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Proposal for a

COUNCIL DECISION

on Community strategic guidelines on cohesion

{SEC(2006) 929}

(presented by the Commission)

EXPLANATORY MEMORANDUM

Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013

“Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital.

To achieve these objectives, the Union must mobilise all appropriate national and Community resources – including the cohesion policy – in the Strategy’s three dimensions (economic, social and environmental) so as better to tap into their synergies in a general context of sustainable development”¹.

1. INTRODUCTION

The Fourth Progress Report on Cohesion² confirmed that the enlargement of the Union to 25 Member States, later to 27 or more, presents an unprecedented opportunity to reinforce both economic competitiveness and the internal cohesion in Europe. While enlargement represents a substantial widening of regional disparities in the European Union, the report noted at the same time that some of the poorest parts of the new Member States have some of the highest growth rates.

In meeting the objectives set out in the Treaty³, and in particular that of fostering real economic convergence, the actions supported with the limited resources available to cohesion policy should be concentrated on promoting sustainable growth⁴, competitiveness and employment as set out in the renewed Lisbon strategy.

Clearly also, macroeconomic stability and structural reforms are a precondition for the success of cohesion policy along with a range of other conditions which favour investment (including effective implementation of the Single Market, administrative reforms, good governance, a business-friendly climate, and the availability of a highly skilled workforce)⁵.

These are also the ideas that underpin the new legislative framework for the reform of cohesion policy for the period 2007-2013.

In effect, the new framework seeks improvements in two main areas. First, the strategic dimension of cohesion policy is strengthened to ensure that Community priorities are better integrated into national, regional, and local development programmes. Second, efforts are reinforced to ensure greater ownership of cohesion policy on the ground. This is reflected in the provisions for an ongoing dialogue in the partnerships involving the Commission, the

¹ Presidency conclusions, European Council, March 2005.

² “The Growth and Jobs Strategy and the Reform of European cohesion policy - Fourth progress report on cohesion”. COM (2006) 281, 12.06.2006.

³ Article 158 of the Treaty states that, in order to strengthen its economic and social cohesion, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.

⁴ In line with the Göteborg Strategy adopted by the European Council in 2001 and updated by the June 2006 European Council .

⁵ “The EU Economy: 2004 Review”. COM(2004) 723, 26.10.2004.

Member States, the regions and cities, and in a clearer and more decentralised sharing of responsibilities in areas such as financial management and control.

The Community Strategic Guidelines form the basis for preparing national strategies, or national strategic reference frameworks, and, in a second stage, the individual operational programmes. They are based on the following objectives and principles:

- cohesion policy has become a key instrument at Community level to deliver the renewed Lisbon strategy for growth and jobs as defined by the integrated guidelines for growth and jobs;
- the new framework for cohesion policy in 2007-2013 is based on both the concentration of financial resources on the least developed regions and a strong thematic concentration within the new programmes on the renewed growth and jobs agenda;
- the financial instruments at the disposal of cohesion policy are the Structural Funds (the ERDF and the ESF) and the Cohesion Fund. It should be noted in this context, that in the guidelines that follow, there is, intentionally, no analysis by Fund. The question of the appropriate instrument under each heading is a matter for the programming phase and depends on the nature of the planned expenditures (infrastructure, productive investment, human resource development, etc);
- the Guidelines concern only the part of national and regional investments co-financed by the Structural Funds and the Cohesion fund;
- the Guidelines need to be read alongside the legislative framework. The latter define the purpose and the scope of assistance of each Fund, while the Community Strategic Guidelines seek to identify within that scope those areas where cohesion policy can most effectively contribute to the realisation of Community priorities, particularly those of the renewed Lisbon Growth and Jobs Strategy;
- within the Guidelines, governance is a transversal element underpinning all actions in the interest of better and more efficient management of cohesion policy programmes and improving the quality of public policy-making.
- within the new framework for cohesion policy in 2007-2013, the territorial dimension is equally seen as a transversal element requiring that particular attention be paid to the impact of programmes in terms of promoting balanced sustainable development and exploiting the opportunities in cities, rural areas and areas with natural handicaps.

2. COHESION, GROWTH, JOBS

2.1. The renewed Lisbon agenda

In 2005, the Commission proposed a new Partnership for Growth and Jobs⁶ to the European Council of March 2005. The Council confirmed the policy objectives set out by the Commission and underlined the need to re-launch the Lisbon Strategy.

This renewed effort requires that “*the Union must mobilise all appropriate national and Community resources – including cohesion policy*”⁷. In addition, it concluded that greater ownership of the Lisbon objectives on the ground was necessary, involving regional and local actors and social partners. This is of particular importance in areas where greater proximity is essential, such as in innovation and the knowledge economy, employment, human capital, entrepreneurship, support for small and medium-sized enterprises (SMEs) or access to risk capital financing.

To carry the work forward, Integrated Guidelines for the Growth and Jobs agenda were developed in order to assist Member States in developing national reform programmes⁸. Under the new governance cycle for the Growth and Jobs Strategy, Member States had to submit National Reform Programmes in 2005 followed by the Commission’s assessment of these national strategies in the form of the Annual Progress Report adopted in January 2006⁹.

The first Annual Progress Report (APR) made several recommendations relevant to cohesion policy. First, it recommended that Member States ensure that Community cohesion and rural development investment is targeted towards supporting the Lisbon Strategy in general. In other words, the objectives of cohesion policy should be streamlined with the National Reform Programmes. In particular, the APR recommended that in the context of the next generation of cohesion policy programmes, the new Member States should be encouraged to earmark cohesion policy resources for measures in pursuit of the Lisbon objectives, as was already agreed for the EU-15 by the December 2005 European Council.

Second, the APR highlighted the need for stronger efforts to develop coordination mechanisms between those responsible for the national reform programmes and those preparing the cohesion policy programmes, 2007-2013. These links would need to be established quickly as the preparation of these programmes intensifies, beginning with the adoption of the National Strategic Reference Frameworks. Third, the APR stressed that Member States should take into account the macro-economic impact of transfers from cohesion policy resources. Finally, the APR recommended that the new generation of cohesion policy programmes address the 4 priority actions: 1) investing more in knowledge and innovation; 2) unlocking business potential; particularly of SMEs; 3) responding to globalisation and ageing; and 4) moving towards an efficient and integrated EU energy policy. The Spring European Council 2006 confirmed the APR’s recommendations and concluded that Member States should take account of the priorities in their National Reform Programmes when drawing up their National Strategic Reference Frameworks (NSRFs). It also identified specific priorities within the Integrated Guidelines for Growth and Jobs, which

⁶ Communication to the Spring European Council “Working Together for growth and jobs – a new start for the Lisbon Strategy”. COM(2005) 24, 2.2.2005.

⁷ Presidency conclusions, European Council, March 2005.

⁸ Presidency conclusions, European Council, March 2005.

⁹ COM (2006) 30 of 25.1.2006

concern investment in knowledge and innovation; business potential, especially of SMEs; employment; and energy policy.

2.2. The contribution of cohesion policy to growth and jobs

Cohesion policy already contributes to the Lisbon strategy. Independent evaluations show that the policy has had a substantial macro-economic impact, especially in the less-developed regions, with multiplier effects on the EU as a whole¹⁰. By mobilising the potential for growth that exists in all regions, cohesion policy has improved the geographical balance of economic development and raised the potential rate of growth in the Union as a whole. If the EU is to achieve its Lisbon targets, all regions – especially those where the potential for higher productivity and employment is greatest – have their part to play.

In addition, cohesion policy contributes to strengthening economic and political integration through, for example, developing infrastructure networks and access to services of general interest, raising the skills of the Community's citizens, enhancing the accessibility of remote regions and promoting cooperation.

Cohesion policy in future can continue to make a significant contribution to the Lisbon priorities by placing greater emphasis on:

- **Investing in areas of high growth potential.** High returns are available on investments in regions with the potential to catch up rapidly with the rest of the EU, but where domestic funds may be insufficient to pursue all available opportunities.
- **Investing in the drivers of growth and employment.** Cohesion policy is focused on investments in human and physical capital that are critical to growth and employment potential, including physical and ICT infrastructure, research capacity and innovation, education and training and adaptability of workers.
- **Supporting the implementation of coherent strategies over the medium to longer term.** Cohesion policy is the only policy to provide a stable seven-year framework of investment.
- **Developing synergies and complementarities with other Community policies.** Cohesion policy acts as a powerful lever for the implementation of other Community policies. For example, Trans European Network projects are financed directly by the Cohesion Fund in the cohesion countries, leading to substantial gains in accessibility to the rest of Europe; compliance with the environmental acquis and with the broader aims of sustainable development is strongly supported by cohesion policy; RTD policy and its concerns with, in particular, research infrastructures and the development of human resources in research is also supported by cohesion policy, as are Community innovation and SME policies and actions.
- **Mobilising additional resources.** Activities co-financed by cohesion policy secure a high degree of additionality for EU funds, in particular by shifting resources for investment to areas where expenditure can have the greatest impact and added value. They leverage additional national resources, both public and private, for use in coherent national and regional development strategies. Each euro spent at the EU level by cohesion policy leads

¹⁰ See Third Cohesion Report, p. 149.

to further expenditure, averaging 0.9 euros, in less developed regions (current Objective 1) and 3 euros in regions undergoing restructuring (current Objective 2).

- **Improving governance.** The unique delivery system for cohesion programmes favours improvements in institutional capabilities in policy design and implementation; the dissemination of an evaluation culture; public–private partnership arrangements; transparency; regional and cross-border cooperation; and the exchange of best practices. It also contributes to better governance at all levels by improving responsibility and ownership of the Lisbon strategy at sub-national level and by exploiting synergies between different levels of governance.
- **Promoting an integrated approach to territorial cohesion.** Cohesion policy can help to create sustainable communities, by ensuring that economic, social and environmental issues are tackled through integrated strategies for renewal, regeneration and development in both urban and rural areas.
- **Bringing the Lisbon agenda closer to EU citizens.** Cohesion policy has enabled the EU agenda to become more visible and comprehensible to its citizens. Aligning the Lisbon priorities to cohesion policy will increase the legitimacy of the Growth and Jobs strategy and engage citizens more closely in achieving its aims.

Cohesion policy should maintain a balanced approach in pursuit of the objectives of "growth" and "employment" and contribute to a balanced economic, social and sustainable development. The following section sets out the key aspects of the new framework for cohesion policy, 2007-2013, in the light of the different ways it can contribute to the Lisbon agenda.

3. THE FRAMEWORK FOR COHESION POLICY 2007-2013

3.1. Concentration

In this section, the new framework for cohesion policy is discussed in relation to the need for thematic and geographical concentration. Since the concentration of resources is also a process issue, the governance dimension is also discussed.

Growth in economic output is essentially composed of two drivers: employment and productivity growth. They are intimately related and must be boosted simultaneously to achieve maximum impact. In order to promote under the national and regional development programmes, 2007-2013, a sustainable development path and strengthen competitiveness in the knowledge-based economy, it is essential to concentrate resources on basic infrastructures, human capital, and research and innovation, including access to and strategic use of information and communication technologies (ICTs). Both tangible and intangible assets are required.

The policy mix in order for a Member State or region to achieve an appropriate combination of investments for growth depends on its specific characteristics, the structure of its economic activity and the nature and extent of its structural deficits, and its potential areas of comparative advantage. The policy mix inevitably evolves over time, bringing a change in the type of policies and instruments used. Each Member State and region has to find the right

policy mix for its own development path in the light of its particular economic, social, environmental, cultural and institutional conditions.

However, while the mix may vary according to context, concentration will be ensured at the level of programmes and projects by primarily including those elements that can contribute to the Growth and Jobs Strategy. This will be the governing principle which the Commission will bring to bear when negotiating the different national and regional programmes.

Earmarking of Lisbon expenditure

In agreeing a financial perspective for 2007-2013, the Member States also decided that a certain proportion of the resources for the next generation of programmes should be reserved for investment in areas directly linked to the growth and jobs agenda including the specific list of earmarked categories of expenditure. "Earmarking" in this way was subsequently confirmed in the draft Regulation. The draft Regulation sets earmarking targets at 60% of expenditure for the Convergence objective and 75% of expenditure for the Regional competitiveness and Employment objective, applied as an average over the entire programming period of all Member States of the Union as constituted before 1 May 2004. While targets for each Member State will take account of the starting point based on data for 2000-2006, the objective is that all Member States concerned should achieve the earmarking target as an average over the period. Although the new Member States and acceding countries are not covered by earmarking, they are also encouraged to set targets and increase their efforts relative to the baseline situation in the 2000-2006 period. The earmarking targets will be applied in a flexible way, taking into account specific national circumstances and the priorities identified in the National Reform Programme.

Timing is also an issue with regard to cohesion policy in Member States where transfers from the Union take on a macroeconomic dimension. In the short term, these transfers may create inflationary pressure in some sectors (for example in the construction sector) and may affect the current account (for example as a result of imports of capital equipment), while significant amounts will have to be provided for in national public budgets in order to co-finance transfers from the EU. It is therefore important that Member States and regions organise their investment programmes in such a way as to address the supply-side bottlenecks and increase productivity in order to offset the demand-side pressures on the nominal economy.

Account also needs to be taken of other Community policy priorities, first because of their potential to contribute to growth and jobs within the framework of cohesion policy programmes and, second, in order to foster synergies with other EU policies on the ground.

3.2. Convergence

For regions and Member States eligible for cohesion policy support under the new Convergence objective, the key objective will be to stimulate growth potential to maintain and achieve high growth rates. This objective should be seen in the light of the unprecedented increase in disparities within the enlarged Union and the long-term nature of the efforts that will be needed to reduce them.

The strategies for 2007-2013 should focus on the investments and collective services which are required to increase long-term competitiveness, job creation and sustainable development. Basic infrastructures and services will need to be created, upgraded and expanded in order to open up regional and local economies, set up an effective business support framework and exploit the opportunities afforded by the Single Market. Moreover, substantial efforts are required to expand investment in human capital; increase access to employment; strengthen social inclusion; and introduce and implement reform in education and training systems.

Along with efforts directed at basic infrastructure, action is required to modernise and restructure the productive capacity of regions by providing services to enterprises, particularly

SMEs; by improving access to finance; by promoting RTD and innovation; by developing human resources; and by promoting the penetration, dissemination and take-up of ICTs.

The strengthening of institutional capacities and the institutional order is essential to design and deliver effective policies.

3.3. Regional competitiveness and employment

The need for concentration on a limited number of key priorities, and in particular on research, innovation, accessibility and job creation, is compelling under this objective in order to ensure best use of limited financial resources. To ensure a smooth adaptation following economic change and restructuring, investment in human capital can play an important role.

The aim of the new regional competitiveness and employment objective is to **anticipate and promote economic change** by improving the competitiveness and attractiveness of EU regions and cities through investments in the knowledge economy, entrepreneurship, research, university-enterprise cooperation and innovation; access to transport and telecommunication infrastructure, energy, and health; environment and risk prevention; supporting the adaptability of workers and enterprises; reinforcing participation in the labour market; and promoting social inclusion and sustainable communities.

Account needs to be taken of different needs. **Industrial regions** take different forms. Many are characterised by the presence of large manufacturing firms, high population densities and high economic growth rates while others combine modern industry, especially SMEs, and a relatively rapidly growing service sector. Both types of region may, however, be confronted by pockets of deep-seated urban decline and poverty, by congestion, environmental pressure and ill-health, having to respond to the challenges of globalisation and the need to adapt to accelerating economic change. At the other end of the scale, many industrial regions are only just beginning to adapt to change, and the run-down of the industrial base has not been offset to a sufficient degree by new activities.

Meanwhile, in areas characterised by **low population density**, economic development is often driven by small firms, but the challenges facing them are similar. The low population density makes it more difficult to respond to the challenges and the socio-economic situation has therefore not changed over the past decade.

There is a wide variation in the economic situation of **rural areas**. Some have good links to urban centres and, with agriculture continuing to play a significant role, are experiencing increasing economic diversification and the growth of activities in the service sector, for example tourism. Other more remote rural areas have to contend with a highly dispersed and ageing population, poor technical and social infrastructures, inadequate services, and weak links with the rest of the economy.

Addressing this diversity of problems, and helping regions to restructure and generate new activities in accordance with the renewed Lisbon agenda, is the challenge for the new generation of regional competitiveness and employment programmes.

Where the territory in question is also covered by the Cohesion Fund, the Member States should seek to ensure as far as possible that projects supported contribute to the growth and jobs agenda.

3.4. European territorial cooperation

The aim of the new cooperation objective is to promote **stronger integration** of the territory of the Union in all its dimensions. In so doing, cohesion policy supports the **balanced and sustainable development** of the territory of the Union at the level of its macro-regions and reduces the “barrier effects” through cross-border, transnational and inter-regional cooperation and the exchange of best practices.

These actions are based on shared development strategies of the territories concerned (national, regional, local) and on the networking of the key stakeholders. As such, they have an obvious European added value which increases even more in the enlarged and more diversified Union.

3.5. Governance

Over recent years, the context for cohesion policy has changed in the light of new challenges posed by globalisation. Today, it is clear that in an open, globalized economy, tackling the growth and jobs agenda must be anchored in regional and even local development strategies. This is the level at where most business networks are formed and links established with centres of learning and technology and where local knowledge and expertise can best be mobilised. Also, local and regional authorities and other stakeholders have a range of powers, both regulatory and expenditure-based, for the delivery of public policies which help in the realisation of the growth and jobs strategy.

In the context of cohesion policy, the issue of governance has different dimensions.

