

URBAN AGENDA FOR THE EU

Partnership for Job and Skills in Local Economy

Progress report on **ACTION PLAN elaboration**

15 February 2018

Table of contents

1. INTRODUCTION	3
1.1.Objectives	3
1.2.Governance of the Partnership	5
1.3.What is already done?	6
2. Research on actions phase for Priority Themes “Skills” and “Governance” – further details need to be identified in preparing the draft action plan	13
3. Definition of actions phase for Priority Theme “Capital investments” - potential Actions under discusion	16
3.1.Better Funding	16
3.2.Better Regulation	22

1. INTRODUCTION

1.1. Objectives

The European economy seems to be slowly recovering from the financial and economic crises, at the aggregate level, while regional and urban enclaves remain deeply scarred by economic and social dislocation. After several years of decline, we are experiencing economic growth partly due to increased purchasing power and increased exports and very low to zero percent interest rates. However, these positive effects seem to have hardly affected the labour market. Unemployment is still much higher than before the crises. The primary goal of Europe 2020 strategy: “75% of the population between 20 and 64 has a job”, seems very far away. In particular, youth unemployment is a very serious problem for the European societies, as younger people don’t only need to confront the high unemployment rates, but also miss out on developing crucial labour market skills. As urban areas are the key players in creating the conditions for sustainable economic development, a strengthened EU agenda on jobs and skills is therefore crucial for the future of Europe and needs to be addressed urgently.

Economic performance at local level, including business development, is one of the most essential thematic aspects in fostering sustainable regional and urban development. New enterprises create new working places thus providing wider employment opportunities, fostering overall prosperity of inhabitants, as well as preventing uncontrolled outflow of local residents. Meanwhile, higher entrepreneurial activity and employment create preconditions for higher incomes in the budget of local municipalities, which can be used for providing better public spaces, better public services and more favourable business environment, also for attracting highly skilled experts. As a result, overall prosperity and life quality of local residents can be increased, as well as it can create favourable preconditions for attraction of new investors.

From an economic perspective, the development of particular territories depends on the ability to use efficiently available resources (including human resources, investments etc.), to attract and to multiply them, thus creating necessary critical mass for growth. Meanwhile, local economies have to adapt to the new reality, influenced by globalization and by the process of creating and developing new products and services. Therefore, it is essential to use the available resources in the most effective way (with focus on place based approach), in order to create all the necessary preconditions for local economic development.

National and regional authorities are crucial due their role in establishing the legal, policy and financial support framework. The national and regional level should ensure the proper conditions for local authorities in order to support their effectiveness.

Besides being an employer, local authorities are not in the lead position to create jobs. But they do provide the circumstances under which jobs are being created, ranging from favourable business climate, promoting the modernization and transition of the local economy, supporting (social) entrepreneurship, ensuring a proper infrastructure and a good mobility of people and goods, providing qualitative public services, which prevent administrative burden and facilitate establishment of enterprises and their growth,

controlling the urban development and the land use, diminishing the time and the procedures to obtain the building permit, and finding ways to stimulate local jobs through social return schemes, promoting apprenticeship programs and financial instruments such as social impact bonds.

Cities can facilitate the grow of jobs, productivity and incomes through 4 category of interventions:

- Institutions and regulations;
- Infrastructure and land;
- Skills and innovation;
- Enterprises support and finance.

A competitive city is a city that successfully facilitates its firms and industries to create jobs, raise productivity and increase the incomes of citizens over time. According to the World Bank report on Competitive cities for jobs and growth, improving the competitiveness of cities is a pathway to eradicate poverty and increase shared prosperity.

The overall objective of the Urban Agenda for the EU is to involve urban authorities and their partners in achieving **Better Regulation, Better Funding and Better Knowledge**, to realise the full potential of the European Union in urban areas. For the Jobs and Skills partnership in particular the aim is to facilitate increased capacity of the workforce and the creation of jobs, and improved preconditions for the development of local economy, based on skills and distinctive local specificities.

The partnership identifies bottlenecks and burdens at the EU level, and formulates concrete proposals for improvements in the EU legislation, funding and knowledge, thus providing more favourable conditions for the local economy and labour markets.

Partnership's for the Jobs and Skills in local economy aim in particular is to facilitate the local economy, by increasing capacity and skills of the workforce, providing favourable preconditions for business development and creation of jobs, based on distinctive local specificities.

To achieve this goal (more sustainable and better job places), it is important to combine skills issue (skills according to market needs and change of economical trend) with capital investments (for innovative products and fiscal assets), which is governed by effective governance on municipal level.

1.2. Governance of the Partnership

Coordinator (-s)

- Romania – Ministry of Regional Development and Public Administration
- Rotterdam (The Netherlands)
- Jelgava (Latvia)

Members

- Member states:
 - o Greece
 - o Italy
- Urban authorities:
 - o Ghent (Belgium)
 - o Kielce (Poland)
 - o Miskolc (Hungary)
 - o Porto (Portugal)
 - o Turin (Italy)
 - o Berlin(Germany)
 - o Grand Angoulême (France)
- Partners representing the European Institutions
 - o DG REGIO
 - o DG EMPL
 - o DG GROW
 - o EIB
- Other partners
 - o CEMR
 - o EUROCITIES

Stakeholders

- To be decided on based on final selection of issues

Observers:

- URBACT
- OECD
- CEDEFOP

1.3. What is already done?

Until now, 4 partnership meetings were organised (in Brussels – February 2017, Bucharest – July 2017, Rotterdam – November 2017 and Jelgava – February 2018), but the dialogue was permanently ensured through all available channels, including video/phone conferences and Share point.

