

Friends of Smart Specialisation background note to the request of the German Presidency to the Committee of the Regions

'The role of the EU's cohesion policy with respect to intelligent and innovative economic change in the regions against the backdrop of the coronavirus crisis'

10th September 2020

Context

The German Presidency of the Council of the EU (2nd semester 2020) has requested that the European Committee of the Regions provides insights into how Cohesion policy could help overcome the economic crisis resulting from the ongoing pandemic and promote growth through innovation and economic change. Germany is a federal state in which the 'Länder' play an important role in many policy domains and they have proven to be an indispensable layer in dealing with the Covid19 crisis. The request of the German Presidency is highly significant for the present shift in the narrative on the future of Europe towards a new geo-political role as leader in the climate transition and the adoption of a new growth model with the Green Deal. This entails a reshuffling of the policy instrument toolkit of the Union.

Therefore, this request indicates the Presidency's interest in seeing the largest investment programme of the European Union fulfilling its potential as a recovery plan and the transformation of European economies. The orientation of this question towards '*intelligent and innovative economic change*' is an invitation to rethink the role of Cohesion policy with a view of making it more effective. FoSS¹ identifies **the introduction and development of smart specialisation strategies as the main engine for intelligent and innovative economic change in the regions.**

As Europe faces up to the coronavirus crisis, it is clear that all regions must develop comprehensive transition strategies both to deal with the short-term impacts of the crisis and to develop longer term strategies based on the EU's Green Deal and Digital Strategies. Smart specialisation provides a methodology for the development of comprehensive strategies based on both the development of effective regional innovation ecosystems which can be joined up along value chains by enhanced collaboration with other regions. This message has been promoted by the Committee of the Regions in many opinions² and the CoR publication on 'Regional Innovation Ecosystems'.³ However, the potential of smart specialisation is often diminished by a lack of political will to drive the smart specialisation concept forward and provide the capacity at the regional level to both develop, implement and monitor smart specialisation strategies. This is where the Committee of the Regions can play a key advocacy role as an intermediary between the EU and national levels and the city and region level.

¹ Friends of Smart Specialisation (FoSS), an independent, Brussels-based, expert group. This paper authored by Jan Larosse, Dimitri Corpakis, Richard Tuffs. FoSS has a mailing list which can be joined by contacting authors listed at the end of the paper.

² For example see <https://cor.europa.eu/en/news/Pages/Regions-and-cities-call-for-a-new-Smart-Specialisation-2-0-built-on-interregional-cooperation.aspx>

³ Committee of the Regions (2016) 'Regional Innovation Ecosystems – Learning from the EU's cities and regions'

FoSS has already participated in the relevant CoR consultation⁴ via a questionnaire response (see Annex for FoSS response). Because this input was distributed over 16 (partly overlapping) questions, this short note presents an overview of a proposed framework for accelerating the transition of Cohesion policy towards a European investment programme for place-based transformation in and across regions. In previous policy papers,⁵ FoSS has made the case for mainstreaming smart specialisation across a wide range of policies and not just restricted to Cohesion policy. Thus, the mainstreaming of smart specialisation in Cohesion policy itself (beyond the relevant conditionality for ERDF) is also part of our analysis of the **role of smart specialisation as a comprehensive, federative policy for European transformation, based on place-based capabilities.**

Cohesion policy has a track record in dealing with territorial tensions inside the European Union, as a consequence of the Europeanisation of economic policy with the Single Market. It is a remarkable European policy invention reconciling competitiveness with solidarity through a redistribution mechanism supporting poorer regions narrow their growth disparities. Over time, these transfers have been more and more linked to European thematic priorities such as innovation and sustainability. This has forced Cohesion policy to evolve towards a model more influenced by dominant European trends and thereby handling better territorial diversity in the European Union. Smart specialisation addresses this diversity as a positive force, with innovation capitalising on differentiation with a tailored, targeted and place-based approach. But this evolution towards more targeted approaches for economic change is hampered by a lock-in to the simple redistribution logic and the related balance of interests.

The shock of the Corona crisis is a wake-up call for the preservation of a modern Cohesion policy that acknowledges the territorial dimension of far reaching economic change. The resilience of local communities, regions, countries, and the world as a whole is linked to the capacity of territories to adapt, according to the scale of the common response needed. **The concept of ‘strategic autonomy’ therefore is becoming a new reference for rethinking the interdependence of territories at these different scale levels when resilience to shocks is at the centre of concern.** *Strategic autonomy* recognises the need of territories to maximise control over their own future in adaptation processes in this interdependent world. Smart specialisation can strike the right balance between international interdependence and autonomy through the mutual recognition of unique strengths and capabilities of regions.⁶

Cohesion policy and smart specialisation

Smart specialisation has its origins in research and innovation policy and the Lisbon Strategy. To ensure a more efficient use and direction of public R&D across the EU, the Expert Group ‘Knowledge for Growth’ working for Commissioner Potočník⁷ developed the concept of smart specialisation, intended to differentiate R&D investments for new technologies of the Member States in distinctive competitive clusters. This involved a new bottom-up coordination principle not only to avoid unnecessary duplications and fragmentation in public R&D in the European Research Area but also to direct them to future-oriented, growth-driving applications in different sectors. In contrast with a traditional top-down industrial policy, a novel bottom-up governance approach was introduced with the so-called ‘entrepreneurial discovery process’ (EDP). Thanks to its integration in Cohesion policy (2014-20) with the aim of reinforcing the regional innovation systems approach, smart specialisation strategy (S3) evolved further to a real place-based innovation and industrial policy. The new European industrial

⁴ <https://cor.europa.eu/en/events/Pages/coter-sc-cohesion-policy-innovative-change-vs-backdrop-covid-crisis.aspx>

⁵ <http://www.efiscentre.eu/portfolio-item/friends-of-smart-specialisation/>

⁶ In this context we refer to regions as sub-national entities. But in a broader perspective the strategic priority given by the EU to sustainability as new growth model, can be considered to be a claim for smart specialisation in this domain at the level of the world economy.