The first concerns a set of characteristics of public organisations related to the **performance and the success of public policies**. For countries and regions, in particular those eligible under the Convergence objective, quality and efficiency in the public sector are essential in order to embrace reforms and good governance, especially in the economic, employment, social, educational, environmental and judicial fields. This will help not only to improve the implementation of EU cohesion policy, but also to raise economic performance overall.

Strengthening institutional capacities and governance where they are considered to be weak should be a key priority in less developed regions. Economic competitiveness and a stronger civil society depend not only on effective infrastructure networks, but also on the non-discriminatory, predictable and transparent enforcement of the law; the assignment and enforcement of tradable property rights, including intellectual property rights; an open public procurement system; and an administration which minimises the administrative burden on economic operators.

Thus, when developing their national strategies, Member States should systematically analyse to what extent a more efficient, accountable and transparent public administration can help raise productivity levels. Capacity building for public administrations at national, regional and local level, to improve the administrative framework for economic activity, good policy design and implementation, including better lawmaking, evaluation and impact analysis of policy proposals, and regular screening of delivery mechanisms, should therefore be supported by the Structural Funds.

The second dimension refers to measures and actions that are specifically needed in order to improve the capacity of Member States in **managing and implementing cohesion policy**.

Sound and efficient management of the Funds requires appropriate, effective and transparent structures in central, regional and local administrations which are able to perform the tasks related to the implementation of the Funds, such as public procurement, financial control, monitoring, evaluation, and preventing and combating fraud and corruption. The effective use of the Funds is also influenced by the capacities of project holders to develop and implement high-quality projects. Where resources are used in an efficient and transparent manner, their visibility in itself encourages private entrepreneurs and social partners, and creates the environment for the former to take their own investment decisions. Therefore, action is needed in this field too, and should be backed up by technical assistance.

A related, and highly important, factor determining the effectiveness of cohesion policy is the quality of the **partnership** between all stakeholders, including those at regional and local level, in the preparation and implementation of programmes. Strategies designed at local and regional levels must also form an integral part of the effort to promote growth and jobs. The role of SMEs, the need to meet local skill demands, the importance of clusters, the need for local innovation centres are such that in many cases strategies also have to be built from below, at the regional and local levels. Moreover, this applies not only to the economic agenda but also to the broader effort to involve citizens who, through the partnership and multilevel governance arrangements under which cohesion policy is managed, can become directly involved in the Union's growth and jobs strategy. A strong partnership between the Commission and the authorities in the Member States is the basis for defining a cohesion strategy that addresses Community priorities in a national and regional setting, and its implementation through the operational programme.

Developing innovative projects based on partnership, promoting civil participation in the formulation and implementation of public policies, as well as improving interaction between and within the communities can contribute to the creation of human and social capital, leading to sustainable employment, growth, competitiveness and social cohesion. In this context, it is important for the key stakeholders at national, regional and local level to rally behind the reform agenda so that resources are **genuinely concentrated** on promoting growth and jobs and put in place the necessary partnership networks to that effect. Partnerships, pacts and initiatives based on the networking of relevant stakeholders, such as social partners and NGOs also have a key role to play in the field of employment and labour market inclusiveness.

Regions are encouraged to develop regional sustainable development strategies, building consensus on the objectives to be achieved through regular and systematic dialogue with key stakeholders. Partnership is necessary in order to manage complexity successfully and is essential to the elaboration and the implementation of development strategies. It relies on consultation and participation of stakeholders, such as competent authorities, economic and social partners, and representatives of civil society including non-governmental organisations. Partnership provides a basis for the mobilisation of best local knowledge and expertise, for openness and transparency in the preparation and implementation of programmes. This is particularly important for improving knowledge and innovation and should build on the methods which have been developed in the past with regional innovation strategies and the regional programmes of innovative actions.

Public-Private Partnerships

Public-Private Partnership (PPP) may be an appropriate method of financing investment when there is significant scope for involving the private sector, especially in areas where it is not feasible or appropriate to move away from public ownership or market provision. Apart from the financial leverage it provides, public-private partnership at project level also improves the quality of the implementation and subsequent management of projects. Member States are therefore encouraged to opt for such partnerships where they are available. The principal benefits of such PPP schemes are that:

- the public sector gains access to a range of private sector skills that should enable it to provide a more efficient and cost-effective service
- the private sector takes on a range of risks that under traditional public procurement would be borne by the public sector
- greater efficiency can be generated where a single party is responsible for design, construction, management and financing as a part of an integrated package.

In considering whether to undertake a particular project as a PPP, it is important that certain conditions are met before contracting out the provision of goods and services, in particular the putting in place of an appropriate legal framework.

PPP arrangements work best where there is an explicit policy commitment by national governments to involve the private sector in public sector projects. Clear and specific frameworks are needed for PPP in different policy areas; these will vary, for example, according to how far costs can be recovered through user charges and the extent of social objectives. Different policy options are available to ensure competition for PPPs without unduly limiting the flexibility needed to design innovative and often complex projects¹¹.

The EU will support these PPPs by providing finance, via the Structural and Cohesion funds, where the projects meet all the necessary criteria. For larger projects the Commission will encourage MS to include assessment of its suitability for a PPP scheme. It is envisaged that operational guidance on preparing PPPs could be provided in the technical assistance facility developed in cooperation with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) (the JASPERS facility). The EIB and the European Investment Fund (EIF) could provide valuable input in this regard.

4. GUIDELINES FOR COHESION POLICY, 2007-2013

In light of the above and of the renewed Lisbon strategy for growth and jobs, programmes co-financed through cohesion policy should seek to target resources on the following three priorities¹²:

¹¹ “Public-Private Partnerships and Community Law on Public Procurement and Concessions”. COM(2005) 569 final 5.11.2005.

¹² Communication to the Spring European Council “Working Together for growth and jobs – a new start for the Lisbon Strategy”. COM(2005) 24, 2.2.2005.

- improving the **attractiveness of Member States, regions and cities** by improving accessibility, ensuring adequate quality and level of services, and preserving the environment;
- encouraging **innovation, entrepreneurship** and the growth of the **knowledge economy** by research and innovation capacities, including new information and communication technologies; and
- creating **more and better jobs** by attracting more people into employment or entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

In the following sections, key aspects of each of these broad areas are examined with specific guidelines under each heading. Naturally, not all of these more detailed guidelines will be relevant to all regions. The most appropriate mix of investments ultimately depends on the analysis of the strengths and weaknesses of each Member State and region and specific national and regional circumstances. **The guidelines rather represent a single framework which Member States and regions are invited to use when developing national, regional, and local programmes, in particular with a view to assessing their contribution to the objectives of the Union in terms of cohesion, growth and jobs.** The Guidelines are a necessary condition, but not the only condition for achieving the right level of concentration on key priorities for each Member State and region in accordance with the renewed Lisbon agenda. In taking on board the Lisbon agenda in the new programmes, attention is drawn to the following principles:

First, in line with the re-launch of the Lisbon agenda itself, cohesion policy should focus to a greater extent on **knowledge, research and innovation, and human capital**. Accordingly, the overall financial effort in support of these fields of action should be significantly increased, as required by the new earmarking provisions. In addition, Member States and regions should be inspired by best practice where this has delivered visibly positive results in terms of growth and jobs.

Second, Member States and regions should pursue the objective of **sustainable development** and boost synergies between the economic, social and environmental dimensions. The renewed Lisbon strategy for Growth and Jobs and the National Reform Programmes emphasize the role of environment in growth, competitiveness and employment. Environmental protection needs to be taken into account in preparing programmes and projects with a view to promoting sustainable development.

Third, Member States and regions should pursue the objective of **equality between men and women** at all stages of the preparation and implementation of programmes and projects. This may be done through specific actions to promote equality, as well as by taking careful account of how other projects and the management of the funds may affect women and men.

Fourth, Member States should take appropriate steps to prevent any discrimination on the basis of gender, race or ethnic origin, religion or belief, disability, age or sexual orientation during the various stages of implementing the Funds. In particular, accessibility for disabled persons is one of the criteria to respect in defining operations cofinanced by the Funds and to take into account during the various stages of implementation.

4.1. GUIDELINE: Making Europe and its regions more attractive places to invest and work

One of the preconditions for growth and jobs is to ensure that the necessary infrastructure (e.g. transport, environment, energy) is available to businesses. A modern and secure infrastructure is an important factor in the performance of many enterprises, affecting the economic and social attractiveness of regions and cities. Infrastructure investment in regions that are lagging behind, especially in the new Member States, will encourage growth and thus reinforce convergence with the rest of the Union as well as improving quality of life. Resources should come not just from grants but also, where possible, from the private sector and from loans, for example from the EIB. For the next period, programme authorities in the Member States will have an opportunity to make greater use of EIB expertise to prepare suitable projects for European funding under the JASPERS initiative.

JASPERS: A new technical assistance partnership

JASPERS, “Joint Assistance in Supporting Projects in European Regions”, is a new technical assistance partnership between the Commission, the EIB and the EBRD. It is a facility at the disposal of the Member States to assist with the preparation of large projects submitted for approval for support under the Cohesion Fund and the ERDF. It draws on the experience of the EIB and the EBRD in large project preparation, and in other important areas such as the development of public-private partnerships. The combined efforts of the three institutions is intended to ensure a successful implementation of cohesion policy in the programming period 2007-2013 by greatly increasing the resources available for project preparation. The technical assistance will be offered from the early stages of the project development cycle. JASPERS will provide comprehensive assistance for all stages of the cycle from the initial identification of a project through to the submission of projects for Commission decision.

4.1.1. Expand and improve transport infrastructures

The provision of efficient, flexible, safe and clean transport infrastructure can be regarded as a necessary precondition for economic development as it boosts productivity and thus, the development prospects of the regions concerned by facilitating the movement of people and goods. Transport networks boost opportunities for trade, while increasing efficiency. Furthermore, the development of Europe-wide transport infrastructures (notably the relevant parts of the thirty priority projects for Trans-European Transport Networks), with a particular focus on cross-border projects, is essential to achieving greater integration of national markets, especially within the context of an expanded Union.

Infrastructure investment needs to be adapted to the specific needs and level of economic development of the regions and countries concerned. These needs are generally highest in the Convergence regions and in the countries covered by the Cohesion Fund. Typically, infrastructure investments (as with other investments) show diminishing rates of return above a certain level of funding. The economic returns on such investments are high when infrastructure is scarce and basic networks have not been completed, but they are likely to decrease once a certain level has been reached.

The level of regional economic development and the existence of large infrastructure endowments should thus be taken into account. In the least developed regions and countries, international and interregional connections may offer higher returns over the longer term in the form of increased business competitiveness and also facilitate labour mobility. On the

other hand, for regions with a dispersed, small-scale economic base and a settlement pattern based on small towns, the construction of a regional transport infrastructure may be more appropriate. In regions with inadequate road networks, funding should also be available to build economically vital road links. The challenges of mobility and accessibility in urban areas should also be tackled, supporting integrated management systems and clean transport solutions.

In order to maximise the benefits deriving from transport investments, assistance from the Funds should be based on a number of principles.

First, objective criteria should be used to determine the level and nature of the infrastructure investment to be undertaken. For instance, potential rates of return should be measured by the level of economic development and the nature of economic activities of the regions concerned, the prevailing density and quality of infrastructures or the degree of congestion. When determining the social rates of return, due account should also be taken of environmental and social implications of prospective infrastructure projects.

Second, the principle of environmental sustainability should be respected to the greatest possible extent, in accordance with the White Paper¹³. Shifts to the more environmental friendly modes should be pursued. However, the environmental and general performance of each mode of transport should be optimised, in particular concerning the use of infrastructure within and across the different modes¹⁴.

Third, particular attention should be paid in the Convergence regions and in the countries covered by the Cohesion Fund to modernising the railway system by carefully selecting the priority sections, ensuring their interoperability within the framework of the European Rail Transport Management System (ERTMS).

Fourth, investments in transport infrastructure should be accompanied by proper traffic management, with particular attention to safety, in accordance with national and Community standards. National or regional strategies should take into account the need to achieve a balanced (and clean) modal split that serves both economic and environmental needs. Strategies should include, for example, intelligent transport systems, multi-modal platforms and, in particular, technology used for the ERTMS, mentioned above and for the Single European Sky ATM Research Programme (SESAR - for a more uniform air traffic management system in Europe).

¹³ "European transport policy for 2010 : time to decide". COM(2001) 370.

¹⁴ "Keep Europe moving. Sustainable mobility for the European continent". COM(2006)314, 22.6.2006.

Based on the above principles, the guidelines for action are as follows:

- Member States and regions eligible for funding under the Convergence objective¹⁵ or the Cohesion Fund, should give priority to those of the 30 projects of European interest where they fall within their territory. Within this group of projects, cross-border links merit special attention. Member States should make use of the co-ordinators as a means of shortening the time that elapses between designation of the planning of the network and the physical construction. Other TEN projects, and strategic transport links, should be supported where this is a strong case in terms of their contribution to growth and competitiveness.
- Complementary investment in **secondary connections** will also be important in the context of an integrated regional transport and communications strategy covering urban and rural areas, in order to ensure that the regions benefit from the opportunities created by the major networks.
- Support for **rail infrastructure** should seek to ensure greater access. Track fees should facilitate access for independent operators. They should also enhance the creation of an EU-wide interoperable network. Compliance and applications of the interoperability and the fitting of ERTMS on board and on track should be part of all projects financed.
- Promoting environmentally sustainable **transport networks**, particularly in urban areas. This includes public transport facilities (including park-and-ride infrastructures), mobility plans, ring roads, increasing safety at road junctions, soft traffic (cycle lanes, pedestrian tracks). It also includes actions providing for accessibility to common public transport services for certain target groups (the elderly, disabled persons) and providing distribution networks for alternative vehicle fuels. Inland navigation routes can also contribute to the sustainability of networks.
- In order to guarantee the optimum efficiency of transport infrastructures for promoting regional development, attention should be paid to improving the **connectivity** of landlocked territories to the Trans-European network (TEN-T). In this respect, the development of secondary links, with a focus on inter-modality and sustainable transport, will help. In particular, harbours and airports should be connected to their hinterland.
- More attention should be paid to developing the “**motorways of the sea**” and to short-sea shipping as a viable alternative to long-distance road and rail transport.

Where Member States receive support at the same time from both the Cohesion Fund and the Structural Funds, a distinction should be made in the programmes between the types of actions funded by each of the Funds, with the Cohesion Fund playing the key role in support of Trans-European transport networks.

In turn, the Structural Funds should generally focus on the development of infrastructure linked to measures to stimulate economic growth (such as tourism development, improvements to increase the attractiveness of industrial sites, etc.). With regard to road infrastructure, investments shall also fit the overall goal of road safety.

¹⁵ OJ L 167, 30.04.2004, p. 1.

Co-financing from the Cohesion Fund and the Structural Funds should complement grants from the budget for Trans-European Networks while avoiding duplication in terms of Community assistance. Member States individually will need to determine in advance the instrument most suited to the planned projects. Cohesion policy funding can be combined with the loan guarantee part of the TEN instruments.

4.1.2. Strengthen the synergies between environmental protection and growth

Environmental investments can contribute to the economy in three ways: they can ensure the long-term sustainability of economic growth, they decrease external environmental costs to the economy (e.g. health costs, clean-up costs or damage recovery) and they stimulate innovation and job creation. Future cohesion programmes should seek to strengthen potential synergies between environmental protection and growth. The provision of environmental services such as clean water supplies, waste and waste-water treatment infrastructures, management of natural resources and biodiversity, the decontamination of land to prepare it for new economic activities, and protection against certain environmental risks, should all have high priority in this context.

In order to maximise economic benefits and minimise the costs, priority should be given to tackling environmental pollution at its sources. In the waste management sector, this implies focusing on waste prevention, recycling and biodegradation of waste which are cost-effective and help to create jobs.

Development strategies should be based on a prior evaluation of needs and specific issues faced by regions, where possible using appropriate indicators. Efforts should be made to promote the internalisation of external environmental costs, with support for the setting up and development of market-based instruments (see, for example, instruments proposed in the Environmental Technologies Action Plan). Attention is drawn in this context to the initiative Global Monitoring for Environment and Security, which from 2008 will provide Europe-wide, up-to-date information on land-cover/land-use and ocean properties as well as incident maps in case of disasters and accidents.

Accordingly, the recommended guidelines for action are the following:

- Addressing the significant needs for investment in **infrastructure**, particularly in the Convergence regions and especially in the new Member States, to comply with environmental legislation in the fields of water, waste, air, and nature and species protection and bio-diversity.
- Ensuring that **attractive conditions exist for businesses and their highly-skilled staff**. This can be ensured by promoting land-use planning which reduces urban sprawl, and by rehabilitating the physical environment, including the development of natural and cultural assets. Investments in this area should be clearly linked to the development of innovative and job-creating businesses on the sites concerned.
- Promoting, in addition to the investments in sustainable energy and transport covered elsewhere, investments that contribute to the EU **Kyoto commitments**.
- Undertaking **risk prevention** measures through improved management of natural resources, more targeted research and better use of ICTs, and more innovative public management policies including, for example, preventive monitoring.

Where Member States receive support from both the Cohesion Fund and the Structural Funds, a clear distinction should be made in the programmes between the types of actions funded by each of the Funds, respectively.

4.1.3. Address Europe's intensive use of traditional energy sources

A related priority is the need to reduce traditional energy dependency through improvements in energy efficiency and renewable energies. Investments in these fields contribute to security of energy supply for long-term growth, while acting as a source of innovation and providing opportunities for exports, and are cost effective especially if energy prices remain high.