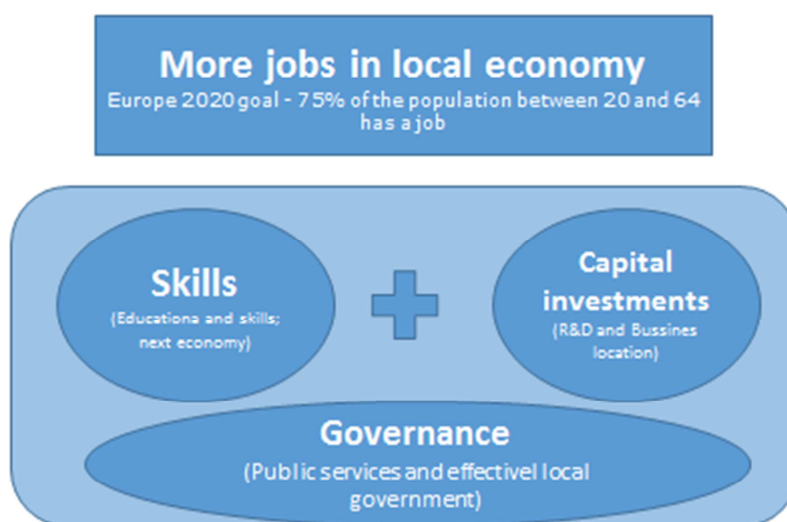
According to the schedule of activities, within the partnership an Orientation Paper was elaborated (document approved by DGUM in April 2017 in Malta), the main strategies/initiatives related to the subject of jobs and skills were identified, a comprehensive analysis was conducted in order to identify the main bottlenecks and burdens, the main directions to overcome the barriers were defined. In the current period, the partners work to develop concrete actions for enhancing a better funding, better regulation and better knowledge.

In order to substantiate the provisions of the analysis and main directions, in the second part of 2017 was launched a questionnaire/public survey which was addressed to a large group of stakeholders (more than 60 answers received).

In the same time, the joint actions of the coordinators targeted the involvement of a series of stakeholders identified as valuable for the partnership.

In this respect, letters of invitation were sent to OECD, CEDEFOP, ILO, with the first two mentioned institutions deciding to join the partnership as observers. Also, the City of Berlin became member of the partnership.

Objectives and structure of partnership



The partnership identified **3 Priority Areas** and **6 relevant themes**, each one addressing specific issues, as follows:

1st **Capital investments - Valorisation of R&D and Business locations**

- **Valorisation of R&D** – using the results of scientific research and development in cooperation between entrepreneurs and the scientific and research community. The key issue is the collaboration between entrepreneurs and the science institutions. Also SME are faced with a productive dilemma – to take a chance in innovative products or continue with traditional growth (price or quantity).

Main bottleneck - funding capacity of SME - small size start-ups have limited capacity in capital for innovative products. De-minimis is used in several programmes: techno transfer; loans and guaranties etc.; infrastructure (construction design plans, technical analysis etc.). In 3 year period (200 000) limits possibility to run business idea - limits use of programmes mentioned above. As a result de-minimis is not effectively used for creation of innovative products – block further investments.

- **Business locations** – developing business parks and office locations in accordance to the needs of the companies and entrepreneurs both existing and new. This includes transport and communication, networks such as water, waste, sewage, energy etc. In area of globalization, there is very strong mobility of resources (human resources, investments etc.). Therefore, business location has to be with appropriate environment, including necessary infrastructure as one of preconditions for attraction of investors and/or entrepreneurs.

Main bottlenecks:

- *Deprived areas as «frozen asset»:* as infrastructure in general has longer payback time, without strong public intervention part of cities are as “frozen asset” and not effectively used. Respectable amount of deprived areas need systematic work with revitalization, also respecting change of economic trends to ensure long term use of areas in future. Also regeneration of deprived areas is not always related to environmental issues - mainly it is not used. Therefore it is important to have economical as well as social regeneration to achieve use of maximum potential.
- *Eligible costs for real-estate in deprived areas* - most part of deprived areas are covered by real property (buildings). In the same time, according to State aid regulations, project costs are eligible only from the project submission moment. Under these conditions owners of real property (buildings) can speculate with property prices by increasing them, when municipality wants to purchase degraded properties to revitalize territories, thus creating inefficient use of resources.

Demand for mix of instruments:

- **Flexibility for (integrated territorial investments)** - mix of instruments for revitalisation of deprived areas is needed (industrial sites and investment in areas (infrastructure) as well as in skills and education). In the same time allocation of funding have to be done on Operational programme (OP) and specific objective level – no flexibility for cities Development programme, who could have different allocation of funding between specific objectives. This bring very limited flexibility in planning phase, even despite the fact the selection of projects could be delegated in ITI to urban authority. Also in small number of

projects it is not efficient for cities to take project selection function (functions of intermediate body)

- **Urban-Rural partnership and state aid rules** – despite the fact that urban-rural partnerships is considered one of the key issues, at project level by state aid rules it will be divided very strictly. There are different state aid regulations and *de-minimis* aid application regulations between sectors dealing with municipal infrastructure, which complicates the implementation of projects at local level (even in case when the local level would like to use equal support rate for agri and non-agri sectors).

2nd Governance - Public Service and Effective local government

- **Public services** – providing the most common interface between citizen, entrepreneurs and the local administration in order to support economic activities.

Productive, innovative and smart growing cities develop policies that contribute to the balanced development of all the categories of public services, strongly connected to the needs of the present and future generations and in accordance with the environmental conditions, size, economic profile and the development vision of the each city or urban area.

According to the Sixth report on economic, social and territorial cohesion „the overall expenditure of sub-national authorities is higher than that of central governments on many public services, such as education, cultural activities, water supply, public lighting and other community amenities and environmental protection. In some Member States, public expenditure in these areas is almost entirely carried out by sub-national levels of government, though in many cases financed nationally through transfers from central government, which are often earmarked for these services”. Therefore the cities have of an important the role as financing institutions and employers in this field.

Apart from this, the municipalities are involved in guiding the public services development trends, thereby ensuring an attractive economic environment and reducing the administrative burdens (for ex. by diminishing the procedure of obtaining building and operating permits).

The public services contributes the first 2 above mentioned categories of cities interventions which can facilitate the growth of jobs, productivity and incomes – institutions and regulations and infrastructure and land.

The main bottlenecks identified referred mainly to the low administrative capacity, especially for small and medium urban cities, insufficient cooperation between public authorities or between public and private sector, poor regulatory framework to support the integrated approach, bureaucracy and poor digitalization (for example long and difficult process to obtain building permits) and, not least, the lack of funding. All these challenges affect the quality and the accessibility to public services.

