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**THE STRUCTURAL FUNDS AND THEIR
COORDINATION WITH
THE COHESION FUND**

**Draft guidance for programmes
in the period 2000-06**

Working paper of the Commission

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Introduction

Purpose of the guidance

The main aim of the Union's structural and cohesion policies is to help reduce economic and social disparities. They support national and regional policies in the weakest regions and on national and regional labour markets. While it is primarily the responsibility of the Member States and regions to define their priorities for development, the part-financing of programmes by the European Union requires that account to be taken also of Community priorities, in order to promote the Community dimension of economic and social cohesion.

As preparation of the next generation of programmes is already under way in the Member States, the Commission considers it useful to issue at the present time this draft guidance. It seeks to help national and regional authorities to prepare their programming strategies for Objectives 1, 2 and 3 of the Structural Funds and their links with the Cohesion Fund. Its aim is to set out the priorities of the Commission based both on past experience in the implementation of programmes and on current Community policies for structural assistance. These priorities should help ensure the best possible use of Community assistance at the national and regional level. Once the new regulation has come into force, the Commission will adopt, in accordance with the relevant provisions, a Communication formalising the guidance.

Programming of assistance from the Structural Funds for the period 2000-2006 will be implemented under each of the three objectives in conformity with the new regulation. Nevertheless, the guidance is presented on the basis of thematic priorities for it must be taken into account under each of the objectives in varying degrees according to the specific situations of the Member States and regions.

Economic and social cohesion: growth and competitiveness for employment

In part thanks to support from the Structural Funds and the Cohesion Fund since the 1988 reform, there are now clear signs of economic and social convergence, particularly in those regions whose development is lagging behind and so are eligible under Objective 1. However, substantial gaps between the regions still remain and require attention; in regional incomes, infrastructure and human capital endowments and the competitiveness of enterprises. Furthermore, despite the fall in unemployment rates in the Union, the overall level of unemployment and its regional disparities remain at unacceptable levels. Job-creation is therefore still the main structural challenge facing the Union.

The next generation of programmes must help to continue the reduction of all such disparities and to establish the conditions which will assure the long term development of the regions, for it is only through support for sustainable growth and improved competitiveness in the regions that employment will be fostered and maintained.

The European Employment Strategy

The development of appropriate strategies for promoting job-creation will be facilitated by the implementation of the Member States' National Action Plans for Employment as required by the European Employment Strategy provided for in the Amsterdam Treaty. These plans, drawn up on the basis of common Employment Guidelines adopted by the Council, will serve as the overall framework for measures to support employment policies under the Structural Funds, and in particular the European Social Fund.

The conditions for investment and the impact of EMU

The efforts of the Member States to maintain macro-economic stability will be important in creating the appropriate conditions for investment. As this will involve continuing budgetary discipline, the need for a high level of public investment, especially in infrastructure, may require some restructuring of government expenditure. Appropriate means to leverage budgetary expenditure through private sector part financing should also be explored.

For regions within the euro area, economic and monetary union (EMU) further increases integration in the Single Market for which diversified economic structures, an entrepreneurial environment and a working population adapted to the needs of competition within the Union are more essential than ever. The regional programmes must take account of this.

Two horizontal principles: sustainable development and equal opportunities

Under the Treaty of Amsterdam, the Union's financial instruments are required to work, simultaneously and in the long-term interest, towards economic growth, social cohesion and the protection of the environment; in other words, sustainable development. Furthermore, the European Council at Vienna has confirmed the political priority of integrating the environment in structural and agricultural policies in the context of Agenda 2000. This means that environmental considerations, and in particular compliance with community environmental and nature protection legislation, must be incorporated into the definition and implementation of measures supported by the Structural Funds and the Cohesion Fund. That will also help the Union comply with its international commitments such as those concerning climate change given at Kyoto.

Equality for men and women is a basic democratic principle underpinned by the Treaty of Amsterdam. Its incorporation into all policies is no longer an option but an obligation. In this context, an overall mainstreaming approach for equal opportunities must be introduced into all Structural Funds programming. This involves both efforts to promote equality and specific measures to help women and the mobilisation of all general policies by actively and openly taking into account at the planning stage their possible effects on the respective situation of women and men.

Effectiveness enhanced by a strategic approach and partnership

An integrated approach to development and conversion must be reflected in programming methods in order to make the system of implementation more effective.

On the one hand, the identification of **integrated strategies for development and conversion** which make the greatest possible use of synergies between the priorities and measures to realise a coherent vision will be an initial condition to be met in the plans to be drawn up by the Member States. These integrated multi-annual strategies must concentrate on three main priorities: increasing the competitiveness of regional economies, in order to create sustainable jobs; increasing employment and social cohesion, chiefly through the upgrading of human resources, and urban and rural development in the context of a balanced European territory.

Furthermore, the creation of a **decentralised, effective and broad partnership** is a key factor in the success of structural programmes. Partnership, involving upgrading of the partners' skills where appropriate, maximises synergies, increases the commitment of all involved at regional and local level and calls on a wide range of financial and intellectual contributions, principally through the system of global grants.

Structure and analytical basis for the guidance

The guidance which follows is structured on the basis of the three strategic priorities mentioned above: first, regional competitiveness, secondly, social cohesion and employment and, thirdly, the development of urban and rural areas (including specific actions for fisheries areas). In addition, it takes full account of the analysis contained in the 6th Periodic Report on the social and economic situation and development of the regions, which is being adopted simultaneously with this document. Finally, it is illustrated with a number of key examples of good practice from the current (1994-99) programmes.

It is the firm view of the Commission that this indicative guidance can make a valuable contribution to the identification of coherent and balanced development priorities for the next round of programmes.

PART 1 : CONDITIONS FOR GROWTH AND EMPLOYMENT : REGIONAL COMPETITIVENESS

I Creating the basic conditions for regional competitiveness

If the objectives of improved regional competitiveness and a greater employment content of growth are to be achieved, appropriate framework conditions and an environment conducive to entrepreneurial activity must be promoted in the regions. This means that enterprises must have available, in order to maximise output and employment, a full range of indirect supports, in sectors such as physical infrastructure, telecommunications and information technology, and research, technological development and innovation.

The following general considerations should govern assistance for the development of these sectors:

- Investments in transport, energy and telecommunications infrastructure supported by the ERDF and the EIB should place particular emphasis on connections and interconnections with the trans-European Networks (TENs) where they need to be completed.
- In the Member States eligible for the Cohesion Fund, there should be full co-ordination between assistance from the Fund, the ERDF and, where applicable, the EIB.
- Where appropriate, partnership between the public and private sectors in the development of infrastructure and the provision of services should be encouraged (see box on financial engineering).
- In all cases, the programme authorities should ensure that the assistance granted is in conformity with Community competition rules.

A. Transport infrastructure: improving networks and systems

Efficient transport networks and systems have an integral role to play in supporting economic development. The business sector needs to have reliable and cost-effective access to markets for inputs and outputs, while citizens need good passenger transport services for access to jobs, training, shopping and leisure.

Therefore, future regional development programmes should promote improvements to transport that remove constraints faced by business and passengers while taking account of the substantial progress that will already have been made by the end of the current programming period under the Structural and Cohesion Funds. Such investments should seek to reduce transport costs, congestion and travel times, and improve network capacity, performance and service quality, including safety.

Transport priorities for the next period - in particular in the less developed regions - should contribute to efficiency, modal balance, accessibility and sustainability:

- **Efficiency:** Despite progress to date, there is a continuing need to improve the efficiency of the transport system. In many cases, this will involve the modernisation and upgrading of transport infrastructure. It is equally important, however, to promote better management of the transport system. This can include the development of Intelligent Transport Systems and actions promoting interoperability through harmonisation of technical standards. The final result should be the integration of different transport modes into coherent transport systems for the movement of passengers and freight.
- **Modal balance:** Currently, the greater part of investment in transport from the Structural and Cohesion Funds is directed to the road transport sector. There is scope for a better balance in the allocation between transport modes of the funding available during the next programming period. Balance is also required between major transport projects and smaller-scale local improvements in transport systems. In general, priority should be given to the development of coherent inter-modal and combined transport systems, including the development of transfer nodes.
- **Accessibility:** Where appropriate, transport programmes should reflect the need to improve regional accessibility. In addition to assistance to complete the TENs on the territory of the eligible regions, the secondary connections to these networks are also important. Finally, account must always be taken of the access needs of people with mobility handicaps.
- **Sustainability:** Community funding in the transport sector should be embedded in consistent strategies adopted by the Member States for achieving sustainable transport systems, and this necessarily involves both reducing the environmental impact of transport and encouraging a shift to the use of more sustainable forms of transport. In particular, regional development programmes have to be consistent with the Community's commitment to reduce greenhouse gas emissions, and this requires particular efforts in the road and air transport sectors.