Investment in traditional sources of energy is also needed, so as to ensure security of supply. In particular, the Funds should concentrate – where there is evidence of market failure and where it does not go against the liberalisation of the market – on the completion of interconnections, with special emphasis on the Trans-European networks, the improvement of electricity grids and the completion and improvement of gas transmission and distribution networks including where appropriate in insular and outermost regions.

Guidelines for action under this heading are the following:

- Supporting projects to improve **energy efficiency**, for example in buildings, and dissemination of low energy intensity development models.
- Supporting the development and use of **renewable and alternative technologies** (such as wind, solar, biomass), including in heating and cooling, which can give the EU a leading edge and thus strengthen its competitive position. Such investments also contribute to the Lisbon objective of ensuring that, by 2010, 21% of electricity is generated from renewable sources.
- Concentrating investment in traditional energy sources to develop the **networks** where there is evidence of market failure. These investments mostly concern the Convergence regions.

4.2. GUIDELINE: Improving knowledge and innovation for growth

The Union's aims of growth and job creation will require a structural shift in the economy towards knowledge-based activities. This calls for action on a number of fronts: to address low levels of Research and Technological Development (RTD), especially in the private sector; to promote innovation through new or improved products, processes and services which can withstand international competition; to increase regional and local capacities to generate and absorb new technologies (ICTs in particular); and to provide more support for risk-taking.

RTD expenditure as a percentage of GDP has been increasing, but only marginally and, at 1.9% of GDP, remains well short of the Lisbon target of 3%¹⁶. It is estimated that an increase in the share of RTD expenditure from 1.9% to 3% of GDP (in order to reach the Lisbon target by 2010) will result in an increase of 1.7% in the level of GDP by 2010¹⁷. While the shortfall in business investment in RTD remains significant, there are signs that public investment in

¹⁶ “Investing in research: an action plan for Europe”. COM(2003) 226, 30.4.2003.

¹⁷ “The economic costs of non-Lisbon” - SEC(2005) 385, 15.3.2005.

this field is also coming under pressure. The RTD and innovation gap within and between countries, particularly in relation to business expenditure on RTD, is much bigger than the income gap. While a combination of national and Community initiatives have been undertaken, more action is needed to match business needs with RTD supply from public and private RTD institutions. Europe's innovation gap is widening: the European Innovation Scoreboard shows that Europe lags behind the US in 9 out of 11 Innovation indicators¹⁸. Also *within* Europe, the innovation gap persists, as the Union too often fails to transform technological development into commercial products and processes. Cohesion policy can help to address the main problems behind Europe's underperformance in innovation, including ineffective innovation systems, insufficient entrepreneurial dynamism or slow business adoption of ICT.

In this context, it is necessary to enhance national and regional RTD capacities, to support investment in ICT infrastructure, and to disseminate technology and knowledge through appropriate technology transfer and knowledge exchange mechanisms. Awareness-raising to promote a better use of existing RTD potential could be encouraged by regional 'foresight' and other regional strategic planning methods, involving regular and systematic dialogue with key stakeholders. It is also important to enhance the RTD absorption capacity of firms, particularly SMEs, through actions to develop skills and competencies; to encourage the creation and exploitation of a larger pool of high-quality research talent in Europe; to increase private and public investment in RTD and innovation; and to encourage RTD partnerships across the different regions of the Union. European Technology Platforms, for example, offer the potential to better tailor research programmes to business needs; cohesion policy can play an important role in supporting implementation of their Strategic Research Agendas across the Union including in less developed regions.

While direct grants remain important, notably in Convergence regions, there is a need to focus on the provision of collective business and technology services to groups of firms, in order to help them improve their innovative activity. Direct grants to individual firms should be targeted at improving the RTD and innovation capacity of the firm, rather than at a temporary reduction of its production costs generating high deadweight effects. This is particularly important in traditional sectors, particularly those exposed to global competition which need additional efforts in order to remain competitive, as well as in SMEs which often represent the highest source of employment at the regional level. Most importantly, these policies need to be adapted to the particular conditions of each region, and in particular to the needs of SMEs. National, regional, and local strategies should be based on a comprehensive analysis of RTD investment opportunities.

Knowledge and innovation are at the centre of the Union's efforts to promote faster growth and more jobs. Two related framework programmes are proposed at Union level: the Seventh Framework programme for RTD and the Competitiveness and Innovation Framework Programme (CIP). Synergy between cohesion policy and these instruments is vital so that research and cohesion policies mutually reinforce each other at regional level with national and regional development strategies showing how this will be achieved. Cohesion policy can help all regions to build up research and innovation capacity, thus contributing to the effective participation of those regions in the European Research Area and research and innovation activities of the Union in general. In particular, it has two important roles to play. The first is in helping regions to implement regional innovation strategies and action plans which

¹⁸ SEC(2004) 1475.

potentially can have a significant impact on competitiveness, both at regional level and in the Union as a whole; the second is in contributing to raising the research and innovation capacity in the region up to a level where it can participate in transnational projects for research.

Regional strategies should thus concentrate on investing in RTD, innovation and entrepreneurship; ensuring that these investments respond to the economic development needs of the region and that the capacity exists to transform into marketable product, process and service innovation; enhancing technology transfer and knowledge exchange; promoting the development, dissemination and uptake of ICTs within firms, and ensuring that enterprises willing to invest in high added value goods and services have access to finance. Such strategies should make specific provision for experimentation, with a view to increasing the capacity of policy interventions and intermediary organisations to stimulate regional and local actors, in particular SMEs, to innovate.

4.2.1. Increase and better target investment in RTD

The competitiveness of European enterprises crucially depends on their ability to bring new knowledge to the market as quickly as possible. This ability is strengthened by public support for RTD which can be justified where market failures are identified and by the public character of certain RTD investments. In addition, issues of ownership of research results and the need to achieve critical mass in certain research sectors provide justification for government support for RTD.

The specific nature of RTD should be considered when implementing regional policy. In particular, RTD requires close interaction between the players to encourage the formation of poles of excellence which are needed to reach critical mass. Geographical proximity through the existence of clusters of SMEs and innovation poles around public research institutions for instance, can play a key role. As a result, RTD activities necessarily have to be spatially concentrated while the absorptive capacity of low RTD-intensive areas is fostered.

RTD in the less developed Member States and regions should be developed around existing poles of excellence and avoid the excessive spatial dispersion of resources. Here also, European Technology Platforms can help focus investments on priority areas for research. Investments should also complement European priorities set out in the Seventh Framework Programme and support the objectives of the renewed Lisbon agenda. Priority should be given to the development of new and marketable products, services and skills.

Actions in RTD should be aligned with EU RTD policy and the needs of regions in question. In terms of method, these need be based on a sound analytical approach, such as foresight; as well as use of indicators, such as patents; human resources in RTD; location of private and public research institutions; and on the existence of clusters of innovative businesses.

The guidelines for action in the field of RTD can be identified as follows:

- Strengthening co-operation among businesses and between businesses and public research/tertiary education institutions, for example, by supporting the creation of regional and trans-regional **clusters** of excellence.
- Supporting **RTD activities in SMEs** and technological transfer (enabling SMEs to access RTD services in publicly-funded research institutions).

- Support for regional **cross-border and transnational initiatives** aimed at strengthening research collaboration and capacity building in priority areas of EU research policy.
- Strengthen **R&D capacity building**, including ICT, research infrastructure and human capital in areas with significant growth potential.

Programmes - particularly for regions eligible under the Convergence objective - can contribute to developing RTD infrastructure (including regional high-speed data networks between and within research establishments), education infrastructure (in regions eligible under the Convergence objective), equipment and instrumentation in both publicly funded research institutions and businesses, provided that these investments are directly linked to regional economic development objectives. This may include research infrastructure for which the feasibility studies have been financed from earlier Framework Programmes. Support for Seventh Framework Programme priorities should seek to develop the full potential of emerging and existing centres of excellence and to step up investment in human capital, particularly by training researchers at national level and by creating conditions to attract researchers trained abroad.

4.2.2. Facilitate innovation and promote entrepreneurship

Innovation is the result of complex and interactive processes, including the ability of enterprises to connect to complementary knowledge from other market players, organisations and institutions.

Investments in innovation represent an overarching priority for cohesion policy under both the Convergence and Regional competitiveness and employment programmes. Their co-financing should be a major priority in the regions covered under the latter, where limited financial resources need to be concentrated so as to reach critical mass and generate a leverage effect.

The main objective should be to promote a business climate which promotes the production, dissemination and use of new knowledge by firms. In order to create efficient regional innovation systems, economic, social and political actors need to be brought into contact with the leading edge of technology and business practice in the world, beyond the national or local levels. In this respect, co-operation should be also sought with the Innovation Relay centres and the Euro-Info-Centres which are financed under the CIP, especially in the field of trans-national technology and diffusion of information.

Start-up companies, particularly those linked to RTD, need to be supported with the aim of developing partnerships with research institutions based on a longer-term vision and clear market orientation. Cohesion policy should seek to compensate for market failure that hampers innovation and entrepreneurship. Actions should seek to build on existing poles of activity in order to exploit regional potential for RTD and to foster networking and technological cooperation within and between regions.

Public authorities should ensure that research institutions, the private sector and the public sector exploit to the full the potential synergies between them.

In terms of method, economic development strategies would be improved by the collection of data on existing innovative activities in the regions concerned, for example, on private patenting or on the nature, scope and development potential of existing clusters of innovative activities, including those which involve both private and public research institutions. The

Community Innovation Surveys and the European Innovation Scoreboard are also helpful in this regard.

The guidelines for action under this heading are the following:

- Making regional RTD innovation and education supply more efficient and accessible to firms, in particular SMEs, for example by establishing **poles of excellence**, bringing together high technology SMEs around research and technological institutions, or by developing and creating regional **clusters** around large companies.
- Providing **business support services** to enable enterprises, and in particular SMEs, to increase competitiveness and to internationalise, in particular by seizing the opportunities created by the Internal Market. Business services should prioritise the exploitation of synergies (for example, technology transfer, science parks, ICT communication centres, incubators and related services, co-operation with clusters) and give more traditional support in the areas of management, marketing, technical support, recruitment, and other professional and commercial services.
- Ensuring full exploitation of European strengths in the area of **eco-innovations**. Eco-innovations should be promoted, together with the improvement of SME practices through the introduction of environmental management systems. By investing in this area now, EU businesses will be in a strong position in the near future when other regions appreciate the necessity of such technologies. This is an area with a clear link to the Competitiveness and Innovation Framework Programme.
- Promoting **entrepreneurship**, facilitating the creation and **development of new firms**, and promoting spin-out and spin-off companies from research institutions or firms using a variety of techniques (for example, awareness raising; prototyping; tutoring and the provision of managerial and technological support to entrepreneurs-to-be).

It is important to ensure that companies, including SMEs, can make commercial use of research results.

Business services should preferably be delivered by the private sector or by mixed public-private organisations. The services should be top-class, readily available, easy to access and responsive to the needs of SMEs. The quality of the services should be defined and monitored and there should be coherence between service providers, e.g. by establishing public-private partnerships and one-stop shops.

Administrative procedures are often too complex. Information and initial support should be available from a network of one-stop shops, which could provide the interface between the public sector and the grant applicant; this should include the various actions cofinanced by Cohesion Policy. These providers should have competence for the full range of state aids - independently of national or regional responsibilities - and targets for the efficiency of their operation which are monitored regularly.

Whenever the circumstances are appropriate, tailored support should be made available to specific categories of business (e.g. start-ups or recently transferred companies) or entrepreneurs (e.g. young people, women, older workers or those from ethnic minority communities). Entrepreneurship education should also be encouraged in schools.

4.2.3. *Promote the information society for all*

The dissemination of ICT across the Union's economy represents a major lever for improving both productivity levels and the competitiveness of regions. The dissemination of ICT also encourages the re-organisation of production methods and the emergence of new business and private services. The efficient and effective delivery of public services - in particular e-government and e-health – has a significant potential for economic growth and for enabling new services. Technology dissemination can contribute to regional development by favouring the creation and growth of poles of excellence in ICT activities and developing connectivity and networking among enterprises and SMEs in particular. Measures should encourage the development of products and services with a view to facilitating and stimulating private investment in ICT while guaranteeing competition in the ICT sector.

Policy measures should therefore focus on connectivity. This includes improving innovation support services for SMEs with the particular objective of boosting technology transfer between research institutions and enterprises. It also requires the development of the skills needed in the knowledge economy and to develop content through the delivery of applications and services (such as e-government, e-business, e-learning, e-health), which provide interesting alternatives to other, often more costly, service delivery models. This is particularly relevant for remote and sparsely-populated areas, as well as for the outermost regions, islands or areas with natural handicaps. Clearly the use and development of products and content-based services can only work if the appropriate infrastructure is available and capable of supporting broadband services. It is therefore important that an appropriate broadband communication infrastructure is available across the Union at an accessible cost.

As a general rule, investment in ICT infrastructure should take into account rapid technological development, respect for the principles of technological neutrality and open access. Compliance with competition rules and with the implementation of the regulatory framework for electronic communications is essential.

Actions need to be based on context indicators related to the existing economic structure (including industrial specialisation; level of economic development; quality of connectivity to ICTs and potential synergies between regional poles of economic activity). The identification of regional needs should take into account existing Union initiatives in favour of ICTs, in particular the i2010 – a European Information Society for growth and employment¹⁹.

Given that ICTs cut across all sectors of economy and society, it is imperative that Member States and regions develop compatible information society strategies which ensure coherence and integration among sectors, by balancing supply and demand measures on the basis of local requirements, stakeholders' participation, and strong public political support.

¹⁹ COM(2005) 229.

The guidelines for action are as follow:

- Ensuring uptake of ICTs by firms and households and promoting development through the balanced support for the supply and demand of ICT **products and both public and private services**, as well as through increased investment in human capital. These actions should increase productivity, promote an open and competitive digital economy and an inclusive society (for example, improving accessibility for disabled and elderly people), and thus boost growth and jobs.
- Ensuring **availability of ICT infrastructure** and related services where the market fails to provide it at an affordable cost and to an adequate level to support the required services, especially in remote and rural areas and in new Member States.

4.2.4. *Improve access to finance*

Another key ingredient for the promotion of knowledge and innovation is to facilitate access to finance. For the purpose of fostering growth and job creation, it must be sufficiently rewarding for entrepreneurs and enterprises to invest in the development and production of goods and services than to focus efforts, for example, on rent-seeking activities.

Access to finance in this context is often difficult, thus creating an obstacle to growth and job-creation. Improving access to capital both for RTD activities and for start-ups is important. Risk capital markets related to innovation activities need to be developed in conjunction with a better regulatory environment that makes entrepreneurship easier.

These programmes could be undertaken in close cooperation with the European Investment Fund (EIF) under the JEREMIE initiative in order to develop financial resources in areas where entrepreneurship is hampered by market failures owing to the high risks associated with RTD activities. Due account must also be taken of the impact of government support for business creation, in order to avoid the crowding-out of private investment and measures that are damaging to competition. Coordination between funds should also be enhanced.

Private equity and venture capital, and rotating funds for innovative start-ups should play the essential role as an engine for entrepreneurship, innovation and job creation; public sector institutions are not always best suited to risk-taking. The priority should be to create or expand specialised providers of risk capital and bank guarantees, where there is market failure. Typically, they will be more effective if they provide an integrated package of support, starting with training prior to the business start-up or expansion.

Based on these principles, the guidelines for action are:

- Supporting **non-grant instruments** such as loans, secured debt financing for subordinate debt, convertible instruments (mezzanine debt) and risk capital (e.g. seed capital and venture capital). Grants should be used to build and maintain infrastructures that facilitate access to finance (e.g. technology transfer offices, incubators, “business angels” networks, investment readiness programmes). Guarantee and mutual guarantee mechanisms could also be supported to facilitate access to micro-credit by SMEs. The EIB and the EIF could provide valuable input in this regard.

- Developing an integrated approach that simultaneously supports innovation, its transfer into new commercial activity and the availability of risk capital.
- Outreaching to certain **specific groups**, for example, young or female entrepreneurs or disadvantaged groups.

It is particularly important to work closely with the EIF in view of the expertise it has developed over a number of years, in order to give SMEs the required support, while developing the European risk capital market at the same time. This could involve participation in the JEREMIE initiative.

JEREMIE: improving access to finance

In order to improve access to finance for business development, a new initiative has been established in partnership with the EIF. The initiative, Joint European Resources for Micro to Medium Enterprises (“JEREMIE”), began work in 2006 with an evaluation of the gaps in the provision of financial engineering products in Member States and regions (such as venture capital funds, loans and guarantees).

This will prepare the ground for a second phase in which the EIF or similar financial institution will support the authorities responsible for cohesion programmes to bridge the gaps identified. This support will take the form of expert management of resources set aside under the programme for developing access to finance, and attracting and accrediting financial intermediaries who would on-lend for business development. It is envisaged that the grant contribution under the programme will lever in significant additional loan capital from the international financial institutions, and the financial sector in general. The successful implementation of the JEREMIE initiative will, however, require the full support and cooperation on the part of the authorities in the Member States and regions.

4.3. GUIDELINE : More and better jobs

In relaunching the Lisbon strategy, the European Council endorsed a single set of Guidelines bringing together the Broad Economic Policy Guidelines and the Guidelines of the European Employment Strategy²⁰, thereby integrating macro-economic, micro-economic and employment policies for growth and jobs. In accordance with the Fund regulations²¹, in the sphere of employment and human resources the priorities of the Community Strategic Guidelines on cohesion are those of the European Employment Strategy²² supplemented by the EU Employment Recommendations which provide country-specific priorities.

