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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Cohesion Policy: investing in the real economy

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1. INTRODUCTION

In the context of the global financial crisis and the current economic slowdown, the EU's Cohesion Policy makes an important contribution to the European Economic Recovery Plan¹. As the Community's largest source of investments in the real economy Cohesion Policy provides considerable support to public investment, including at regional and local level. It is the most important expression of European solidarity and targets support to European citizens most in need. Over the period 2007-13, Cohesion Policy will invest EUR 347 billion to strengthen growth and contribute to economic and social cohesion.

Cohesion Policy is designed to deliver smart investments. Within its total allocation, more than 65% or EUR 230 billion is “earmarked” for investment² in the four priority areas of the Union's renewed Lisbon growth and jobs strategy - people, business, infrastructure and energy and research and innovation. Cohesion Policy nurtures coherent development strategies and contributes to economic growth and social development over the medium term. It also provides a stable, secure, targeted source of financing that can be used to stimulate economic recovery. This focus and stability is essential for building trust, restoring confidence and facilitating investment.

Although the full extent of the recession is not clear yet, it is likely that the effects will be widely felt. In some Member States unemployment is already on the rise and business indicators show steep negative trends. Differentiated impacts on Member States and regions will be mirrored by unequal impacts on individuals. In times of economic adversity the most vulnerable, such as the socially excluded and the unemployed, are most affected.

In such times the public sector has an essential role to play in assuring solidarity and restoring confidence, notably through providing much needed public investment to boost internal demand in the short term and put the economy on a sustainable development path in the medium term. This is where Cohesion Policy can play an important role. Recognising that pressure on national budgets may slow down the rate of planned investment, the implementation of Cohesion Policy funds and priorities should be accelerated and even frontloaded to give a timely boost to the economy and provide support to people hit by the crisis. Cohesion Policy programmes have the potential and the necessary flexibility to ensure that targeted assistance can be delivered now to address priority needs and to accelerate spending in the areas with most growth potential.

Macroeconomic stability and structural reforms are a precondition for the success of Cohesion Policy along with an appropriate institutional framework. Total public investment planned

¹ COM(2008) 800, 26.11.2008, The European Economic Recovery Plan.

² COM(2007) 798, 11.12.2007, Member States and Regions delivering the Lisbon strategy for growth and jobs through EU Cohesion Policy, 2007-2013.

over the period 2007-13 accounts on average for almost 6% of expected GDP³. In some Member States the relative contribution of Cohesion Policy in total public investment will be over 50%. Appropriate modulation of the timing of Cohesion Policy funding could provide an important financial stimulus in the short-term while maintaining focus on medium to long term growth capacity of the Member States economies.

Member States and regions that succeed in rapidly delivering the objectives of the programmes can mitigate the economic slow down, in particular in those convergence regions that benefit from higher levels of support. For all programmes, maintaining the agreed priorities on growth and jobs can contribute to realising a quicker recovery when the current economic shock begins to recede. Given the complementarities between Cohesion Policy priorities and the objectives of EU sectoral policies, the speedy implementation of the programmes takes on an added importance for long term competitiveness.

Presented in support of the European Economic Recovery Plan this Communication has the objectives of emphasising the importance for the real economy of the investments planned through Cohesion Policy and elaborating a range of measures proposed to accelerate the contribution of Cohesion Policy investment.

2. THE ENHANCED RELEVANCE OF COHESION POLICY INVESTMENT IN THE REAL ECONOMY

In the current economic situation investments can give short term stimulus while maintaining a focus on persistent long-term challenges in the real economy: investments in priority infrastructures and energy, in the productive capacity of business and in human capital potential. That focus on sustainable investments remains crucial.

2.1. People

The Recovery Plan promoted a major "European employment support initiative" and proposed to simplify criteria for the European Social Fund (ESF) and step up advance payments from early 2009. If agreed, Member States have earlier access to up to EUR 1.8 bn to respond to the short- term priorities described below. It is estimated that some 1.5 million unemployed people could receive earlier support through this quick cashflow.