In the Member States eligible for the Cohesion Fund, there is a need for the closest possible co-ordination between its assistance and that of the ERDF. The Cohesion Fund also has an important role to play in the implementation of the trans-European transport networks with particular regard to the network corridors and nodes that will have the maximum impact on cohesion. The concentration of support from the Cohesion Fund on such projects is a major priority.

Outside the less developed regions, the EU is, in general, well equipped with basic transport infrastructure, although there are some rural areas and areas where the terrain is particularly difficult where gaps in provision remain, as well as some shortcomings in urban public transport networks. Investment in transport infrastructure should in such cases be limited and focus largely on small-scale projects. In this regard, the ERDF, in co-ordination where appropriate with the EIB, could focus on the following actions: providing local links to improve intra-regional or local access; improving the

compatibility and interoperability of transport infrastructure; developing inter-modal and transfer nodes, and supporting urban and regional public transport systems.

Multi-modal transport systems

Multi-modal transport systems play an important part in the Objective 2 programmes in the Netherlands. For instance, in the case of the Arnhem-Nijmegen area, which is situated in the province of Gelderland in the east of the country, a central location and the presence of major European transport arteries in the vicinity put the region's transport and distribution functions at the centre of its development strategy. The first priority of the programme is therefore to increase the multi-modal efficiency of the region. This featured in the 1994-96 programme, and was continued into the second programming period 1997-99, when the measure was somewhat broadened to include related infrastructure in the transport, distribution and logistic sectors, including developing and improving business areas around the "EuroTradePort".

B. Energy: networks, efficiency and renewable resources

The promotion of sustainable regional development depends on an efficient, diversified and competitive energy sector in order to enhance the security, flexibility and quality of energy supply and reduce energy costs.

In the less developed regions, investments under the Structural Funds should concentrate on:

- **Energy networks:** The development of energy transmission infrastructure helps to reduce dependency on a given external supplier and the effects of isolation, particularly in the most remote regions. Therefore, completing interconnections, with special emphasis on the TENs, improving electricity grids and the completion and improvement of gas transmission and distribution networks are priorities. In particular, priority should be given to interconnections that will contribute to the opening up of the electricity and gas markets and that will be operated in accordance with the competition rules of the Treaty
- **Energy efficiency:** More efficient use of energy must be encouraged through technologies capable of achieving substantial overall cost reductions and reductions in energy intensity. In order to avoid unnecessary increases in energy production capacity, measures should initially focus on the demand side: targeted aid could be used to promote the production of energy-efficient equipment, its acquisition by SMEs, and the use of such equipment in households and public buildings. Support for investment by industry in energy-efficient and innovative technologies, such as Combined Heat and Power (CHP) or cooling and power, could be coupled with voluntary agreements, energy audits, the use of labelling and best practice initiatives. Investment in energy efficient technologies can usefully be accompanied by related training measures.
- **Renewable energy sources:** Investment in renewable energy sources favours the development of local resources and contributes to the reduction of dependency on energy imports while at the same time creating new local job opportunities. Targeted aid could be used to promote the acquisition of renewable energy equipment in SMEs, for instance in the tourism sector, where there is considerable potential for the use of

renewables. In this regard, the Commission's "White paper on a Community Strategy and Action Plan for Renewable Energy Sources", calls on Member States to guarantee that at least 12% of the global budget of the energy sub-programmes is used to support renewable energy sources.

Outside its less developed regions, the Community is in general well equipped with infrastructure for energy production. Consequently, investment here would tend to focus on small-scale innovative infrastructure projects. Priorities include investments to promote the use of renewable energy sources, investment aid for reducing SO₂ and CO₂ emissions, the use of energy audits and the promotion of efficient energy management in SMEs, towns and cities. In this context, greater use could be made of local and regional energy agencies.

Alternative energy source

The installation of 20 wind generators, each with a capacity of 25kw on the island of Désirade (region of Guadeloupe) at an altitude of 270 metres facing the open sea allows electricity production from wind power catering for up to 80 percent of the needs of the island. This facility, situated in a tourist zone, also allows an annual saving of some 220 tonnes of fuel oil and is environmentally-friendly: little noise and no pollution.

A renewable energy project in Austria

Renewable energy projects have been an innovative component of many rural development programmes co-financed by the Structural Funds. For example, in Zalms (Tirol, Austria), the rural development programme is supporting a comprehensive renewable energy strategy for a small isolated community. The project includes a system for providing heat and electricity based on the burning of waste wood chips. For the future, there are plans to install solar heating systems. The energy is used both for economic activity – in silos for stocking primary products – and for domestic purposes.

C. Telecommunications: towards the information society

The rapid development of the information society has opened up new possibilities for economic development. It has widened the locational options of firms and can help regions, including remote and rural communities, to attract and retain activities that make an important contribution to high-quality employment.

An efficient basic telecommunications infrastructure is a key requirement for access to the information society. However, the role of public support is perhaps less central than for other types of infrastructure since, even in less-favoured regions, investment in the telecommunications sector is potentially profitable in most cases. It should therefore be financed mainly by the telecom operators' own resources or by borrowing, if appropriate through the EIB.

When public grant support for the telecom sector is considered necessary, it must follow transparent rules aimed at preventing distortion of competition while, at the same time, allowing public resources to be directed towards areas where investment would not otherwise be forthcoming under market conditions. Public subsidy is generally justified only where there are no new competitive fixed-link providers, the existing infrastructure is incapable of supporting modern standards of voice and data communications and the necessary investment in upgrading of fixed networks would not otherwise take place.

The development of the information society is not just a question of providing appropriate hardware but of integrating technology in a coherent policy to exploit the benefits - economic, social and cultural - of the communication and information revolution. Therefore, interventions financed by the Structural Funds should maximise the real business benefits of the information society for commercial organisations – especially SMEs - while also encouraging and facilitating the exploitation of the new information networks by the private citizen. This should include actions aimed at:

- **Stimulation of new services and innovative applications.** Important fields include electronic commerce and the exploitation of the Internet as a business tool, including the development of Electronic Data Interchange (EDI), as well as applications that facilitate teleworking. There are also potential benefits for public administration, including the provision of public services and information through electronic means. Alongside these efforts, awareness and competence raising through pilot and demonstration actions including broad consultation exercises involving large sections of the local population, transfer of technology and Information Society experiences and best practices between local administrations, 'road-show' campaigns, etc. are also important.
- **Equipping potential users.** Education and training is a key requirement for building up the skills which allow new economic activities to flourish and users to maximise the benefits of the information society. This includes tele-education and distance learning through electronic means (multimedia packages, 'education/entertainment' applications, etc.). Raising the level of skills in the business sector through training and education is also essential.

Public support for telecommunications infrastructure in an open market

In Ireland, the competitive environment brought about by the liberalisation of the telecommunications market was not sufficient to ensure provision of advanced telecommunications infrastructure, e.g. broadband, in peripheral or uneconomic regions. This justified an intervention of the ERDF by way of an open tendering process which allowed all telecommunications providers to compete, on an equal footing, for grant support for the provision of infrastructure in accordance with certain criteria set down in advance. This competitive tendering process ensured that projects which would not otherwise be carried out, if judged purely on commercial criteria alone, would go ahead, thus ensuring that peripheral areas could now fully participate in the information society. The consequent upgrading of infrastructure has meant that more towns and villages will now have the capacity to participate in the information age and thus replicate the success of Ennis, Ireland's first information age town. This pilot project was established as a test-bed to see what happens when citizens have full access to advanced communications services.

Competitiveness for farmers through telematics

A small but successful project in mid-Finland organised by the municipality of Joutsa offers some fifty local farmers training and assistance to make better use of their PCs. The participants are receiving – according to their knowledge – basic training or advanced courses on computerised business management, production planning, networking. Some learn to combine their farming job with distance working. The total budget for this one-year project is about 130,000 euro of which 60% is financed by the Structural Funds.

D. Infrastructure for a high-quality environment

The recent report of the European Environment Agency '*Europe's Environment: The Second Assessment*' shows that there have been substantial reductions in most countries in the emissions of substances with a negative impact on the environment and human health. Nevertheless, the European environment remains under threat, principally with regard to water, air and soil quality. Therefore, environmental infrastructure needs to be constructed or upgraded, especially in the less developed regions, not least because high quality environmental infrastructure constitutes an important factor for regional socio-economic development.

The Structural Funds and the Cohesion Fund should, as a priority, assist compliance with the environmental standards established in the relevant Community Directives, in particular with regard to water and waste management. Also, in the Member States eligible for the Cohesion Fund, there should be full co-ordination between assistance from the Fund and that from the ERDF. Finally, in areas prone to danger from natural disasters, such as floods, preventive civil protection measures should be encouraged.

The specific priorities with regard to the water and waste management sectors during the next programming period are as follows:

- **Water:** Environmental infrastructure in this sector should ensure the supply of adequate amounts of drinking water and the collection, treatment and discharge of urban waste water. Projects should be consistent with the principles of the proposed Water Framework Directive, the adoption of which is expected in 1999.