The drive for full employment and higher productivity depends on a wide variety of actions, including those already discussed above. Investment in infrastructure, business development and research improve job opportunities, both in the short run as a result of first round effects and in the longer run as a result of their positive effect on competitiveness. To maximise employment and create high quality permanent jobs from these investments, human capital should be further developed and enhanced.

²⁰ OJ L 205, 12.7.2005, p. 21.

²¹ Article [2] of Regulation (EC) No. [...] of the European Parliament and of the Council on the European Social Fund repealing regulation (EC) No 1784/1999. OJ L, Date , p.

²² COM(2005) 141, 12.4.2005

In terms of human capital development, the Employment Guidelines highlight three priorities for action for Member States' policies:

- attract and retain more people in employment and modernise social protection systems;
- improve adaptability of workers and enterprises and the flexibility of the labour markets;
- increase investment in human capital through better education and skills.

In addition to these priorities, appropriate attention should be given to investments to improve efficiency in public administration, as well as to education, social and health infrastructures.

Cohesion policy should focus on addressing the specific challenges of the European Employment Strategy in each Member State, by supporting actions under the convergence and the regional competitiveness and employment objectives, taking into account the scope of activities defined in the legislative framework. The range of eligible actions and financial resources is greater for the former objective. For the latter, EU resources will need to be much more focused to achieve a significant impact.

Employment and human resource development programmes should take into account the country specific challenges and priorities as highlighted in Employment Recommendations. The programmes whether managed at national or regional level, should effectively address territorial disparities and be adapted to needs in different areas.

Finally, one of the most visible aspects of European value added in the 2000-2006 period of the Structural Funds was the support to Member States and regions to exchange experiences, and build up networks, thus promoting innovation. In this context, the experience gained through EQUAL Community Initiative should be capitalised through the mainstreaming of the principles upon which it was built – innovation; transnationality; partnership; gender mainstreaming.

4.3.1. Attract and retain more people in employment and modernise social protection systems

Widening the base of economic activity, raising employment levels and reducing unemployment are vital to sustain economic growth, promote socially inclusive societies and combat poverty. Increasing participation in employment is all the more necessary because of the expected decline in the working age population. In the framework of the Employment Guidelines, Guidelines for action under this heading are the following:

- Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion
- Promote a life-cycle approach to work
- Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive.
- Improve matching of labour market needs.

Actions should be based on prior identification of needs by, for instance, using relevant national and/or regional indicators such as unemployment and participation rates, long-term

unemployment rates, population at risk of poverty rates and level of income. Attention should be paid to the local level, where acute disparities may fail to be picked up by regional level statistics.

The presence of efficient and effective labour market institutions, notably employment services that can respond to the challenges of rapid economic and social restructuring and demographic ageing is essential in order to support service delivery to job seekers, the unemployed and disadvantaged people and could be supported by the Structural Funds. These institutions have a pivotal role to play in implementing active labour market policies and providing services on a personalised basis with a view to promoting occupational and geographical mobility and matching labour supply and demand, including at local level. They should help to anticipate shortages and bottlenecks in the labour market and occupational and skills requirements. Positive management of economic migration would also be assisted as a result. Easy access to and transparency of the services on offer are crucial. The EURES network is central to increasing occupational and geographic mobility, both at European level and nationally²³.

An important priority should be to strengthen active and preventive labour market measures to overcome obstacles to entering or remaining in the labour market and to promote mobility for job seekers, the unemployed and inactive, older workers as well as those at risk of becoming unemployed, with particular attention to low-skilled workers. Action should focus on the provision of personalised services, including job search assistance, job placement and training to adjust the skills of job-seekers and employees to the needs of local labour markets. The potential for self-employment and business creation, ICT skills and digital literacy should be fully taken into account. Special attention should be paid to:

- implementing the European Youth Pact, by facilitating access to employment for young people, by easing the transition from education to work, including through career guidance, assistance in completing education, access to appropriate training and apprenticeships;
- implementing the European Pact for gender equality by mainstreaming and by specific action to increase women's participation in employment, to reduce occupational segregation and address gender pay gaps and gender stereotyping and to promote more family-friendly working environments, and the reconciliation of professional and private life. Facilitating access to childcare and care services for dependent persons is crucial, alongside gender mainstreaming in policies and measures, awareness-raising and dialogue among stakeholders;
- specific action to strengthen access of migrants to the labour market and facilitate their social integration, through training and validation of competences acquired abroad, personalised guidance, language training, appropriate support for entrepreneurship and awareness raising among employers and migrant workers about their rights and obligations, and strengthening the enforcement of anti-discrimination rules.

Another important priority should be to ensure inclusive labour markets for people at a disadvantage or at risk of social exclusion, such as early school-leavers, the long-term

²³ Set up in 1993, EURES is a co-operation network between the European Commission and the Public Employment Services of the EEA Member States (EU Member States plus Norway, Iceland and Liechtenstein) and other partner organisations.

unemployed, minorities and people with disabilities. This calls for an even broader range of support to build pathways to integration and combat discrimination. The aim should be to:

- improve their employability by enhancing participation in vocational education and training, rehabilitation and appropriate incentives and working arrangements, as well as the necessary social support and care services, including through the development of the social economy;
- combat discrimination and promote the acceptance of diversity in the workplace through diversity training and awareness-raising campaigns, in which local communities and enterprises would be fully involved.

4.3.2. Improve adaptability of workers and enterprises and the flexibility of the labour market

In the light of increasing pressures from globalisation, including sudden and unexpected trade shocks, and the continual introduction of new technologies, Europe must increase its capacity to anticipate, trigger and absorb economic and social change. In the framework of the Employment Guidelines, Guidelines for action under this heading are the following:

- Promote flexibility combined with employment security, and reduce labour market segmentation, having due regard to the role of the social partners.
- Ensure employment-friendly labour cost developments and wage-setting mechanisms.

The main focus should be on actions to promote investment in human resources by enterprises, especially SMEs, and workers through the provision of lifelong learning strategies and systems which equips employees, in particular low-skilled and older workers, with the necessary skills to adapt to the knowledge economy and to prolong their working life. Attention should be given in particular to:

- the development of lifelong learning strategies and systems including mechanisms such as regional and sector funds, with the aim of increasing investment by enterprises and participation of workers in training;
- Implementation of such strategies by contributing to the funding of schemes and training activities. Priority should be given to SMEs, including facilitating their access to external sources of competence, financial engineering, such as the JEREMIE instrument and training solutions – with emphasis being placed on ICT and management skills. Particular attention should be paid to increasing the participation of the low-skilled and older workers in training and re-training.

Better anticipation and positive management of economic restructuring, especially as a result of changes linked to the opening-up of trade, are particularly important. Consideration should be given to creating monitoring systems involving the social partners, enterprises and local communities, to scrutinising socio-economic changes at national, regional and local level, and assessing future economic and labour market trends. Support for the programmes aimed at modernisation of labour markets and anticipation of gradual changes throughout the Union particularly in sectors such as agriculture, textiles, automobiles and mining, needs to be put in place, alongside active measures to reinforce the economic well-being of regions. There is also a role for specific employment, training and support services for workers in the context

of company and sector restructuring, such as rapid response schemes in the case of collective lay-offs.

Attention should also be given to developing and disseminating knowledge on innovative and adaptable forms of work organisation to take advantage of new technologies - including teleworking, improving health and safety at work (e.g. industrial safety), increasing productivity and promoting better reconciliation of work and family life. This may also include raising awareness of corporate social responsibility, developing consciousness as regards employment rights, initiatives for respecting the labour code, reducing the grey economy and ways to transform undeclared work into regular employment.

Social partners have an important role to play in setting up mechanisms that ensure the flexibility of the labour market. Therefore Member States should encourage the participation of social partners in activities under this priority. Further, under the Convergence objective, an appropriate amount of the European Social Fund (ESF) resources shall be allocated to capacity-building, which shall include training, networking measures, strengthening the social dialogue and activities jointly undertaken by the social partners.

4.3.3. Increase investment in human capital through better education and skills

Europe needs to invest more in human capital. Too many people do not enter or remain in the labour market, because of lack of skills including in basic literacy and numeracy, or due to skills mismatches. To enhance access to employment for all ages and to raise productivity levels and quality at work, there is a need to step up investment in human capital and to develop and implement effective national lifelong learning strategies for the benefit of individuals, enterprises, the economy and society. In the framework of the Employment Guidelines, Guidelines for action under this heading are the following:

- Expand and improve investment in human capital
- Adapt education and training systems in response to new competence requirements.

Reforms in labour market training to attract more people into employment and increase adaptability of workers and enterprises need to be coupled with reforms in education and training systems. In previous programming periods, the Structural Funds have invested substantially in education and training systems. In the next programming period, the investment in human capital should be reinforced by focusing on the Lisbon objectives in line with the integrated guidelines for growth and employment. The following general priorities should be addressed:

- expanding and improving investment in human capital including the development of appropriate incentives and cost-sharing mechanisms for enterprises, public authorities and individuals;
- supporting coherent and comprehensive lifelong learning strategies, with particular attention given to addressing the skill needs of the knowledge economy, including support to co-operation and the establishment of partnerships between Member States, regions and cities in terms of education and training to facilitate the exchange of experience and good practice, including innovative projects. Particular attention should be given to addressing the needs of disadvantaged groups;

- supporting the design and introduction of reforms in education and training systems using where relevant common European references and principles, in particular to raise the labour-market relevance of education and training;
- strengthening the links between universities, research and technological centres and enterprises, in particular through networking activities and joint actions.

Under the Convergence objective, many Member States and regions are faced with very significant education and training challenges. Financial resources should be used for the implementation of reforms, which should address the following specific priorities:

- ensuring an adequate supply of attractive, accessible and high quality education and training provision at all levels, including the improvement of staff competences and qualification, promoting flexible learning pathways and new options starting as early as the school and preschool stage, actions to achieve a significant decline in early school-leaving and higher completion rates of upper secondary education and improved access to pre-school and school education;
- supporting the modernisation of higher education and the development of human potential in research and innovation, through post-graduate studies, further training of researchers, and attracting more young people into scientific and technical studies;
- promoting the quality and attractiveness of vocational education and training, including apprenticeships and entrepreneurship education;
- ensuring, where appropriate, greater mobility at regional, national or transnational level, and promoting frameworks and systems to support the transparency and recognition of qualifications and the validation of non-formal and informal learning;
- investment in education and training infrastructure including ICTs, where such investments are necessary for the implementation of reform and/or where they can significantly contribute to increasing the quality and effectiveness of the education and training system.

4.3.4. *Administrative Capacity*

In previous programming periods, the Funds have, through technical assistance, reinforced the management capacity of Member States and managing authorities in implementing the regulations. This will also apply for the period 2007 to 2013.

Above and beyond the management of the Funds, effective administrative capacity of public administrations and public services i.e. smart administration, is a fundamental requirement for economic growth and jobs. Thus in line with the revised Lisbon Strategy which calls for better legislation, policy design and delivery to create the conditions for economic growth and job creation, the Funds will support investment in the human capital and related ICT facilities of administrative and public services at all territorial levels.

For Cohesion countries and regions under the Convergence objective, increasing productivity and quality at work in the public sector - especially in the economic, employment, social, educational, health, environmental and judicial areas, is essential to pursue and accelerate reforms, to raise productivity and growth in the wider economy and to promote social and territorial cohesion and sustainable development. The Structural Funds can play an important

role in supporting effective policy design and implementation, which involves all relevant stakeholders, in a broad range of fields.

Therefore, Cohesion countries and regions falling under the Convergence Objective are called upon to build up public administrations and public services at national, regional and local level. Actions in this field should take into account the specific situation of each Member State. Thus, in line with the principle of concentration, Member States are invited to conduct a comprehensive analysis to identify the policy areas requiring the most support for administrative capacity. Investment should concentrate on those policy areas where there are the greatest obstacles to socio-economic development and on the key elements of administrative reforms.

Member States should ensure that the need to increase efficiency and transparency in public administrations and to modernise public services is adequately addressed. Guidelines for action under this heading are the following:

- **Support good policy and programme design**, monitoring, evaluation and impact assessment, through studies, statistics, expertise, and foresight, support for interdepartmental coordination and dialogue between relevant public and private bodies;
- **Enhance capacity building** in the delivery of policies and programmes, including with regard to the crime proofing and enforcement of legislation, especially through mapping of training needs, career development review, evaluation, social audit procedures, implementation of open government principles, managerial and staff training and specific support to key services, inspectorates and socio-economic actors.

4.3.5. Help maintain a healthy labour force

In the light of the EU's demographic structure, and ageing population and a likely decline in the labour force in years to come, it is essential that the Union takes steps to increase the number of healthy years of work for members of its workforce. Investment in health promotion and disease prevention will help to maintain active participation in society for as many workers as possible, thus maintaining their economic contribution and reducing dependency levels. This has a direct effect on productivity and competitiveness, as well as having important positive spin-offs for quality of life in general.

There are major differences in health status and access to health care between European regions. It is therefore important for cohesion policy to contribute to health care facilities, thereby helping to increase the number of healthy years of work in particular in the less prosperous Member States and regions. Community-based health improvement and preventive action have an important role to play in reducing health inequalities. Good health care translates into greater participation in the labour market, longer working life, higher productivity and lower healthcare and social costs.

It is important for cohesion policy, especially in regions lagging behind, to contribute to the improvement of long-term care facilities and invest in the improvement of health infrastructure, in particular when their absence or insufficient development represent a major barrier to economic development. Member States should ensure that the need to increase efficiency in health care systems is addressed through investment in ICT, knowledge and innovation. Guidelines for action under this heading are the following:

- **Preventing health risks** to help raise productivity levels by means of health information campaigns and by ensuring a transfer of knowledge and technology and ensure that health services have the necessary skills, products and equipment to prevent risks and minimise their potential damage.
- **Filling the gaps in health infrastructure** and promoting efficient provision of services where the economic development of the less prosperous Member States and regions is being affected. This action should be based on a thorough analysis of the optimal level of services provision and appropriate technology, such as telemedicine and the cost-saving potential of e-health services.

5. THE TERRITORIAL DIMENSION OF COHESION POLICY

One of the features of cohesion policy - in contrast to sectoral policies - lies in its capacity to adapt to the particular needs and characteristics of specific geographical challenges and opportunities. Under cohesion policy, geography matters. Accordingly, when developing their programmes and concentrating resources on key priorities, Member States and regions should pay particular attention to these specific geographical circumstances.

Taking on board the territorial dimension will help to develop sustainable communities and to prevent uneven regional development from reducing overall growth potential. Such an approach also requires that the specific problems and opportunities of urban and rural areas may need to be addressed as well as those of particular territories such as cross border and broader transnational areas, or regions suffering from other handicaps due to their insularity, remoteness (such as the outermost or Arctic regions), sparse population or mountainous character. The environmental and demographic constraints faced by coastal areas may also need to be addressed. The successful implementation of actions to promote territorial cohesion requires implementing mechanisms that can help to guarantee fair treatment for all territories based on their individual capacities as a factor of competitiveness. Thus, good governance is important to successfully addressing the territorial dimension.

In fact, for the next generation of programmes, promoting territorial cohesion should be part of the effort to ensure that all of Europe's territory has the opportunity to contribute to the growth and jobs agenda. More specifically, this means that a different meaning should be given to territorial cohesion, linked to each Member State's history, culture or institutional situation.

The development of high quality partnerships is also essential, bringing aboard actors at all levels, national, regional, urban, rural and local. Success in the area of territorial cohesion depends on a comprehensive strategy which sets the framework within which specific objectives and actions are pursued.

Under the new legislative framework, Member States have the possibility to delegate to cities, funds addressing urban issues within the new programmes. To get the full benefits of partnership, cities should be involved throughout the process. This includes responsibility for the design and implementation of the sub-delegated portion of the programme.

The new legislative framework also provides for special assistance to outermost regions in order to address the high costs of distance that they face. A particular challenge will be to

ensure that this assistance contributes to the realisation of the strategy of the programme as whole in terms of helping to generate sustainable growth and jobs.

5.1. The contribution of cities to growth and jobs

As outlined in the Commission Communication on cohesion policy and cities, over 60% of the population in the European Union lives in urban areas of over 50,000 inhabitants²⁴. Cities, and metropolitan areas in general, are the home of most jobs, businesses and higher education institutions and are key to achieving social cohesion. European cities and metropolitan areas tend to attract the highly skilled, often creating a virtuous circle that stimulates innovation and business adding to their attractiveness to new talent.

Cities and metropolitan areas concentrate not only opportunities but also challenges and account should be taken of the specific problems facing urban areas, such as unemployment and social exclusion (including the problem of the ‘working poor’), high and rising crime rates, increased congestion and the existence of pockets of deprivation within city boundaries.

Programmes with a focus on urban areas can take several different forms. First, there are actions to promote cities as motors of regional development. Such actions should target improvements in competitiveness, for example, through clustering. Actions supported include measures to promote **entrepreneurship, innovation and the development of services**, including producer services. Attracting and retaining very highly skilled personnel is also important (with measures relating to accessibility, the supply of cultural services, etc).

Second, there are actions to promote internal cohesion inside the urban areas that seek to improve the situation of crisis districts. Not only does this bring direct benefit to the districts themselves, it helps to relieve some of the pressure towards suburban sprawl in pursuit of a better quality of life.

