Local & Regional Europe

Local Finances and the Green Transition

Managing Emergencies and Boosting Local Investments for a Sustainable Recovery in CEMR member countries

Co-funded by the European Union

Annex

Annex 1. Data sources and statistical terms

Eurostat

The current 27 EU member countries (the UK has already been removed from the archives) and some non-EU member countries (Norway, Iceland and certain Western Balkan countries) are covered by Eurostat.

NALAS Fiscal Decentralisation Indicators Report

The Balkan countries and Turkey are included in the routinely published NALAS report on fiscal decentralisation indicators. The national data files were kindly provided by the NALAS Observatory.

IMF – Government Finance Statistics

The financial data on Georgia, Israel, Ukraine and the United Kingdom was taken primarily from the IMF's Government Finance Statistics.

Other international databases used:

(i) World Observatory on Subnational Government Finance and Investment (*UCLG-OECD WOFI*)

(ii) OECD Government at a Glance database (*OECD Statistics*)

(iii) OECD Fiscal Decentralisation Database *(OECD FDD*)

(iv) World Bank Environment Social and Governance Data (*World Bank Databank)*

The indicators for selected elements sourced from ***Public Financial Management*** and ***Sustainable Development Goals*** are available on their websites (referenced in the report).

In this report, standard public finance terms and categories are used, listed in detail in the European System of Accounts (ESA2010) and Government Finance Statistics (GFS) manuals.

In budgetary terms, *general government* encompasses all (subnational and central government) budgets and funds (e.g. social security fund).

Subnational governments have been broken down into two categories: *local* governments (municipalities, intermediary tier of government including counties, districts, etc.) and *regional* governments (which is used interchangeably with *states,* as well as *Land/Länder*, in reference to Germany and Austria, both federal countries).

The number of subnational governments are from the country sheets of the CEMR publication on ***Territorial Governance, Powers and Reforms in Europe*** (*CEMR TERRI)*.

Annex 2. Troika intervention in Portugal

The global economic and financial crisis in 2008 eventually led to the sovereign debt crisis in Portugal in April 2011. The Portuguese Government requested the support of the troika institutions (the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF)) and subsequently agreed to be subject to the terms of an adjustment programme, which led to financial disbursements totalling EUR 78 billion from 2011 to 2014. Municipalities were not direct beneficiaries of these bailout funds, nor were they involved in the negotiations over the package of measures that were adopted, known as the Memorandum.

At central State level, the programme's main objectives were to reduce public debt and deficit, promote public sector rationalisation and increase competitiveness through structural reforms.

Local governments had to deal with drastic cuts in their revenue, both from the State Budget and from the collection of local taxes. Many municipalities ended up "voluntarily" assuming many responsibilities of the central administration as well.

There were substantial reductions in the funds transferred to local governments from the State budget, along with unusual measures involving the forced consignment of revenue (earmarking), in clear breach of Portugal's Local Finance Law. The Memorandum imposed reductions in the number of employees, municipal administrative managers, a ban on the hiring of personnel as well as a decrease in the number of organisational units. It also led to considerable restrictions affecting the autonomy of municipal management as well as the creation and operations of local companies. It also imposed an obligation to reduce the number of parishes.

Despite the huge difficulties and challenges for municipalities, this intervention did produce a significant improvement in their fiscal and financial performance indicators:

- Revenue collected by municipalities fell from EUR 8.026 billion to EUR 7.745 billion and spending dropped from EUR 7.872 billion to EUR 7.219 billion;[23]
- The overall balance (discounting financial assets and liabilities) increased from EUR 243 million to EUR 826 million;
- The weight of local government debt in total general government debt decreased from 3.5% (EUR 6.078 billion) to 2.3% (EUR 5.139 billion);[24]
- Municipal budget execution on the revenue side rose from 60.5% to 78.7% and from 59.7% to 73.5% on the expenditure side;
- The number of municipalities with an average payment term of more than 90 days (legal limit) decreased from 185 to 68;
- Investment expenses fell from EUR 3.444 billion to EUR 1.6 billion (in 2014, they represented only 19.5% of total expenses incurred, compared to 21% in 2010);
- Services at the municipal level were "reconcentrated" as the number of entities belonging to the local business sector dropped from 333 (29 municipal services, 281 local companies and 23 intermunicipal companies) to 240 (24, 190 and 26 respectively);
- The number of workers in local public administrations dropped from 135 527 to 116 275;[25]
- The number of parishes was reduced by around 27%, from 4 259 to the current 3 091.

23 *Anuário Financeiro dos Municípios Portugueses de 2010 e 2014.*
24 *Instituto Nacional de Estatística*
25 PORDATA

Some of the adjustment measures improved the financial and budgetary situation of some municipalities, namely those that introduced rules to strengthen their budget management and control over late payments and debt as well as those that worked to achieve more efficient and sustainable management.