With respect to drinking water, there should be more emphasis on increasing the efficiency of existing infrastructure with a view to limiting losses (leakages) and to improving quality at the consumer's tap.

In the context of the design of urban waste water systems, special attention must be paid to the following: the location of discharge points and the impact of discharges on the environment, sustainable disposal of sewage sludge produced by water treatment and the management of run-off water and storm-water overflows.

An important issue in regard to water services is the need for proper pricing to reflect the real scarcity of and demand for water. Particular attention should be paid to integrated water projects, which should take account of water quality as well as water quantity at the river basin level, including the trans-national dimension.

- **Waste management:** This concerns the management and disposal of solid, urban, industrial and hazardous wastes, according to Community policy and legislation (e.g. the Community strategy for waste management, waste framework Directive, hazardous waste Directive, Regulation on shipment of waste, etc.). Funding of waste infrastructure should follow the established hierarchy of principles: prevention of waste production and its harmful impact; recovery of waste by means of recycling, re-use or reclamation and safe final disposal, limited to waste for which no possibility of recovery exists.

A central feature of the waste Directives is the requirement for Member States to draw up waste management plans covering their whole territory. The adoption of such plans, which elaborate a strategy to meet the concrete objectives of national and regional waste policies, should be a pre-requisite for any Community funding of waste management infrastructure. Preference should be given, where it is environmentally sound, to the recovery of material over energy recovery operations.

Contaminated sites such as old landfills and unauthorised discharges of wastes constitute a considerable threat for the environment and for human activities. Member States should address this issue by introducing appropriate clean-up measures.

Waste-water treatment

An interesting waste-water collection and treatment project being part-financed in Cagliari, Sardinia, combines three important aspects: recycling, conservation and environmental benefits. First, the treatment system permits the reuse of Cagliari's wastewater for irrigation during the summer months. Secondly, during the other months of the year, after further treatment to minimise phosphates, the water is stocked in an existing fresh-water reservoir. From there it will be used during periods of water shortage due to drought. Thirdly, besides the environmental interest arising from the integrated nature of the project, there are further environmental benefits because the wastewater is no longer disposed of in the Mediterranean.

Reclamation of contaminated sites

Pollution in the five new Länder and eastern Berlin has been considerable. Water contamination, air and soil pollution has been at high levels, notably because of the lack of legislative protection and concentration on short-term economic goals under the former centrally planned system. The task of cleaning up the environment is immense. European financial support makes a contribution to tackling resulting structural problems in some areas, thus contributing to the improvement of the quality of locations. The measures often take the form of decontamination and reclamation of industrial sites and military sites. In Parchim (Mecklenburg-Vorpommern), the ERDF has contributed to the decontamination and conversion of abandoned military installations. The measures included the dismantling of a huge fuel depot and the subsequent decontamination and upgrading of ground water on a former military airport by an innovative and cost-effective technique. Thus, the intervention has eliminated the threats for the environment and created the conditions for the establishment of a business park.

APPLICATION OF THE POLLUTER-PAYS PRINCIPLE

It is clearly established that the polluter-pays principle should apply horizontally in the implementation of all Community policies. Therefore, the Commission's proposals for the reform of the Structural Funds and revision of the Cohesion Fund include provisions to apply the polluter-pays principle in the operation of the Funds. Currently, application of the principle varies considerably between the Member States and, without a coherent and homogeneous Community-wide framework, there is a danger of unequal treatment in the implementation of Community funding.

The Commission will therefore present in the near future - in a technical paper separate from this guidance - a framework for the application of the polluter-pays principle. This will operate mainly through the differentiation of rates of assistance for the various forms of infrastructure operations financed by the Cohesion Fund and the Structural Funds. In other sectors of intervention, such as industry and agriculture, and where there are negative environmental impacts, there is also a need for the principle to be applied.

The underlying elements of the framework will be that:

- a system should be promoted through the differentiation of rates of assistance, whereby the environmental costs related to the treatment of pollution and/or preventive actions are borne by those who cause the pollution;
- the application of the polluter-pays principle must be compatible with the goals of economic and social cohesion;
- its development should be progressive and concern the range of infrastructure sectors covered by Community funding;
- it should take into account the social acceptance of charging;
- it should take into account Treaty provisions related to the careful and rational use of resources, especially water and energy.

As a priority, the Commission will also proceed with the development of a common framework for the application of the polluter-pays principle generally in the implementation of all Community policies.

E. Research, technological development and innovation: modernising the productive base

High levels of activity in the fields of research and technological development (RTD) and innovation are important features of the productive environment in the most competitive regional economies. Structural assistance should therefore give an increasing priority to promoting RTD and innovation capacities in an integrated manner in all fields of intervention of the Funds. In general, successful regions will be those that take a strategic approach to innovation and offer help to companies to integrate their own resources and expertise with those of government agencies, higher and further education, business support organisations and other companies for the effective management of new technology, research and development, and product and process innovation.

Raising the efficiency of RTD and innovation in terms of their impact on economic development - in the less developed regions in particular - during the next planning period requires clearly defined policy priorities in each of the following areas:

- **Promoting innovation:** A wide range of targeted activities should be covered, including new forms of financing (e.g. venture capital) to encourage start-ups, spin-outs/spin-offs and innovative developments, specialised business services, technology transfer and related services, measures to encourage productive interactions between firms and higher education/research institutes, better exploitation of information

technologies for commercial and community benefit and measures to encourage small firms to carry out RTD for the first-time.

- **Networking and industrial co-operation:** The flow of knowledge through technology transfer and dissemination of new techniques is also an important contributor to raising regional competitiveness. The structural Funds should assist SMEs in particular to access the skills they need to promote their own growth, and to strengthen the industrial and commercial clusters and supply chains of which they are part. Interactions with Community and international networks specialising in RTD and innovation should be further enhanced.
- **Developing human capabilities:** Within the domain of RTD and innovation, attention needs to be given to lifelong learning and continuous upgrading of skills and capabilities. With regard to the needs of SMEs, it is important that management development programmes are instituted to assist them to absorb new technologies and related organisational methods. The range of education and training opportunities made available in the region is instrumental in enhancing levels of innovation. Therefore, programmes for the training and mobility of graduates, managers, scientists and engineers, are priorities.
- **Consolidating RTD and innovation actions through effective policy management:** Along with the three policy priorities above, there is also a need for improved policy management. Performance-oriented schemes could be introduced in order to increase the efficiency and quality of RTD and innovation assistance. Statistical tools at regional level should be improved. New delivery methods, using score systems and benchmarks should be considered in order to enhance the effectiveness of assistance in a systematic way.

Networking for technological development

A network of eight technology centres (Basque Country) has, since 1992, been supported by assistance from the ERDF and the ESF for the purchase of equipment and for research projects. Activities relate to the following six sectors (manufacturing, information/telecommunications, materials technology, environment/recycling, industrial biotechnology and energy). The network involves annually 1100 researchers (of whom about one fifth are grant-aided) and 450 research projects, with employment in associated enterprises amounting to some 1700 jobs.

Innovation audit

In the framework of a Regional Innovation Strategy (RIS), 350 companies in Wales undertook an 'innovation' audit with the help of business services and over 600 organisations were involved in this RIS process. Thus nearly 70 new projects were identified and the industrial South Wales Objective 2 Structural Fund programme for 1997-99 includes now up to 56 million € for innovation related projects.

II. Competitive enterprises for employment creation

The creation or expansion of competitive enterprises is the pre-condition for creating sustainable jobs and thus for regional economic development. All the Structural Funds contribute to this aim in the regions eligible for Objectives 1 and 2, while the European Social Fund contributes across the whole of the territory of the Union. While all sources of employment are important, the increasing role of the services sector - which has been responsible for most of the net employment growth in the Union in recent years - needs to be reflected in Community programmes.

Many actions in support of enterprises will involve the granting of financial assistance or other advantages to undertakings engaged in commercial activities. In these cases, the programme authorities should ensure that the assistance granted is in conformity with Community competition rules.

A. Support for enterprises: priority to SMEs

Assistance under the Structural Funds to stimulate the productive sector must focus in particular on small and medium-sized enterprises (SMEs) while not neglecting the needs of large enterprises, especially in view of the close relationship which often exists between them and SMEs. The priorities for support from the Funds for enterprises are as follows:

- **Shifting the emphasis from capital grants:** Developing the business sector in general, and encouraging the setting up and development of SMEs in particular, involves a wide variety of actions on the part of the programme authorities. Traditionally, the emphasis has been on capital grants, especially as far as the attraction of inward investment has been concerned. In the future, capital grants, and especially those financed by the Structural Funds, should play a reduced role. In this regard, it is worth noting from the current programming period the case of Ireland, where ERDF support for inward investment ceased in 1998.