In this context, measures are important that seek to rehabilitate the **physical environment**, redevelop brownfield sites especially in old industrial areas, and preserve and develop the historical and cultural heritage with potential spin-offs for tourism development in order to create more attractive cities in which people want to live. The regeneration of existing public spaces and industrial sites can play an important role in avoiding suburbanisation and urban sprawl, thereby helping to create the conditions necessary for sustainable economic development. More generally, by improving the planning, design and maintenance of public spaces, cities can ‘plan out’ crime, helping to create attractive streets, parks and open spaces which are safe and feel safe. In urban areas, the environmental, economic and social dimensions are strongly interlinked. A high quality urban environment contributes to the priority of the renewed Lisbon Strategy to make Europe a more attractive place to work, live and invest²⁵.

Third, there are actions to promote a more **balanced, polycentric development** by developing the urban network at national and Community level including links between the economically strongest cities and other urban areas including small and medium-sized cities. This will require the making of strategic choices in identifying and strengthening growth poles and, just as important, putting in place the networks that link them in both physical

²⁴ Communication to the Council and Parliament “Cohesion Policy and cities: the urban contribution to growth and jobs in the regions”. COM (2006) [...]. 12.7.2006.

²⁵ Thematic Strategy on the Urban Environment. COM (2005) 718 final.

(infrastructure, information technologies, etc.) and human (actions to promote cooperation, etc.) terms. Since these poles serve wider territories, including the immediate rural hinterland, they contribute to a sustainable and balanced development of the Member State and the Community as a whole. In a similar way, rural areas provide services to the wider society, for example, in the form of recreational opportunities and highly valued landscapes. Focus should therefore also be put on the urban rural interface.

Based on previous experience, there are a number of key principles in urban actions. First, the key partners in the cities and local authorities have an important role to play in achieving these objectives. As mentioned above, Member States may delegate responsibility to cities for urban development. This is particularly important where proximity matters, for example, in order to respond to the challenges of a mostly local nature such as social exclusion or lack of access to key services.

Second, the preparation of a medium- to long-term development **plan for sustainable urban development** is generally a precondition for success as it ensures the coherence of investments and of their environmental quality. This will also help to secure the commitment and participation of the private sector in urban renewal. In general, a multi-disciplinary or integrated approach is needed. For area-based actions, for example, to promote social inclusion, this requires that actions seeking to improve the quality of life (including the environment and housing) or the level of services to citizens are combined with actions to promote the development of new activities and job creation in order to secure the long-term future of the areas concerned. The new JESSICA initiative is designed to promote and facilitate the development of financial engineering products to support projects included in urban development plans.

In general, integrated support services and programmes should have a focus on those groups which are most in need, such as immigrants, young people and women. All citizens should be encouraged to participate in both the planning and delivery of services.

JESSICA: sustainable urban development

JESSICA (Joint European Support for Sustainable Investment in City Areas) is a new policy initiative, creating a framework for enhanced cooperation on financial engineering for sustainable urban development policy between, on the one hand, the authorities in the Member States, and on the other hand, the Commission in cooperation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). Other International Financial Institutions (IFIs), as well the European banking and private sector are also expected to participate and contribute. JESSICA has been launched by the Commission, in cooperation with EIB and CEB, with a view to offering help and providing new opportunities to managing authorities responsible for the next generation of cohesion policy programmes.

The JESSICA initiative is inspired by, and has many similarities with, the JEREMIE initiative to enhance access to finance for SMEs, especially in methodological terms. As with JEREMIE, JESSICA provides a framework that, based on a contribution from the programmes to urban development funds or holding funds, adds specialist expertise, levers-in additional loan resources, and facilitates the relationships with project promoters leading to new investments on the ground.

The JESSICA and JEREMIE initiatives will be complementary in the context of integrated urban development plans. JEREMIE can support improved access to finance for micro to medium enterprises in urban areas, while JESSICA can support urban infrastructure projects and networks, energy efficiency or ICT projects, or any other project or group of projects falling within the scope of intervention of the ERDF (or the ESF where appropriate), not relating to access to finance for SMEs, and included in an integrated urban development plan.

5.2. Support the economic diversification of rural areas, fisheries areas and areas with natural handicaps

Cohesion policy can also play a key role in support of the economic regeneration of rural areas, complementing the actions supported by the new rural development fund (European Agricultural Fund for Rural Development - EAFRD)²⁶. This complementary approach should seek to support the restructuring and diversification of the economy in Europe's rural areas.

The synergy between structural, employment and rural development policies needs to be encouraged. In this context, Member States should ensure synergy and consistency between actions to be financed by the ERDF, Cohesion Fund, ESF, EFF and EAFRD on a given territory and in a given field of activity. The main guiding principles as regards the demarcation line and the coordination mechanisms between actions supported by the different Funds should be defined at the level of national strategic reference framework/national strategy plan.

For cohesion policy, action in favour of rural areas or for areas with natural handicaps, including many island regions, should contribute to the creation of new opportunities through the diversification of the rural economy. This includes efforts to support the provision of a minimum level of access to **services of general economic interest** in order to attract firms and qualified personnel and to limit out-migration. In this context, connectivity to the main national and European networks is necessary. In addition, cohesion policy should support the endogenous capacity of rural territories by promoting, for example, product marketing at national and global level, and favouring process and product innovation in existing economic activities.

Achieving the necessary critical mass to deliver services efficiently - including services for a healthy workforce referred to above - is a particular challenge. Ensuring universal access to all services, particularly in very sparsely populated areas, may be achieved by investing in **development poles** in rural areas (for example in small and medium-sized towns) and by developing **economic clusters** based on local assets combined with the use of new information technologies.

Many rural regions depend heavily on tourism. These regions require **an integrated approach** dedicated to quality, focusing on consumer satisfaction and based on the economic, social and environmental dimensions of sustainable development. Actions should take advantage of, and seek to preserve and develop natural and cultural assets which can have important positive spin-offs by protecting habitats and supporting investment in biodiversity. The integrated approach should aim to have a positive impact on the tourism sector, the local economy, the people working in the tourism sector, visitors and the local population, as well as the natural and cultural heritage.

²⁶ Council Regulation (EC) No 1685/2005 of 20 September 2005. OJ L 277, of 21.10.2005, p. 1.

With regard to the fisheries sector, the economic restructuring of fisheries-dependent coastal areas and the smaller islands is often a particular challenge for geographic reasons, and cohesion policy can play an important role as a complement to the actions supported by the new European Fisheries Fund (EFF).

5.3. Cooperation

Measures to promote cross-border, transnational, and interregional cooperation, including maritime cooperation where appropriate, should complement the three priorities indicated above. As a consequence, closer cooperation across EU regions should help speed up economic development and the achievement of higher growth. National borders are often an obstacle to the development of European territory as a whole, and can restrict its potential for full competitiveness. In the cross-border and transnational context, transport, water management and environment protection are clear examples of challenges requiring a focused and integrated approach that goes beyond national boundaries.

5.4. Cross-border cooperation

The ultimate objective of cross-border cooperation in Europe is to integrate areas divided by national borders that face common problems requiring common solutions. Such challenges are faced by all border regions in the Union as a result of the fragmentation of markets for labour and capital, infrastructure networks, fiscal capacity, and institutions.

Though cooperation programmes should be tailored according to the particular situation faced by each border region, it is important that an effort is made to concentrate the assistance on the main priorities in support of growth and job creation.

Generally applicable recommendations for future cross-border cooperation are not always relevant owing to the large diversity of situations. At the same time, in view of the obstacles created by borders, a useful starting point is the improvement of existing transport and communication infrastructure and the development, where necessary, of new links. These are pre-conditions for establishing or developing cross-border contacts.

Cross-border cooperation should focus on strengthening the competitiveness of the border regions. In addition, it should contribute to economic and social integration, especially where there are wide economic disparities on either side. Actions include promoting knowledge and know-how transfer, the development of cross-border business activities, cross-border education/training and healthcare potential and integrating the cross-border labour market; and joint management of the environment and common threats. Where the basic conditions for cross-border cooperation are already in place, cohesion policy should focus assistance on actions that bring added value to cross-border activities: e.g. increasing cross-border competitiveness through innovation and research and development; connecting intangible networks (services) or physical networks (transport) to strengthen cross-border identity as a feature of European citizenship; the promotion of cross-border labour market integration; cross-border water management and flood control.

Particular attention needs to be paid to the challenges and opportunities presented by the changing external borders of the Union following enlargement. Here, there is a need to promote coherent cross-border actions that encourage economic activity on both sides, and remove obstacles to development. To this end, cohesion policy and the new European

Neighbourhood and Partnership Instrument need to create a coherent framework for such actions.

5.5. Transnational cooperation

Transnational areas are macro-regions where there is a need to increase economic and social integration and cohesion. Transnational cooperation programmes seek to increase cooperation across Member States on matters of strategic importance.

Support should therefore be given to actions which seek to improve the physical interconnection of territories (e.g. investments in sustainable transport) as well as intangible connections (networks, exchanges between regions and between the parties involved).

The actions envisaged include the creation of European transport corridors (particularly cross-border sections) for the prevention of natural hazards, water management at river basin level, integrated maritime cooperation and R&D/innovation networks.

The map of the current zones for transnational cooperation has been modified to ensure that they create the conditions for implementing basic structural actions. They have been drawn up taking account of territorial coherence and functional criteria of a geographical nature, for example, sharing the same river basin or coastal zone, belonging to the same mountainous area, being crossed by a major transport corridor. Other criteria, such as history or institutional structures, or existing cooperation or Conventions, are also pertinent.

5.6. Interregional cooperation

Interregional cooperation programmes should focus on the Growth and Jobs Agenda: strengthening innovation, SMEs and entrepreneurship, the environment and risk prevention. In addition, exchange of experiences and best practices regarding urban development, modernisation of public sector services (such as health and government using ICT) and the implementation of cooperation programmes as well as studies and data collection will be encouraged. Interregional cooperation will also be supported within programmes for Convergence and Regional competitiveness and employment. In addition, exchange of experiences and best practices regarding urban development, social inclusion, relationship between cities and rural areas, and the implementation of cooperation programmes will be encouraged.

Proposal for a

COUNCIL DECISION

on Community strategic guidelines on cohesion

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No [...] /2006 of [DDMM]2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999²⁷, and in particular the first paragraph of Article [25] thereof

Having regard to the proposal from the Commission²⁸,

Having regard to the assent of the European Parliament²⁹,

Having regard to the opinion of the European Economic and Social Committee³⁰,

Having regard to the opinion of the Committee of the Regions³¹,

Whereas:

- (1) Pursuant to Article 158 of the Treaty, in order to strengthen its economic and social cohesion, the Community aims at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.
- (2) Pursuant to Article [25] of Regulation (EC) No [...] /2006 strategic guidelines on economic, social and territorial cohesion should be established to define an indicative framework for the intervention of the European Regional Development Fund, the European Social Fund and the Cohesion Fund (hereinafter “the Funds”), taking account of other relevant Community policies, with a view to promoting the harmonious, balanced and sustainable development of the Community.
- (3) Enlargement results in a substantial widening of regional disparities in the Community, although some of the poorest parts of the new Member States have some of the highest growth rates. Enlargement therefore presents an unprecedented

²⁷ OJ L ..., Date , p.

²⁸ OJ C [...], [...], p. [...].

²⁹ OJ C [...], [...], p. [...].

³⁰ OJ C [...], [...], p. [...].

³¹ OJ C [...], [...], p. [...].

opportunity for improved growth and competitiveness in the Community as a whole which should be reflected in these strategic guidelines.

- (4) The 2005 Spring European Council confirmed that the Community should mobilise all appropriate national and Community resources – including the cohesion policy – in the pursuit of the objectives of the renewed Lisbon agenda, which consists of integrated guidelines, including the broad economic policy guidelines and the employment guidelines adopted by the Council³².
- (5) In meeting the objectives set out in the Treaty, and in particular that of fostering real economic convergence, the actions supported with the limited resources available to cohesion policy should be concentrated on promoting sustainable growth, competitiveness and employment having regard to the renewed Lisbon agenda.
- (6) The purpose of these strategic guidelines should therefore be to foster an increase in the strategic content of cohesion policy with a view to strengthening synergies with, and helping to deliver, the objectives of the renewed Lisbon agenda.
- (7) The Spring European Council of 2005 concluded that greater ownership of the objectives of the new Lisbon agenda on the ground was necessary, involving regional and local actors and social partners, in particular, in areas where greater proximity is essential, such as in innovation, the knowledge economy and the new information and communication technologies, employment, human capital, entrepreneurship, support for small and medium-sized enterprises (SMEs) and access to risk capital financing. The strategic guidelines recognise the importance of this involvement.
- (8) The strategic guidelines should also recognise that the successful implementation of cohesion policy depends on macroeconomic stability and structural reforms at national level together with a range of other conditions which favour investment, including effective implementation of the internal market, administrative reforms, good governance, a business-friendly climate, and the availability of a highly skilled workforce.
- (9) Member States have developed national reform programmes to improve the conditions for growth and employment taking account of the integrated guidelines. These strategic guidelines should give priority, for all Member States and regions, to those areas of investment that help to deliver the national reform programmes taking account of national and regional needs and situations: investment in innovation, the knowledge economy, the new information and communication technologies, employment, human capital, entrepreneurship, support for SMEs or access to risk capital financing.
- (10) The strategic guidelines should take account of the role of cohesion policy in delivering other Community policies consistent with the renewed Lisbon agenda.
- (11) In the case of regions and Member States eligible for support under the Convergence objective, the aim should be to stimulate growth potential, so as to achieve and maintain high growth rates, including addressing the deficits in basic infrastructure networks and strengthening institutional and administrative capacity.

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- (12) The territorial dimension of cohesion policy is important and all areas of the Community should have the possibility to contribute to growth and jobs. Accordingly the strategic guidelines should take account of investment needs in both urban and rural areas in view of their respective roles in regional development and in order to promote balanced development, sustainable communities and social inclusion.
- (13) The European territorial cooperation objective has an important role to play in ensuring the balanced and sustainable development of the territory of the Community. The strategic guidelines should contribute to the success of the European territorial objective which depends on shared development strategies of the territories concerned at national, regional, and local level and on networking especially to ensure the transfer of ideas to mainstream national and regional cohesion programmes.
- (14) With a view to promoting sustainable development, the strategic guidelines should reflect the necessity to take environmental protection and improvement into account in preparing national strategies.
- (15) Equality between men and women and the prevention of discrimination on the basis of gender, race or ethnic origin, religion or belief, disability, age or sexual orientation are basic principles of cohesion policy and should be incorporated into all levels of the strategic approach to cohesion.
- (16) Good governance is essential at all levels for successful implementation of cohesion policy. The strategic guidelines should take account of the role of a broadly drawn partnership in the elaboration and the implementation of development strategies which is necessary in order to ensure that complex cohesion strategies can be managed successfully and of the need for quality and efficiency in the public sector.
- (17) These strategic guidelines represent a single indicative framework which Member States and regions are invited to use when developing national and regional programmes, in particular with a view to assessing their contribution to the objectives of the Community in terms of cohesion, growth and jobs. Taking account of these strategic guidelines, each Member State should prepare its national strategic reference framework and the resulting operational programmes,

HAS ADOPTED THIS DECISION:

Article 1

The Community strategic guidelines on economic, social and territorial cohesion (hereinafter “the strategic guidelines”) as set out in the Annex are hereby adopted.

Article 2

The Member States shall ensure that the national strategic reference frameworks and operational programmes for the period 2007 to 2013 are consistent with these guidelines.

Article 3

This Decision is addressed to the Member States.

Done at Brussels,

*For the Council
The President*

ANNEX

Community strategic guidelines on cohesion, 2007-2013

1. INTRODUCTION: GUIDELINES FOR COHESION POLICY, 2007-2013

In accordance with the integrated guidelines for growth and jobs of the renewed Lisbon agenda, the programmes supported by cohesion policy should seek to target resources on the following three priorities³³:

- improving the **attractiveness of Member States, regions and cities** by improving accessibility, ensuring adequate quality and level of services, and preserving the environment;
- encouraging **innovation, entrepreneurship** and the growth of the **knowledge economy** by research and innovation capacities, including new information and communication technologies; and
- creating **more and better jobs** by attracting more people into employment or entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

In taking on board the renewed Lisbon agenda in the new programmes, attention is drawn to the following principles:

First, in line with the re-launch of the Lisbon agenda itself, cohesion policy should focus to a greater extent on **knowledge, research and innovation, and human capital**. Accordingly, the overall financial effort in support of these fields of action should be significantly increased, as required by the new earmarking provisions. In addition, Member States and regions should be inspired by best practice where this has delivered visibly positive results in terms of growth and jobs.

Second, Member States and regions should pursue the objective of **sustainable development** and boost synergies between the economic, social and environmental dimensions. The renewed Lisbon strategy for Growth and Jobs and the National Reform Programmes emphasize the role of environment in growth, competitiveness and employment. Environmental protection needs to be taken into account in preparing programmes and projects with a view to promoting sustainable development.

Third, Member States and regions should pursue the objective of **equality between men and women** at all stages of the preparation and implementation of programmes and projects. This may be done through specific actions to promote equality, as well as by taking careful account of how other projects and the management of the Funds may affect women and men.

Fourth, Member States should take appropriate steps to **prevent any discrimination** on the basis of gender, race or ethnic origin, religion or belief, disability, age or sexual orientation during the various stages of implementing the Funds. In particular, accessibility for disabled

³³ Communication to the Spring European Council “Working Together for growth and jobs – a new start for the Lisbon Strategy”. COM(2005) 24, 2.2.2005.

persons is one of the criteria to respect in defining operations cofinanced by the Funds and to take into account during the various stages of implementation.