⁷ Between 2004 and 2009. See <https://www.kowi.de/Portaldata/2/Resources/fp/report-knowledge-for-growth.pdf>

policy for the re-industrialisation of Europe adopted this regional dimension under Commissioner Bienkowska⁸ (a former Minister for Regional Policy in Poland). The Vanguard Initiative⁹ (for New Growth through Smart Specialisation) organised a network of regions with industrial ambitions to advocate smart specialisation pilot projects for co-investment in close-to-market test and demonstration facilities for new value chains. As a result, DG REGIO, with the support of the S3 Platform and other European Commission DGs launched Thematic S3 partnerships, in particular the S3 Thematic Platform for Industrial Modernisation.¹⁰

Although smart specialisation strategies have not been strictly speaking an exclusive initiative of Cohesion policy, institutional practice imposed on regions to submit S3 strategies to the Commission for approval as an ex-ante conditionality for accessing ERDF money under the Research and Innovation thematic objective made S3 appear a regulatory formality, with the subsequent ERDF money as a 'prize'. Nevertheless, many regions took the challenge seriously and worked on S3 as a lever for modernising their R&I system and their development strategy. Therefore, the creation of 120 of such strategies has been an enormous European policy experiment, making S3 the only well-established European framework for transformation policies, anchored around key elements for the modernisation of regional innovation systems, coupled with a stakeholder-based governance mechanism for priority-setting in future growth areas.

As we write (August 2020) **a second generation of S3 is being prepared**, again in the context of the ERDF, this time being presented as an 'enabling condition'¹¹ for effective investments in PO1 'Smart Europe'. DG REGIO is leading the implementation of S3 at the level of the EC. Therefore, the first responsibility to prepare smart specialisation strategies for innovative economic change in perspective of the recovery and the new growth strategy falls to further directives for S3 under ERDF. But this can no longer be focused on just spending European funding more wisely. The next generation of S3 can and should be quickly upgraded to 'sustainable smart specialisation strategies', or S4,¹² spearheading regional and national transformation strategies (expressed in the context of the forthcoming recovery plans). These transformation strategies should be supported by a broad policy mix, but with S4 at the core for better targeting innovation policy for structural change.

Dynamising the role of Cohesion policy for innovative economic change therefore goes together with mainstreaming smart specialisation (the most important available instrument for economic change at the EU level at the moment), first within the full Cohesion policy domain and then between cohesion and other European and national and regional policies with a transformation potential. By doing this, Cohesion policy can retain and expand on its integrative role as the next two points illustrate.

First, within the full cohesion policy domain 'smart specialisation strategies for sustainability' would be connected to all major funds, in particular ESF+. It is inconceivable to have a targeted approach for research and innovation without a complementary education and training strategy. Dedicated vocational centres already are on the agenda,¹³ but there is no systematic integration of a policy mix for innovative economic change as long as operational programmes are functioning in 'different worlds'. Sustainability would not be a separate objective but rather a central one present within the

⁸ Elżbieta Bienkowska (2014-2019, under the Juncker Commission). See 'For a European Industrial renaissance', 22-1-2014. (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014DC0014&from=ET>)

⁹ <https://www.s3vanguardinitiative.eu/>

¹⁰ <https://s3platform.jrc.ec.europa.eu/industrial-modernisation>

¹¹ Cohesion Policy Legislative Package 2021-2027 - Presidency report, annex IV (<https://data.consilium.europa.eu/doc/document/ST-15428-2018-INIT/en/pdf>)

¹² See 'Place-based innovation for sustainability, Philip McCann and Luc Soete, April 2020, report as outcome of the Expert Group 'Linking Smart Specialisation and mission-oriented policy for sustainable development', at the initiative of DG JRC.

¹³ Centres of Vocational Excellence https://eacea.ec.europa.eu/erasmus-plus/actions/centres-of-vocational-excellence_en

full range for a strategic streamlining of policies and instruments for new growth. S4 therefore would become an integrative framework for a full transformation investment strategy.

To support fully such an 'S4 approach' for systemic changes throughout cohesion policy, the present S3's must be freed from their inward-looking focus on development, as if individual regions could succeed a transition on their own. Closing the gap with 'developed' regions has less relevance at a time when all regions have to develop transition strategies and action plans. Some developed regions might be more handicapped by lock-ins (e.g. automotive and aeronautic industries) compared to some lagging regions that may be able to leap-frog into new growth sectors. But none of them can do it alone. Therefore, **European interregional cooperation for innovative economic change becomes the most important added value of Cohesion policy.** This goes far beyond 'policy learning' or searching for joint activities in 'common' thematic specialisation domains. S3 cooperation around similar themes, although useful, lacks the more ambitious target of exploiting **complementarity assets in value chains.** The instruments for such co-investments lack. The future Interregional Innovation Investment (I3) initiative¹⁴ to be launched as an experiment, with an initial budget of €500 million will be helpful to launch a new pathway but will need to mobilise funding from other sources to be effective.

