



“JOBS AND SKILLS IN THE LOCAL ECONOMY”

Priority Themes - Summary Progress Report



INDEX

INTRODUCTION AND STRUCTURE OF THE DOCUMENT	3
EDUCATION AND SKILLS	4
1.1 State of the play	4
1.2 Main Subtopics within the PT	4
1.3 Main Bottlenecks detected	6
NEXT ECONOMY	7
2.1 State of the play	7
2.2 5.2 Main Subtopics within the PT	7
2.3 Main Bottlenecks detected	9
PUBLIC SERVICES	10
3.1 State of the play	10
3.2 Main Subtopics within the PT	10
3.3 Main Bottlenecks detected	12
EFFECTIVE GOVERNANCE	12
4.1 State of the play	12
4.2 Main Subtopics within the PT	13
4.3 Main Bottlenecks detected	14
VALORISATION OF R&D	16
5.1 State of the play	16
5.2 Main Subtopics within the PT	16
Collaboration process between entrepreneurs and science institutions	16
5.3 Main Bottlenecks detected	16
BUSSINES LOCATION	17
6.1 State of the play	17
6.2 Main Subtopics within the PT	17
6.3 Main Bottlenecks detected	18

INTRODUCTION AND STRUCTURE OF THE DOCUMENT

This document includes a summary of the Priority Themes (PTs) after the orientation paper was approved and the second meeting of the partnership took place in Romania last July 2017. It offers a summary of those PTs prepared by the Partnership Coordinators with the support of the Secretariat.

It represents the basis for preparing the questionnaire that have been launched, and already, sets the path for the Action Plan as it identifies the bottlenecks detected by the partnership associated to each PT subtopic. In other words, this document includes the initial key urban challenges detected by the partnership for each PT and the bottlenecks associated to them.

Why?

This document must be understood as a discussion paper that will initiate the process towards the elaboration of the partnership's Action Plan.

It has two specific objectives:

- To offer in a single document the initial description of the topics at stake and the main preliminary bottlenecks identified that could be eventually be the object of action in the framework of the Action Plan.
- To start thinking about possible actions that could be developed and implemented in the Action Plan.

Document structure

This document is structured around the 6 PTs, and for each one presents the following sub-sections:

1. State of the play: a contextualization of the PT from an urban perspective.
2. Main Subtopics within the PT: the selection made by the partnership about the key issues to consider within each PT.
3. Initial main Bottlenecks detected: the bottlenecks detected by the partnership associated to each PT subtopic.

EDUCATION AND SKILLS

1.1 State of the play

Moving into the 21st century and preparing the transition to the next economy requires different types of qualifications of our labour force, being skilled in 21st century skills, aiming at highly qualified experts and capacities, so as to foster higher productivity, creativity and innovation, and ensuring inclusive labour markets. In other words the next economy is build on the next society.

1.2 Main Subtopics within the PT

Skills Mismatch, especially in vulnerable social groups

Currently the labour market is experiencing a **mismatch between demand in supply**. In many EU member states and cities there is still relatively high unemployment especially among certain groups. At the same time where there are jobs available they do not automatically equal with the available labour force. **The required skill levels increase, demand for low skilled jobs is diminishing** also due to robotisation and **large groups, in particular the most socially vulnerable ones, run the risk of not being able to effectively participate in the labour market**. At the same time, when these jobs are not available to a highly educated workforce, talent will move elsewhere.

Local authorities are closest to these groups as well as to the local labour market and educational facilities. A reinforced role of local authorities in bridging the development of companies with education and skills is therefore of crucial importance to properly address these challenges. These can be supported in practical training centres.

Improving the required labour market skills

Education is in most member states a national competence. This doesn't mean that local authorities lack options to innovate the curricula. These range from **creating a dialogue with the national institutions to developing an incentive system to stimulate the education sector to develop more market driven training programmes**. This involves a stronger focus on practical learning, multidisciplinary approaches, and allowing for experimental learning.