- **Effective local governance** – is essential to sustain the local economic development, job creation and skills development. In order to achieve effective local governance it is necessary to include the following 4 perspectives:

- economic activities (including jobs and skills development) should meet the local needs and specificities (place based approach);
- economic activities (due location – recovering urban territories and facilitating urban regeneration, using local labour force, limiting the unemployment, supporting the integration of disadvantaged groups) should lead to sustainable local development;
- territorial impact assessment of policies – the quality of investments;
- to foster urban – rural linkages and development of functional urban areas (creation of economic urban mass).

Cities can play an important role in ensuring the transparency in all stages of creating and implementing new development strategies, involving citizens in the decision making processes. Also, for investors it is equally important to develop their business in a predictable environment in terms of regulations (such as building permits, operating permits), taxes, incentives, labour force skills etc.

On the other hand, cities should work together to improve and increase their own administrative capacity to develop and implement integrated strategies, to create new types of services adapted to the technological developments and to the needs of the citizens (e-services).

A process of modernising the public administration is necessary in order to keep it aligned to the general progress of the society. Technological and organizational innovation is required in order to boost efficiency, from the perspective of labour force skills and public administration instruments (platforms of communication, platforms for monitoring the quality of public services along with the development of a set of indicators and a methodology to periodically assess the quality of public services and to better address the socio-economic challenges).

Nevertheless, the cooperation between settlements remains a basic requirement no matter if we are talking about urban-urban or rural-urban relations. As stated before, functional areas represent a condition to obtain economic urban mass.

The challenges such as they were described by the partnership consist in: ensuring multilevel governance, supporting innovation, the use of the new technologies and the cooperation between the cities, using and promoting the local potential of all natural and social elements (including the local labour force), sustaining the urban regeneration and the implementation of energy efficiency/environmental sustainability/increasing green and blue infrastructure.

The effective local governance contributes the first 2 above mentioned categories of cities interventions which can facilitate the growth of jobs, productivity and incomes – institutions and regulations and infrastructure and land.

The main bottlenecks consist in the lack of know-how, low administrative capacity, especially for small cities, lack of cooperation, poor or inexistent territorial approach, lack of participatory approach (poor involvement of the citizens and the civil society in communities' related decisions). All these challenges don't allow the areas surrounding cities to benefit (social and economic) from their proximity and don't allow the cities to play their territorial role.

3rd Skills - Next Economy and Education and Skills

- **Next Economy** - is about enabling the transition of cities and regions with a strong industrial and often fossil fuel base into a next economy based on knowledge, interconnection, sustainable energy, digital platforms and more localised and circular forms of production. This provides an area of opportunity for coupling locally-based social economy initiatives with the promotion of sustainable development. The next economy requires an entirely new and digitized economy, social and knowledge infrastructure (i.e. valorisation) that focuses on cross-overs, networking and smart clustering. These transitions consist of hard investments (5G, glass fibre networks, renewable energy networks, functional technology parks) as well as soft investments (education and next skills). Business locations both for start-ups and scale ups need to allow for activities that have to take place outside living neighbourhoods and are spacious enough to allow for growth or other companies to join. But also high quality urban sites for service oriented SMEs (local 3D print shops) are needed.

The public sector is often initiating a leading role through bringing together the quadruple helix partners and developing a systematic approach. The next economy requires government also to speed up their processes, in particular in land use planning and permitting as the life cycle of the next economy enterprises are a lot faster than the traditional companies. By combining sustainable urban development strategies with Regional innovation Strategies (RiS3 developed within ESIF Operational Programs) this local dimension can be secured. The transition from the current to the next economy should be as smooth as possible, however in practice this is most often not the case and the transition will be rather disruptive. To support the transition **as good as possible it is helpful to develop roadmaps together with the quadruple helix partners on the basis of the RiS3.**

Due to the uncertainties about the next economy, financing infrastructures and private sector innovation is everything but a regular business for financial institutions. ESIF programmes can be used to provide the necessary funding however not all regions and cities can access the required substantial amounts of funding through ESIF. Smaller ESIF programmes will have to rely more on loans either through private or public banks such as the EIB. Where private banks might be prudent on higher risk-involved projects, the European Fund for Strategic Investments (EFSI) is in particular supportive of these types of projects. Instrumental in the transition towards a next economy are European support programmes that promote the development of large(r) scale demonstration projects. Local authorities play a crucial role in further developing these funding programmes as the higher risk often require guarantees a specific company cannot offer. By pooling together projects and setting up investment platforms individual risks can be levelled out and governmental guarantees can ensure other investors to step in. By blending various types of funding ranging from subsidies to loans, including venture capital, equity funding, micro-credits and many other types a support framework addressing the needs of the next economy can be established.

The partnership has identified a number of bottlenecks for realising the next economy including:

- Lack of funding (both public and private).
- Complex programming, non-alignment of different EU support programmes and high administrative burden, resulting in limited uptake.
- Limited structural involvement of local authorities and quadruple helix partners in the RiS3 design and implementation.

- Lack of effective coordination (possibilities) of sectoral policies at all levels of government.
- Differences in requirements and regulations of different policies.

- **Education and Skills** - Moving into the 21st century and preparing the transition to the next economy requires different types of qualifications of our labour force, being skilled in 21st century skills, aiming at highly qualified experts and capacities, so as to foster higher productivity, creativity and innovation, and ensuring inclusive labour markets. In other words the next economy is built on the next society. Currently the labour market is experiencing a **mismatch between demand in supply**. In many EU member states and cities there is still relatively high unemployment especially among certain groups. At the same time where there are jobs available they do not automatically equal with the available labour force. **The required skill levels increase, demand for low skilled jobs is diminishing** also due to robotisation and **large groups, in particular the most socially vulnerable ones, run the risk of not being able to effectively participate in the labour market**. At the same time, when these jobs are not available to a highly educated workforce, talent will move elsewhere.

Local authorities are closest to these groups as well as to the local labour market and educational facilities. A reinforced role of local authorities in bridging the development of companies with education and skills is therefore of crucial importance to properly address these challenges. These can be supported in practical training centres. Even when education is a national competence there are sufficient options for local authorities to innovate the curricula. These range from **creating a dialogue with the national institutions to developing an incentive system to stimulate the education sector to develop more market driven training programmes**. This involves a stronger focus on practical learning, multidisciplinary approaches, and allowing for experimental learning.