Secondly, Cohesion policy as the most important investment fund for economic change in the EU can play a pivotal role in the overall European policy mix for transformation. Therefore, the innovation policy framework of Horizon Europe¹⁵ and of Cohesion policy for innovative economic change must be integrated. This will require not only that Cohesion policy supports 'missions'¹⁶ but also that research policy steps back from place-neutral policy to recognise that territories make a difference for achieving excellence and relevance (triple/quadruple helix) and provide research and innovation infrastructure at user proximity. The S3 partnerships developed under Cohesion policy can become a strong layer in trans-European transformation strategies such as digital transformation (with regional European Digital Innovation Hubs) and the Strategic Alliances across European industrial eco-systems. Therefore, these policy domains need to develop **a joint narrative on the European approach to the transformation challenges and a joint instrument mix.** This role of Cohesion policy should be recognised in the European Semester, by adopting the enabling condition of S4 as part of the assessment of national modernisation strategies and recovery plans.¹⁷

Smart specialisation strategies are strategies primarily directed at **public policy at regional, national and European level for spending efficiently and effectively the budgets for research, innovation and industrial policies.** Therefore, they need a future-orientation that can only be legitimised by stakeholder engagement, in particular, from the entrepreneurial actors that have the capacity to both assess opportunities for the region and implement them. Smart specialisation helps to prioritise scarce budget means with **a multi-level risk and opportunity sharing approach.**

The basic ingredients of such S3 – a prioritisation approach, EDP, better support capacity – have been put in place in many regions in the current programming period 2014-2020. The key policy message is that **smart specialisation is a joint discovery of forward-looking comparative advantages as a continuous experimentation and demonstration process.** The monitoring of such a process requires much lighter but more intelligent administration (putting responsibility at the actor level).

In the new programming period the assessment of the seven fulfilment criteria of the 'enabling condition'¹⁸ for an effective S3 will not be limited to an initial stage of strategy design but is now part

¹⁴ https://ec.europa.eu/regional_policy/en/newsroom/consultations/interregional-innovation/

¹⁵ https://ec.europa.eu/info/horizon-europe-next-research-and-innovation-framework-programme_en

¹⁶ https://ec.europa.eu/info/horizon-europe-next-research-and-innovation-framework-programme/missions-horizon-europe_en

¹⁷ See 'The European Semester and Smart Specialisation' (FoSS), <http://www.efiscentre.eu/portfolio-item/friends-of-smart-specialisation/>

¹⁸ Cohesion Policy Legislative Package 2021-2027 - Presidency report, annex IV (<https://data.consilium.europa.eu/doc/document/ST-15428-2018-INIT/en/pdf>): Smart specialisation strategy(ies) shall be supported by: 1. Analysis of challenges including bottlenecks for

of the continuous process of adapting and learning in an effective innovation governance for the twin transitions. The role of the S3 Platform as a knowledge broker between the regions, between the different DGs and within the EU Semester to increase strategic governance capacity for place-based 'intelligent and innovative economic change' becomes a critical factor for success.

With the present crisis, the need to **speed-up the transition of Cohesion policy** (and the whole of the multi-level governance for transformation) is more urgent than ever. But path dependency¹⁹ has hampered much change in the design of the Cohesion policy framework compared to the previous period. So new policy concepts such as 'strategic autonomy' for restructuring international value chains (including reshoring) will test the resilience of our institutions to adapt to a changing economic reality. The change must come from an interplay between change agents at the level of strategic framework conditions and bottom-up change agents. The first test is the design and implementation of the new generation of S3s or S4s.

Smart Specialisation Strategies 2.0

A prerequisite of a better harmonised development (or adaptation) of smart specialisation strategies for innovative economic change in the EU is the **recognition of their role in the transition to the new growth model - the Green Deal - as S4**. Ownership of smart specialisation as a policy approach should be widely shared, but most likely its visible stature in the European Semester (and the Recovery Plans) will be a determining factor. But to prepare the present S3 2.0 for their role as motor of innovative economic change through cohesion policy, FoSS recommend **five dynamic guidelines**, based on policy learning from the first generation S3.

1. From an inward-looking rehabilitation logic of the individual region to outward looking participation in the green and digital transition

Until now, S3 have been mainly focussed on internal projects. The full implementation of an investment logic for structural change in partnerships instead of an absorption logic of transfers to compensate structural problems requires the full mobilisation for European missions with place-based solutions. The **mutual positioning of ambitions in international value chains** is a basic mechanism for mutually identifying smart specialisations as smart complementarities. But it is also a **systemic transformation to make the economy more sustainable and resilient** as, for example, circular economies are being developed with varying scales in functional regions that demand **partnerships and the articulation of competitive, unique solutions that can be traded**.²⁰ Therefore, more attention should be placed in the early stages of the Operational Programme design²¹ on seeking participation in relevant S3 partnerships that focus on common challenges and opportunities and provide economies of scale and access to knowledge and markets.

2. From programme design and implementation towards strategic capacity building

This reinvigorated transformation logic will need more technical assistance for strategic capacity building. This is not limited to analytical capacity for preparing policy documents but is foremost a capacity for process building (discovery) that needs training in transition management. In the

innovation diffusion 2. Existence of competent regional / national institution or body, responsible for the management of the smart specialisation strategy 3. Monitoring and evaluation tools to measure performance towards the objectives of the strategy 4. Functioning of stakeholder co-operation ("entrepreneurial discovery process") 5. Actions necessary to improve national or regional research and innovation systems, where relevant 6. Where relevant, actions to support industrial transition 7. Measures for internationalisation.