- Activation and active inclusion within flexicurity strategies: The main idea behind flexicurity is to protect employment and long-term employability rather than particular jobs. The core objectives of the concept, i.e. adaptation to change and easing transition between jobs, are particularly relevant in the current economic circumstances. Several Member States are already putting in place flexicurity strategies and all of them have committed themselves to use the Cohesion policy to improve employability.

A combination of contractual flexibility and strengthened active labour market policies can provide a rapid policy response. The most disadvantaged workers are often first hit by an economic downturn and they will find it hardest to get back to work. Policy makers need to strengthen active and preventive labour market measures to guard against long term unemployment, with a special emphasis on vulnerable groups notably older workers, the

³ See forthcoming Commission's communication on the ex-ante assessment of the additionality principle 2007-2013.

low skilled, or minorities. The ESF can quickly intervene to ease transitions by providing specialised training, personal job counselling, apprenticeship, subsidised employment as well as grants and small credits for self-employment and business start-ups. EUR 21.7 billion are already available for improving such access to employment, in addition to EUR 10 billion that are foreseen to improve the active inclusion of less favoured persons. To reduce the effects of the crisis and promote social inclusion, actions supporting the less favoured people could be put at the forefront of ESF interventions.

Successful transitions after job losses depend also on fast and quality delivery of employment services. Cohesion Policy contributes EUR 2.2 billion for strengthening labour market institutions and more could be needed soon. In the cases of negative employment forecasts, Member States should further strengthen the role of their Public Employment Services as key actors for the effective targeting of active labour measures and better matching between skills and jobs.

An effective response to the employment and social impact of the crisis, and more broadly the effective implementation of flexicurity related labour market reforms, will only be possible with the active participation of the social partners. The ESF provides financial support to strengthen social dialogue and for joint actions undertaken by social partners.

- Matching skills to labour market needs: Skills mismatches in the labour market are a growing concern in most Member States and the financial turmoil will increase labour market disequilibria over the short-term. While the medium and longer term objectives in this area should not be neglected, it is important to also focus on instant skills upgrading, particularly in sectors with labour shortages. Acquiring new competences may serve as an important proactive tool to maintain and increase employment security as well as to be better protected against job losses.

A massive effort of skills upgrading at all levels of qualifications, the development of human capital, and effective investment in education will be essential to set the EU back on the road to recovery, to confront demographic change and to benefit from the transition to an energy efficient, low-carbon economy. Recognising the important economic return on investment from education, resources from the ESF dedicated to improving human capital in 2007-2013 programming period have been increased to some EUR 25 billion. In addition, EUR 13.5 billion from Cohesion policy is foreseen to support the adaptability of workers, enterprises and entrepreneurs, which also includes development of systems for anticipating economic change and future requirements in terms of jobs and skills. Such anticipation of future skills needs is crucial, not least to prepare for the economic upturn. The New Skills for New Jobs initiative⁴ will contribute to this aim.

Member States are therefore encouraged to:

- Invest in the relevant flexicurity components in particular through reinforced activation schemes to ensure rapid reintegration of redundant workers to the labour market;
- Refocus, if needed, ESF programmes for the groups most affected by the crisis;
- Maintain investments in increasing the quality of education and raise of overall skill levels, in particular for the low skilled and disadvantaged groups;

⁴ COM(2008) 868, 16.12.2008.

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| <p>– Use Cohesion policy to improve the mechanisms of anticipation and matching of skills with existing and anticipated job vacancies.</p> |
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2.2. Business

Securing healthy innovative and dynamic businesses is naturally a key for recovering from the economic downturn and one of the biggest challenges in today's global economy. SMEs are most vulnerable as credit becomes less available. The increased scarcity of credit can be understood as resulting initially from the crisis in the banking sector but more importantly it will be exacerbated by greater risk aversion in credit institutions. Lower demand will lead companies to reduce their activities and invest less, in particular in innovation which is largely based on long-term "intangible" investment.