Alternative sources of finance should be promoted such as reimbursable advances, risk and venture capital, loan capital and revolving funds, mutual guarantee schemes, etc. (cf. box on financial engineering below). However, duplication of aid schemes available for enterprises, and notably SMEs, should be avoided and this may require some rationalisation in order to improve efficiency.

- **Improving the delivery of assistance:** Increasing attention should also be paid to more qualitative and organisational aspects, notably the systems for delivering assistance and the overall productive environment. In order to raise the efficiency of the delivery system especially in the less developed regions or those with a weak enterprise tradition the following principles are recommended:
 - Considering the heterogeneous nature of the SME population, improved targeting according to the specific needs of each SME category or sector should be a priority. Integrated and clearly identifiable support packages for SMEs should be developed and include measures such as easier access to finance, business

- support services and training measures and should be adjusted to the needs of SMEs at the different stages of their life-cycle (start-up, growth or transfer). This necessitates the integration of ESF and ERDF measures. Assistance should also be targeted on micro-businesses and on specific groups, such as young or women entrepreneurs or those from disadvantaged groups. Finally, Community programmes should support new products and processes, and this could involve support for the creation of clusters of SMEs within specific business sectors.
- Support should where appropriate be focused on fields of competence in which the region concerned can realistically aim for a degree of specialisation and commercial advantage. However, in view of their overall importance, a number of sectors will be a priority in almost all regions. These would include the information society, and services in general, given their importance in employment creation. Within the services sector, commerce has a particular role to play at the regional level. It provides an outlet for local production, for example from the crafts sector, helps preserve the fabric of local communities and in general makes a significant contribution to employment creation.
 - The inter-dependent nature of relations between larger and smaller enterprises cannot be ignored in any comprehensive strategy to develop the productive sector. Support for large enterprises should be continued therefore but related to their added value for the regional economy, notably through networks established with other enterprises, in particular SMEs. Strategies for the development of human resources should target increases in the productivity of such networks.
 - As a general rule, where the contracted conditions for support, in terms of either the nature or duration of the given activity, are not fulfilled repayment of all or part of the grant aid should be required. Also, Community funds should not in general be used to facilitate the transfer of production or other facilities within the territory of the Union.
- o **Involvement of the private sector in the formulation of strategies:** As evaluations of past assistance have shown, the quality of programmes to develop the SMEs sector can be improved where they are worked out and implemented in the context of a broad partnership including representatives of private companies and business service organisations. The exploitation of results of research on the basis of co-operation between companies and universities should similarly involve a broad partnership (cf. above, part I.E).

Apart from direct assistance to firms in the form of investment aid and business support measures, increasing emphasis should be placed on the skills of the workforce generally. This implies clearly identifying present and future bottlenecks in the regional labour markets (skill shortages) and risks of redundancy and unemployment that have to be tackled at an early stage. These issues are considered in greater detail in Part 2 below.

Aid scheme for micro-enterprises

In Portugal, the "Promotion of regional development (PPDR)" programme has financed an aid scheme for micro-enterprises called 'RIME' whose objective is to assist the creation of employment in local communities affected by rural depopulation and specific development problems. The scheme aims for the creation and/or modernisation of micro and small enterprises. It gives a priority to projects in the following areas: craft industries, local and neighbourhood services, rural tourism and ecology.

Co-operation between large and small companies

The Plato project in the Objective 2 area of Turnhout (Belgium) involves the loaning of managers or "guardian angels" from big companies to SMEs, especially new enterprises, so that they can benefit from their greater experience and knowledge. The trained managers from large corporations have offered assistance in areas ranging from marketing advice to expansion strategy. 265 SMEs participated in the period 1996-98. Assistance was offered both in the context of workshops and through more informal individual contacts. This project has been so successful that it has recently been expanded to companies in several other countries such as the Netherlands and Ireland. It was recently short-listed as one of the most successful projects in terms of employment creation for the Job Challenge organised by the European Commission.

FINANCIAL ENGINEERING

The new Structural Funds Regulations stress the need to achieve the best leverage from operations funded from the Community budget by favouring as far as possible recourse to private sources of financing, notably risk and venture capital and Public-Private Partnerships (PPPs), as a means both of increasing the resources available for investment and also of ensuring that private sector expertise is brought to bear on the way in which schemes are run.

Risk and venture capital. Member States will be encouraged to pay particular attention to monitoring performance in order to assess more precisely the contribution of financial engineering schemes to regional development, private sector participation to help ensure project sustainability, management by independent professionals with autonomy for day-to-day decisions, rigorous project selection criteria which support regional development objectives and financial assistance to be linked to the provision of advisory support & different financial instruments to SMEs so as to provide them with flexible and sustained assistance at various stages in their development. In appropriate cases, the support of the EIF can be requested.

Under the 'INVEST' measure (Hainaut), four venture-capital funds provide start-up capital or capital to launch new activities and develop and diversify existing firms. These Funds may also provide firms with the resources they need to carry out investments to implement the results of industrial research or technological innovation processes. They may also provide assistance in a cross-border context through participation in inter-regional projects, the establishment of inter-regional firms etc. This assistance takes the form of capital holdings, loans and the issue of convertible bonds. The products are adapted to each individual case in order to meet the specific needs of each firm.

PPPs. Private sector involvement is directly related to the prospect of a suitable revenue stream, subject to an acceptable level of uncertainty. There is a need for the earliest possible involvement of the private sector, especially at the planning stage of infrastructure projects, the allocation of project risks to those best able to support them as clearly set out in the PPP contract documents, real consultation and involvement of the public directly affected by the scheme prior to detailed design, appropriate protection of the public interest by contract or legislation, respect of EU public procurement and competition requirements and reconciling the need for ERDF commitments to be made within the period covered by the financial perspective while the public/private counterpart expenditure will usually be well outside this period. If necessary, the Commission could prepare a technical paper illustrating the possible use of this financing method.

A notable example of a successful public private partnership concerns the construction of the Vasco da Gama Bridge (Portugal). This project to provide a second crossing of the river Tagus at Lisbon, costing approx. 900 million €, was undertaken on the basis of a concession contract to build, own, operate and transfer (BOOT). The concession was awarded to Lusoponte, a joint venture comprising Portuguese, French and British construction companies. Under the terms of the concession, as well as building the bridge, Lusoponte will operate it for a maximum of 33 years before transferring ownership to the government. The concession also includes the operation and maintenance by Lusoponte of the existing 25 April Bridge. The project is financed by the Cohesion Fund, the EIB, and the shareholders with the Portuguese government's contribution being provided through the transfer of tolls from the existing bridge.

B. Business support services: helping the creation and development of enterprises

The significance of business support services for the successful creation, growth, and transfer of enterprises, in particular SMEs, is well established. Such services enable companies to increase their competitiveness and their capacity to identify new markets. Measures under the Structural Funds to support such services should include assistance for technology transfer, the promotion of marketing and internationalisation (excluding direct aid linked to exports), innovation in organisation and management and assistance for the creation and development of financial instruments such as start-up capital, mutual guarantee companies, etc. As a result, the priorities should be:

- **Identification of the needs of companies:** This involves identifying the type of service to be developed and the most suitable bodies to respond to the needs of firms and to support them in the implementation of their development plans. SMEs tend to have a clear preference for a single agency as the first point of contact to provide information and advice on the possibilities for assistance and to establish links with further specialised agencies. For these agencies to provide efficient assistance, targeted and customised information and services for SMEs coupled with appropriate advice must be available.
- **Exploitation of synergies:** There is particular scope for improved synergies in the case of service centres, technology transfer centres, science parks, universities, research centres, etc, which often operate in an uncoordinated manner. Co-operation can help to improve the quality of the services provided, in particular through effective staff training and the dissemination of best practice (including via the Internet) and the encouragement of a strong customer orientation.
- **Reinforcement of international co-operation:** This promotes co-operation between firms to develop the European and international dimension of their business in order to build a more solid position in the single European market.

As well as public support services for enterprises, the private business services sector - consisting of computer, marketing, technical, recruitment, and other professional and commercial services - makes an important contribution to improving the competitiveness of enterprises, as well as being a significant source of employment in its own right (the sector is estimated to represent 10 % of total employment in the Union).

Business services have tended to concentrate in the more prosperous and central regions, as that is where demand for such services has been strongest. Programmes under the Structural Funds should seek to identify the constraints on a more balanced availability of business services. Policies to achieve this could include the identification of the demand for business services in the regions, the development of appropriate human resources and the promotion of the information society as business support tool.

Practical support for enterprises

The IDIADA test and certification centre for the automobile sector (Catalonia) was developed (construction and equipment) thanks to assistance from the ERDF programmes implemented in this region since 1992. The centre consists of test tracks and laboratories allowing firms to test the performance and security of their products as well as validating their parts and vehicles. At present, more than 275 firms use these installations which employ 150 people.