¹⁹ See Asheim et al. (2019) *Advanced Introduction to Regional Innovation Systems*, Edward Elgar, Cheltenham

²⁰ 'High-tech hot spots may be better addressed at larger regional level - including cross-border perspectives. National programmes provide important strategic frameworks and resources for major technology shifts and large investments.' Page 7 in European Commission Pilot Action 'Regions in Industrial Transition' Capitalisation Phase Final Report <https://s3platform.irc.ec.europa.eu/-/regions-in-industrial-transition-pilot-action-capitalisation-phase?inheritRedirect=true>

²¹ In the current programming period, it was often the case that funding was already allocated before these partnerships were formed.

perspective of the Covid-19 challenge, capacity building for building resilience and regional 'strategic autonomy', through making choices of priorities will be more necessary. This will not only be a capacity that is focussed on its own territory, but, in an interdependent world, a strategic capacity to connect. This will be probably the most challenging evolution in governance: to add long-term strategic capacity to programme management.²²

3. From occasional stakeholder consultations (mostly at the start) towards a continuous EDP (including implementation and adaptation)

The EDP introduces a democratic governance approach with community engagement, but it is still in an experimental stage. In most cases it has practised stakeholder consultations for the identification of priorities, but afterwards the governance structure has been less active. Could it be that one of the reasons is that programme assessment is an ex-post exercise that has no relevance for fine-tuning and adapting the priorities because of the time-gap? Therefore, the precondition for a continuous EDP is setting-up a system of *diagnostic monitoring* on the main investment milestones, with more relevant indicators than output indicators such as GDP.²³

4. From territorial approaches mainly for lagging regions to place-based innovation strategy for all regions

The territorial dimension or regional eco-systems is a determining factor for the success of innovation in **all** places. In more mature eco-systems this is taken for granted because the eco-systems often took a long time to develop and their productivity contribution is 'background' for the individual research or economic performance. Cluster policies capitalise on spillovers from 'foreign' R&D on knowledge productivity.²⁴

The development and adaptation of local ecosystems to new needs for transformation through effective policy mixes (from education to infrastructures) is at the centre of all regional strategies. Sharing this regional eco-system approach at the European level through Cohesion policy will increase the importance of smart specialisation in the provision of more specialised education and training or research and test infrastructures across the EU. All regions have unique territorial, historic and strategic features that can play a role in the 'European Research Area' with their smart specialisations (including the sharing of specialised innovation infrastructures).²⁵ **The cohesion dimension of the new ERA is to leave no-one behind and to promote the integration of cohesion and competition in interregional cooperation for European missions.**

²² The challenge of strategic management has been pointed out in a recent OECD paper 'Strengthening Governance of EU Funds under Cohesion policy', OECD 2020

²³ 'An enhanced S3 will require significantly enhanced and continuous EDP throughout its production and implementation: EDP in each region must be reinforced to embrace the enlarged vision for S3 as change-maker, involving broader ranges of stakeholders – including those actors not usually targeted by innovation policy. A continuous EDP should support a 'place-based' understanding of industrial transition challenges, the co-creation of enhanced S3 priorities and play a key role in S3 implementation'. Page 9 in European Commission Pilot Action 'Regions in Industrial Transition' Capitalisation Phase Final Report <https://s3platform.jrc.ec.europa.eu/-/regions-in-industrial-transition-pilot-action-capitalisation-phase?inheritRedirect=true>

²⁴ For many companies successful investment in own R&D is an absorption capacity, often to capture tacit knowledge through collaborations in clusters. See

https://www.researchgate.net/profile/Sherwat_Ibrahim/publication/228796741_Knowledge_spillover_and_innovation_in_technological_clusters/links/545a00ce0cf2bccc4912f580.pdf .

²⁵ See FoSS policy paper 'The ERA and smart specialisation' for the consultation on the new Communication for the European Research Area <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12495-Communication-on-the-future-of-research-and-innovation-and-the-European-Research-Area/F540621>

5. From Cohesion as ‘another’ programme to an integrating role of Cohesion policy for green and digital transformation

Regional policy is close to citizens, companies, universities and other stakeholders, for real implementation of innovative economic change in real innovation systems, with S3.²⁶ Therefore, it has a vocation to play a dynamic role in the integration of all necessary conditions in the tailored policy mix for S3 objectives. Regions and cities are a kind of living lab and provide an infrastructure that is the locus for such policy integration.

But there is a wide divide between regions that have no R&I policy of their own and depend for most of the R&I financing on the ERDF, and regions that only have little ERDF and consider this as an ‘extra’ that should not influence their policy. Therefore, the Europeanisation of regional policy through smart specialisation has to tackle the full range of funding instruments, not only Structural Funds (ESIF) but also other European funds and national and regional funds. The assessment of S4 (across all regions) must consider how ERDF is integrated in all necessary instruments for a targeted, place-based, and holistic transformation strategy. **A new role for cohesion policy by mainstreaming smart specialisation**

What can be the contribution of Cohesion policy for innovative economic change? Cohesion policy is a distinct European Policy that embodies European values of solidarity with the aim of advancing jointly to future growth. It is gradually implementing the ‘place-based’ reality of multi-level governance in Europe through the growing Europeanisation of regional policies. Therefore, it has an important role to play in promoting the new growth model of the Green Deal. Against the backdrop of the Corona crisis there is a questioning of the effectiveness of our major investment fund for building resilience in a fast-changing world. Slowly – too slowly – the Cohesion programme logic has been converted to a more thematic focus in strategic areas (now five general programme objectives). But this has reached its limits. Innovation and economic transformation (smart growth) are separated from sustainability (green and carbon free Europe, (implementing the Paris Agreement) as ‘equal’ objectives.²⁷ There is a lack of strategic prioritisation and integration at the European level. Therefore, it is not easy to accomplish this integration at regional level where these general themes are also mirrored in the regional strategies. A shift from the thematic to the strategic approach should be made.