Rather than looking at what is needed today a human capital agenda should be developed building on the identification of **what is required by employers and link this with the career orientation and guidance** based on the (potential) skills of potential employees. The time issue is of crucial importance here, as when an education is started to acquire certain skills, these might no longer be required when the training is concluded. Building on existing infrastructures (i.e. labour market offices, incubators, business hubs) **specific platforms could be developed aiming at career-start-guarantees**, apprenticeships schemes and forms of inclusion in the labour market. These platforms are also of crucial importance in developing the required skills profiles for now and the future. In this respect it would make sense to link this skills agenda much stronger to the RiS3 approach advocated under the next economy.

The next economy also requires new skills for jobs on societal issues (e.g. social/health/environmental). These local jobs often are outside the scope of the private sector and are largely dependent on public services or finance. In particular when creating links with social issues (e.g. inclusion, integration of migrant and refugees) there are also opportunities for funding through **social impact bonds as well as social entrepreneurship**. Local authorities could support these developments by providing incentives for experimentation of new approaches and promote these developments through their procurement policies. There could also be a role for local authorities in **developing lifelong learning and vocational training** aiming at local jobs as a public service but this would require funding from other levels of government (national, EU) to make it feasible.

The main issue on the future labour market needs and required **skills is that these are still rather uncertain**. It is clear that future markets will be more digital, international and circular and employers therefore require more digital and technical skills and an international focus of their (future) workforce. In addition to that more general skills will be needed such as entrepreneurial skills, complex problem solving, emotional intelligence and in particular a combination of these skills.

There is only a limited role of the European Union in employment and social inclusion policies. Labour mobility legislation (i.e. working permits, recognition of diploma's) should be more flexible, adaptable to market and business friendly whilst at the same time protecting the social security of Europeans. However, there is no holistic approach in developing effective inclusive markets to develop effectively long term sustainable work solutions.

Bottlenecks within the topic of Education and Skills identified by the partnership include:

- No proper involvement of local actors in EU policy framework on new skills agenda, youth employment initiative, social agenda.
- The range of funding instruments complicates integrated programming.
- The European Social Fund programming is too strongly focused on traditional labour market guidance is difficult to work in conjunction with financial instruments and when activating private funds for social aims or developing new sustainable forms of delivery of services from non-profit organisations.
- The Youth Employment Initiative further complicates the framework resulting in slow start and uptake of available funding.
- Current curricula insufficiently fit 21st century demands.
- General state aid legislation and de-minimis regulation bring barriers to the maximum participation of employers/companies in demand led education and training.
- YEI under represents low-skilled and non-registered NEETs.
- Lack of funding (including soft loans).
- High cost of setting up education system for local jobs.

2. Research on actions phase for Priority Themes “Skills” and “Governance” – further details need to be identified in preparing the draft action plan

1. Improved programming for cities

Currently cities can (in)directly benefit from several EU financing instruments ranging from grants (ERDF regional, ESF, Interreg, Cohesion Fund, EAFRD, etc) to financial instruments (EIB, EFSI, ERDF revolving funds), and project funding (H2020, LIFE+, ERASMUS+). The functioning of these actions require for each complicated and bureaucratic procedures than are often not in-line with one another. Notwithstanding the need for transparency in decision making as well as the necessary checks and balances in monitoring and control, much progress can be booked by streamlining procedures and building on simple single rulebooks, and allowing a better blending of existing instruments. The HLG on Simplification have made several suggestions that need to be implemented in the new ESIF regulations and implementation guidelines. This includes a better involvement of local authorities in the design and implementation of the programmes, either through delegation of authority or through improved partnership arrangements (Article 5 general regulation, or Code of Conduct).

2. Ensure sufficient amounts of grant support

The last two programming periods have witnessed an increasing amount of financial instruments, both within the ESIFs themselves and by the setting up and already increased EFSI amounts that are now larger than then ESIFs themselves. Although these instruments bring additional financial leverage to the market, there remains a strong demand for traditional grants. In particular for addressing the needs of vulnerable groups, such as the increasing skills mismatches that seriously challenges the access to the labour market of those groups, at the same time limiting the labour potential and this resulting in future labour shortages. Furthermore, the expected changes in the economy (energy, digital, mobility transition) require large transformations that can not only be financed by loans. This is of particular importance in setting up pilots, field- and fablabs and incubators that amongst others help innovation in the private sector that is not profitable yet. Non-profitable, and higher risk projects need other forms of finance than loans. Without a strong Cohesion Policy the success of EFSI will be relatively limited.

3. RiS3 2.0

The Regional innovation Strategies have proven an important tool in providing the ex-ante conditions for the ERDF Operational Programmes. The entrepreneurial bottom up regional process has ensured that the innovative potential of businesses and educational facilities have been improved. With the major transitions in the economy ahead of us, this approach needs a further strengthening in order to keep it successful. Rather than focusing on today’s strong industries, more focus needs to be giving in building the industries of the future. Similarly important is a stronger involvement of the labour market in the RiS3 (Human capital agenda) as the demands for future skills need to be fully included in the new strategies. In particular the local level has a strong role to play in this process. Local authorities are not

only the matchmakers between the different business sectors, they often form also the bridges between the business sector and the educational facilities and with regional and national governments.

4. **Ensuring the pre-conditions for economic development** – enhance competitive urban areas: facilitates local firms and industries to grow jobs, raise productivity, attract new investors and increase incomes of citizens:

- *Agglomeration economies.* Economic development happens through the growth of firms and industries, agglomeration effects (the productive efficiencies that result from colocation of firms) being integral to that development. An industry can have a wide geographic span, but agglomeration effects tend to be spatially bound. The natural scale of agglomeration can be considered within a metropolitan area where workers commute to jobs, there is a recognizable pool of labor, infrastructure is shared, and knowledge can spill over between firms. Proximity tends to be more important for industries that rely on face-to-face interactions and knowledge exchange (World Bank Report – Competitive cities for jobs and growth, 2013). Agglomeration economies refer to the benefits that firms and people derive from being close to each other. Proximity reduces the costs of exchanging goods, services and ideas, and clusters of economic activity are generated.
- They arise from three types of agglomeration or clustering effects:
 - o *localisation*, where specific activities/people with similar needs/profiles converge;
 - o *activity*, where different activities have substantial trading links with each other; and
 - o *urbanisation*, where the activities are related to the sheer scale of the population and economic activity. In short they arise from the scale of the economies and the network effects of cities and they give cities much of their competitive advantage and reason for their growth.