150 BICs: integrated services for the creation of enterprises

Some 150 Business and Innovation Centres (BICs) successfully operate organisational models of comprehensive systems of business support services for the launch and development of innovative enterprises. Based on a public/private and local/regional partnership, BICs act in their areas as an interface between the needs of enterprises and the offer of specialised services. They also contribute to the internationalisation of firms (marketing, interregional co-operation). The spreading of BICs in all assisted areas and their more intensive use in implementing regional programmes would help further disseminate good practice in business creation and development. BICs are linked, by co-operation agreements to other Community networks, such as the Innovation Relay Centres, the EuroInfoCenters or the LEADER/LAG.

89 Territorial Employment Pacts

An approach based on strategy and partnership figures very clearly in most of the action plans in the 89 Territorial Pacts for Employment, which cover almost 10% of the Union's population. For example, the territorial pact of West-Brabant (Forges de Clabecq) resulted in an integrated project characterised by a very broad partnership encompassing all the major actors on the ground including the trade unions.

C. Areas with particular potential: environment, tourism and culture, social economy

The measures discussed above aim to increase the competitiveness of enterprises, in particular SMEs, and thus their employment-creating potential. Experience in the current programmes has shown that there are some sectors where this potential for employment creation is very significant but has so far been under-utilised. Moreover, the Employment Guidelines place particular emphasis on the need to exploit new opportunities for jobs. The three areas presented below, mainly in the services sector, provide examples of some of the opportunities which exist for further employment creation.

Environmental improvement: a contribution to competitiveness

Environmental quality is a major factor in regional development and competitiveness. The integration of environmental quality in productive investment will ensure a rational use of resources, enhancing economic performance and competitiveness while maintaining and creating employment. Moreover, environment-related products or processes provide an additional opportunity for the regions as they are themselves a potential new source of employment. Specific action combining environmental improvement and investment in industry and services should include:

- **Preventive approach:** Support from the Funds for business activities (in particular in SMEs) should promote investments characterised by a preventive approach and this could be encouraged by the higher rates of assistance available for such investments. Priorities should include the efficient and sustainable use of natural resources, waste minimisation and reuse, reduction of air pollution and the implementation of a sustainable product policy. Moreover, the Funds could support the development and marketing of innovative environmentally sound products and services.
- **Clean technologies:** Member States should favour measures to accelerate the shift from old, polluting technologies and end-of-pipe measures to new clean technologies.
- **Environmental management:** Financial support should be provided in particular to SMEs, to make use of environmental services such as Eco-audits.
- **Industrial sites:** Priority should be given to the rehabilitation of derelict industrial sites (brownfields) over the development of greenfield sites.
- **Training:** This is fundamental to improving skills in environment-related issues within the business sector and to promoting new employment (or conversion).

Normally, environmental State aid is given favourable treatment under EU competition rules. In order to facilitate the preparation of such aid measures, the Commission has established guidelines on State aid for environmental protection.

Tourism and culture: advantages for local development

- **Sustainable quality tourism:** Tourism is one of the leading growth industries in Europe and worldwide, in terms of both output and employment creation. Tourism thus represents an important economic asset for a large number of regions, rural communities and cities in the Union. A balanced and sustainable development of tourism should be supported in particular through:
 - the modernisation of tourism-related infrastructures and the improvement of their efficiency;
 - upgrading skills and professional profiles in order to respond better to the expectations of tourists and the needs of the industry;
 - encouraging business-to-business partnerships, public-private co-operation and networking in order to improve the integration of the different services involved in the “tourism chain”.

Tourist development should be carefully planned so as to take into consideration the carrying capacity of the site with regard to environmental, social and economic impacts. Such integration of environmental concerns and the conservation of natural and cultural heritage in development plans is essential to encourage sustainable and high-quality forms of tourism.

- o **Culture: an economic growth point:** Culture is closely linked to tourism as the cultural heritage of a region not only contributes to the development of a local or regional identity but also attracts tourists. Culture thus offers opportunities for additional employment, a factor of major importance to the disadvantaged regions of the Community with a high concentration of cultural potential. The cultural dimension should thus be integrated into tourism development strategies. Exchanges of experience between regions or local authorities help to transfer knowledge about culture and ways of developing cultural tourism and finding joint solutions. The cultural potential of a region will render it more attractive to outside investors in general.

Culture is also an increasingly important part of the private economy in its own right, with considerable potential for growth and job creation. Member States should thus make more use of the employment potential of innovative and creative cultural products, e.g. in the areas of culture-related online services, media and the information society or design, and include measures in these fields in their regional programmes. Finally, flexible training linked to culture-related professions is both a requirement for the functioning of the cultural sectors and contributes to the preservation or modernisation of traditional activities and the establishment of entirely new skills, linked for example to the information society.

Tourism integrated into a local economy

Tourism development supported by the Structural Funds in Piedmont focused on four strategic zones with a high tourism potential – Lake Maggiore, the Val di Susa skiing district, the city of Turin and the Canavese castles circuit. The tourism development projects adopted an integrated approach by financing a mix of infrastructure improving local attractiveness, aid schemes to small and medium-sized tourism businesses and tourism promotion programmes. Value was added both by the good partnership between local and regional administrations, and the greater impact achieved through concentration of activities in limited areas.

Preservation of a heritage site

For at least five centuries, numerous manufacturing sites powered by the water from mountain springs have been located in the valley of Lousios in the Peloponnese in Greece. Within the Operational Program for the Peloponnese 1994-99, a group of buildings has been reconstructed and the machinery restored. An open-air water power museum has been opened and it serves as an amenity offering a tourist and educational experience. The museum provides the public with knowledge concerning waterpower and the production of black powder and leather. Tourists can walk along the paths beside the Lousios, which have been opened up and which are carefully maintained. The project as a whole has given rise to significant development to the region because of the number of tourists and schools that it has attracted.

Social economy: new employment-creating services

Not all those engaged in economic activities can be categorised clearly as being part of either the public or private sectors. There are a wide variety of organisations, such as co-operatives, mutual societies, associations and foundations, as well as enterprises and individuals, which provide for their members or are formed to serve groups in society with common needs. Some operate in competitive markets (credit unions, mutual insurance associations, etc) while others provide services that are closer to the public sector; e.g., health and welfare services, neighbourhood services, sports activities and recreation.

Although the entities that form the social economy are created to meet specific social needs, they also make an important economic contribution, notably in the field of employment. At the present time, it is estimated that some 5 % of total employment in the European Union is represented by the social economy and there is a clear potential for further growth.

On the basis of the experience with national support schemes and community pilot projects as well as the action plans of some territorial employment pacts, the priorities for assistance to this sector should be:

- **Active support for the creation and development of service providers:** This involves, firstly, the identification of promising new sectors of activity and, second, the provision of appropriate support services to potential and existing service providers, such as information and counselling, as well as financial and technical assistance.
- **Organisation and durability:** Once established, service providers, especially those involving newly active persons, will generally require continuing assistance for some time, notably in the areas of management support and training. However, the ultimate objective should in general be the operation of the service on a sustainable basis. Therefore, public support should be degressive over time, taking account of the particular needs of the service in question.

The initiatives taken by the Member States in favour of youth employment, the fight against social exclusion and the development of local services have allowed organisations and enterprises in the social economy sector to become new and significant partners of regional and local authorities. The overall aim of assistance from the Structural Funds should be to confirm and strengthen this partnership.

Innovative childcare facilities

In a deprived area of Belfast, a project originally addressed to the parents of young children will result in a commercial childcare venture which will subsidise continuation of the project after the end of the ERDF-funded scheme. The local development group aims to break the cycle of deprivation by encouraging parents, mostly mothers, to bring their children to local play centres. Here, through the medium of their peers, the mothers are helped to complete their own education in order to help their children, and some then go on to further training, including childcare. ERDF has funded two new multi-purpose buildings, one of which is near the commercial centre of the city. This is intended to house a profit-making child-care centre which will in turn support the core work in the other building, which, due to its location, would not attract middle-class parents with the money to pay for the service. By the time the building is finished, some mothers will have completed their child-care training, and can take up work in the centre.

PART 2: THE EUROPEAN EMPLOYMENT STRATEGY: A KEY PRIORITY FOR THE COMMUNITY

The European Social Fund is the main financial instrument at EU level for human resource development across the whole territory of the Union and throughout all priority Objectives of the Structural Funds. It has a dual mandate: on the one hand, it seeks to improve employment opportunities in the internal market and to contribute thereby to raising the standard of living. On the other hand, as one of the Structural Funds, it pursues their overall objective of strengthening economic and social cohesion. The priorities set out below apply across the whole territory of the EU, although in regional programmes or where Objective 3 is programmed or implemented regionally there will be regional specificities which need to be taken into account. It will also be important to ensure complementarity and synergy between ESF-supported measures and rural development measures financed outside Objectives 1 and 2.

