

Conference on "Competitiveness amidst conflicting policies in Lithuania"  
organised by  
the Lithuanian Free Market Institute and the Lithuanian Development Agency

11 June 2008, Vilnius

**What can we reap from the Lisbon strategy?**  
(Topic suggested by the organisers)

Speech by Director Beschel, DG REGIO

Dear Minister,

Ladies and Gentlemen,

Thank you for the kind invitation to speak at this international conference on competitiveness. I would also like to thank the **Lithuanian Free Market Institute** and the **Lithuanian Development Agency** for organising this important event.

I will approach the topic of this conference from the point of view of the Lisbon strategy and its links with the EU Cohesion Policy instruments.

This is an important theme for Lithuania which continues to receive major support from the EU for the period 2007-2013 to help compete in the European and global economy.

Let me begin by briefly summarising some of the main achievements so far under the renewed Lisbon strategy.

First, significant progress has been made towards improving the legal framework of the single market through the adoption of the Services Directive (*an initiative of the Commission; adopted on 12 December 2006 by the European Parliament and Council*) and the implementation of the Financial Services Action Plan (*created in 1999 for the harmonization of the financial services markets within the EU*).

Secondly, the Commission has also successfully driven forward its better regulation agenda to cut unnecessary costs and remove obstacles to innovation.

Thirdly – and most importantly from the viewpoint of EU Cohesion Policy – substantially increased amounts of Community funding have been made available for growth and jobs. Structural Funds and the Cohesion Fund will make some €210 billion available for investment in growth and jobs over 2007-2013. This is an increase of more than 25% compared to the period 2000-2006.

**Consequently, in the new programming period, EU Cohesion Policy is a key instrument to meet the goals of the Lisbon strategy.**

EU Cohesion Policy is an important driving force for growth and jobs for a number of reasons:

The new Cohesion Policy period not only provides more funding but also stimulates more ownership of the Lisbon agenda at regional and local levels, with a better partnership between the Commission, Member States and regions, including the economic and social partners.

Cohesion policy for 2007-2013 mobilises Community and national resources in support of the areas of greatest impact and added value. It fosters GDP and employment growth, promotes integrated development policies, public and private partnerships as well as know-how and best practice exchanges between regions. Its main objective is to raise long term growth potential of regions and enable them to reach a permanently higher level of development.

**There is a strong dynamism between the Lisbon strategy and EU Cohesion Policy.**

Lisbon strategy is based on a close partnership, with a clear division of responsibilities between the Community and the national levels.

Lithuania and the other EU Member States undertake reforms at national level based on their National Reform Programmes. These programmes, presented in 2006, are based on the policy guidelines ("*Integrated Guidelines*") agreed collectively by all Member States in 2005. The National Reform Programmes provide the blueprint for the implementation of the Lisbon strategy in each Member State.

Each year, the European Commission publishes an Annual Progress Report on the implementation of the National Reform Programmes. In the most recent report of December 2007, the Commission recognised Lithuania's good progress in implementing its National Reform Programme and made the following key recommendations for Lithuania:

- Increase and improve the efficiency of investment in R&D and support for innovation.
- Increase internal mobility of labour.
- Promote adult participation in lifelong learning, especially among older workers.
- Reform the education and training systems to ensure quality and labour market relevance.

*(COM assessment of the Lithuanian NRP attached as background document)*

EU Cohesion Policy assistance will be instrumental in implementing these recommendations.

**Thus, how are the goals of the Lisbon strategy translated into the level of Structural Funds and Cohesion Fund assistance?**

First, on the European Union level, the Community Strategic Guidelines on Cohesion (*adopted by Council Decision of 6 October 2006*) contain the general

principles and priorities of Cohesion Policy, designed to help deliver the objectives of the renewed Lisbon agenda.

Secondly, using the Community Strategic Guidelines as a basis, all Member States have drafted a National Strategic Reference Framework, which is the main strategic document for targeting Structural Funds and Cohesion Fund support in the 2007-2013 period.

In the case of Lithuania, a variety of activities identified in the National Reform Programme are reflected in the Lithuanian National Strategic Reference Framework. Substantial support is foreseen for R&D, innovation and information society as well as for the improvement of transport networks (*figures attached as background document*).

**In fact, at the EU level, the majority of Cohesion Policy assistance for 2007-2013 has been reserved – *earmarked* – for investments in areas that support the priorities of the Lisbon strategy.**

Member States decided in December 2005 that the authorities responsible for preparing the new generation of cohesion programmes should earmark a certain proportion of the resources for the key investments linked to the renewed strategy for growth and jobs (*in particular: R&D and innovation; infrastructure of European importance; industrial competitiveness; renewable energies, energy efficiency, eco-innovations; human resources*).

Targets were set at 60% for the Convergence objective regions – including Lithuania – and 75% in regions falling under the Regional Competitiveness and Employment objective.

The earmarking targets have been reached for the EU as whole, even though these targets are not obligatory for the Member States that acceded to the EU on or after 1 May 2004. It is worth noting that all the recently acceded Member

States have eventually decided to use this instrument to focus their resources on key growth-enhancing investments.

On average, the less developed regions (Convergence Objective) plan to invest 65% of funds available to them in Lisbon-oriented priorities, and the others (Regional Competitiveness and Employment Objective) have earmarked 82% of their investment, exceeding targets in both cases. Innovation is a major theme, featuring strongly in the new Cohesion Policy programmes.

**Lithuania has made a considerable effort to focus the available Cohesion Policy support on the Lisbon priorities**, although not quite reaching the optional target of 60%.

