopted in plenary	7 October 2014
Previous Committee opinions	Opinion on the Green Paper on the Long –Term Financing of the European Economy, CdR 3303/2013 fin[5] opinion on Mobilising Private and Public Investment for Recovery and Long term Structural Change: Developing Public-Private Partnerships, CdR 21/2010 fin[6]
Date of subsidiarity monitoring consultation	N/A

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5 OJ C 356, 5.12.2013, p. 75.

6 OJ C 15, 18.1.2011, p. 23.