In the following sections, key aspects of each of these broad areas are examined with specific guidelines under each heading. Not all of these more detailed guidelines will be relevant to all regions. The most appropriate mix of investments ultimately depends on the analysis of the strengths and weaknesses of each Member State and region and specific national and regional circumstances. The guidelines rather represent a single framework which Member States and regions are invited to use when developing national, regional, and local programmes, in particular with a view to assessing their contribution to the objectives of the Community in terms of cohesion, growth and jobs.

1.1 GUIDELINE: Making Europe and its regions more attractive places to invest and work

One of the preconditions for growth and jobs is to ensure that the necessary infrastructure (e.g. transport, environment, energy) is available to businesses. A modern and secure infrastructure is an important factor in the performance of many enterprises, affecting the economic and social attractiveness of regions and cities. Infrastructure investment in regions that are lagging behind, especially in the new Member States, will encourage growth and thus reinforce convergence with the rest of the Union as well as improving quality of life. Resources should come not just from grants but also, where possible, from the private sector and from loans, for example from the European Investment Bank (EIB). For the next period, programme authorities in the Member States will have an opportunity to make greater use of EIB expertise to prepare suitable projects for European funding under the JASPERS initiative.

1.1.1 Expand and improve transport infrastructures

The provision of efficient, flexible, safe and clean transport infrastructure can be regarded as a necessary precondition for economic development as it boosts productivity and thus, the development prospects of the regions concerned by facilitating the movement of people and goods. Transport networks boost opportunities for trade, while increasing efficiency. Furthermore, the development of Europe-wide transport infrastructures (notably the relevant parts of the thirty priority projects for Trans-European Transport Networks), with a particular focus on cross-border projects, is essential to achieving greater integration of national markets, especially within the context of an expanded Union.

Infrastructure investment needs to be adapted to the specific needs and level of economic development of the regions and countries concerned. These needs are generally highest in the Convergence regions and in countries covered by the Cohesion Fund. Typically, infrastructure investments (as with other investments) show diminishing rates of return above a certain level of funding. The economic returns on such investments are high when infrastructure is scarce and basic networks have not been completed, but they are likely to decrease once a certain level has been reached.

The level of regional economic development and the existence of large infrastructure endowments should thus be taken into account. In the least developed regions and countries, international and interregional connections may offer higher returns over the longer term in the form of increased business competitiveness and also facilitate labour mobility. On the other hand, for regions with a dispersed, small-scale economic base and a settlement pattern based on small towns, the construction of a regional transport infrastructure may be more

appropriate. In regions with inadequate road networks, funding should also be available to build economically vital road links. The challenges of mobility and accessibility in urban areas should also be tackled, supporting integrated management systems and clean transport solutions.

In order to maximise the benefits deriving from transport investments, assistance from the Funds should be based on a number of principles.

First, objective criteria should be used to determine the level and nature of the infrastructure investment to be undertaken. For instance, potential rates of return should be measured by the level of economic development and the nature of economic activities of the regions concerned, the prevailing density and quality of infrastructures or the degree of congestion. When determining the social rates of return, due account should also be taken of environmental and social implications of prospective infrastructure projects.

Second, the principle of environmental sustainability should be respected to the greatest possible extent, in accordance with the White Paper³⁴. Shifts to the more environmental friendly modes should be pursued. However, the environmental and general performance of each mode of transport should be optimised, in particular concerning the use of infrastructure within and across the different modes³⁵.

Third, particular attention should be paid in the Convergence regions and in countries covered by the Cohesion Fund to modernising the railway system by carefully selecting the priority sections, ensuring their interoperability within the framework of the European Rail Transport Management System (ERTMS).

Fourth, investments in transport infrastructure should be accompanied by proper traffic management, with particular attention to safety, in accordance with national and Community standards. National or regional strategies should take into account the need to achieve a balanced (and clean) modal split that serves both economic and environmental needs. Strategies should include, for example, intelligent transport systems, multi-modal platforms and, in particular, technology used for the ERTMS, mentioned above and for the Single European Sky ATM Research Programme (SESAR - for a more uniform air traffic management system in Europe).

Based on the above principles, the guidelines for action are as follows:

- Member States and regions eligible for funding under the Convergence objective³⁶ or the Cohesion Fund, should give priority to those of the 30 projects of European interest where they fall within their territory. Within this group of projects, cross-border links merit special attention. Member States should make use of the co-ordinators as a means of shortening the time that elapses between designation of the planning of the network and the physical construction. Other TEN projects, and strategic transport links, should be supported where this is a strong case in terms of their contribution to growth and competitiveness.

³⁴ "European transport policy for 2010 : time to decide". COM(2001) 370.

³⁵ "Keep Europe moving. Sustainable mobility for the European continent". COM(2006)314, 22.6.2006.

³⁶ OJ L 167, 30.04.2004, p. 1.

- Complementary investment in secondary connections will also be important in the context of an integrated regional transport and communications strategy covering urban and rural areas, in order to ensure that the regions benefit from the opportunities created by the major networks.
- Support for rail infrastructure should seek to ensure greater access. Track fees should facilitate access for independent operators. They should also enhance the creation of an EU-wide interoperable network. Compliance and applications of the interoperability and the fitting of ERTMS on board and on track should be part of all projects financed.
- Promoting environmentally sustainable transport networks, particularly in urban areas. This includes public transport facilities (including park-and-ride infrastructures), mobility plans, ring roads, increasing safety at road junctions, soft traffic (cycle lanes, pedestrian tracks). It also includes actions providing for accessibility to common public transport services for certain target groups (the elderly, disabled persons) and providing distribution networks for alternative vehicle fuels. Inland navigation routes can also contribute to the sustainability of networks.
- In order to guarantee the optimum efficiency of transport infrastructures for promoting regional development, attention should be paid to improving the connectivity of landlocked, insular or outermost territories to the Trans-European network (TEN-T). In this respect, the development of secondary links, with a focus on inter-modality and sustainable transport, will help. In particular, harbours and airports should be connected to their hinterland.
- More attention should be paid to developing the “motorways of the sea” and to short-sea shipping as a viable alternative to long-distance road and rail transport.

Where Member States receive support at the same time from both the Cohesion Fund and the Structural Funds, a distinction should be made in the programmes between the types of actions funded by each of the Funds, with the Cohesion Fund playing the key role in support of Trans-European transport networks.

In turn, the Structural Funds should generally focus on the development of infrastructure linked to measures to stimulate economic growth (such as tourism development, improvements to increase the attractiveness of industrial sites, etc.). With regard to road infrastructure, investments shall also fit the overall goal of road safety.

Co-financing from the Funds should complement grants from the budget for Trans-European Networks while avoiding duplication in terms of Community assistance. Member States individually will need to determine in advance the instrument most suited to the planned projects. Cohesion policy funding can be combined with the loan guarantee part of the TEN instruments.

1.1.2. Strengthen the synergies between environmental protection and growth

Environmental investments can contribute to the economy in three ways: they can ensure the long-term sustainability of economic growth, they decrease external environmental costs to the economy (e.g. health costs, clean-up costs or damage recovery) and they stimulate innovation and job creation. Future cohesion programmes should seek to strengthen potential synergies between environmental protection and growth. The provision of environmental

services such as clean water supplies, waste and waste-water treatment infrastructures, management of natural resources, the decontamination of land to prepare it for new economic activities, and protection against certain environmental risks, should all have high priority in this context.

In order to maximise economic benefits and minimise the costs, priority should be given to tackling environmental pollution at its sources. In the waste management sector, this implies focusing on waste prevention, recycling and biodegradation of waste which are cost-effective and help to create jobs.

Development strategies should be based on a prior evaluation of needs and specific issues faced by regions, where possible using appropriate indicators. Efforts should be made to promote the internalisation of external environmental costs, with support for the setting up and development of market-based instruments (see, for example, instruments proposed in the Environmental Technologies Action Plan). Attention is drawn in this context to the initiative Global Monitoring for Environment and Security, which from 2008 will provide Europe-wide, up-to-date information on land-cover/land-use and ocean properties as well as incident maps in case of disasters and accidents.

Accordingly, the recommended guidelines for action are the following:

- Addressing the significant needs for investment in **infrastructure**, particularly in the Convergence regions and especially in the new Member States, to comply with environmental legislation in the fields of water, waste, air, nature and species protection and bio-diversity.
- Ensuring that **attractive conditions exist for businesses and their highly-skilled staff**. This can be ensured by promoting land-use planning which reduces urban sprawl, and by rehabilitating the physical environment, including the development of natural and cultural assets. Investments in this area should be clearly linked to the development of innovative and job-creating businesses on the sites concerned.
- Promoting, in addition to the investments in sustainable energy and transport covered elsewhere, investments that contribute to the EU **Kyoto commitments**.
- Undertaking **risk prevention** measures through improved management of natural resources, more targeted research and better use of ICTs, and more innovative public management policies including, for example, preventive monitoring.

Where Member States receive support from both the Cohesion Fund and the Structural Funds, a clear distinction should be made in the programmes between the types of actions funded by each of the Funds, respectively.

1.1.3. Address Europe's intensive use of traditional energy sources

A related priority is the need to reduce traditional energy dependency through improvements in energy efficiency and renewable energies. Investments in these fields contribute to security of energy supply for long-term growth, while acting as a source of innovation and providing opportunities for exports, and are cost effective especially if energy prices remain high.

Investment in traditional sources of energy is also needed, so as to ensure security of supply. In particular, the Funds should concentrate – where there is evidence of market failure and where it does not go against the liberalisation of the market – on the completion of interconnections, with special emphasis on the Trans-European networks, the improvement of electricity grids and the completion and improvement of gas transmission and distribution networks including where appropriate in insular and outermost regions.

Guidelines for action under this heading are the following:

- Supporting projects to improve **energy efficiency**, for example in buildings, and dissemination of low energy intensity development models.
- Supporting the development and use of **renewable and alternative technologies** (such as wind, solar, biomass), including for heating and cooling, which can give the EU a leading edge and thus strengthen its competitive position. Such investments also contribute to the Lisbon objective of ensuring that, by 2010, 21% of electricity is generated from renewable sources.
- Concentrating investment in traditional energy sources to develop the **networks** where there is evidence of market failure. These investments mostly concern the Convergence regions.

1.2 GUIDELINE: Improving knowledge and innovation for growth

The Community's aims of growth and job creation will require a structural shift in the economy towards knowledge-based activities. This calls for action on a number of fronts: to address low levels of Research and Technological Development (RTD), especially in the private sector; to promote innovation through new or improved products, processes and services which can withstand international competition; to increase regional and local capacities to generate and absorb new technologies (ICTs in particular); and to provide more support for risk-taking.

RTD expenditure as a percentage of GDP has been increasing, but only marginally and, at 1.9% of GDP, remains well short of the Lisbon target of 3%³⁷. It is estimated that an increase in the share of RTD expenditure from 1.9% to 3% of GDP (in order to reach the Lisbon target by 2010) will result in an increase of 1.7% in the level of GDP by 2010³⁸. While the shortfall in business investment in RTD remains significant, there are signs that public investment in this field is also coming under pressure. The RTD and innovation gap within and between countries, particularly in relation to business expenditure on RTD, is much bigger than the income gap. While a combination of national and Community initiatives have been undertaken, more action is needed to match business needs with RTD supply from public and private RTD institutions. Europe's innovation gap is widening: the European Innovation Scoreboard shows that Europe lags behind the US in 9 out of 11 Innovation indicators³⁹. Also *within* Europe, the innovation gap persists, as the Union too often fails to transform technological development into commercial products and processes. Cohesion policy can help to address the main problems behind Europe's underperformance in innovation, including

³⁷ "Investing in research: an action plan for Europe". COM(2003) 226, 30.4.2003.

³⁸ "The economic costs of non-Lisbon" - SEC(2005) 385, 15.3.2005.

³⁹ SEC(2004) 1475.

ineffective innovation systems, insufficient entrepreneurial dynamism or slow business adoption of ICT.

In this context, it is necessary to enhance national and regional RTD capacities, to support investment in ICT infrastructure, and to disseminate technology and knowledge through appropriate technology transfer and knowledge exchange mechanisms. Awareness-raising to promote a better use of existing RTD potential could be encouraged through regional 'foresight' and other regional strategic planning methods, involving regular and systematic dialogue with key stakeholders. It is also important to enhance the RTD absorption capacity of firms, particularly SMEs, through actions to develop skills and competencies; to encourage the creation and exploitation of a larger pool of high-quality research talent in Europe; to increase private and public investment in RTD and innovation; and to encourage RTD partnerships across the different regions of the Union. European Technology Platforms, for example, offer the potential to better tailor research programmes to business needs; cohesion policy can play an important role in supporting implementation of their Strategic Research Agendas across the Union including in less developed regions.

While direct grants remain important, notably in Convergence regions, there is a need to focus on the provision of collective business and technology services to groups of firms, in order to help them improve their innovative activity. Direct grants to individual firms should be targeted at improving the RTD and innovation capacity of the firm, rather than at a temporary reduction of its production costs generating high deadweight effects. This is particularly important in traditional sectors, particularly those exposed to global competition, which need additional efforts in order to remain competitive, as well as in SMEs which often represent the highest source of employment at the regional level. Most importantly, these policies need to be adapted to the particular conditions of each region, and in particular to the needs of SMEs. National, regional, and local strategies should be based on a comprehensive analysis of RTD investment opportunities.

Knowledge and innovation are at the centre of the Community's efforts to promote faster growth and more jobs. Two related framework programmes are proposed at Community level: the Seventh Framework programme for RTD and the Competitiveness and Innovation Framework Programme (CIP). Synergy between cohesion policy and these instruments is vital so that research and cohesion policies mutually reinforce each other at regional level with national and regional development strategies showing how this will be achieved. Cohesion policy can help all regions to build up research and innovation capacity, thus contributing to the effective participation of those regions in the European Research Area and research and innovation activities of the Community in general. In particular, it has two important roles to play. The first is in helping regions to implement regional innovation strategies and action plans which potentially can have a significant impact on competitiveness, both at regional level and in the Union as a whole; the second is in contributing to raising the research and innovation capacity in the region up to a level where it can participate in transnational projects for research.

Regional strategies should thus concentrate on investing in RTD, innovation and entrepreneurship; ensuring that these investments respond to the economic development needs of the region and that the capacity exists to transform research into marketable product, process and service innovation; enhancing technology transfer and knowledge exchange; promoting the development, dissemination and uptake of ICTs within firms, and ensuring that enterprises willing to invest in high added value goods and services have access to finance. Such strategies should make specific provision for experimentation, with a view to increasing

the capacity of policy interventions and intermediary organisations to stimulate regional and local actors, in particular SMEs, to innovate.

1.2.1. Increase and better target investment in RTD

The competitiveness of European enterprises crucially depends on their ability to bring new knowledge to the market as quickly as possible. Public support for RTD can be justified where market failures are identified and by the public character of certain RTD investments. In addition, issues of ownership of research results and the need to achieve critical mass in certain research sectors provide justification for government support for RTD.

The specific nature of RTD should be considered when implementing regional policy. In particular, RTD requires close interaction between the players to encourage the formation of poles of excellence which are needed to reach critical mass. Geographical proximity through the existence of clusters of SMEs and innovation poles around public research institutions for instance, can play a key role. As a result, RTD activities necessarily have to be spatially concentrated while the absorptive capacity of low RTD-intensive areas is fostered.

RTD in the less developed Member States and regions should be developed around existing poles of excellence and avoid the excessive spatial dispersion of resources. Here also, European Technology Platforms can help focus investments on priority areas for research. Investments should also complement European priorities set out in the Seventh Framework Programme and support the objectives of the renewed Lisbon agenda. Priority should be given to the development of new and marketable products, services and skills.

Actions in RTD should be aligned with Community RTD policy and the needs of regions in question. In terms of method, these need be based on a sound analytical approach, such as foresight; as well as use of indicators, such as patents; human resources in RTD; location of private and public research institutions; and on the existence of clusters of innovative businesses.

The guidelines for action in the field of RTD can be identified as follows:

- Strengthening co-operation among businesses and between businesses and public research/tertiary education institutions, for example, by supporting the creation of regional and trans-regional **clusters** of excellence.
- Supporting **RTD activities in SMEs** and technological transfer (enabling SMEs to access RTD services in publicly-funded research institutions).
- Support for regional **cross-border and transnational initiatives** aimed at strengthening research collaboration and capacity building in priority areas of Community research policy.
- Strengthen **R&D capacity building**, including ICT, research infrastructure and human capital in areas with significant growth potential.

Programmes - particularly for regions eligible under the Convergence objective - can contribute to developing RTD infrastructure (including regional high-speed data networks between and within research establishments), education infrastructure (in regions eligible under the Convergence objective), equipment and instrumentation in both publicly funded

research institutions and businesses, provided that these investments are directly linked to regional economic development objectives. This may include research infrastructure for which the feasibility studies have been financed from earlier Framework Programmes. Support for Seventh Framework Programme priorities should seek to develop the full potential of emerging and existing centres of excellence and to step up investment in human capital, particularly by training researchers at national level and by creating conditions to attract researchers trained abroad.

1.2.2. Facilitate innovation and promote entrepreneurship

Innovation is the result of complex and interactive processes, including the ability of enterprises to connect to complementary knowledge from other market players, organisations and institutions.