In order to put in practice these approaches, following measures should be addressed:

- Supporting the establishment and the proper functioning of functional areas, enabling the local authorities, through cooperation, to identify and to take advantages of the opportunities created by their territorial position;
- Extending and improving the urban areas infrastructure;
- Ensuring the conditions for development of urban areas:
 - Density – urban mass matters
 - Distance – proximity to markets matters
 - Division – regional integration matters.
- *Business friendly administration.* Policy implementation tends to be more manageable at the city level than at the national level, with city leaders employing a range of policy levers and taking a relatively more pragmatic approach to dealing with problems—transcending the political gridlock that is frequently experienced at the national level. City governments often struggle, however, with fewer resources and lower capacity. Getting policy right at the outset will have important implications for city competitiveness and, because urban areas contribute the majority of countries' economic growth, for national-level wealth creation and poverty reduction. Important institutions are those that provide health care, access to justice, and basic public services such as water, sanitation, and transport. In essence, the best institutions are those that provide key public services that would be cumbersome and expensive for people to provide individually, while at the

same time protecting people's basic freedoms. In other words, good institutions should allow as many people as possible, preferably all of them, access to power and opportunities.

In order to put in practice these approaches, following measures should be addressed:

- Using urbanization as tool for development. Urbanization is a process that happens naturally, but public authorities play a critical role in guiding this process, in encouraging positive market externalities, and in addressing the negative side-effects of urbanization (e.g., congestion, pollution, social cleavages). No country had developed without urbanizing first. Cities can improve their performance by using a custom process for designing and implementing a strategy and by using tools that are already available. These tools include strategic analysis of the local economy and external market trends and opportunities, public-private dialogue, and techniques for harnessing the political economy during implementation.
- Digitalization of public services – e-Government services must be able to provide a greater transparency and accountability for public institutions, for private sector and for citizen; information on labour availability, business infrastructures, skills and costs, fiscal and nonfiscal incentives, business competitors is crucial for firms searching new business locations.
- Investments tailored by the types of urban areas – less developed cities need concentrated efforts to ensure essential service for population and business (access to electricity, water supply, sewerage, waste management) and basic regulation while the more developed settlements require investments in human capital and innovation mainly driven towards the improvement of creative and financial services.
- Increasing the skills and capacity of the local authorities representatives - Improving the processes of knowledge and good practice's sharing - supporting the better use of existing platforms/tools:
 1. Using RFSC in the process of drafting the local policies and strategies especially regarding to funding;
 2. Ensuring the connection between URBACT and national/regional operational programs by financing the implementation of the projects established in the URBACT strategies.
- Supporting the development of local agencies that are able to sustain the public investments and ensure the connections with private sector stakeholders.
- Creating the conditions for a better use of the local potential.

3. Definition of actions phase for Priority Theme “Capital Investments” - potential ACTIONS under discussion

All action details and specifics are still under discussion stage in the framework of the partnership.

3.1. Better Funding

ACTION N° 1

Funding for economic and social regeneration of deprived areas

EU fund regulation (next edition of regulation No 1301/2013 and 1303/2013) need to include thematic objective and investment priority for regeneration of deprived areas.

Responsible: European Commission, DG for Regional and Urban Policy is in charge of designing the Cohesion Policy; Deadline: 2018

A) What is the specific problem?

All industrialised countries have former industrial sites that are contaminated as a result of their industrial legacy, and require remediation. For example, the US Environmental Protection Agency (USEPA) estimates that there are between 500 000 and 1 million brownfield sites in the United States. More than USD 2 trillion worth of property within that country is devalued due to the presence of environmental hazards (USEPA Web site). The total cost of restoring these sites to productive use may be in excess of USD 650 billion. For France, it is estimated that there are about 200 000 former industrial and service sites that can be considered brownfields, as well as about 200 former mines. The stock of industrial brownfields alone covers nearly 50 000 acres. In Germany, the number of suspected contaminated sites is about 362 000 covering 316 000 acres¹.

Rehabilitation of urban land and buildings has been an important focus for the Structural Funds. Such actions offer an integrated approach to sustainable growth. The challenge still remains most acute in central and eastern Europe; for example, it is estimated that 40% of the Budapest area is brownfield land. The cost of remediation of contaminated sites is very high, and so will not be undertaken by the private sector while markets are depressed or there is significant market gap².

The changes in global development over the past two decades have produced a different set of financing propositions at the local level from those in the past. Economic development in cities and regions is now much more about smart infrastructure, re-used brownfield land, high tech business space, creativity hubs, science parks, supply chains, knowledge capital, small companies, joint promotion, and community development³.

In every business one of the key element is “payback time” of investments. As competition stimulate development of new products and services, companies are looking for places for better business environment, including shorter “payback time”. In era of globalisation and high mobility of human and

¹ Local Governance and the Drivers of Growth. OECD, 2005.