Smart specialisation strategies for sustainability are the best way forward to intelligent and innovative economic change. Therefore, it is important to provide the best starting position for this approach in the next programming period. Cohesion policy can and must help Europe achieve resilience and growth.

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²⁶ The Eurobarometer Flash survey (2019) on citizens’ awareness and perception of Regional Policy shows that the vast majority of Europeans (81%) believe EU-funded projects have a positive impact on their life – when they are actually aware of those projects (only 40%). https://ec.europa.eu/regional_policy/en/information/publications/studies/2019/eurobarometer-citizens-awareness-and-perception-of-eu-regional-policy

²⁷ https://ec.europa.eu/regional_policy/en/2021_2027/. The two most important objectives for ERDF are: **Smarter Europe**, through innovation, digitisation, economic transformation and support to small and medium-sized businesses; a **Greener, carbon free Europe**, implementing the Paris Agreement and investing in energy transition, renewables and the fight against climate change

Annex 1

FoSS Response to the CoR consultation – August 2020

"The role of the EU's cohesion policy with respect to intelligent and innovative economic change in the regions against the backdrop of the coronavirus crisis"

Rapporteur: Mr Michiel RIJSBERMAN (NL/ Renew Europe)

Question	Response
What role can cohesion policy play in intelligent and innovative economic change in the regions against the backdrop of the coronavirus crisis?	<p>Cohesion policy can be the link between a top-down directionality provided by the European Green Deal and strategic autonomy at the European scale, and the bottom-up discovery and exploitation of opportunities and adaptation to change at the local level. Cities and regions are close to the needs of citizens and innovation and economic actors in times of crisis, and a source of resilience and innovative solutions. Therefore, there needs to be a stronger recognition of the role of regions and cities as key change actors in multi-level governance, in the European Semester, the new European Research Area and other settings for European strategy development and implementation.</p> <p>But developing individual regional capacity is not enough. Cohesion policy (and other supporting policies) must give much more support to interregional cooperation to scale-up solutions and complement the industrial policy alliances in key domains (batteries, hydrogen, etc.). The ability of Cohesion Policy to work at different levels of scale is a key asset for local and European development.</p> <p>Major Cohesion policy reforms in the recent past (2014-20) have stressed the important role of place-based policies for a more intelligent, growth-oriented approach (Barca, 2009).²⁸ Furthermore, the introduction of Smart Specialisation Strategies (RIS3, S3, Foray et al.(2007, 2009, 2011)²⁹ as a key ex-ante conditionality for supporting research and innovation policies through the European Regional Development Fund (ERDF) have significantly modified the standards for intelligent growth in a constantly changing international environment that has added more development challenges to European regions. At present, more than 120 S3 strategies have been deployed all over Europe, substantially improving the innovation and economic potential of European regions. However, there seems to be a growing difficulty for successful implementation of the strategies, due to governance and structural deficiencies but also to internal contradictions of EU policies, especially in the innovation domain.</p> <p>The economic repercussions of the continuing Coronavirus pandemic will be felt for years and will not be mitigated (at least partly) unless new intelligent forms of business reaction are introduced. European businesses need new organisational schemes to counter revenue loss and imagine new intelligent ways to re-capture lost ground. With this in mind, an enhanced Smart Specialisation strategy approach at regional level is now more than ever needed. Regions need to rethink their established development visions in the context of the 'new normal', support their businesses to re-organise,</p>

²⁸ Fabrizio Barca, An Agenda for a Reformed Cohesion Policy, A place-based approach to meeting European Union challenges and expectations, Independent Report prepared at the request of Danuta Hübner, Commissioner for Regional Policy, April 2009

²⁹ Foray, D., David, P. and Hall, B. (2011): Smart Specialisation: From academic idea to political instrument, the surprising career of a concept and the difficulties involved in its implementation, MTEI Working Paper 2011-001, EPFL, Lausanne.

	<p>imagine new ways for responding and re-design their development model, in the context of the Green and Digital transitions.</p> <p>Additional significant elements in these transitions will be the notions of ‘strategic autonomy’ and ‘resilience’, where Europe must ensure a minimum of strategic independence in the production of goods and services that are considered central to the survival and the well-being of its populations (establishing the minimum required for the standards of the so-called ‘Foundational economy’).³⁰ Achieving autonomy and resilience will have to be the subject of related debates in the context of a renewed Entrepreneurial Discovery Process (EDP), a key feature of Smart Specialisation Strategies, that will have to integrate better Quadruple Helix³¹ structures (collaboration between academia, industry, government and civil society).</p>
<p>Can you give a brief description of your (foreseen) regional strategy for economic growth?</p>	<p>Redesigning an already established S3 strategy in the context of the post-COVID recovery will be a delicate and complex operation. But as it does not start from scratch, it can be supported by the previous adopted models and established partnerships. However, these growth models need to be rethought and redesigned taking into account the new post-pandemic conditions and the Green Deal. Three stages will be necessary.</p> <p>Firstly, regional (or national authorities where applicable) must reconsider their current vision for local growth, considering the disruptions and limitations induced by the pandemic but also the opportunities that the new situation has created (sometimes unexpectedly). This new vision outlined in the S3 will be developed through a genuine EDP (that will no doubt include new stakeholders e.g. health sector) that will revise and redefine objectives in relation to national recovery plans and the European objectives developed through the Green Deal and European industrial policy.</p> <p>Secondly, the S3 strategy must adapt and redesign its operational deployment. To do this, it is essential to identify through a SWOT analysis the weak points of its present implementation and re-calibrate the present strengths, to make them even more efficient for the green and digital transformations, with combined investment in ambitious projects. Interregional partnerships will align with EU strategic alliances in Horizon Europe, industrial policy, EIT, etc.).</p> <p>Adapting current implementation mechanisms to present and future constraints would be also important (in particular for interregional co-investment in new value-chains). Finally, a revised and redesigned evaluation and monitoring scheme of strategic recovery projects, and their delivery through cluster networks and partnerships needs to be introduced, in order to bring the necessary adjustments, even in the course of current implementation.</p>
<p>What are the main challenges for intelligent and innovative</p>	<p>One of the main challenges is the loss of capacity at the regional level due to the loss of resources not just over the COVID period but also over a ten-year period of austerity. This means that resources need to be transferred to the local and regional level.</p>