Investments in innovation represent an overarching priority for cohesion policy under both the Convergence and Regional competitiveness and employment programmes. Their co-financing should be a major priority in the regions covered under the latter, where limited financial resources need to be concentrated so as to reach critical mass and generate a leverage effect.

The main objective should be to promote a business climate which promotes the production, dissemination and use of new knowledge by firms. In order to create efficient regional innovation systems, economic, social and political actors need to be brought into contact with the leading edge of technology and business practice in the world, beyond the national or local levels. In this respect, co-operation should be also sought with the Innovation Relay centres and the Euro-Info-Centres which are financed under the CIP programme, especially in the field of trans-national technology and diffusion of information.

Start-up companies, particularly those linked to RTD, need to be supported with the aim of developing partnerships with research institutions based on a longer-term vision and clear market orientation. Cohesion policy should seek to compensate for market failure that hampers innovation and entrepreneurship. Actions should seek to build on existing poles of activity in order to exploit regional potential for RTD and to foster networking and technological cooperation within and between regions.

Public authorities should ensure that research institutions, the private sector and the public sector exploit to the full the potential synergies between them.

In terms of method, economic development strategies would be improved by the collection of data on existing innovative activities in the regions concerned, for example, on private patenting or on the nature, scope and development potential of existing clusters of innovative activities, including those which involve both private and public research institutions. The Community Innovation Surveys and the European Innovation Scoreboard are also helpful in this regard.

The guidelines for action under this heading are the following:

- Making regional RTD innovation and education supply more efficient and accessible to firms, in particular SMEs, for example by establishing **poles of excellence**, bringing together high technology SMEs around research and technological institutions, or by developing and creating regional **clusters** around large companies.

- Providing **business support services** to enable enterprises, and in particular SMEs, to increase competitiveness and to internationalise, in particular by seizing the opportunities created by the internal market. Business services should prioritise the exploitation of synergies (for example, technology transfer, science parks, ICT communication centres, incubators and related services, co-operation with clusters) and give more traditional support in the areas of management, marketing, technical support, recruitment, and other professional and commercial services.
- Ensuring full exploitation of European strengths in the area of **eco-innovations**. Eco-innovations should be promoted, together with the improvement of SME practices through the introduction of environmental management systems. By investing in this area now, EU businesses will be in a strong position in the near future when other regions appreciate the necessity of such technologies. This is an area with a clear link to the Competitiveness and Innovation Framework Programme.
- Promoting **entrepreneurship**, facilitating the creation and **development of new firms**, and promoting spin-out and spin-off companies from research institutions or firms using a variety of techniques (for example, awareness raising; prototyping; tutoring and the provision of managerial and technological support to entrepreneurs-to-be).

It is important to ensure that companies, including SMEs, can make commercial use of research results.

Business services should preferably be delivered by the private sector or by mixed public-private organisations. The services should be top-class, readily available, easy to access and responsive to the needs of SMEs. The quality of the services should be defined and monitored and there should be coherence between service providers, e.g. by establishing public-private partnerships and one-stop shops.

Administrative procedures are often too complex. Information and initial support should be available from a network of one-stop shops, which could provide the interface between the public sector and the grant applicant; this should include the various actions cofinanced by cohesion policy. These providers should have competence for the full range of state aids - independently of national or regional responsibilities - and targets for the efficiency of their operation which are monitored regularly.

Whenever the circumstances are appropriate, tailored support should be made available to specific categories of business (e.g. start-ups or recently transferred companies) or entrepreneurs (e.g. young people, women, older workers or those from ethnic minority communities). Entrepreneurship education should also be encouraged in schools.

1.2.3. Promote the information society for all

The dissemination of ICT across the Union's economy represents a major lever for improving both productivity levels and the competitiveness of regions. The dissemination of ICT also encourages the re-organisation of production methods and the emergence of new business and private services. The efficient and effective delivery of public services - in particular e-government and e-health - has a significant potential for economic growth and for enabling new services. Technology dissemination can contribute to regional development by favouring the creation and growth of poles of excellence in ICT activities and developing connectivity and networking among enterprises and SMEs in particular. Measures should encourage the

development of products and services with a view to facilitating and stimulating private investment in ICT while guaranteeing competition in the ICT sector.

Policy measures should therefore focus on connectivity. This includes improving innovation support services for SMEs with the particular objective of boosting technology transfer between research institutions and enterprises. It also requires the development of the skills needed in the knowledge economy and to develop content through the delivery of applications and services (such as e-government, e-business, e-learning, e-health), which provide interesting alternatives to other, often more costly, service delivery models. This is particularly relevant for remote and sparsely-populated areas, as well as for the outermost regions, islands or areas with natural handicaps. Clearly the use and development of products and content-based services can only work if the appropriate infrastructure is available and capable of supporting broadband services. It is therefore important that an appropriate broadband communication infrastructure is available across the Union at an accessible cost.

As a general rule, investment in ICT infrastructure should take into account rapid technological development, respect for the principles of technological neutrality and open access. Compliance with competition rules and with the implementation of the regulatory framework for electronic communications is essential.

Actions need to be based on context indicators related to the existing economic structure (including industrial specialisation; level of economic development; quality of connectivity to ICTs and potential synergies between regional poles of economic activity). The identification of regional needs should take into account existing Community initiatives in favour of ICTs, in particular the i2010 – a European Information Society for growth and employment⁴⁰.

Given that ICTs cut across all sectors of economy and society, it is imperative that Member States and regions develop compatible information society strategies which ensure coherence and integration among sectors, by balancing supply and demand measures on the basis of local requirements, stakeholders' participation, and strong public political support.

The guidelines for action are as follow:

- Ensuring uptake of ICTs by firms and households and promoting development through the balanced support for the supply and demand of ICT **products and both public and private services**, as well as through increased investment in human capital. These actions should increase productivity, promote an open and competitive digital economy and an inclusive society (for example, improving accessibility for disabled and elderly people), and thus boost growth and jobs.
- Ensuring **availability of ICT infrastructure** and related services where the market fails to provide it at an affordable cost and to an adequate level to support the required services, especially in remote and rural areas and in new Member States.

1.2.4. Improve access to finance

Another key ingredient for the promotion of knowledge and innovation is to facilitate access to finance. For the purpose of fostering growth and job creation, it must be sufficiently

⁴⁰ COM(2005) 229.

rewarding for entrepreneurs and enterprises to invest in the development and production of goods and services than to focus efforts, for example, on rent-seeking activities.

Access to finance in this context is often difficult, thus creating an obstacle to growth and job-creation. Improving access to capital both for RTD activities and for start-ups is important. Risk capital markets related to innovation activities need to be developed in conjunction with a better regulatory environment that makes entrepreneurship easier.

These programmes could be undertaken in close cooperation with the European Investment Fund (EIF) under the JEREMIE initiative in order to develop financial resources in areas where entrepreneurship is hampered by market failures owing to the high risks associated with RTD activities. Due account must also be taken of the impact of government support for business creation, in order to avoid the crowding-out of private investment and measures that are damaging to competition. Coordination between funds should also be enhanced.

Private equity and venture capital, and rotating funds for innovative start-ups should play the essential role as an engine for entrepreneurship, innovation and job creation; public sector institutions are not always best suited to risk-taking. The priority should be to create or expand specialised providers of risk capital and bank guarantees, where there is market failure. Typically, they will be more effective if they provide an integrated package of support, starting with training prior to the business start-up or expansion.

Based on these principles, the guidelines for action are:

- Supporting **non-grant instruments** such as loans, secured debt financing for subordinate debt, convertible instruments (mezzanine debt) and risk capital (e.g. seed capital and venture capital). Grants should be used to build and maintain infrastructures that facilitate access to finance (e.g. technology transfer offices, incubators, “business angels” networks, investment readiness programmes). Guarantee and mutual guarantee mechanisms could also be supported to facilitate access to micro-credit by SMEs. The EIB and the EIF could provide valuable input in this regard.
- Developing an integrated approach that simultaneously supports innovation, its transfer into new commercial activity and the availability of risk capital.
- Outreaching to certain **specific groups**, for example, young or female entrepreneurs or disadvantaged groups.

It is particularly important to work closely with the EIF in view of the expertise it has developed over a number of years, in order to give SMEs the required support, while developing the European risk capital market at the same time. This could involve participation in the JEREMIE initiative.

1.3. GUIDELINE : More and better jobs

In relaunching the Lisbon strategy, the European Council endorsed a single set of Guidelines bringing together the Broad Economic Policy Guidelines⁴¹ and the Guidelines of the European Employment Strategy, thereby integrating macro-economic, micro-economic and

⁴¹ OJ L 205, 6.8.2005, p. 21.

employment policies for growth and jobs. In accordance with the Fund regulations⁴², in the sphere of employment and human resources the priorities of the Community strategic guidelines on cohesion are those of the European Employment Strategy⁴³ supplemented by the EU Employment Recommendations which provide country-specific priorities.

The drive for full employment and higher productivity depends on a wide variety of actions, including those already discussed above. Investment in infrastructure, business development and research improve job opportunities, both in the short run as a result of first round effects and in the longer run as a result of their positive effect on competitiveness. To maximise employment and create high quality permanent jobs from these investments, human capital should be further developed and enhanced.

In terms of human capital development, the Employment Guidelines highlight three priorities for action for Member States' policies:

- attract and retain more people in employment and modernise social protection systems;
- improve adaptability of workers and enterprises and the flexibility of the labour markets;
- increase investment in human capital through better education and skills.

In addition to these priorities, appropriate attention should be given to investments to improve efficiency in public administration, as well as to education, social and health infrastructures.

Cohesion policy should focus on addressing the specific challenges of the European Employment Strategy in each Member State, by supporting actions under the convergence and the regional competitiveness and employment objectives, taking into account the scope of activities defined in the legislative framework. The range of eligible actions and financial resources is greater for the former objective. For the latter, Community resources will need to be much more focused to achieve a significant impact.

Employment and human resource development programmes should take into account the country specific challenges and priorities as highlighted in Employment Recommendations. The programmes whether managed at national or regional level, should effectively address territorial disparities and be adapted to needs in different areas.

Finally, one of the most visible aspects of European value added in the 2000-2006 period of the Structural Funds was the support to Member States and regions to exchange experiences, and build up networks, thus promoting innovation. In this context, the experience gained through EQUAL Community initiative should be capitalised through the mainstreaming of the principles upon which it was built – innovation; transnationality; partnership; gender mainstreaming.

⁴² Article [2] of Regulation (EC) No. [...] of the European Parliament and of the Council on the European Social Fund repealing regulation (EC) No 1784/1999. OJ L, Date , p.

⁴³ COM(2005) 141, 12.4.2005

1.3.1. Attract and retain more people in employment and modernise social protection systems

Widening the base of economic activity, raising employment levels and reducing unemployment are vital to sustain economic growth, promote socially inclusive societies and combat poverty. Increasing participation in employment is all the more necessary because of the expected decline in the working age population. In the framework of the Employment Guidelines, Guidelines for action under this heading are the following:

- Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion
- Promote a life-cycle approach to work
- Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive.
- Improve matching of labour market needs.

Actions should be based on prior identification of needs by, for instance, using relevant national and/or regional indicators such as unemployment and participation rates, long-term unemployment rates, population at risk of poverty rates and level of income. Attention should be paid to the local level, where acute disparities may fail to be picked up by regional level statistics.

The presence of efficient and effective labour market institutions, notably employment services that can respond to the challenges of rapid economic and social restructuring and demographic ageing is essential in order to support service delivery to job seekers, the unemployed and disadvantaged people and could be supported by the Structural Funds. These institutions have a pivotal role to play in implementing active labour market policies and providing services on a personalised basis with a view to promoting occupational and geographical mobility and matching labour supply and demand, including at local level. They should help to anticipate shortages and bottlenecks in the labour market and occupational and skills requirements. Positive management of economic migration would also be assisted as a result. Easy access to and transparency of the services on offer are crucial. The EURES network is central to increasing occupational and geographic mobility, both at European level and nationally⁴⁴.

An important priority should be to strengthen active and preventive labour market measures to overcome obstacles to entering or remaining in the labour market and to promote mobility for job seekers, the unemployed and inactive, older workers as well as those at risk of becoming unemployed, with particular attention to low-skilled workers. Action should focus on the provision of personalised services, including job search assistance, job placement and training to adjust the skills of job-seekers and employees to the needs of local labour markets. The potential for self-employment and business creation, ICT skills and digital literacy should be fully taken into account. Special attention should be paid to:

⁴⁴ Set up in 1993, EURES is a co-operation network between the European Commission and the Public Employment Services of the EEA Member States (EU Member States plus Norway, Iceland and Liechtenstein) and other partner organisations.

- implementing the **European Youth Pact**, by facilitating access to employment for young people, by easing the transition from education to work, including through career guidance, assistance in completing education, access to appropriate training and apprenticeships;
- implementing the European Pact for gender equality by mainstreaming and by specific actions to increase **women's participation** in employment, to reduce occupational segregation and address gender pay gaps and gender stereotyping and to promote more family-friendly working environments, and the reconciliation of professional and private life. Facilitating access to childcare and care services for dependent persons is crucial, alongside gender mainstreaming in policies and measures, awareness-raising and dialogue among stakeholders;
- specific action to strengthen **access of migrants** to the labour market and facilitate their social integration, through training and validation of competences acquired abroad, personalised guidance, language training, appropriate support for entrepreneurship and awareness raising among employers and migrant workers about their rights and obligations, and strengthening the enforcement of anti-discrimination rules.

Another important priority should be to ensure inclusive labour markets for people at a disadvantage or at risk of social exclusion, such as early school-leavers, the long-term unemployed, minorities and people with disabilities. This calls for an even broader range of support to build pathways to integration and combat discrimination. The aim should be to:

- improve their employability by enhancing participation in vocational education and training, rehabilitation and appropriate incentives and working arrangements, as well as the necessary social support and care services, including through the development of the social economy;
- combat discrimination and promote the acceptance of diversity in the workplace through diversity training and awareness-raising campaigns, in which local communities and enterprises would be fully involved.

1.3.2. Improve adaptability of workers and enterprises and the flexibility of the labour market

In the light of increasing pressures from globalisation, including sudden and unexpected trade shocks, and the continual introduction of new technologies, Europe must increase its capacity to anticipate, trigger and absorb economic and social change. In the framework of the Employment Guidelines, Guidelines for action under this heading are the following:

- | |
|---|
| <ul style="list-style-type: none"> – Promote flexibility combined with employment security, and reduce labour market segmentation, having due regard to the role of the social partners. – Ensure employment-friendly labour cost developments and wage-setting mechanisms. |
|---|

The main focus should be on actions to promote investment in human resources by enterprises, especially SMEs, and workers through the provision of lifelong learning strategies and systems which equips employees, in particular low-skilled and older workers, with the necessary skills to adapt to the knowledge economy and to prolong their working life. Attention should be given in particular to:

- the development of lifelong learning strategies and systems including mechanisms such as regional and sector funds, with the aim of increasing investment by enterprises and participation of workers in training;
- Implementation of such strategies by contributing to the funding of schemes and training activities. Priority should be given to SMEs, including facilitating their access to external sources of competence, financial engineering, such as the JEREMIE instrument and training solutions – with emphasis being placed on ICT and management skills. Particular attention should be paid to increasing the participation of the low-skilled and older workers in training and re-training.

Better anticipation and positive management of economic restructuring, especially as a result of changes linked to the opening-up of trade, are particularly important. Consideration should be given to creating monitoring systems involving the social partners, enterprises and local communities, to scrutinising socio-economic changes at national, regional and local level, and assessing future economic and labour market trends. Support for the programmes aimed at modernisation of labour markets and anticipation of gradual changes throughout the Union particularly in sectors such as agriculture, textiles, automobiles and mining, needs to be put in place, alongside active measures to reinforce the economic well-being of regions. There is also a role for specific employment, training and support services for workers in the context of company and sector restructuring, such as rapid response schemes in the case of collective lay-offs.

Attention should also be given to developing and disseminating knowledge on innovative and adaptable forms of work organisation to take advantage of new technologies - including teleworking, improving health and safety at work (e.g. industrial safety), increasing productivity and promoting better reconciliation of work and family life. This may also include raising awareness of corporate social responsibility, developing consciousness as regards employment rights, initiatives for respecting the labour code, reducing the grey economy and ways to transform undeclared work into regular employment.

Social partners have an important role to play in setting up mechanisms that ensure the flexibility of the labour market. Therefore Member States should encourage the participation of social partners in activities under this priority. Further, under the Convergence objective, an appropriate amount of the European Social Fund (ESF) resources shall be allocated to capacity-building, which shall include training, networking measures, strengthening the social dialogue and activities jointly undertaken by the social partners.

1.3.3. Increase investment in human capital through better education and skills

Europe needs to invest more in human capital. Too many people do not enter or remain in the labour market, because of lack of skills including in basic literacy and numeracy, or due to skills mismatches. To enhance access to employment for all ages and to raise productivity levels and quality at work, there is a need to step up investment in human capital and to develop and implement effective national lifelong learning strategies for the benefit of individuals, enterprises, the economy and society. In the framework of the Employment Guidelines, Guidelines for action under this heading are the following:

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| <ul style="list-style-type: none"> – Expand and improve investment in human capital – Adapt education and training systems in response to new competence requirements. |
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Reforms in labour market training to attract more people into employment and increase adaptability of workers and enterprises need to be coupled with reforms in education and training systems. In previous programming periods, the Structural Funds have invested substantially in education and training systems. In the next programming period, the investment in human capital should be reinforced by focusing on the Lisbon objectives in line with the integrated guidelines for growth and employment. The following general priorities should be addressed:

- expanding and improving investment in human capital including the development of appropriate incentives and cost-sharing mechanisms for enterprises, public authorities and individuals;
- supporting coherent and comprehensive lifelong learning strategies, with particular attention given to addressing the skill needs of the knowledge economy, including support to co-operation and the establishment of partnerships between Member States, regions and cities in terms of education and training to facilitate the exchange of experience and good practice, including innovative projects. Particular attention should be given to addressing the needs of disadvantaged groups;
- supporting the design and introduction of reforms in education and training systems using where relevant common European references and principles, in particular to raise the labour-market relevance of education and training;
- strengthening the links between universities, research and technological centres and enterprises, in particular through networking activities and joint actions.