- Access to finance is naturally of greatest importance in a situation where it becomes more difficult for businesses, in particular start-ups and SMEs, to find finance in a risk-averse financial environment. The Commission has been actively supporting the use of revolving instruments such as debt, equity and guarantees in a complementary way under both the EU's Competitiveness and Innovation Framework Programme and Cohesion Policy. In order to increase the leverage of EU investments for the current programming period the Commission and the European Investment Fund (EIF) launched JEREMIE ("Joint European Resources for Micro to Medium Enterprises"), targeting new business creation and SME expansion. Moreover, as the financial crisis and the economic downturn limit public budget resources, we need now, more than ever, a shift away from traditional grant-only financing models to repayable instruments.
- Micro credit: The Commission has been paying increasing attention to the crucial role of micro-enterprises and forms of finance tailored to their needs⁵. On 10 September 2008 the Commission and the EIB Group launched JASMINE "Joint Action to Support Micro-Finance Institutions in Europe" to channel various forms of technical and financial assistance to primarily help non-bank micro-credit providers to improve the quality of their operations, to expand and to become sustainable. The project will include a preparatory phase of three years from 2009-2011 with the estimated total budget of some EUR 50 million.
- Business support measures: Cohesion Policy has allocated some EUR 55 billion between 2007 and 2013 to business support, of which a large share addresses support to innovation directly in SMEs, including cluster support. Many of the programmed activities are in line with more immediate actions needed to respond to the current economic situation, by focusing in particular on key long term challenges for business in the real economy. These priorities include exploiting the potential of ICT applications, low carbon technologies and eco-friendly products, production techniques and energy efficient processes.
- Capacity Building: Effective public policies require a competent and efficient administration, impartial and client oriented. Especially during an economic downturn, strengthening institutional and administrative capacity that aims at creating a stable business environment will underpin structural adjustments and foster growth and jobs. Reducing regulatory and administrative burdens on businesses contributes to increasing

⁵ COM(2007) 708, 13.11.2007, "A European initiative for the development of micro-credit in support of growth and employment".

productivity and strengthening competitiveness. EUR 2 billion from the ESF support institutional capacity building and administrative reform. Actions in this field can significantly reduce administrative burdens on business and help more people to become entrepreneurs. This includes also the possibility of ensuring starting up a business anywhere in the EU within three days at zero costs and via a single access point.

Member States are therefore encouraged to:

- Seek to secure investments in the long term competitiveness of enterprises, particularly SMEs, and accelerate such investments where possible.
- Reinforce support to those who loose their jobs in the current crisis, including with small grants or credits to set-up their own enterprise, by providing entrepreneurial and basic management skills.
- Quickly increase recourse to the JEREMIE initiative and accelerate its implementation by signing holding fund agreements with the EIF and / or other financial institutions.
- Take advantage of the synergies between the financial instruments for SMEs funded by Cohesion Policy and the Competitiveness and Innovation Framework Programme.
- Improve the national environments to allow the development of micro credit initiatives and take advantage of the technical assistance support offered for micro credit initiatives through the JASMINE facility.
- Maintain commitments to institutional capacity building as this will positively impact on creating a business friendly environment and accelerate the modernisation of their public administrations.

The Commission:

- Will substantially increase, with the EIF, the availability of financial and technical assistance to help develop access to finance instruments.
- Has proposed amendments to regulatory provisions to improve the environment for setting up JEREMIE type instruments.

2.3. Infrastructure and energy

Pressing ahead with investment in Europe's energy, transport and ICT infrastructure and networks becomes even more important when faced with the prospect of recession. Falling behind on planned investments in this area would have negative economic impacts in the short term and risk undermining long term prospects for future growth. For instance recession could exacerbate the disadvantage of those regions which have a less developed energy infrastructure and the security supply risks in already precarious regions. Good infrastructure policy and a focus on improving energy efficiency, renewable energies production and sustainable transport will help Europe to weather the current economic storm. It also addresses other challenges: reducing greenhouse gas emissions, protecting industry and

consumers against fuel price volatility and improving local environments. Such support also offers opportunities to ensure employment, protecting jobs and businesses.