³⁰ Foundational Economy: the infrastructure of everyday life, FE Collective - 2018 - Manchester University Press

³¹ Carayannis E.G., Campbell D.F.J. (2012) Mode 3 Knowledge Production in Quadruple Helix Innovation Systems. In: Mode 3 Knowledge Production in Quadruple Helix Innovation Systems. Springer Briefs in Business, vol 7. Springer, New York, NY. https://doi.org/10.1007/978-1-4614-2062-0_1

<p>economic change post-COVID?</p>	<p>However, it also means that regional efficiency will need to be enhanced which requires regions to innovate at all levels and be open to learning and the sharing of knowledge.</p> <p>Regions will need to support economic sectors which have suffered under COVID. These include creative and cultural industries, hospitality and entertainment, tourism, transport, etc. These sectors will need support to move towards new business models in both the short-term and the medium-term. The decline in some sectors and changing working behaviour may also mean the need to revise and adapt city spatial plans to reflect the reduced need for city centre office space, and shops coupled to a re-organisation of public transport (mode, frequency and funding) which in cities will mean more emphasis on walking and cycling. More emphasis will be needed in developing digital skills which will be an integral part of a resilience strategy which will include a stronger focus on supporting a ‘foundational’ economy.</p> <p>Despite the economic shocks and the need to protect employment, regions will need to continue to support a greener economy and one where the digital component will be become more important. Thus, there may be a tension between short-term support and a longer-term transformational strategy. This is where a transparent smart specialisation strategy developed through a wide partnership approach will be very necessary.</p> <p>The current economic crisis has seen a combined supply and demand shock that has disrupted value chains. This puts heightened demands on coordination capacity not only to simply restore these activities (possibly at a lower level), but at the same time trying to give them a more robust and future-proof design.</p> <p>Certain supply chains have been disrupted and will need to be re-developed often in terms of shorter and more local supply chains. More support can be given through EU interregional programmes which should support the acceleration of innovation and the transfer of research; encourage close to market investment bringing research results to market; develop pipelines of interregional investments and explore complementarities between different EU, national and regional funding. The search for a balance between strategic autonomy (including the move towards circularity) and international competitiveness in restructuring the international value chains will be a strategic challenge that can only be managed by mainstreaming smart specialisation strategy.</p>
<p>How to combine cohesion policy with other (national and regional) instruments, for economic change?</p>	<p>It is essential to develop a holistic, integrative policy across the region and widen the approach from purely cohesion policy e.g. adding in skills (higher and professional education), health and well-being, mobility, innovation and start-ups, industrial strategies involving clusters and SMEs and fiscal policies.</p> <p>A future-proof cohesion policy should be able to integrate the different strands of support (ERDF, ESF+, ...) for shared overall objectives (such as those defined in the RIS3). But also, to combine resources with other investment programmes (e.g. Horizon Europe) and to integrate fully with other national programmes to serve the national and European priorities. Therefore, cohesion and competitiveness must be better connected in a common narrative for the Future of Europe and converge efforts for a pipeline of big projects with a European dimension.</p>
<p>What strategies and strategic approaches, such</p>	<p>There is a clear need to enhance place-based strategies that are key to developing regional innovation ecosystems. Within this approach, the adoption of smart specialisation will be essential. Smart specialisation has become a powerful feature of</p>