In this context, the Commission has proposed that Objective 3 of the Structural Funds, which supports the adaptation and modernisation of education, training and employment, should have the following functions:

- firstly, as a policy frame of reference for all measures to promote human resources across the whole of a national territory, irrespective of Objective status. This sets out the ways in which the Member State proposes to use the Structural Funds (principally, but not exclusively the ESF) to contribute to employment growth and economic and social cohesion;
- secondly, as a programming and financial instrument, through which the European Social Fund will intervene financially and horizontally in a given geographical area (across the whole of the Member State outside Objective 1 areas) in support of National Action Plans for Employment (NAPs).

Activities in this field will be developed also in the context of the human resources Community Initiative.

I Objective 3: The frame of reference for human resource development for more and better jobs

Given its mission of contributing to actions to increase employment, the ESF is the main financial instrument at EU level for helping the Member States develop and implement the employment guidelines under the European employment strategy. This strategy provides the framework:

- within which the employment policy priorities of the Member States are translated into National Action Plans (NAPs);
- which guides the actions undertaken to fulfil these priorities, including those supported through Objective 3; and
- which should apply to employment-related activities throughout the European Union and in each Member State.

Clearly, there must be coherence between the employment strategy as reflected in the NAPs and the priorities of human resource development supported by the ESF. Indeed, the Vienna Summit Conclusions recommend that the reform of the ESF be used to strengthen support for the Employment Strategy. The NAPs combine national strategy on employment and national policy instruments with the European priorities of cohesion and employment.

Throughout the whole human resource strategy proposed, three general elements are of particular importance:

- a mainstreaming approach for equal opportunities between men and women is essential;
- the employment potential of the information society must be harnessed in the interests of society as a whole; and
- the contribution of the European Social Fund to promoting local development, for example via the territorial employment pacts, must be enhanced. This approach would allow the actions undertaken in the framework of the NAPs to be completed and reinforced on the appropriate territorial level.

Within that context, the five policy fields in the ESF Regulation set out the areas in which Member States should undertake action which will support the four pillars of the Employment Guidelines.

It should also be noted that actions to promote training and employment in companies can constitute State aid and must be in conformity with competition rules.

A. Active labour market policies to promote employment

In this policy field, Member States should demonstrate how they turn the active and preventive strategies called for in the Employment Guidelines into concrete proposals for action.

Activation and prevention rely on “tailor-made” assistance based on individual characteristics. Such targeting requires an early identification of individuals at risk and should combine a wide range of measures such as diagnostic interviews, training tied to a personal action plan, career counselling and job search assistance, and work trials.

It will be important to offer the unemployed training or other active employability measures before their unemployment becomes long-term. Promoting the employability of young people is a key requirement for combating youth unemployment, and it is therefore essential to equip young people with greater ability to adapt to technological and economic changes and with skills relevant to the labour market - where appropriate by implementing or developing apprenticeship training.

Regional and local employment services have a key role to play in preventing skills bottlenecks and exclusion, and in supporting adaptation to structural change. For example, they should take a lead role in auditing the skills available and the levels of young people’s professional qualifications, as well as the training needs of the employed and the re-skilling needs of the unemployed. This is essential both to develop training and integration opportunities adapted to specific or individual needs and to adapt the provision of continuous training to the needs of local and regional enterprises.

Employment services therefore have a particularly important role to play in regions undergoing structural change.

Measures covered under this policy field might involve a more innovative use of the ESF than has traditionally been the case. For example, they could include a variety of services such as pre-training, counselling, community employment, job search assistance, job support and employment aids, all combined in a flexible comprehensive approach.

B. An inclusive society, open to all

The promotion of a labour market open to all is a priority for Member States in the European employment strategy. In this context, special attention should be given to the needs of the disabled, ethnic minorities and other groups and individuals who may be disadvantaged, and to the development of appropriate preventive and active policies to promote their integration into the labour market. However, reducing unemployment and improving the (re-)integration into the labour market of such groups is often not possible without overcoming other forms of exclusion. Exclusion often has a number of causes, so only an integrated and comprehensive approach can be effective as a strategy for integration. It is important to tap into the capabilities of the non-governmental sector in this field, since it can be closer to the real needs of those concerned than statutory agencies. Equally, mobilising local groups and their projects can be an effective way of reaching those at risk of exclusion or already suffering from it. The Commission's draft ESF Regulation lays appropriate emphasis on this means of providing such effective responses to exclusion, whatever their origins.

Good practice in projects for social inclusion

In **Portugal**, the INTEGRAR sub-programme, which receives 279 million euros from the ESF over the 1994-1999 period supports multi-dimensional projects seeking social and economic development of underprivileged communities and social groups. This is in keeping with the high priority given by the government to the national strategy against social exclusion, with INTEGRAR funding active training and orientation measures for the long-term unemployed who are receiving minimum income payments from the Government. INTEGRAR seeks to support actions designed to prevent factors leading to exclusion and promote the access into the labour market; vocational training schemes; and actions targeted on socially underprivileged communities and social groups which aim to strengthen social integration.

In keeping with an all-embracing approach, the main lines of action of the sub-programme include making a special effort to inform the target population, who often experience the greatest difficulties in access to information, to ease integration and/or prevent exclusion; and training professionals who intervene directly within disadvantaged groups and address their specific problems. The innovative elements of the programme include: (a) measures up-stream of traditional training and employment measures for people who have difficulties in participating in those traditional measures (for example housing, education, health and social welfare support for the most vulnerable groups, specific training schemes for disabled people), which improve their participation and success rates in traditional labour market measures; and (b) the adoption of the community development methodology, reflecting a recognition of the territorial basis of the problems and their social dimension.

C. Promoting employability, skills and mobility through life-long learning

This policy field covers strategies to broaden access to the acquisition of skills, support the diversification and reinforcement of training opportunities and improve the quality of education and training systems.

In order to reinforce the development of a skilled and adaptable workforce, opportunities for lifelong learning, particularly in the fields of information and communication technologies, should be improved. In this respect, attention should be given to the development of nationally recognised certification permitting flexibility in the continuation of studies.

The quality of education and training received is fundamental to young people's capacity to enter the labour market. Education and training systems should be better equipped to give people the ability to adapt and to integrate into the labour market, and notably to provide every individual with the minimum basic skills required (specifically literacy and numeracy). Particular attention should be given to young people with learning difficulties. The improvement of skills through basic education and training may be supported where there is a clear link with improving the functioning of the labour market and/or the employability of the individual.

In regions lagging behind, improving the capacity and effectiveness of the education and training systems as a whole is an important element in up-grading their competitiveness. Consistent investment in this sector over time has been shown to produce excellent results.

D. Developing adaptability and entrepreneurship

Under this policy field, Member States should demonstrate how, working with the social partners, they can combine their efforts to modernise work organisation and forms of work, and enable the workforce to adapt better to economic change. It will also be important for the creation of more and better jobs to support entrepreneurship and the expansion of training opportunities.

ESF action should focus on helping individuals to adjust to changes arising from new technologies and from new market conditions, particularly employees who risk becoming unemployed. The anticipation of skills needs is crucial here, as is the supply of training activities and advisory services to employees of SMEs. Such actions imply the strengthening of partnership and the full involvement and co-operation of the social partners, as does the development of new ways of distributing working time among occupational groups and of reconciling working and family life.

It will be necessary to link actions and measures aiming at integration, professional training (initial or ongoing) and re-skilling to activities supporting economic development and conversion. This applies both at the level of support for enterprises (for example for innovation) and at the level of basic conditions such as research and technological development (for example in the development of a regional strategy for innovation and technological development). Such a pro-active approach is particularly important in regions undergoing structural conversion.

In order to promote entrepreneurship and employment creation, a combination of demand-side measures (such as the provision of subsidies or other support for individuals in becoming self-employed or starting their own enterprises) and supply side measures (such as targeted information, training and tutoring activities) should be taken. Training for entrepreneurship and targeted support services for entrepreneurs are also important.

Entrepreneurial activity, including self employment, could also be supported, and Member States should promote measures to exploit fully the possibilities offered by job creation at local level, in the social economy, in the area of environmental technologies, in rural areas and in new activities linked to needs not yet satisfied by the markets.

Partnership and anticipation in Swedish Objective 4

During the 1994-1999 period, Objective 4 seeks to facilitate the adaptation of the workforce to industrial change. A key success factor for Objective 4 in Sweden lies in the active and joint involvement of both the management and employees in the planning and implementation of the projects. The partnership approach stresses that both parties recognise the benefits change will bring. Objective 4 has brought about the close co-operation of social partners and authorities which has not existed before. It has been shown that about 80 % of the participating enterprises have not before this received any public support and counselling.