However, others did not perceive any positive results. The consignment of revenue to certain expenses erased any potential benefit of increases in revenue. For example, the increase in revenue from State Transfers (after 2015) and in the Municipal Property Tax, arising from a general revaluation of urban buildings (after 2013), was mandatorily reserved for the following purposes: capitalisation of the Municipal Support Fund, payment of debts to suppliers and reduction of medium and long-term indebtedness. Many municipalities also had to face a reduction in the number of their directors and organisational units.

Since 2016, there has been a tendency to reverse some of these imposed measures and restrictions, restoring municipalities' financial and administrative autonomy. In 2018, a new Local Finance Law was approved, which introduced increases in financial transfers to municipalities.

Annex 3. Financing the ecological transition

EU Green Bond Standard

A bond qualifies as "green" when the proceeds from the issued debt are allocated only to finance green projects. The project itself should contribute to one of the environmental objectives specified in the EU Taxonomy, namely climate change mitigation or adaptation, protection of water and marine resources, transition to a circular economy (waste prevention, recycling), pollution prevention and control and protection of healthy ecosystems.

Green projects can be physical and financial assets (tangible or intangible) and can include a share of working capital (but not purchasing and leasing costs). Public investments and subsidies for sub-sovereign issuers also qualify.

The bond issuer shall produce a green bond framework, which provides details on the proposed use of proceeds, the green bond strategy and processes. An allocation report shall include a statement of alignment with the EU standards, a breakdown of allocated amounts at sector level and the geographical distribution of projects. The impact report includes an evaluation of the green projects based on the nature of what is being financed, the share of financing and possible metrics on the projects' environmental impacts. All of these reports must be validated by an independent verifier.

For additional information, see:

https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/european-green-bond-standard_en

Green loans in France

Green loans (*Prêts verts*) are part of a global green finance approach involving the raising of funds through a green bond, which will be allocated as green loans that finance environmentally friendly investments.

French local governments are key actors in the energy and ecological transition and play a crucial role in the recovery plan. They represent 90% of the public investments dedicated to environmental protection in France. To support French local governments in their green movement, *La Banque Postale* (the bank of the French postal service) and its partner, SFIL (a French public development bank), have worked to democratise green financing, which had previously been limited to green bonds, only accessible to a small number of large communities.

Green loans, offered since June 2019, is a tool for financing projects that contribute to the ecological transition of territories, in accordance with the European taxonomy (a classification system that entered into effect in July 2020). Projects are only eligible if their action is covered under a list of specific activities and meets specific performance thresholds.

Eligible projects must have a strong environmental impact and align with one of the following areas:

1. *renewable energy*: production of electricity or heat via power plants or production parks (photovoltaic, wind, geothermal, hydraulic or biomass);
2. *sustainable management of water and sanitation*: production of drinking water and sanitation (networks, wastewater treatment equipment), rainwater management, management of aquatic environments and flood control and prevention;
3. *waste management and recovery*: waste collection and sorting (equipment, collection, treatment or recycling centres) and waste recovery;
4. *soft mobility and clean transport*: establishment of clean public transport infrastructure and alternative mobility solutions linked to soft mobility;
5. *energy efficiency in construction and urban planning*: ecological construction (energy-efficient public facilities) or thermal renovation of public buildings improving energy performance by 30% or more, modernisation of public lighting.

Green loans can start at EUR 300 000, compared to EUR 250 million on average for green bonds. Similarly to conventional loans, it is possible to have mobilisation phases for the gradual release of funds and repayment periods that are adapted to the nature of the investment, with fixed and variable interest rates. It is a classic medium- or long-term loan that is defined by the specificity of its purpose and its method of refinancing. Investors mindful of environmental, social and governance criteria may wish to look to green bonds instead.

More than 500 green loans with a total value of EUR 2 billion have been financed since mid-2019. The financed projects have been mainly carried out by municipalities and subnational units. A majority of these projects target drinking water supply or wastewater treatment:

The impact and environmental contribution are assessed for each green loan. To avoid adding to the administrative burden of local governments (need for feasibility studies or substantial reporting), two types of simple indicators with standardised data should be submitted to the bank:

- *quantitative*: aggregate CO2 emissions avoided per year (in tonnes) for projects on "Renewable energies", "Soft mobility and clean transport" and "Energy efficiency of construction and urban development". This can be calculated using comparative modelling and data from funded projects.
- *qualitative*: indicators on the weight of activity of the financed entities and their assessed contribution capacities for projects on "Sustainable management of water and sanitation" and "Waste management and recovery".

For additional information, see:

Prêts verts ou prêts responsables : comment les analyser ? - La Banque Postale

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