Rather than looking at what is needed today a human capital agenda should be developed building on the identification of **what is required by employers and link this with the career orientation and guidance** based on the (potential) skills of potential employees. The time issue is of crucial importance here, as when an education is started to acquire certain skills, these might no longer be required when the training is concluded. This

would require much more real time need identification systems combined with flexible training programmes.

Building on existing infrastructures (i.e. labour market offices, incubators, business hubs) **specific platforms could be developed aiming at career-start-guarantees**, apprenticeships schemes and forms of inclusion in the labour market. These platforms are also of crucial importance in developing the required skills profiles for now and the future. In this respect it would make sense to link this skills agenda much stronger to the RiS3 approach advocated under the next economy.

The next economy also requires new skills for jobs on societal issues (e.g. social/health/environmental). These local jobs often are outside the scope of the private sector and are largely dependent on public services or finance. In particular when creating links with social issues (e.g. inclusion, integration of migrant and refugees) there are also opportunities for funding through **social impact bonds as well as social entrepreneurship**. Local authorities could support these developments by providing incentives for experimentation of new approaches and promote these developments through their procurement policies.

There could also be a role for local authorities in **developing lifelong learning and vocational training** aiming at local jobs as a public service but this would require funding from other levels of government (national, EU) to make it feasible.

Future labour market needs and skills

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

Particularly challenging is the process of automation and robotisation that will **replace low skill repetitive jobs in manufacturing and services**. Studies foresee the loss of 5 million jobs, but at the same 2,5 million new jobs are foreseen in relation to automation and robotisation. Contrary to the low skills levels of the jobs lost, the new jobs require high level digital skills such as artificial intelligence and developing self-learning machines. A **stronger specialisation of the workforce** is therefore necessary. But at the same time other labour market opportunities as those identified under the societal challenges need to be intensified.

1.3 Main Bottlenecks detected

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

- No proper involvement of local actors in EU policy framework on new skills agenda, youth employment initiative, social agenda.
- The range of funding instruments complicates integrated programming.
- The European Social Fund programming is too strongly focused on traditional labour market guidance is difficult to work in conjunction with financial instruments and when activating private funds for social aims or developing new sustainable forms of delivery of services from non-profit organisations.
- The Youth Employment Initiative further complicates the framework resulting in slow start and uptake of available funding.
- Lack of clear set of regulations run the risk of new monopolies arising (i.e. Uber, AirBnB).

There is large uncertainty about future and the skills required for by the labour market and the education and training system is not able to adapt quickly enough to these challenges. It also is not customary to include local quadruple helix cooperation into the framework. Bottlenecks include:

- Current curricula insufficiently fit 21st century demands.
- Lack of skills profiling and forecasting.
- Insufficiently flexible national curricula that are hardly or not including locally tailor made solutions.
- Certification of curricula (European Quality Assurance Reference Framework and European Qualifications framework) is aiming at national level limiting the value of local and practical training.
- Role of new (digital) recruitment services insufficiently taking into account.
- General state aid legislation and de-minimis regulation bring barriers to the maximum participation of employers/companies in demand led education and training.

Skill development is not just of relevance for high skilled labour. It also is of relevance for that part of the workforce that is not highly skilled. As the market usually plays a smaller role here other forms of in particular public intervention are required. Bottlenecks include:

- Lack of jobs in particular for lower skilled labour.
- Posted workers directive includes elements that promote exploitation and unfair competition.

- YEI under represents low-skilled and non-registered NEETs.
- Non-compulsory EPSR might cause race to the bottom in labour market rights.
- Lack of funding (including soft loans).
- Social Impact Bonds most often still too complex and expensive mechanism for urban authorities.
- High cost of setting up education system for local jobs.

NEXT ECONOMY

2.1 State of the play

The next economy is about enabling the transition of cities and regions with a strong industrial and often fossil fuel base into a next economy based on knowledge, interconnection, sustainable energy, digital platforms and more localised and circular forms of production.

This provides an area of opportunity for coupling locally-based social economy initiatives with the promotion of sustainable development.