- Transport: To support the development of sustainable transport infrastructure, Cohesion Policy will dedicate some EUR 38 billion to Trans-European Networks (TEN-T) projects over the period 2007-13 and will provide financing for secondary connections to improve access to the TEN-Ts. Cohesion Policy programmes also plan to invest in environmentally sustainable transport systems, including clean urban transport.
- Energy: As emphasised in the European Economic Recovery Plan, the current financial crisis increases the need to modernise Europe's energy sector and diversify supply sources to guarantee ample and affordable energy in a volatile world market. The enlarged EU has inherited poor East-West and South-North energy connections which undermine security of supply and solidarity in the whole internal energy market. To help address this problem Cohesion Policy is supporting priority TEN-E projects with EUR 675 million for the period 2007-13 and will devote EUR 4.8 billion to the development of renewable energies, including support for decentralised energy production and district heating. The EUR 4 billion mentioned in the European Economic Recovery Plan for investment in energy interconnections will be additional and complementary to Cohesion Policy allocations.
- Improving energy efficiency will prove decisive for European competitiveness and represents a win-win option in the fight against climate change. Investing in energy efficiency measures brings immediate benefits: reducing costs for households and businesses; creating growth and jobs and encouraging transition towards a low carbon economy. Under Cohesion Policy for 2007-13, some EUR 4.2 billion is already allocated to support a wide range of energy efficiency improvements.
- High-speed internet to all EU citizens: Within the relevant Cohesion Policy programmes EUR 2.2 billion has already been allocated to ICT infrastructures for the 2007-2013 period. The EUR 1 billion for high speed internet referred to in the Recovery Plan shall be additional and complementary to those allocations.
- Skills for the low carbon economy: The move to the low carbon society will need to be accompanied by identification and provision of new skills for new jobs, including "green-collar" jobs. The human capital components of the Cohesion Policy programmes should be used to underpin Member States' efforts in this field.

To improve and accelerate the preparation under Cohesion Policy of major projects in these and other priority areas the Commission and the European Investment Bank (EIB), have developed JASPERS – "Joint Assistance in Supporting Projects in European Regions"⁶. It provides assistance to managing authorities in the EU12 to prepare major projects in priority EU infrastructure investments.

⁶ JASPERS is a technical assistance facility of the Commission, the EIB, the EBRD and KfW offering assistance at all stages of project preparation.

A separate initiative of the Commission, the EIB and the Council of Europe Bank (CEB) JESSICA – "Joint European Support for Sustainable Investment in City Areas" - is designed to accelerate and enhance sustainable investments in energy efficiency, urban transport, ICT infrastructures, regeneration, etc. in the urban context.

In relation to infrastructure and energy the Member States are therefore encouraged to:

- Maximise the use of national and regional programmes to ensure continued increase in the use of renewable sources.
- Maximise the use of national and regional programmes to ensure a high degree of energy efficiency is designed into new buildings and implemented into the existing building stock ("retrofitting"), including in the case of low-income households.
- Make use of the funds to re-train and up-skill workers for newly emerging jobs in the low-carbon economy.
- Make full use of the JASPERS facility to prepare strategic infrastructures and make the best use of Cohesion Policy assistance in favour of major projects.
- Take full advantage of the possibilities offered by JESSICA in relation to integrated urban development funding.
- Take advantage of the synergies in the development of different infrastructures and between the various sources of Community financing (Cohesion Policy , TEN-T, TEN-E, the Seventh Research and Technological Development Framework Programme, Competitiveness and Innovation Framework Programme and EIB) and the EBRD.

The Commission proposes the following:

- The capacity of the JASPERS technical assistance will be increased by 25% from 2009. This would provide a significant contribution in speeding up the preparation of major projects. To facilitate this increase the Commission will work closely with its other partners in the JASPERS facility.
- The amendment of the European Regional Development Fund (ERDF) to allow support to energy efficiency improvement and renewable energies in housing in favour of low-income households in all Member States.
- The amendment to regulatory provisions to improve the environment for in-kind national financing of JESSICA instruments.