52% of Cohesion Policy assistance to Lithuania has been earmarked for the Lisbon-oriented priorities. (*For comparison: Estonia 47%, Latvia 56%, Poland 65%*)

It should be noted that, in addition to the earmarked 52%, a number of other investment areas which are important to the Lisbon priorities will also be supported under the Lithuanian strategy. These include educational infrastructure (*essential for achieving the declared Lithuanian goal of a knowledge society*) and national roads linked to the Trans-European transport networks (*essential for accessing EU markets*). If these investments are taken into account, the contribution from the cohesion instruments to Lisbon-related areas in Lithuania reaches almost 70% of the financial allocations for 2007-2013.

However calculated, this is a significant increase compared to the programming period 2004-2006 (*Lisbon-related expenditure 48%*) especially given that the overall amount available to Lithuania in the new programming period (€6775

*million*) is considerably higher than in the previous period (*€1720 million, incl. ex-ISPA*).

But earmarking for the Lisbon priorities should not be considered only as a statistical exercise. The goals of the Lisbon strategy are reflected also at the operational level.

Under its National Strategic Reference Framework, Lithuania has developed four Operational Programmes, approved by the Commission, setting out the more precise priorities for Lithuania for the new Cohesion Policy period. The Operational Programmes constitute the basis for selecting and funding projects on the ground through a partnership between national and regional authorities.

**In Lithuania, two Operational Programmes (*out of total four OPs*) have especially strong links with the Lisbon strategy:**

- OP for Economic Growth (*co-financed by the European Regional Development Fund and the Cohesion Fund*)
- OP for Human Resources Development (*co-financed by the European Social Fund*)

In both of these programmes, the level of Lisbon-related spending is close to 80% of the available funds.

In particular, the Operational Programme for Economic Growth foresees almost €2,5 billion of support for critical sectors such as R&D, innovation, entrepreneurship, information society, transport of European importance, and energy infrastructure.

It is interesting to note that this Operational Programme has one priority dedicated to "research and development for competitiveness and growth of the economy". Lithuania has set for itself a very ambitious goal in this area: to

spend in R&D 2,2% of the GDP by year 2015, from a baseline of 0,76% in 2005. The financial allocation to achieve this goal is €677 million, or 10% of the total Cohesion Policy funding for Lithuania in new programming period.

In Lithuania, almost all of the project selection criteria for the new Operational Programmes have already been adopted by the monitoring committee responsible for the programmes, and we can note that a number of calls for proposal have been launched. The implementation of the new programmes has thus begun in earnest.

It now remains for the Lithuanian authorities and the project promoters to translate the Lisbon priorities into tangible results on the ground.

**I would like to add that the new Cohesion Policy programming period has some new, innovative instruments for investing in growth and jobs.**

During the negotiations on the reform of Cohesion Policy, the Commission pushed for combining grants with loans. A number of instruments has been created for this purpose and proposed to Member States and regions.

One of them is the new partnership between the Commission and the EIB Group: the so-called JEREMIE initiative (*Joint European Resources for Micro to medium Enterprises*). It allows the authorities managing the Cohesion Policy programmes to use the EIF or another financial institution as a holding fund. The holding fund in turn will draw in experienced financial intermediaries to on-lend to businesses with EU-funded programmes providing capital.

*(Indicatively, Lithuania plans to allocate close to €80 million to such a holding fund.)*

Improving access to finance is a priority area of the renewed Lisbon agenda in an effort to increase the availability of capital in Europe for new business

formation and development. Past experience has shown that this is an area where the programme authorities would like to do more, but they lack both expertise and access to risk capital.

JEREMIE, by creating a framework for cooperation with the specialised financial institutions – the EIF and EIB, as well as other international financial institutions – is designed to help to overcome these difficulties.

### **Finally, how can we guarantee the effectiveness of EU Cohesion policy?**

The efficiency and effectiveness of EU Cohesion Policy depends in large part on delivering through multi-level governance, involving a large number of partners at vertical (*European Commission, Member States, regions, cities*) and horizontal (*business, trade unions, NGOs, etc.*) levels. It is a potent lever to push forward economic modernisation in the EU by mobilizing local and regional growth assets across the EU. And it concentrates its resources in those areas which enable Europe to compete globally. As such it is a policy which is anchored in each European territory.

The multi-level governance approach of Cohesion Policy brings greater efficiency and growth for two reasons.

First because of subsidiarity gains – investment is implemented by local and regional authorities who know best their constituencies and their needs, and who are more sensitive to local growth factors than central governments can be.

Secondly, economic development today is dependent on the complex co-ordination of different activities such as financial engineering, public private partnerships or research consortia. This cannot be managed efficiently from remote capitals. It requires geographical proximity to institutions, authorities, capital, research or labour. Only then can governance put in motion key drivers of economic growth – involvement of private capital, clustering and innovation.

Regions have become the primary spatial units where knowledge is transferred, local innovation systems are built, and where the competition to attract investments takes place.

**To conclude, I would like to emphasise that successful implementation of the Cohesion Policy programmes in Lithuania and elsewhere in the EU is of utmost importance from the point of view of reaching the goals of the Lisbon strategy.**

It is important to exploit under-utilised economic resources in all territories by building capacities and creating competitive advantages. The policies we put in place must ensure that all Member States and regions have a chance to prepare and implement tailor-made strategies for their development needs and to find their paths allowing for sustainable growth and more and better jobs.

Efficient utilisation of the available instruments and commitment to the goals of the Lisbon strategy can help us secure a prosperous, fair and environmentally sustainable future for Europe. This can ensure that our economies are well positioned to take advantage of the opportunities offered by globalisation, also putting Europe in a strong position to cope with the demographic changes ahead of us.

Dear Minister,

Ladies and Gentlemen,

Thank you for your attention.