² Second ESPON 2013 Synthesis Report “Territorial insight: Where to focus what types of investments”

³ Investment Strategies and Financial Tools for Local Development. OECD, 2007.

investments resources, it is important for cities to have “smart space”, which could attract investments and offer shorter “payback time” - ready use or easy adaptable facilities could ensure such condition. As infrastructure in general has longer payback time, without strong public intervention deprived areas will be as “frozen asset”. For market player regeneration is even more investment intensive than development of new sites – in those condition it is very important to have strong public intervention, what could stimulate regeneration of deprived areas. **A pro-active approach to restoration and reuse of brownfield land will be essential to achieving the Europe 2020 Flagship Initiative goal of no net land-take by 2050⁴**

During the survey made by Partnership “Job and skills in local economy” were defined main factors for regeneration of deprived areas:

- Well prepared new investment areas
- Skilful workforce and cost of resources
- Streamline bureaucracy, direct economic tools
- Need to find new interventions and innovative policies to deal with such deprived areas

Also for increasing employment in deprived areas, there were mentioned similar activities: attract new investments by encouraging new investors to settle their businesses in such areas by offering them incentives as tax exemptions, preparing tailored new investment areas, supporting in suitable human resources recruitment. **This shows that it is important to have flexible solution, which could contribute to improvements in infrastructure as well as social investments in human capital.**

Significance of deprived areas issue is also tackled by other Urban Partnerships:

- **Partnership “Urban poverty”** – to address urban poverty in deprived urban areas partnership propose new Urban Thematic Objective which also includes Local Pact for regeneration of urban deprived areas. Main dimensions for tackling urban poverty: urban regeneration/living environment; social cohesion; inclusive economic development; environment/energy.
- **Partnership “Sustainable Land Use and Nature Based-Solutions”** in its orientation paper among other things turns its attention to urban regeneration and use of brownfields as important aspects for efficient and sustainable land use. As one of the issues it mentions lack of effective regulatory and fiscal incentives to attract private investments on brownfields. One of the statements partnership will focus on is that preventing urban sprawl through the mechanisms of brownfield development and rededication and reuse of vacant and underutilised land should be a priority. Partnership defines three main topics and one of them is liveable compactness, to which one of the subtopics is redevelopment of brownfield and re-edification and reuse of vacant and underutilized land.

How do existing EU policies/legislations/instruments contribute?

ERDF investments for 2014-2020 are available for investments in deprived areas - it is defined in Regulation No 1301/2013 on ERDF, Article 5:

(6) preserving and protecting the environment and promoting resource efficiency by:

e) taking action to improve the urban environment, to revitalise cities, regenerate and decontaminate brownfield sites (including conversion areas), reduce air pollution and promote noise-reduction measures;

⁴ Second ESPON 2013 Synthesis Report “Territorial insight: Where to focus what types of investments”

Current regulation “deprived areas” defines as a part of “environmental” issue as it is a part of thematic priority “*preserving and protecting the environment and promoting resource efficiency*”.

According to existing EU fund regulation deprived areas are defined more as environmental issue. However analysis shows that is not only environmental issues, but primary economic and social:

- Causes of deprived area are economical – change of industries
- Sustainable use of deprived area also will be economical – new industries are looking for “smart space” which could be adapted according to their needs
- Social impact – decline of industries brought poverty for those urban areas; regeneration needs also investments in social or human capital to achieve higher productivity and long term use of those areas.

B) Which action is needed?

It is suggested to create a new thematic objective within the next programming period after 2020 for regeneration deprived areas with social and economic regeneration.

Regeneration of deprived areas is directly related to the development of the local economy and the enhancement of the competitiveness of the cities. Taking into account the proportion of degraded and economically unused territories, a systematic set of measures for the revitalization of the urban environment is needed, taking into account economic development trends, thus ensuring the long-term use of regenerated territories. Revitalization of deprived territories is not always connected with environmental issues, mainly it is related to the inefficient use of social and economic potential.

How to implement the action?

EU fund regulation (next edition of regulation No 1301/2013 and 1303/2013) need to include thematic objective and investment priority as:

- **Option A – new thematic objective**

(New) Improving urban environment by social, economic or environmental regeneration of deprived areas

Definition of deprived area – area with not fully used social and economic potential, which could have also negative environmental effect (not obligatory)

- **Option B – improvement of existing (under environment)**

(6) Preserving and protecting the environment and promoting resource efficiency by:

*e) Improvement of the urban environment, to revitalize cities, **social, economic or environmental regeneration of deprived areas***

ACTION N° 2

More place-based approach - flexibility in integrated territorial investments (ITI)

Flexibility in ITI could be achieved by change of EU fund regulation (next edition of regulation No 1301/2013 and 1303/2013):

- Additional specific objective (as ITI) can be introduced in Operational programme or programmes
- Not obligatory delegation to cities of selection of projects (operation).

Responsible: European Commission, DG for Regional and Urban Policy in charge of designing the Cohesion Policy; Deadline: 2018

A) What is the specific problem?

In accordance with the structure of the Cohesion Policy of the current programming period, investments for Integrated Urban Development are combined from the various thematic objectives, priority directions, investment priorities, which impose a limitation that activities cannot be wider than investment priorities, and therefore it is not possible to implement thematically wide and integrated urban development projects according to urban development strategies.

The Cohesion Policy for the current programming period 2014 - 2020 has been structured around 11 thematic objectives. The ERDF regulation (No 1303/2013) provides that at least 5% of the ERDF financing provided to a country is to be invested in resolution of challenges relating to economic, social, demographic, environmental and climate challenges in cities based on integrated municipal development programs, taking interrelation of cities and rural areas into account. In previous section (under Action 1), analyses showed economic logic for mix of instruments as most appropriate method for public intervention in deprived areas. Integrated solution is also demanded by survey in partnership “Job and skills in local economy” as indicated different types of interventions in deprived areas – investments in infrastructure as well as in social capita. Also Partnership “Urban poverty” proposes local pacts with different types of dimensions for tackling urban poverty: urban regeneration/living environment; social cohesion; inclusive economic development; environment/energy

Therefore main bottlenecks could be defined as:

- a. Urban areas need mix of instruments, what could be adapted according to local specifics. As example, instruments for revitalisation of deprived areas needs investments in infrastructure of former industrial sites and areas (infrastructure) as well as investments in skills and education to achieve long term use of such area.
- b. In the same time allocation of funding have to be done on Operational programme (OP) and specific objective level – no flexibility for cities Development programme, who could have different allocation of funding between specific objectives. This bring very limited flexibility in planning phase, even despite the fact the selection of projects could be delegated in ITI to urban authority. Also in small number of projects it is not efficient for cities to take project selection function (functions of intermediate body)

How do existing EU policies/legislations//instruments contribute?