With 173 mill. € the Swedish Objective 4 programme concentrates mainly on innovative adaptation measures for those employed by SMEs with less than 50 staff and is implemented in two stages: drawing up of individual business plans; and the training for change of key employees/managers and for the competence development of the firm's workers and of those at risk of becoming unemployed. Some studies show that 80% of employees have been involved in a joint analysis. Another success factor has been that the work plan has been produced by the enterprise itself and is based on the individual needs. According to the Swedish principle, the empowerment of individuals leads to true adaptability, also for businesses which is carried out in the second stage.

E. Positive action for women

While mainstreaming a gender perspective into all actions supported by the Structural Funds is essential, specific positive action is required to complement this. These specific actions must be based on:

- an analysis undertaken in the mainstreaming context of the difference between women and men in the sectors and areas concerned and of specific constraints to equal benefits from policy measures; and
- on targets based on this analysis to correct these imbalances.

Indicators should then be set to monitor and assess progress on equality. Programmes and measures should be designed to fully address the gender-specific obstacles to equal access and participation in order to make sure that discriminatory effects are neutralised and that gender equality is promoted and a balanced participation of women and men in decision-making structures should be ensured. This could be achieved through measures which aim to improve women's career progression and access to higher level positions, correct the imbalance in the representation of women or men in certain economic sectors and occupations, support the increased employment of women and increase the level of entrepreneurial activity among women.

In this field, it will be important not just to rely on training measures, but to use the full potential of all eligible measures available, so as to support a comprehensive positive strategy. Member States should therefore ensure that active labour market policies are made available for women in proportion to their share of unemployment, give particular attention to obstacles which hinder women who wish to set up new businesses or become self-employed and ensure that women are able to benefit positively from flexible forms of work organisation.

It should reflect the main objectives of the European Employment Strategy and supplement the general actions aiming at improving the employability of the workforce.

Strengthening Employability and Entrepreneurship among women

In Spain, the Ayuntamiento of Santa Perpétua de Magoda and the Association of Employers set up a programme to help women identify their career choices and find work using an integrated approach: linking both the needs of women and the needs of local business in the region. Providing information on the career options available was the beginning, then came a series of individual consultations and group sessions for women. Then followed the training itself: from 400 to 500 hours including both practice and theory in areas such as community services or technical administration.

One of the major barriers women face entering the labour market is the lack of care services. With funding from ESF, childcare facilities were provided for children whose mother were attending training courses in Liege (Belgium).

Women are a minority among entrepreneurs. In Finland, the ESF supported projects to encourage women to set-up their own companies. This project provided unemployed women over 25 years old with six months training in entrepreneurship and a four-week placement in a company.

II. Specific actions in Objective 1 and 2 regions

The European Employment Strategy is not solely implemented by national policies; regional and local authorities have a role to play in implementing the Employment Guidelines within their own sphere of competence. There is therefore scope for a strong regional dimension in the implementation of these Guidelines, which may be translated into concrete measures through regional programmes under Objective 2.

The essential characteristics of such programming in the employment and human resource development fields are that:

- it must respond to a local or regional assessment of need and be the result of a bottom-up programming arrangement;
- the activities supported should be integrated with activities supported by other Structural Funds;
- it must avoid all risk of double financing of measures or actions financed under Objective 3.

In the regions covered by Objective 2, the identification of needs for training and skills should go hand-in-hand with the setting of goals for the development or conversion of firms receiving investment aid from the Structural Funds. This could include, for example, specific actions in the following fields, insofar as they complement the general measures under Objective 3:

- Developing suitable training and integration initiatives and adapting the availability of on-going training to the evolving needs of local and regional enterprises, in the context of conversion or in anticipation of restructuring in Objective 2.
- Stimulating and responding in an appropriate manner to the training requirements of enterprises in the regions eligible for Objective 2 (aid to firms to train young people or provide those in work with new skills while also developing new activities such as the development of new products or processes or satisfying market potential, including taking account of needs for training in technology).
- Supporting the role of local and regional authorities in promoting the identification and formulation of the needs of firms and in assisting in the adjustment of systems of training and employment to meet local and regional needs.

These activities, based on a bottom up approach, can be included also in actions undertaken in regions eligible for Objective 1.

PART 3 : URBAN AND RURAL DEVELOPMENT AND THEIR CONTRIBUTION TO BALANCED TERRITORIAL DEVELOPMENT

A harmonious development of the Community territory takes place against a background of greater economic integration and increasingly global markets.

It is equally influenced by community policies, each in its own individual manner. This is the case for the interventions of the Structural Funds, notably through their assistance to urban development in an integrated regional approach and to rural development in its double role of contributing to the European agricultural model and to economic and social cohesion.

The complementarity of this assistance with a more balanced development over the whole of the territory of the Union cannot be taken for granted. It is necessary therefore to encourage an integrated process aimed at favouring a synergy of urban and rural development in order to make progress towards a more balanced territorial development.

The Member States have prepared a draft informal document containing indicative guidelines on the long-term development of the European territory (European Spatial Development Perspective). In this context, assistance from the Structural Funds to reduce disparities between the core and peripheral regions must be continued in view of the increased concentration of activity in part of the Union as well as in certain metropolitan areas. The development strategy of each region must also take account of the indicative guidelines in order to include them in a broader overall view, not just of the country in question but the Union as a whole. Similarly, it is important to take account of trans-national effects in establishing investment priorities, notably in the transport sector.

Thus, the development of each region will progressively encourage the emergence of an increasing number of zones of economic integration more evenly distributed across the Union, and the progressive evolution from the current centre-periphery model towards a more multi-centred European area.

A. Urban development within an integrated regional policy

Urban areas play a vital role in the European economy. They are centres of communication, commerce, creativity, innovation and cultural heritage but they also consume more than their fair share of energy and non-renewable natural resources and produce disproportionate amounts of waste and pollution. Medium-sized towns in particular also exert a powerful influence on rural areas.

The Commission's recent communication: "Sustainable urban development in the European Union: a framework for action" (notably actions 1, 8, & 18) sets the context for work to be supported by the Structural Funds in urban areas. As part of the integrated strategy for development or regional conversion, this work should aim at four interdependent goals:

- greater prosperity and employment in urban areas by enhancing the role of towns and cities as regional growth poles;
- support for social integration, fairness and the regeneration of urban areas;
- the protection and improvement of the urban environment as a means of improving the quality of life, protecting human health and safeguarding local and global ecosystems (including sustainable transport systems, renewable energy sources and rational energy management);
- contributing to systems for sound urban and local management.

In both the Objective 1 regions and the Objective 2 areas, this approach should mean that the various programming documents under the Structural Funds include integrated packages of operations in the form of integrated urban development measures for the main urban areas in the region. Such measures will make a vital contribution to an integrated approach to regional development or conversion.

Specifically, the restoration of disadvantaged urban areas could receive special support through an integrated territorial approach similar to that developed by the Urban Community Initiative, whose experience gained from its most innovative measures and an approach through partnership could usefully be generalised.

Furthermore, the measures supported by the ESF under Objective 3 should have a major impact in terms of social cohesion even in the towns not covered by Objectives 1 and 2.

The renovation of an urban area in difficulty

Public and private assistance has been offered to Aulnay-sous-Bois in the Île de France region which has 5 000 council dwellings, with numerous problems. This takes the form of a major urban project including renovation and complementary measures supported by Urban, one of which seeks to reduce insecurity while offering new services to the inhabitants in the form of branch centres providing staff, mobile services and offices for local associations. There is also an initiative to collect bulky objects and recyclable waste.

B. Rural development for modernisation, diversification and environmental protection

While some of the most dynamic regions of the Union have a rural character, there are many other rural areas experiencing often-acute socio-economic problems reflected in weak demographic structures, insufficient job opportunities and an under-provision of key services. Many of the difficulties can be traced to the effects of extensive structural change stretching over several decades, notably the decline in the economic importance of agriculture in terms of its contribution to regional income and employment. Today, around three-quarters of Europe's farmers are part-time requiring supplementary sources of income.

At the same time, rural areas still account for some four-fifths of EU territory, while agriculture is the largest user of rural land and remains a key economic sector in many regions.

In addition, the multi-functional role of the agricultural sector is increasingly recognised. Besides the economic role of agriculture, forestry and other productive activities, it now fulfils an important social role through the provision of quality products and the supply of leisure and recreation opportunities to town dwellers. It is also an important factor in maintaining the quality of the environment and the cultural heritage. Rural areas are of the utmost importance for the development of the European territory.

For the EU as a whole, one important aim of rural development policy is to ensure the sustainability of the European agricultural model. As such, it forms the second pillar of the Common Agricultural Policy. This requires a twin-track approach that supports both the development of a multi-functional agricultural sector, on the one hand, and the broader social and territorial context in which the agricultural sector exists, on the other.

In the areas most severely affected, those eligible under Objectives 1 and 2, rural policy should seek both to develop a competitive agricultural sector using environmentally-friendly methods of production and support for the diversification of farm holdings and the rural economy into new activities and sources of employment. Rural development in these terms remains an important element of cohesion policy and at the same time would complete the modernisation and reform of market policies under the CAP.