<p>as smart specialisation, can help to address challenges in the short and long term?</p>	<p>current regional innovation and industrial policies in Europe. It is through effective smart specialisation strategies for each region in Europe that it is possible to combine a top down direction – green and digital transition – along with a focus on the competitive capacities of each region. Adopting smart specialisation in the governance of industrial strategy makes a fundamental difference for the success of transformation policies by:</p> <ol style="list-style-type: none"> 1. anchoring industrial policy in real places and real ecosystems; 2. mobilising productivity increasing investments linked to international value chains; 3. co-financing innovation and transformation efforts by sourcing EU, national and regional funding; 4. to the maximum extent possible, reshoring strategic industrial activities; 5. promoting mutually beneficial economic cooperation between regions. <p>However, given the new post-COVID paradigm, smart specialisation will also need to address a shift to a more sustainable economy (e.g. UN SDGs), the protection and enhancement of biodiversity and the shift to a digital economy.</p>
<p>How can the short-term 'cohesion' measures such as REACT EU be combined with the long-term objectives of cohesion policy for the next programming period?</p>	<p>In order to favour consistency between short-term and long-term objectives consistent national investment strategies have to be promoted, such as smart specialisation strategies. These exist already in many regions for the programming period 2014-2020 (REACT EU) and will be revised for fine-tuning and adapting priorities to the crisis impact for the next period and beyond.</p>
<p>What are the lessons learnt from how Member States implement measures for innovative and intelligent economic change?</p>	<p>Place-based innovation is often ignored in favour of location-blind sectoral policies that are often implemented without a clear strategy. In many Member States there is a centralisation of decision-making which often ignores place-based realities and favours metropolitan or capital city region development and lacks an overall vision for local communities. As one smart specialisation expert commented privately to us recently this often engenders <i>'...governments rushing in with flashy consultants, anecdotal projects or disparate ministries and administrative layers competing for funds in their recovery plans proposals'</i>.</p>
<p>What do you think of the proposed timeframe (2 years) for spending 70% of the Recovery and Resilience Facility? Is it appropriate to encourage quick spending?</p>	<p>The economic effect of the RRF is not only in the effective spending at the moment when both demand and supply sides of national economies are severely contracting resulting in substantial loss in growth, but even more in its announcement effect. The 'promise' of important public spending will trigger more confidence in the future. The direction of the public investments should, therefore, trigger associated private investments in particular for green and digital transitions.</p> <p>Therefore, it is important to make sure that the investment strategies are well founded (in clear EDP-based smart specialisation strategies) to avoid throwing money at the economy without a clear purpose. Two years is noticeably short to develop big projects. Therefore, it could be envisaged to prolong the submission period for well-founded</p>

	recovery plans over a longer time period. But the promise to boost the economy with a strong impulse (big projects) has to remain clear for the public.
How to accelerate and facilitate procedures in Member States for a swift deployment of the recovery support?	In general, the strategic capacity to act more quickly for recovery is linked to the reinforcement of governance for industrial policy. The development of big strategic projects requires a higher degree of policy coordination and political leadership that can only be based on a continual process of EDP for building consensus on future growth opportunities.
What are the right conditions for the rapid implementation of projects that foster economic change? Could you point key challenges that may slow such implementation?	The design and implementation of big projects for recovery and transition goes together with a paradigm shift in the growth model (Green Deal) at all policy levels, reinforcing each other in 'co-investing'. The continuing fragmentation of European policies for innovation and fragmentation (on top of national fragmentation) slows down the transition to multi-level governance and co-investment in 'big projects'. The notion of 'strategic autonomy' can be an important condition for accelerating consensus on such strategic projects (such as the green battery).
Which elements of short-term cohesion measures do we want to keep in the future?	There must be some flexibility in the system to respond rapidly to a crisis situation. There should be an underlying capacity at the regional and local level to act and also the ability to allocate a limited amount of resources rapidly with fewer or reduced administrative constraints. Capacity-building therefore is a continuous concern for cohesion policy, to guarantee the 'strategic autonomy' of all regions.
How do regions feel about the proposed top-down approach of emergency measures and how should we go back to a 'normal' cohesion policy?	There is a need for both a top-down directionality and speed of decision making but tempered by a bottom up input of opportunities available at the regional level. 'Normal' cohesion policy should involve a wide range of stakeholders (quadruple helix) and build in multi-level governance and rules of participation. Cohesion policy plans should not be inward looking but expected to re-position the region within global production networks.
What do you think of the Recovery and Resilience Facility (RRF) allocation key proposed by the Commission?	The ultimate rationale for a European allocation of recovery funds is to compensate for the distortion in the Single Market caused by strong differences in state aid for supporting companies across countries. The allocation key therefore favours low-income countries (low state-aid). This solidarity mechanism was weakened after negotiations to take more account of the size of countries (the absolute level of loss of GDP), increasing the "insurance logic" according to Bruegel (https://www.bruegel.org/2020/07/having-the-cake-how-eu-recovery-fund/). From a cohesion perspective the initial allocation key comes closer to the key economic rationale for solidarity.
How to ensure implementation of	In order to converge cohesion policy with competitiveness and new growth, it is necessary to 'mainstream' place-based innovation, with a thematic focus on

<p>the key cohesion principles and legal framework (e.g. a place-based approach, partnership, thematic concentration, conditionalities) in the short and long term?</p>	<p>sustainability, partnerships for system innovation in value chains, and smart specialisation as an enabling condition. The best condition for this is to implement them in the agenda of the European Semester for modernisation of national economies.</p>
<p>How can PO 1 of the ERDF contribute? Should we shift focus, e.g. on the creation of new value chains?</p>	<p>“PO1, A smarter Europe” (innovative & smart economic transformation) comprises four specific objectives: enhancing R&I capacity and uptake; digitisation; skills for S3, industrial transition and entrepreneurship; and the growth and competitiveness of SMEs. These are wrapped into a smart specialisation strategy and supported by interregional investment. These objectives provide a basis for going beyond simply prioritising innovation investments towards a stronger emphasis on the mechanism of economic transformation that serves broader economic, social, and environmental goals (e.g. the Green Deal).</p> <p>This means that Smart Specialisation strategies need to be broadened beyond R&I with a wider focus on economic, social, and environmental objectives with an increased attention to future resilience. If smart specialisation strategies are to be broadened in such a way then the governance of smart specialisation in all aspects (developing a vision, implementation and continual monitoring) needs to be reinforced with an accountable and transparent body in place which is known to the public (e.g. a dedicated website).</p> <p>Innovation diffusion needs to be accelerated with increased cross-sectoral cooperation and more attention should be given to the role of clusters to accelerate innovation within the region by transferring knowledge efficiently within and between regions supporting adaptation to technological change. The creation of new value chains in priority areas across regions is a clear mission for sustainable and smart growth. Clusters can also play a strong role in developing new value chains and strengthening existing ones through enhanced engagement in interregional innovation supported by investment from PO1.</p>
<p>How to ensure a smooth transition from short- to long-term cohesion policy?</p>	<p>The mission of Cohesion policy as it is enshrined in the Treaties is to provide an efficient counterweight to the development of the Internal Market and thus alleviate discrepancies that may be produced in this process, achieving more social and economic cohesion. Furthermore, territorial cohesion has been since added as another major objective for Cohesion Policy, broadening and completing the range of its objectives.</p> <p>Territorial cohesion has been a ‘silent revolution’ under Cohesion Policy, since, building on a rich academic debate, the Union focused more on what is currently called ‘place-based’ development policies.</p>