In accordance with the Regulation No 1303/2013 on EU funds Article 36 “Where an ITI is supported by ESF, ERDF or Cohesion Fund, the relevant operational programme or programmes shall describe the approach to the use of the ITI instrument and the indicative financial allocation from each priority axis in accordance with the Fund-specific rules.” Thereby there is no flexibility in the allocation of funding, as according to urban development programs, the distribution of funding between specific objectives may be different.

In line with the Regulation No 1301/2013 on EU funds Article 7 “At least 5 % of the ERDF resources allocated at national level under the Investment for growth and jobs goal shall be allocated to integrated actions for sustainable urban development where cities, sub-regional or local bodies responsible for implementing sustainable urban strategies ("urban authorities") shall be responsible for tasks relating, at least, to the selection of operations in accordance with Article 123(6) of Regulation (EU) No 1303/2013, or, where appropriate, in accordance with Article 123(7) of that Regulation. The indicative amount to be dedicated for the purposes of paragraph 2 of this Article shall be set out in the operational programme or programmes concern.

Implementation of mentioned regulations above creates an additional administrative burden for municipalities, as municipalities have to evaluate project applications that they have prepared themselves. Thereby it is important to simplify the ITI implementation mechanism by giving up mandatory requirement to carry out selection of project applications in city evaluation commissions. At city level, project selection is already carried out at the level of development and approval of urban development programs, where investment projects are identified and prioritized addressing social, economic and environmental issues.

B) Which action is needed?

Flexibility in ITI could be achieved by:

- **Additional specific objective (as ITI) can be introduced in Operational programme or programmes** - in this case urban or territorial authorities can allocate funding according to their strategies, reaching target indicators and results of respective specific objectives proportionally to the financing. In this way, by simplifying the financial instruments available to cities for the revitalization of their territories, the implementation of thematic and integrated urban development projects in line with urban development strategies can be accompanied by specific additional objectives (such as ITI) - in this case, cities or local authorities can grant funding according to their strategies, reaching the target indicators and the results of the respective specific objectives in proportionally to the funding.
- **Not obligatory delegation to cities of selection of projects (operation).** In the same way changes in regulatory enactments are required referring to mandatory evaluation of submitted ITI project applications by city municipality. The partnership proposes to change the regulation by making municipalities free to choose whether the project evaluation procedure is carried out by city evaluation commissions or this function remains within the competence of national co-operation authority, and leaving identification of priority projects in city municipality charge.

How to implement the action?

Change of EU fund regulation for next Cohesion policy:

- **EU fund regulation (next edition of regulation No 1303/2013 Article 36)**

2. Where an ITI is supported by ESF, ERDF or Cohesion Fund, the relevant operational program or programs shall describe the approach to the use of the ITI instrument and the indicative financial allocation from each priority axis in accordance with the Fund-specific rules. **Additional to Article 9 integrated specific objective (as ITI instrument) can be introduced in Operational program or programs - in this case urban or territorial authorities can allocate funding according to their strategies, reaching target indicators and results of respective specific objectives proportionally to the financing**

- **EU fund regulation (next edition of regulation No 1301/2013 Article 7)**

4. At least 5 % of the ERDF resources allocated at national level under the Investment for growth and jobs goal shall be allocated to integrated actions for sustainable urban development where cities, sub-regional or local bodies responsible for implementing sustainable urban strategies ("urban authorities") ~~shall~~ can be responsible for tasks relating, **at least**, to the selection of operations in accordance with Article 123(6) of Regulation (EU) No 1303/2013, or, where appropriate, in accordance with Article 123(7) of that Regulation. The indicative amount to be dedicated for the purposes of paragraph 2 of this Article shall be set out in the operational programme or programmes concerned

3.2. Better Regulation

ACTION N° 3

More flexible state aid rules for innovative start-ups - change of De-minimis for investments in innovative start-ups (decrease of binding period or increase of De-minimis amount)

Responsible: European Commission, DG for Competition; Deadline: 2019

A) What is the specific problem?

Since innovative products often are technologically intensive, development of such products might be complicated without start-up capital. One of the instruments that might help in such situation would be appropriate amount of de-minimis support.

The European Commission has introduced the concept of minimum amount or so-called de-minimis aid (Regulation No 1407/2013 on De-minimis - Article 3), which states that supported projects for small amounts which do not have an actual impact on competition and trade between Member States, are not a subject to general requirements for controlling business support. Aid of up to EUR 200 000 is considered to be de-minimis aid. The gross amount of EUR 200 000 may not exceed three fiscal years.

De-minimis aid is used in several national programs of the Member States like Techno transfer; Loans and guarantees; support for business infrastructure (building projects, technical analysis, etc.).

However, taking into account current experience gained, the de-minimis aid of EUR 200 000 over a period of three years limits the possibility to start the usage of business ideas and support programs in advance. This limitation has an impact on innovative enterprises which play an important role in strengthening the work local economy in particular.

During the survey made by Partnership “Job and skills in local economy” were founded key statements:

- *City has an important role for R&D development. Therefore interest is for mix of instruments: support for start-ups, venture capital, physical incubation, knowledge and technology transfer, networking, mentoring and coaching etc.*
- *De-minimis is good tool for start-ups. In the same time main bottleneck is funding for R&D and financial costs.*

How do existing EU policies/legislations//instruments contribute?

In line with the Regulation No 615/2014 on State AID Article 2:

80) ‘Innovative enterprise’ means an enterprise:

(a) that can demonstrate, by means of an evaluation carried out by an external expert that it will in the foreseeable future develop products, services or processes which are new or substantially improved

compared to the state of the art in its industry, and which carry a risk of technological or industrial failure, or...

(b) the research and development costs of which represent at least 10 % of its total operating costs in at least one of the three years preceding the granting of the aid or, in the case of a start-up enterprise without any financial history, in the audit of its current fiscal period, as certified by an external auditor

Also Regulation No 615/2014 on State AID Article 22 define Aid for Start Ups:

- Loans
- Guaranties
- Grants, including equity or quasi equity investment, interests rate and guarantee premium reductions
- Grants, including equity or quasi equity investment, interests rate and guarantee premium reductions up to EUR 0,4 million gross grant equivalent (or EUR 0,6 million or EUR 0,8 million for undertakings established in assisted areas)

As interests rate and guarantee premium reductions usually is implement on De-minimis bases, amount of 200 000 limits maximum of available support offered for Start-ups. Regulation also defines that beneficiary can receive support through a mix of the aid instruments – this option is also limited by 200 000 for three years. As a result, de-minimis has not been fully used to create new, innovative, competitive products.