2.2 5.2 Main Subtopics within the PT

The Transition from a model to the “next”

The next economy requires an entirely new and digitized economy, social and knowledge infrastructure (i.e. valorisation) that focuses on cross-overs, networking and smart clustering. It includes a:

- **Digital transition:** (increased connectivity, big data platforms, smart logistics, smart mobility, sensors, Internet of Things, etc).
- **Energy transition** (moving from fossil to sustainable forms of energy, including smart systems, savings renewable sources, storage technologies).
- **Circular transition** (recycling, up cycling, bio-based materials, clean technologies).

These transitions consist of hard investments (5G, glass fibre networks, renewable energy networks, functional technology parks) as well as soft investments (education and next skills). Business locations both for start-ups and scale ups need to allow for activities that have to take place outside living neighbourhoods and are spacious enough to allow for growth or other companies to join. But also high quality urban sites for service oriented SMEs (local 3D print shops) are needed.

The public sector is often initiating a leading role through bringing together the quadruple helix partners and developing a systematic approach. The next economy requires

government also to speed up their processes, in particular in land use planning and permitting as the life cycle of the next economy enterprises are a lot faster than the traditional companies.

Urban/Local Role in the Regional Innovation Strategies

Within the European Structural Investment Fund (ESIF) investments in innovation are mandatorily based on so called regional innovation strategies (RIS3) that have been developed in an entrepreneurial bottom up style bringing together the partners in innovation. These programmes equal the territories of the ESIF operational programmes or are even developed at national level. Even though innovation often requires bringing together partners from a wider territory, the approach could be improved by bringing in the local perspective and partners in a strengthened partnership. **Local authorities can play a leading role in bringing in the local quadruple helix** in the process and of course as the level of authority providing the required business locations. Also **local authorities are playing a vital role in promoting the skills agenda** to ensure that future jobs are met by future skills.

By combining sustainable urban development strategies with RIS3 this local dimension can be secured. It furthermore offers better possibilities to come to smart choices on the development of local campuses, fablabs, fieldlabs, technoparks and valleys. Rather than developing the same types of activities in all cities choices should be made on the basis of local potential. It must be taken into account that due to the transition towards a circular economy, new techniques (such as 3D printing) and reshoring production will become more local with new possibilities in logistic patterns, such as just-in-time local production. To enable these developments secure digital marketplaces and data exchanges are required.

The transition from the current to the next economy should be as smooth as possible, however in practice this is most often not the case and the transition will be rather disruptive. To support the transition **as good as possible it is helpful to develop roadmaps together with the quadruple helix partners on the basis of the RIS3**. By working through Open Innovation companies can be stimulated to work together with their partners and competitors from the quadruple helix and develop cross sectoral approaches. By clustering new initiatives and creating horizontal partnerships the roadmaps ensure a stronger focus on the crucial cross overs in particular in the field of our societal challenges.

Local authorities are crucial in setting the right regulations, including a supportive legal (land use/permitting) framework, promoting developments under difficult situations (e.g. contaminated land, divided ownership) and avoiding speculation to enable these developments. A strengthened RIS3 could thus contribute in developing new ideas, products and services that could become the building blocks of the next economy.

Funding the Next Economy

Due to the uncertainties about the next economy, financing infrastructures and private sector innovation is everything but a regular business for financial institutions. ESIF programmes can be used to provide the necessary funding however not all regions and cities can access the required substantial amounts of funding through ESIF. Smaller ESIF programmes will have to rely more on loans either through private or public banks such as the EIB. Where private banks might be prudent on higher risk-involved projects, the European Fund for Strategic Investments (EFSI) is in particular supportive of these types of projects.

Instrumental in the transition towards a next economy are European support programmes that promote the development of large(r) scale demonstration projects. Horizon 2020 supports innovation within the various societal challenges and aiming at smart cities and communities. But also other programmes can contribute at a sectoral level. Linking these various initiatives into a systemic approach would be highly helpful in accomplishing the required transition.