Under the Convergence objective, many Member States and regions are faced with very significant education and training challenges. Financial resources should be used for the implementation of reforms, which should address the following specific priorities:

- ensuring an adequate supply of attractive, accessible and high quality education and training provision at all levels, including the improvement of staff competences and qualification, promoting flexible learning pathways and new options starting as early as the school and preschool stage, actions to achieve a significant decline in early school-leaving and higher completion rates of upper secondary education and improved access to pre-school and school education;
- supporting the modernisation of higher education and the development of human potential in research and innovation, through post-graduate studies, further training of researchers, and attracting more young people into scientific and technical studies;
- promoting the quality and attractiveness of vocational education and training, including apprenticeships and entrepreneurship education;
- ensuring, where appropriate, greater mobility at regional, national or transnational level, and promoting frameworks and systems to support the transparency and recognition of qualifications and the validation of non-formal and informal learning;
- investment in education and training infrastructure including ICTs, where such investments are necessary for the implementation of reform and/or where they can significantly contribute to increasing the quality and effectiveness of the education and training system.

1.3.4. *Administrative Capacity*

In previous programming periods, the Funds have, through technical assistance, reinforced the management capacity of Member States and managing authorities in implementing the regulations. This will also apply for the period 2007 to 2013.

Above and beyond the management of the Funds, effective administrative capacity of public administrations and public services i.e. smart administration, is a fundamental requirement for economic growth and jobs. Thus in line with the revised Lisbon Strategy which calls for better legislation, policy design and delivery to create the conditions for economic growth and job creation, the Funds will support investment in the human capital and related ICT facilities of administrative and public services at all territorial levels.

For Cohesion countries and regions under the Convergence objective, increasing productivity and quality at work in the public sector - especially in the economic, employment, social, educational, health, environmental and judicial areas, is essential to pursue and accelerate reforms, to raise productivity and growth in the wider economy and to promote social and territorial cohesion and sustainable development. The Structural Funds can play an important role in supporting effective policy design and implementation, which involves all relevant stakeholders, in a broad range of fields.

Therefore, Cohesion countries and regions falling under the Convergence Objective are called upon to build up public administrations and public services at national, regional and local level. Actions in this field should take into account the specific situation of each Member State. Thus, in line with the principle of concentration, Member States are invited to conduct a comprehensive analysis to identify the policy areas requiring the most support for administrative capacity. Investment should concentrate on those policy areas where there are the greatest obstacles to socio-economic development and on the key elements of administrative reforms.

Member States should ensure that the need to increase efficiency and transparency in public administrations and to modernise public services is adequately addressed. Guidelines for action under this heading are the following:

- **Support good policy and programme design**, monitoring, evaluation and impact assessment, through studies, statistics, expertise, and foresight, support for interdepartmental coordination and dialogue between relevant public and private bodies;
- **Enhance capacity building** in the delivery of policies and programmes, including with regard to the crime proofing and enforcement of legislation, especially through mapping of training needs, career development review, evaluation, social audit procedures, implementation of open government principles, managerial and staff training and specific support to key services, inspectorates and socio-economic actors.

1.3.5. *Help maintain a healthy labour force*

In the light of the EU's demographic structure, and ageing population and a likely decline in the labour force in years to come, it is essential that the Union takes steps to increase the number of healthy years of work for members of its workforce. Investment in health promotion and disease prevention will help to maintain active participation in society for as many workers as possible, thus maintaining their economic contribution and reducing

dependency levels. This has a direct effect on productivity and competitiveness, as well as having important positive spin-offs for quality of life in general.

There are major differences in health status and access to health care between European regions. It is therefore important for cohesion policy to contribute to health care facilities, thereby helping to increase the number of healthy years of work in particular in the less prosperous Member States and regions. Community-based health improvement and preventive action have an important role to play in reducing health inequalities. Good health care translates into greater participation in the labour market, longer working life, higher productivity and lower healthcare and social costs.

It is important for cohesion policy, especially in regions lagging behind, to contribute to the improvement of long-term care facilities and invest in the improvement of health infrastructure, in particular when their absence or insufficient development represent a major barrier to economic development. Member States should ensure that the need to increase efficiency in health care systems is addressed through investment in ICT, knowledge and innovation. Guidelines for action under this heading are the following:

- **Preventing health risks** to help raise productivity levels by means of health information campaigns and by ensuring a transfer of knowledge and technology and ensure that health services have the necessary skills, products and equipment to prevent risks and minimise their potential damage.
- **Filling the gaps in health infrastructure** and promoting efficient provision of services where the economic development of the less prosperous Member States and regions is being affected. This action should be based on a thorough analysis of the optimal level of services provision and appropriate technology, such as telemedicine and the cost-saving potential of e-health services.

2. THE TERRITORIAL DIMENSION OF COHESION POLICY

One of the features of cohesion policy - in contrast to sectoral policies - lies in its capacity to adapt to the particular needs and characteristics of specific geographical challenges and opportunities. Under cohesion policy, geography matters. Accordingly, when developing their programmes and concentrating resources on key priorities, Member States and regions should pay particular attention to these specific geographical circumstances.

Taking on board the territorial dimension will help to develop sustainable communities and to prevent uneven regional development from reducing overall growth potential. Such an approach also requires that the specific problems and opportunities of urban and rural areas may need to be addressed as well as those of particular territories such as cross border and broader transnational areas, or regions suffering from other handicaps due to their insularity, remoteness (such as the outermost or Arctic regions), sparse population or mountainous character. The environmental and demographic constraints faced by coastal areas may also need to be addressed. The successful implementation of actions to promote territorial cohesion requires implementing mechanisms that can help to guarantee fair treatment for all territories based on their individual capacities as a factor of competitiveness. Thus, good governance is important to successfully addressing the territorial dimension.

In fact, for the next generation of programmes, promoting territorial cohesion should be part of the effort to ensure that all of Europe's territory has the opportunity to contribute to the growth and jobs agenda. More specifically, this means that a different meaning should be given to territorial cohesion, linked to each Member State's history, culture or institutional situation.

The development of high quality partnerships is also essential, bringing aboard actors at all levels, national, regional, urban, rural and local. Success in the area of territorial cohesion depends on a comprehensive strategy which sets the framework within which specific objectives and actions are pursued.

Under the new legislative framework, Member States have the possibility to delegate to cities, funds addressing urban issues within the new programmes. To get the full benefits of partnership, cities should be involved throughout the process. This could include responsibility for the design and implementation of the sub-delegated portion of the programme.

The new legislative framework also provides for special assistance to outermost regions in order to address the high costs of distance that they face. A particular challenge will be to ensure that this assistance contributes to the realisation of the strategy of the programme as whole in terms of helping to generate sustainable growth and jobs.

2.1. The contribution of cities to growth and jobs

As outlined in the Commission Communication on cohesion policy and cities, over 60% of the population in the European Union lives in urban areas of over 50,000 inhabitants⁴⁵. Cities, and metropolitan areas in general, are the home of most jobs, businesses and higher education institutions and are key to achieving social cohesion. European cities and metropolitan areas tend to attract the highly skilled, often creating a virtuous circle that stimulates innovation and business adding to their attractiveness to new talent.

Cities and metropolitan areas concentrate not only opportunities but also challenges and account should be taken of the specific problems facing urban areas, such as unemployment and social exclusion (including the problem of the 'working poor'), high and rising crime rates, increased congestion and the existence of pockets of deprivation within city boundaries.

Programmes with a focus on urban areas can take several different forms. First, there are actions to promote cities as motors of regional development. Such actions should target improvements in competitiveness, for example, through clustering. Actions supported include measures to promote **entrepreneurship, innovation and the development of services**, including producer services. Attracting and retaining very highly skilled personnel is also important (with measures relating to accessibility, the supply of cultural services, etc).

Second, there are actions to promote internal cohesion inside the urban areas that seek to improve the situation of crisis districts. Not only does this bring direct benefit to the districts themselves, it helps to relieve some of the pressure towards excessive suburban sprawl in pursuit of a better quality of life.

⁴⁵ Communication to the Council and Parliament "Cohesion Policy and cities: the urban contribution to growth and jobs in the regions". COM (2006) [...]. 12.7.2006.

In this context, measures are important that seek to rehabilitate the **physical environment**, redevelop brownfield sites especially in old industrial cities, and preserve and develop the historical and cultural heritage with potential spin-offs for tourism development in order to create more attractive cities in which people want to live. The regeneration of existing public spaces and industrial sites can play an important role in avoiding suburbanisation and urban sprawl, thereby helping to create the conditions necessary for sustainable economic development. More generally, by improving the planning, design and maintenance of public spaces, cities can ‘plan out’ crime, helping to create attractive streets, parks and open spaces which are safe and feel safe. In urban areas, the environmental, economic and social dimensions are strongly interlinked. A high quality urban environment contributes to the priority of the renewed Lisbon Strategy to make Europe a more attractive place to work, live and invest⁴⁶.

Third, there are actions to promote a more **balanced, polycentric development** by developing the urban network at national and Community level including links between the economically strongest cities and other urban areas including small and medium-sized cities. This will require the making of strategic choices in identifying and strengthening growth poles and, just as important, putting in place the networks that link them in both physical (infrastructure, information technologies, etc.) and human (actions to promote cooperation, etc.) terms. Since these poles serve wider territories, including the immediate rural hinterland, they contribute to a sustainable and balanced development of the Member State and the Community as a whole. In a similar way, rural areas provide services to the wider society, for example, in the form of recreational opportunities and highly valued landscapes. Focus should therefore also be put on the urban rural interface.

Based on previous experience, there are a number of key principles in urban actions. First, the key partners in the cities and local authorities have an important role to play in achieving these objectives. As mentioned above, Member States may delegate responsibility to cities for urban development. This is particularly important where proximity matters, for example, in order to respond to the challenges of a mostly local nature such as social exclusion or lack of access to key services.

Second, the preparation of a medium- to long-term development **plan for sustainable urban development** is generally a precondition for success as it ensures the coherence of investments and of their environmental quality. This will also help to secure the commitment and participation of the private sector in urban renewal. In general, a multi-disciplinary or integrated approach is needed. For area-based actions, for example, to promote social inclusion, this requires that actions seeking to improve the quality of life (including the environment and housing) or the level of services to citizens are combined with actions to promote the development of new activities and job creation in order to secure the long-term future of the areas concerned. The new JESSICA initiative is designed to promote and facilitate the development of financial engineering products to support projects included in integrated urban development plans.

In general, integrated support services and programmes should have a focus on those groups which are most in need, such as immigrants, young people and women. All citizens should be encouraged to participate in both the planning and delivery of services.

⁴⁶ Thematic Strategy on the Urban Environment. COM (2005) 718 final.

2.2. Support the economic diversification of rural areas, fisheries areas and areas with natural handicaps

Cohesion policy can also play a key role in support of the economic regeneration of rural areas, complementing the actions supported by the new rural development fund (European Agricultural Fund for Rural Development - EAFRD)⁴⁷. This complementary approach should seek to support the restructuring and diversification of the economy in Europe's rural areas.

The synergy between structural, employment and rural development policies needs to be encouraged. In this context, Member States should ensure synergy and consistency between actions to be financed by the ERDF, Cohesion Fund, ESF, European Fisheries Fund (EFF) and EAFRD on a given territory and in a given field of activity. The main guiding principles as regards the demarcation line and the coordination mechanisms between actions supported by the different Funds should be defined at the level of national strategic reference framework/national strategy plan.

For cohesion policy, action in favour of rural areas or for areas with natural handicaps, including many island regions, should contribute to the creation of new opportunities through the diversification of the rural economy. This includes efforts to support the provision of a minimum level of access to **services of general economic interest** in order to attract firms and qualified personnel and to limit out-migration. In this context, connectivity to the main national and European networks is necessary. In addition, cohesion policy should support the endogenous capacity of rural territories by promoting, for example, product marketing at national and global level, and favouring process and product innovation in existing economic activities.

Achieving the necessary critical mass to deliver services efficiently - including services for a healthy workforce referred to above - is a particular challenge. Ensuring universal access to all services, particularly in very sparsely populated areas, may be achieved by investing in **development poles** in rural areas (for example in small and medium-sized towns) and by developing **economic clusters** based on local assets combined with the use of new information technologies.

Many rural regions depend heavily on tourism. These regions require **an integrated approach** dedicated to quality, focusing on consumer satisfaction and based on the economic, social and environmental dimensions of sustainable development. Actions should take advantage of, and seek to preserve and develop natural and cultural assets which can have important positive spin-offs by protecting habitats and supporting investment in biodiversity. The integrated approach should aim to have a positive impact on the tourism sector, the local economy, the people working in the tourism sector, visitors and the local population, as well as the natural and cultural heritage.

With regard to the fisheries sector, the economic restructuring of fisheries-dependent coastal areas and the smaller islands, is often a particular challenge for geographic reasons, and cohesion policy can play an important role as a complement to the actions supported by the EFF.

⁴⁷ Council Regulation (EC) No 1685/2005 of 20 September 2005. OJ L 277, of 21.10.2005, p. 1.

2.3. Cooperation

Measures to promote cross-border, transnational, and interregional cooperation, including maritime cooperation where appropriate, should complement the three priorities indicated above. As a consequence, closer cooperation across EU regions should help speed up economic development and the achievement of higher growth. National borders are often an obstacle to the development of European territory as a whole, and can restrict its potential for full competitiveness. In the cross-border and transnational context, transport, water management and environment protection are clear examples of challenges requiring a focused and integrated approach that goes beyond national boundaries. In terms of implementation, Member States may wish to examine the possibility of creating a European Grouping of Territorial Co-operation to take on the role of managing authority for certain co-operation programmes.

2.4. Cross-border cooperation

The aim of cross-border cooperation in Europe is to integrate areas divided by national borders that face common problems requiring common solutions. Such challenges are faced by all border regions in the Union as a result of the fragmentation of markets for labour and capital, infrastructure networks, fiscal capacity, and institutions.

Though cooperation programmes should be tailored according to the particular situation faced by each border region, it is important that an effort is made to concentrate the assistance on the main priorities in support of growth and job creation.

Generally applicable recommendations for future cross-border cooperation are not always relevant owing to the large diversity of situations. At the same time, in view of the obstacles created by borders, a useful starting point is the improvement of existing transport and communication infrastructure and the development, where necessary, of new links. These are pre-conditions for establishing or developing cross-border contacts.

Cross-border cooperation should focus on strengthening the competitiveness of the border regions. In addition, it should contribute to economic and social integration, especially where there are wide economic disparities on either side. Actions include promoting knowledge and know-how transfer, the development of cross-border business activities, cross-border education/training and healthcare potential and integrating the cross-border labour market; and joint management of the environment and common threats. Where the basic conditions for cross-border cooperation are already in place, cohesion policy should focus assistance on actions that bring added value to cross-border activities: for example, increasing cross-border competitiveness through innovation and research and development; connecting intangible networks (services) or physical networks (transport) to strengthen cross-border identity as a feature of European citizenship; the promotion of cross-border labour market integration; cross-border water management and flood control; joint management of natural and technological risks.

Particular attention needs to be paid to the challenges and opportunities presented by the changing external borders of the Union following enlargement. Here, there is a need to promote coherent cross-border actions that encourage economic activity on both sides, and remove obstacles to development. To this end, cohesion policy and the new European Neighbourhood and Partnership Instrument and, where appropriate, the new Instrument for Pre-Accession, need to create a coherent framework for such actions.

2.5. Transnational cooperation

In transnational areas there is a need to increase economic and social integration and cohesion. Transnational cooperation programmes seek to increase cooperation across Member States on matters of strategic importance.

Support should therefore be given to actions which seek to improve the physical interconnection of territories (e.g. investments in sustainable transport) as well as intangible connections (networks, exchanges between regions and between the parties involved).

The actions envisaged include the creation of European transport corridors (particularly cross-border sections) for the prevention of natural hazards, water management at river basin level, integrated maritime cooperation and R&D/innovation networks.

The map of the current zones for transnational cooperation has been modified to ensure that they create the conditions for implementing basic structural actions. They have been drawn up taking account of territorial coherence and functional criteria of a geographical nature, for example, sharing the same river basin or coastal zone, belonging to the same mountainous area, being crossed by a major transport corridor. Other criteria, such as history or institutional structures, or existing cooperation or Conventions, are also pertinent.

2.6. Interregional cooperation

Interregional cooperation programmes should focus on the renewed Lisbon strategy: strengthening innovation, SMEs and entrepreneurship, the environment and risk prevention. In addition, exchange of experiences and best practices regarding urban development, modernisation of public sector services (such as health and government using ICT) and the implementation of cooperation programmes as well as studies and data collection will be encouraged. Interregional cooperation may also be supported within programmes for Convergence and Regional competitiveness and employment. In addition, exchange of experiences and best practices regarding urban development, social inclusion, relationship between cities and rural areas, and the implementation of cooperation programmes will be encouraged.