In these eligible areas, the Structural Funds and the EAGGF Guarantee Section should support the diversification of a competitive rural economic structure based on encouraging new activities through integrated programmes. Their priorities will include:

- **A stronger agriculture sector** to ensure that agriculture and forestry are competitive by supporting investment in modernisation, including the processing and marketing of agricultural and forestry products, attempting to reduce costs and improving product quality, increasing the value added by agriculture and maintaining agricultural holdings (principally by ensuring that they can be taken over by young farmers) and the rural environment (including agri-environmental measures);
- **Improving the competitiveness of rural areas** by improving access and promoting diversification into new activities and the creation of employment. This includes the development of tourism and small firms, most of which produce virtually unique high-quality products. Other opportunities exist in the field of renewable energy, including energy generation from urban waste in rural areas close to major agglomerations;
- **Maintenance of the environment and Europe's rural heritage:** environmental protection must be a major rural policy priority including the preservation of the countryside and natural resources, traditional rural areas, the promotion of agricultural tourism and the renovation of villages.

The mainstream rural development strategies cannot on their own address all the problems confronting rural areas especially in view of their local scale. The new Community Initiative for rural areas will provide an opportunity for complementary actions to the mainstream programmes by supporting actions conceived and carried out by partnerships operating on a local level. The aims are to encourage the emergence and development of new rural development models, which are then disseminated through networks, and to promote co-operation between local actors in different regions and Member States.

New agricultural activities in northern Italy

In the Val Bormida, in northern Italy, innovative solutions were found in order to support the incomes of inhabitants experiencing declining incomes from traditional agriculture, based on the exploitation of the region's potential as a supplier of plants for medicinal purposes. With the assistance of EU rural development programmes, two new projects were supported, involving the purchase of equipment allowing the automated processing and packaging of dried plants and the undertaking of research for the introduction of new varieties and to improve quality control

By the mid-1990s, production of essential oils reached 1500 kg compared to 120 kg some 10 years earlier while the quality certification "biological product" was obtained guaranteeing a superior market position and a higher rate of return. As a result, a new agricultural outlet has been developed in the region, creating 7 new jobs. It has also contributed to the maintenance of the natural landscape in a mountainous environment, bringing a total of 100 hectares of less fertile land under cultivation.

Sustaining rural communities in Nordrhein-Westfalen

One of the problems of rural areas is the tendency towards the concentration of key economic and social services, while access to towns and cities via public transport is being progressively reduced. In certain Member States, Objective 5b programmes have assisted in the re-establishment of basic rural services. For example, in the small German village of Ottenhausen in Nordrhein-Westfalen, the local bakery and the grocery closed down in 1995, leaving the villagers dependent on services some distance away and giving rise to particular difficulties for those with problems of mobility. With the support of the local inhabitants and with EAGGF co-financing, a new village shop was opened but on a different basis from pre-existing facilities in that it provided several services from a single outlet. It now acts as a supplier of food and household products, local agricultural products and bio-products as well as providing important services: a post office, a central agency for shoe and linen repair, for cleaning and an advisory service on environmental matters. Thus basic services - especially important for older people and mothers with children - are provided locally. It also promotes local agricultural products: all from a disused stable and hence restoring part of the architectural heritage of the village.

Water recycling in the Canary Islands

An obstacle to development in the Canary Islands is the shortage of water, its high price and the unequal distribution of water resources in the islands. More than 80 % of the available water comes from underground sources. These underground reserves have diminished in recent times, modifying the balance between extracted and rainwater sources and leading to a progressive increase in salination. On the islands with the lowest rainfall, it has been necessary to resort to desalination of seawater in order to supply the population. Agriculture consumes 60 % of available water.

The shortage of water and its poor quality, along with the competition from an expanding tourist sector are two of the causes of the scaling back of agricultural activity. On the island of Tenerife, a study has examined the technical feasibility and economic viability of a more complete purification of treated water and its use in different areas. Following the study, the authorities decided to invest, with the financial assistance of the EGAF, in the establishment of a remote-controlled water distribution network, tertiary purification treatment and the filtration of irrigation water. This investment allows the agricultural sector access to a new supply of water. It has also contributed to tourism, the maintenance of green spaces and the improvement in the quality of life.

C. Synergies between urban and rural areas: balanced development

If the Union is to enjoy the best possible conditions for development, towns and rural areas must complement each other. The synergies to be encouraged in each region assisted by the Structural Funds must be those that favour the multi-centred and hence more balanced territorial development of the European Union. Rural areas must have access to the specialist services that only urban centres can offer. City dwellers need to be provided with the food supplies and natural, tourism and recreational facilities which rural areas can offer.

The contribution of the Structural Funds to integrated territorial development must be backed by support for networks between urban centres and improved links between towns and rural areas designed both to prevent duplication of effort on identical work and to promote a model of land use which is more effective and more respectful of sustainable development. The development of the role of urban centres, particularly medium-sized ones, is of special importance in thinly populated areas. They are the only service reception points which reach the thresholds for economic viability. Co-ordination with national programmes may also prove necessary where regions are only partially covered by programmes supported by the Structural Funds.

The geographical size of the regions covered by Objective 1 is such that it provides an adequate framework in which to meet the need for an overall approach in which urban and rural areas are complementary. That approach should also be used in the Objective 2 areas, where it will be facilitated by the use of the single programming document for the new Objective 2. This should be used to prepare strategies which seek a balance between rural and urban areas at regional level.

The inclusion of integrated approaches to urban or rural development in the various programming documents of the Structural Funds does not remove the need for regional programmes. These approaches, which take account of the specific features of the various parts of a single region, should rather provide a basis for global and integrated regional strategies.

They should contribute to the creation of areas of dynamic integration as an international scale, principally through highly effective trans-national, national and regional infrastructure. The Interreg III Community Initiative should complete this process by supporting trans-European, and particularly cross-border, co-operation to achieve the balanced development of the Union's territory.

SENSITIVE AND COASTAL AREAS

When structural programmes cover sensitive and coastal areas, it is important that they, in conjunction with other sectoral programmes, ensure the sustainable development of such areas. Within the framework of a regional economic strategy, structural funds could support actions necessary for the protection of these areas, including the funding of access infrastructure and the promotion of 'nature' tourism.

Priority actions for coastal management encompass: reduction of pollution and rehabilitation of degraded areas, control of beach fronts, excavations and other activities altering water basins and the sea floor, and the conservation of natural habitats.

D. Specific measures for fisheries areas

Structural policy in the fisheries sector (including aquaculture and the processing and marketing of their products) is a vital element of the common fisheries policy. It seeks to guide and speed up the restructuring of the sector through the rationalisation and modernisation of the means of production and other measures which will have a permanent impact.

Regarding the fishing fleets, programmes must take account of the following priorities:

- The multi-annual guidance programmes for the fishing fleets, (MAGP IV until 2001 and MAGP V subsequently) remain the reference basis for the framework for fisheries capacity. Hence, priority must be given to their implementation (including that of the future MAGP V).
- It is also necessary to avoid undesirable effects. Thus, insufficient renewal could lead to the widespread ageing of the fleet; on the other hand, technical progress could wipe out reductions in capacity, even resulting in a worsening imbalance between the fishing effort and resources.
- At the technical level, priority must be given to the use of more selective fishing gear and methods, improving the quality of the fish taken and preserved on board and improving working conditions and safety.

In the rest of the productive sector (aquaculture, the processing of products), collective measures which devote attention to the interests of the whole of the sector have a much greater priority than investment in firms. Combating environmental problems, improving product quality and disposing of surplus or under-exploited species are also priorities.

Structural policy in the fisheries sector is also a component of cohesion policy: on the one hand, Community aid to the sector is concentrated chiefly in the regions eligible under the territorial Objectives of the Structural Funds; on the other, it seeks to provide a response to the socio-economic difficulties of coastal areas caused by the restructuring of the sector by creating jobs and diversifying activities in the most promising areas through joint assistance from various Structural Funds. It is therefore essential to ensure the synergy of the different Structural Funds in order to guarantee the effectiveness of their combined impact.

Projects in support of the fisheries sector

Processing of products (Belgium)

In Antwerp, a dozen fish processing companies, located in run-down buildings in the city centre, reorganised into four new firms on an industrial site close to means of transport. Since then, the turnover of the new firms has increased significantly.

Aquaculture (United Kingdom)

Based in Argyll (Scotland) *West Coast Aquaculture Ltd* was assisted to construct and equip a new, state of the art water re-circulation system to on-grow juvenile turbot and diversify to avoid over reliance on farmed Atlantic salmon. By the end of the year 2000 the company expects to be harvesting some 450 tonnes of turbot per year.

Collective exploitation of the shoreline (Spain)

In Galicia, many projects aimed at the collective exploitation of the shoreline by shore fishermen have allowed the improved conservation of the resource (bivalves) and quality control of fish products.