Local authorities play a crucial role in further developing these funding programmes as the higher risk often require guarantees a specific company cannot offer. By pooling together projects and setting up investment platforms individual risks can be levelled out and governmental guarantees can ensure other investors to step in. By blending various types of funding ranging from subsidies to loans, including venture capital, equity funding, micro-credits and many other types a support framework addressing the needs of the next economy can be established.

2.3 Main Bottlenecks detected

The large transformations needed to establish the Next Economy require large investments. Due to the uncertainties of the future these costs include higher risk involved and longer payback times than regular investment. Relevant bottlenecks include:

- Lack of funding (both public and private).
- Rigid EU funding provisions in relation to PPPs.
- Stability and Growth Pact limiting role of government.
- Complex programming, non-alignment of different EU support programmes and high administrative burden, resulting in limited uptake.

Regional Innovation Strategies are aimed at **ESIF operational programmes** territories and are therefore **insufficiently including sustainable urban development strategies** that are bringing together the transitions required for by the Next Economy at the local level. Relevant bottlenecks include:

- Limited structural involvement of local authorities and quadruple helix partners in the RiS3 design and implementation.

- Over appreciation of innovation in the current economy due to limited amount/involvement of next economy companies and vested interests.
- Insufficient attention for skills agenda.
- RIS3 as ex ante for ESIF programmes limits its use outside ESIF.
- Lack of vision of what happens outside the region both in terms of competition and cooperation opportunities.

At local level it must be secured that the regulatory framework, consisting of local, regional, national and EU legislation, is supporting the transition to the next economy. Bottlenecks include:

- Lack of effective coordination (possibilities) of sectoral policies at all levels of government.
- Differences in requirements and regulations of different policies.
- Long procedures to enable transitions (land use, permitting) or unclear situation (divided ownership, speculation).

PUBLIC SERVICES

3.1 State of the play

During the stocktaking questionnaire's phase the following public services were indicated as relevant for improving the public space and the quality of life, but also for attracting investors and skilled labour force: urban planning and building permits, public transport, education, social services, public utilities (water, electricity, heat supply, waste management, wastewater treatment), communications, including the internet networks, public safety and health system. Productive, innovative and smart growing cities develop policies that contribute to the balanced development of all these categories of public services, strongly connected to the needs of the present and future generations and in accordance with the environmental conditions, size, economic profile and the development vision of the each city or urban area.

3.2 Main Subtopics within the PT

Relevant aspects about Public Services

To achieve the **smart growing goal**, public-private partnerships must be developed, encouraging proactive participation of the citizens and including social partners and the civil society organisations in the planning and decision making processes.

Also, in some thematic fields, such as **urban planning**, a multi-level approach is to be considered. National and local strategies, policies and urban plans can contribute substantially to the improvement of land use and the quality of life ensuring a high level of territorial attractivity and accessibility. A good urban planning and a digital process for building permits brings proper conditions for investors and for their business – the period for the implementation of their investments becomes much shorter and they can start the economic activity.

Functional areas considered as areas around urban centres in which systemic relations are developed should be regarded as tools to facilitate functional relationships among territories, transcending administrative boundaries and able to support a balanced polycentric development. By addressing **functional areas** within spatial development policies, a series of prerequisites for the protection, capitalization and promotion of local resources and specificities are created, contributing to social and economic cohesion. Nevertheless, functional areas imply a new model of territorial governance and development of tools that contribute to ensuring collective welfare and respecting individual rights.

Also, the **sustainable use of the local potential, human, natural or cultural resources**, and any other specificities regarding functional areas, contributes to increasing territorial competitiveness.

There is no doubt that cities are important nodes of the European **transport system**. Therefore, the attention of the local authorities should be driven mainly to improving the connections with the European and national major road systems, to the improvement of urban access regulations and to implementing viable IT solutions to manage and control the traffic in urban areas. The process of developing and expanding the transport public networks should be shaped to limit negative effects, as: road congestion, air pollution, noise pollution and accidents.

A common problem for utmost European cities consists in realising an efficient and time-effective link between the centre of the city and the metropolitan area.