B) Which action is needed?

In order to solve mentioned problem the Partnership suggests to make changes in the regulation No 1407/2013 on De-minimis for innovative start-ups by increasing amount until 800 000 euro (current 200 000 euros) or decrease of binding period for one year (current three years)

How to implement the action?

Changes in the regulation No 1407/2013 on De-minimis (next edition) Article 3:

- **Option A1 - increasing support amount (current 200 000):**

(2) The total amount of de-minimis aid granted per Member State to a single undertaking shall not exceed EUR 200 000 or X euro for innovative small size start-ups over any period of three fiscal years.

- **Option A2 - decrease of binding support period (current three years)**

(2) The total amount of de-minimis aid granted per Member State to a single undertaking shall not exceed EUR 200 000 over any period of three or X (for innovative small size start-ups) fiscal year.

ACTION N° 4

More flexible rules for regeneration projects - eligible costs for real-estate in deprived areas (State Aid Regulation)

Responsible: European Commission, DG for Competition; Deadline: 2019

A) What is the specific problem?

As it is mentioned in analysis for Action No.1, there is significant amount of deprived areas which need public intervention and revitalisation measures. Most part of deprived areas are covered by real property (buildings). Especially in cases when private owner is not motivated or cannot provide development and revitalisation of the property due to the lack of finances, it is important for city to buy such property for revitalisation projects. Also ERDF investments for 2014-2020 are available for investments in deprived areas.

In the same time according to State Aid regulation project costs are eligible only from the project submission moment. Under these conditions owners of real property (buildings) can speculate with property prices by increasing them when municipality wants to purchase degraded properties to revitalize territories, thus creating inefficient use of resources, including EU funds.

Responsible: European Commission, DG for Competition; Deadline: 2019

How do existing EU policies/legislations/instruments contribute?

ERDF investments for 2014-2020 are available for investments in deprived areas - it is defined in Regulation No 1301/2013 on ERDF, Article 5:

(6) preserving and protecting the environment and promoting resource efficiency by:

e) taking action to improve the urban environment, to revitalise cities, regenerate and decontaminate brownfield sites (including conversion areas), reduce air pollution and promote noise-reduction measures;

Regulation No 615/2014 on State aid defines eligibility period or start of work - **'start of works'** means the earlier of either the start of construction works relating to the investment or the first legally binding commitment, to order equipment or any other commitment that makes the investment irreversible. Buying a land and preparatory works such as obtaining permits and conducting feasibility studies are not considered start of works.

B) Which action is needed?

Changes in the Regulation No 615/2014 on State aid (next edition) eligible costs for real-estate in deprived areas before project submission.

How to implement the action?

Changes in the State aid regulation (next edition of regulation No 615/2014, Regulation No 702/2014 and Regulation No 1388/2014) by defining eligible costs for real-estate in deprived areas before project submission.

23) 'Start of works' means the earlier of either the start of construction works relating to the investment or the first legally binding commitment, to order equipment or any other commitment that makes the

investment irreversible. Buying land or real-estate in deprived areas and preparatory works such as obtaining permits and conducting feasibility studies are not considered start of works. For take-overs, 'start of works' means the moment of acquiring the assets directly linked to the acquired establishment

ACTION N° 5

Harmonization of state aid regulation between urban and rural sectors for municipal infrastructure

Responsible: European Commission, DG for Competition; Deadline: 2019

A) What is the specific problem?

Despite the fact that urban-rural partnerships is considered one of the key issues, at project level by state aid rules it will be divided very strictly. There are different state aid regulations and de-minimis aid application regulations between sectors dealing with municipal infrastructure, which complicates the implementation of projects at local level (even in case when the local level would like to use equal support rate for agri and non-agri sectors).

For local municipalities all sectors are essential when programming their infrastructure development in their administration, especially taking into account that municipalities shall enhance development of all their territorial units and foster urban – rural collaboration. So as to enhance efficient support instruments for infrastructure projects, there is a need to harmonise existing regulation both for agriculture and other sectors.

How do existing EU policies/legislations//instruments contribute?

Currently there exists different state aid regulations for agriculture sector (Commission Regulation (EU) No 702/2014 of 25 June 2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union) and for other sectors (Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty Text with EEA relevance). Among others, there are different de-minimis rules for agriculture and other sectors. State Aid regulation No 651/2014 Article 1 defines several exceptions - compensation for additional costs other than transport costs in outermost regions, aid for consultancy in favour of SMEs, risk finance aid, aid for research and development, innovation aid for SMEs, environmental aid, training aid and aid for disadvantaged workers and workers with disabilities. There are no exceptions for municipal infrastructure.

B) Which action is needed?

To harmonize state aid regulation between urban and rural sector for municipal infrastructure, there is a need to make changes in the Regulation No 651/2014, Article 1, and adding additional exception for municipal infrastructure

(3) This Regulation shall not apply to:

(a) aid granted in the primary agricultural production sector, with the exception of compensation for additional costs other than transport costs in outermost regions as provided for in Article 15(2)(b), aid for consultancy in favour of SMEs, risk finance aid, aid for research and development, innovation aid for SMEs,

environmental aid, training aid and aid for disadvantaged workers and workers with disabilities, regional investment aid (article 14) and investment aid for local infrastructure (article 56)

How to implement the action?

Changes in the Regulation No 651/2014, Article 1 adding additional exception for municipal infrastructure:

(3) This Regulation shall not apply to:

*(a) aid granted in the primary agricultural production sector, with the exception of compensation for additional costs other than transport costs in outermost regions as provided for in Article 15(2)(b), aid for consultancy in favour of SMEs, risk finance aid, aid for research and development, innovation aid for SMEs, environmental aid, training aid and aid for disadvantaged workers and workers with disabilities, **regional investment aid (article 14) and investment aid for local infrastructure (article 56)***