2.4. Research and Innovation

Planned investments under Cohesion policy in the knowledge economy – estimated at EUR 86 Billion or 25 % of the total⁷ - should remain a priority in spite of the current economic downturn. As private capital investments in R&D are strongly linked to general economic output, maintaining stability in public-sector spending and creating a strong European

⁷ SEC(2007) 1547, 14.11.2007, Regions delivering innovation through Cohesion Policy.

Research Area are particularly important to ensure adequate focus of the economy on research and innovation, laying the foundations for long term growth. Europe cannot afford to be risk-averse regarding investment in new knowledge production and innovation, particularly at this time.

Strong European R&D and innovation in all sectors will be vital for realising the Lisbon growth and jobs objectives and to finding sustainable solutions to pressing environmental issues such as the climate change and energy challenges. Cohesion Policy has set out stable conditions for continued funding of R&D and Innovation strategies. In recognition of the central importance of increased investment in R&D and the focus given in the Cohesion Policy Strategic Guidelines, Cohesion Policy investments in these areas are planned to increase sharply for 2007-2013 for all Member States.

From past experience it is clear that, to succeed, research and innovation policy measures need to be targeted on focused priority actions and pursued with consistency. The efforts to maintain the planned level of investment will be of crucial importance if Europe is to succeed in improving its capacity to innovate in the broadest sense, including in bringing new products and services to the market. Maintaining national commitments to R&D and innovation may be challenging in the face of the current credit crunch and squeeze on public finances but the public sector must play a leading role to ensure a stable investment climate for R&D and Innovation and be best prepared for the next upturn.

Member States are therefore called upon to:

- Continue to support, through their Cohesion Policy programmes, investments in R&D capacity building research infrastructure, small-scale industry-led R&D infrastructures in knowledge intensive clusters and human capital in areas with significant growth potential (such as in ICT, energy efficiency and low carbon energy technologies);
- Exploit to the full synergies between the various sources of Community, public and private funding of research and innovation activities to ensure priorities in these areas continue to be funded.

3. PROPOSALS AND RECOMMENDATIONS

The comprehensive European Economic Recovery Plan proposed by the Commission makes the case for a major fiscal stimulus combining national and Community actions. Recognising that in the current economic situation, both private finance and public budgets are likely to come under pressure a set of measures linked to accelerating Cohesion Policy investments have been put forward to exploit the focus and stability of this policy. Those measures involved a combination of legislative proposals, which the Commission has proposed for speedy adoption by the relevant institutions, and initiatives to use existing instruments to the full.

The proposals for targeted legislative amendments⁸ can be characterised as follows:

⁸ COM(2008) 803, proposal to amend Regulation (EC) No 1083/2006 on the ERDF, the ESF and the Cohesion Fund.

- Measure to improve cash flow of the public authorities charged with delivering the national and regional programmes. These provisions include an additional tranche of pre-financing in 2009 and measures that could accelerate the reimbursement of expenditure incurred under major projects and within the framework of state aid schemes;
- Clarification of provisions facilitating the launch of financial engineering instruments with a view to accelerating the use of access to finance measures;
- Simplification in relation to broadening the use of flat rates and lump-sums costs to allow public authorities to more quickly prepare projects and measures;
- Expand the possibilities for support to investments in energy efficiency improvement and renewable energy in housing in favour of low income households in the EU 27.

Complementary to the proposed legislative changes the Commission proposes the following principles and actions to guide Member States to fully exploit existing possibilities and prepare to make use of the proposed legislative amendments.