Complying with the requirements of the Energy Efficiency Directive implies various types of measures in order to reduce energy use in buildings (adding insulation, improving heat systems) and public transport (using new and sustainable fuels and propulsion systems, optimising multimodal chains, reducing congestions and pollution etc).

The challenge of ensuring high-quality public services requires **technological and organizational innovation** to boost efficiency. In the process of modernising the public administration the development of platforms for monitoring the quality of public services along with the development of a set of indicators and a methodology to periodically assess the quality of public services will help the cities' public administrations to set measures to better address socio-economic challenges.

Public services such as education, public safety and health are also important in attracting skilled labour force.

Public Services Funding

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

When various types of cities cooperation are considered, problems regarding the common management of public services such as transport emerge. Therefore it is necessary to establish a regulatory framework addressing issues like funding, ownership and management of the equipments and other assets, distribution of incentives etc.

3.3 Main Bottlenecks detected

Relevant aspects about Public Services

Bottlenecks were identified, as following:

- low administrative capacity of small urban cities
- insufficient cooperation between public and public /public and private sectors
- lack of funding
- lack of integrated approach.

EFFECTIVE GOVERNANCE

4.1 State of the play

An effective local governance should follow the Good governance principles: to be participatory, consensus oriented, accountable, transparent, responsive, efficient, equitable and inclusive and to follow the rule of law.

There is an overall consensus, however, that efficient regulation, an effective and a well-functioning public administration, and well-targeted and tailored public expenditure all are essential to the smooth functioning of economies of the cities by providing essential infrastructure and public services, ensuring the rule of law and enforcing property rights.

Legal certainty, high quality regulations and reliable public services are major preconditions for a stable business environment. In this respect, a simple and transparent regulatory system is needed to boost the economic development.

4.2 Main Subtopics within the PT

Efficient institutions

As efficient institutions have beneficial effects on innovation and entrepreneurship, health, well-being and reduction of the poverty it is equally important to provide the best possible use of the local resources available, including the human resources. Therefore, training programmes ensuring that the public servants have skills tailored to the needs of the citizens and adapted to the technological progress („21st century skills”) are necessary.

Effective local institutions use a wide range of eGovernment tools, facilitating the interactions between citizens and economic operators and taking advantages of the opportunities appeared as a result of digitisation. Digitisation offers the means to increase the transparency and the participation of the citizens to decision-making processes, ensuring in the meanwhile the conditions for the modernization of the public administration.

The organizational structure of the public authorities should be adapted to better support the enhancement of the quality of life and the development of the business environment. A process management approach based on setting and prioritizing strategic directions and goals in accordance with the organizational mandate and on assessment programs will make it possible evaluate and enhance the efficiency and effectiveness of services.

Finally, citizens should be placed of the core of at the center of the public authorities' activity and should be encouraged to actively get involved in the public life of the cities.

The territorial dimension

To achieve an effective local government it is mandatory to develop functional areas. Socio-economic development trends do not take into account the administrative boundaries of territorial units. Economic and demographic mass and densities are factors that foster economic development in urban and/ or functional areas, by attracting investors and labour force. Also, local resources/ assets are reflected in the specificities of economic activities. Therefore, in order to be effective, social and economic development policies must take into consideration the territorial dimension.

The interdependencies between urban and rural development processes, the economic specialization trends and the integration of labour and economic markets into functional areas beyond administrative borders require appropriate management tools.

Sustainable spatial development and capitalization on local potential can be supported by fostering cooperation, partnership and relationships among different territorial levels and categories, in a process that transcends administrative boundaries, including national borders, and encourages exchanges leading to territorial cohesion, improved living conditions and the promotion of global competitiveness.

By addressing functional areas within spatial development policies, a series of prerequisites for the protection, capitalization and promotion of local resources and specificities are created, contributing to social and economic cohesion, hence to the improvement of living conditions for all persons regardless of their residence environment. Nevertheless, functional areas imply a new model of territorial governance and development of tools that contribute to ensuring collective welfare and respecting individual rights, including cross-border areas.

The Use of Local Potential

Also, the sustainable use of the local potential, human, natural or cultural resources, and any other specificities regarding functional areas, contributes to increasing territorial competitiveness.

Capitalizing the potential of geographically defined territories through integrating them into functional areas can operate as a tool for meeting socio-economic challenges in order to generate competitiveness at regional, national, European or global level.

Boosting cooperation is a target that can be easier achieved by using cooperation platform such as EUKN, URBACT and Reference Framework for Sustainable Cities (RFSC). It worth underlying the need to better promote among experts the new version of RFSC.

At the same time, the territorial impact assessment should represent a key indicator for programs and projects developed by local authorities. For many EU/national/regional funded programmes, the indicators are usually referring to number of jobs created without any other requirements related to local labour force or local conditions/benefits.

4.3 Main Bottlenecks detected

Bottlenecks were identified, as following:

- creating/ strengthening viable public private partnerships;
- mobilising the private sector and financing institutions to diversify sources of funding and strengthen capacity;
- specially blind approach;

- reduction of the administrative burden falling on individuals and SMEs;
- increasing the skills and capacity of the local authorities elected representatives by the implementation of specific capacity-building programmes;
- improving the processes of knowledge and good practice's sharing of helping local authorities to learn from each other;
- increasing the cooperation between urban settlements for better access to funding and resources;

VALORISATION OF R&D

5.1 State of the play

Valorisation of R&D is about commercializing the results of scientific research and development in cooperation between entrepreneurs and the scientific and research community and plays an important role in economy growth and region development.

5.2 Main Subtopics within the PT

Collaboration process between entrepreneurs and science institutions

- 1) SME resources for innovations - dilemma for SME – risk in innovative products or traditional growth (price or quantity)
- 2) Motivation for scientific and research community – academic or commercial projects

Also an importance of City government role shall be emphasized since it may contribute in this process as:

- 1) Mediator or active developer (financial input, risk capital, grant schemes etc.)
- 2) Introduce local innovation strategies.

The more frequent reasons for cooperation (TOP) for SMEs are as follows:

- 1) Possibility to attract/rise funding;
- 2) Continuation of previous cooperation;
- 3) Development of new products along with current production.

Thus it is quite visible that cooperation between R&D institutions and SME mostly depends on accessibility of financial support.

5.3 Main Bottlenecks detected

Another important step is to identify factors that restrict cooperation between private and public sector in the R&D area.

When conducting research from the entrepreneurship's point of view, who is a requesting party in this process, the following restriction factors can be identified:

Primary factors:

- Limited capacity of companies to invest in research, development and technologies

Secondary factors:

- Insufficiently developed infrastructure of technology transfer - increase amount of needed investments;
- Insufficiently developed networking culture and cooperation of clusters in companies
- Lack of motivation in companies, business strategy is not oriented towards innovations
- Lack of qualified employees (for instance STEM)
- Low number of R&D employees in the area
- Low involvement rate of companies' in organizing trainings for its employees

In parallel, and from science, universities point of view, who operates as supplying party, the following restrictions that affect cooperation between private and public sector in the R&D area can be defined:

- Fragmented offer of study programmes;
- Insufficient number of graduates within the STEM study directions
- Fragmented institutional structure of higher education
- Inefficient and fragmented management of scientific institutions
- Long-term insufficient R&D public funding
- Insufficient renewal of human resources in higher education and science
- Low level of international competitiveness in science
- Low quotation level of scientific articles
- Low ranking level of universities in internationally recognized rankings
- Lack of united information platform on services provided by scientific institutions

BUSSINES LOCATION

6.1 State of the play

Business Location (infrastructure): aims at (re) developing business parks and office locations to the needs of the companies and entrepreneurs both existing and new. This includes transport and communication, networks such as water, waste, sewage, energy etc.

Challenge that business location development may meet is globalization and mobility of resources (human resources, investments etc.). When identifying possibilities to attract investors/entrepreneurs a role of location and appropriate environment including necessary infrastructure are one of preconditions to realize that. Also factors like starting time – payback time, frozen assets – renewal of deprived and contaminated territories and adjusting to the needs of entrepreneurs (territorial potential), location (not only in administrative borders), and a role of city governments may affect this process.