- **Directing action to smart investments:** Under the present exceptional circumstances, the Member States and the Commission can examine possible changes to the objectives and priorities of the operational programmes to further increase focus on investments in areas of immediate growth potential and/or urgency. For example, investing in energy efficiency, clean technologies, environmental services, infrastructure and interconnections, broadband networks, forecasting and matching of skills with future labour market needs, or opening up new finance for SMEs (i.e. research intensive and innovative SMEs). Within the existing programmes, Member States, working closely with the Commission, are invited to give immediate priority to such productivity-enhancing investments.
- **Exploiting the possibilities for innovative finance for SMEs:** The potential of JEREMIE type instruments providing SMEs with access to finance should be fully exploited. Member states are invited to participate actively in the networking platform to be launched by the Commission in co-operation with the EIF in 2009.
- **Exploiting existing opportunities:** The strategic approach and broad scope of the existing programmes already offers important flexibilities. In principle it is possible for programme managers to adjust the relative pace of spending and implementation across the different priorities and categories of beneficiaries or replace interventions with complementary measures. The Commission will do all it can to assist Member States and encourages full use of the flexibility within the limits of the legal framework.
- **Speeding up programmes:** To accelerate implementation of the programmes the Commission encourages the Member States to finalise the definition of their national management and control systems in line with the relevant regulatory provisions and principles. That will allow the speeding up the interim financial transactions in general while respecting the principle of sound financial management.
- **Maintaining public investment:** In the face of challenges to ensure sufficient co-funding, Member States can vary the Community and national contributions when it comes to

COM(2008) 838, Proposal to amend Regulation (EC) No 1080/2006 on the ERDF
COM(2008) 813, Proposal to amend Regulation (EC) No 1081/2006 on the ESF.

individual projects inside a programme: for example some operations could be financed at 100% by Cohesion Policy funds in 2009. Such frontloading would need to be balanced by operations funded only nationally or at higher rates of national funding by the end of the programming period.

The Member States are encouraged to:

- Exploit all possibilities to accelerate needed interventions that figure in the agreed objectives of the programmes.
- Mobilise the existing and proposed additional advance in 2009 to pre-finance priority interventions and jump start the 2007-2013 programmes.
- Examine whether urgent programme modifications are needed to accelerate early delivery beyond the flexibilities already available.
- Use their national strategic reports⁹, due by end-2009, as an opportunity to report on the early results in delivering the new round of programmes. Those reports take on an added importance in the light of the new economic conditions. Where necessary they could present more reflected and fundamental proposals for the strategic revision of the programmes and their objectives as more clarity about the effects of the current recession develops.

The Commission will work with Member States to examine:

- Possible early changes to the Operational Programmes with a view to address new needs, simplify delivery and speed up implementation of established priorities;
- Possible early changes to the Operational Programmes with a view to introducing financing for energy efficiency and renewable energy investment in housing in programmes in the EU-15 and reinforcing such investments in the EU 12.
- Finally, the Commission will quickly examine requests for short extensions of the closure deadline for the 2000-2006 programmes in order to allow the maximum use of commitments already made and to relieve difficulties arising from raising capital in late 2008.

4. CONCLUSION

Cohesion Policy is providing an important input to the real economy through delivery of the EU's growth and jobs and sustainable development agendas. With significant financial investment and decentralised management focused on improving public policy making, accountability and control, Cohesion Policy provides vital support for growth and jobs at local and regional level, where the effects of the financial and economic crisis will be felt by Europe's citizens. Cohesion Policy is already targeted to support the Member States and

⁹ Under Articles 29 of EC Regulation (EC) No 1083/2006 those reports should address issues such as the contribution of the programmes to the objectives of Cohesion Policy and the promotion of competitiveness and job creation as well as addressing the socio-economic situation.

regions with the greatest need in order to reduce disparities, promote growth and strengthen EU economic and social cohesion.

In the light of the economic downturn, putting into place the legislative and other measures set out in this Communication will make an important contribution to the European Economic Recovery Plan. Accelerating and frontloading Cohesion Policy investments can have the positive effect of creating demand in key sectors of the economy and could provide an important financial stimulus in the short term while providing assistance to those directly affected. Maintaining focus on the "earmarked" Lisbon investment priorities is crucial as these priorities can contribute to quicker recovery and address long-term challenges such as improving competitiveness and adapting to a low-carbon economy.

The speedy delivery of these measures will require a close cooperation between the other European Institutions, the Member States, the stakeholders in the programmes and the European Commission.