6.2 Main Subtopics within the PT

1. Support for deprived areas

2. Eligible costs in deprived areas
3. Investments under De-minimis in innovative start-ups
4. Urban & Rural partnership
5. Flexibility using ITI

6.3 Main Bottlenecks detected

A) Support for deprived areas

- Respectable amount of deprived areas - need systematic work with revitalization, also respecting change of economic trends to ensure long term use of areas in the future.
- Revitalization of deprived areas is not always related to environmental issues (for example, former industrial areas can be without any pollution (no environmental risks)), but it is not used in social-economical degraded areas¹.

B) Eligible costs in deprived areas

- Most part of degraded areas are covered by real property (buildings);
- Project costs are eligible only from the project submission moment.

Under these conditions owners of real property (buildings) can speculate with property prices by increasing them, when municipality wants to purchase degraded properties to revitalize territories, thus creating inefficient use of resources².

C) Investments under De-minimis in innovative start-ups

¹ Regulation (current)

Regulation No 1303/2013 on EU funds – defines thematic objective, Article 9

Regulation No 1301/2013 on ERDF, Article 5:

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

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

² Regulation (current)

Regulation No 615/2014 State AID, Article 6, and Point 2 (Regulation No 702/2014 Article 6, Point 2 and Regulation No 1388/2014 Article 6, Point 2:

(23) 'Start of works' means the earlier of either the start of construction works relating to the investment or the first legally binding commitment, to order equipment or any other commitment that makes the investment irreversible. Buying land and preparatory works such as obtaining permits and conducting feasibility studies are not considered as the start of works. For take-overs, 'start of works' means the moment of acquiring the assets directly linked to the acquired establishment.

Small size start-ups has limited capacity in capital for innovative products;
De-minimis is used in several programmes, such as techno transfer, infrastructure (*construction design plans, technical analysis etc.*), loans and guaranties etc.

- 3 year period (200 000) limits possibility to run business idea thus also limiting to use mentioned programmes above;
- As a result de-minimis is rarely used for creation of innovative products³.

D) Urban & Rural partnership

There are different state aid regulations and de-minimis aid application regulations between sectors dealing with municipal infrastructure, which complicates the implementation of projects at local level (even in case when local level would like to use equal support rate for agri and non-agri sectors)⁴.

³ Regulation (current)

Regulation No 1407/2013 on De-minimis – Article 3:

(2) The total amount of de minimis aid granted per Member State to a single undertaking shall not exceed EUR 200 000 over any period of three fiscal years.

Regulation No 615/2014 State AID Article 2:

80) 'Innovative enterprise' means an enterprise:

(a) that can demonstrate, by means of an evaluation carried out by an external expert that it will in the foreseeable future develop products, services or processes which are new or substantially improved compared to the state of the art in its industry, and which carry a risk of technological or industrial failure, or ...

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

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

(3) Start-up aid shall take the form of:

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

(4) A beneficiary can receive support through a mix of the aid instruments referred to in paragraph 3 of this Article, provided that the proportion of the amount granted through one aid instrument, calculated on the basis of the maximum aid amount allowed for that instrument, is taken into account in order to determine the residual proportion of the maximum aid amount allowed for the other instruments forming part of such a mixed instrument.

⁴ Regulation (current)

Regulation No 651/2014, Article 1

(3) This Regulation shall not apply to:

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

E) Flexibility using ITI

- Allocation of funding have to be done on OP and specific objective level – no flexibility for cities Development programme, who could have different allocation of funding between specific objectives.
- In small number of projects it is not efficient for cities to take project selection function (functions of intermediate body)⁵.

⁵ Regulation (current):

Regulation No 1303/2013 on EU funds, Article 36

2. Where an ITI is supported by ESF, ERDF or Cohesion Fund, the relevant operational programme or programmes shall describe the approach to the use of the ITI instrument and the indicative financial allocation from each priority axis in accordance with the Fund-specific rules.

Regulation No 1301/2013 on EU funds, Article 7

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