	<p>More specifically, Territorial Cohesion³² seeks to:</p> <p>(a) Capitalise on the strengths of each and every territory so that a more balanced and sustainable development takes place in the context of the Union as a whole.</p> <p>(b) Address urban development and manage a better concentration of resources. In particular, a stronger focus on cities where the majority of Europeans will live in the near future. Urban centres are the cradle of innovation and contribute increasingly to national and regional wealth, yet they face growing problems of congestion, environmental pollution, and socio-economic integration.</p> <p>(c) Invent better connectivity between regions, at national and European level. There should be equal access to public services, efficient transport, reliable energy networks and broadband internet throughout the territory.</p> <p>(d) Favour more inter-regional cooperation. Today's global challenges affect everyone so international / inter-regional cooperation is needed more than ever. Territorial cohesion favours this form of cooperation in many and multiple ways.</p> <p>Taken together these objectives set a clear horizon towards a transition to a more long-term cohesion policy. Innovation, of course, provides the fuel and the tools to advance in most of these areas and achieve a longer term macro-economic stability. Smart Specialisation can help promote this process since it provides a real transformational opportunity for regional economies. Territorial cohesion is nothing short of the relative success of interconnected regions (irrespective of national borders) and such a success can happen when the real growth drivers are prioritised for investment taking into account the capabilities and complementarities of regional economies.</p> <p>As stressed earlier on in this text, the expected socio-economic transformation should now happen based on the imperatives of Green and Digital transformations (see the European Green Deal – the new European growth strategy – as well as Europe's digital transformation strategy.³³ Such a transition appears at first as a constraint since it contains from the start many restrictions and pre-conditions; yet, both strategies provide clear directions on the objectives to reach which is in fact helpful for policy-makers since they indicate clearer paths towards future targets to reach. The way, however, to achieve these targets remains the responsibility of the national and regional governments who are expected to adapt their strategies accordingly.</p> <p>While short-term actions would need of course to focus on survival and early recovery measures, longer term strategies would build on an uncertain and complex future. However, learning from crises have always been useful and this could be also the case for longer-term adjusted Cohesion Policy. Cohesion Policy must move from an efficient re-distribution mechanism towards a growth engine for the future. This means that innovation policy articulated by the Smart Specialisation strategy must be much better integrated in all supported dimensions. In addition, S3 should be really mainstreamed across all horizontal transformation policies (e.g. industrial policy, cluster policy, education and training policy).</p>
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³² https://ec.europa.eu/regional_policy/en/policy/what/glossary/t/territorial-cohesion#:~:text=Next-Territorial%20cohesion,clear%20objective%20of%20the%20EU.&text=As%20an%20objective%2C%20territorial%20cohesion,areas%20in%20which%20they%20live.

³³ https://ec.europa.eu/info/publications/communication-shaping-europes-digital-future_en

	<p>Adapting smart specialisation strategies for recovery and for green and digital transition is therefore the key action to smooth transition from short-term recovery to long-term structural change.</p>
<p>Do you think that new measures are necessary to protect the EU budget against irregularities, in particular with regard to ensuring the collection and comparability of information on the final beneficiaries of EU funding for the purposes of control and audit?</p>	<p>The need for spending the support quickly for having economic impact on the mitigation of the crisis entails risks for different kinds of irregularities. An ex-post audit is not effective in avoiding this. The more ‘degrees of freedom’, the higher the risks. Therefore, the upfront strategic assessment of the purpose of the funding, the priority domains and the eligibility criteria for the beneficiaries that can achieve these strategic goals and priorities will make it easier to monitor the correct spending. This is embodied in the process of designing and implementing smart specialisation strategies. The assessment and monitoring of the deployment of this strategy as enabling condition for the recovery plan will therefore also be a warranty for efficient spending.</p>
<p>What added value can interregional co-operation provide for intelligent and innovative economic change in the regions?</p>	<p>Interregional cooperation supports networking, exchanging and transferring experiences, with the aim to find solutions to common challenges. Interregional cooperation is a key requirement for successful smart specialisation strategies that require an international perspective. Interregional cooperation also supports the identification and development of regional stakeholders who provide an outward-looking perspective extending and importing knowledge and learning and contributing to a policy-learning function, important for addressing complex contemporary challenges.</p> <p>Given the increased focus on an EU industrial strategy based on interregional value chains, interregional cooperation is a requirement to increase the efficiency and effectiveness of these chains.</p> <p>This involves departing from the linear model of innovation – from R&D to the market – to a more demand driven and ecosystem approach, anchored in the regions, but deployed in a collaborative way across Europe. Thus, interregional cooperation combines a top-down perspective of EU strategies with a bottom up approach recognising local and regional challenges and opportunities .</p> <p>But bottom up and cooperation projects do not necessarily conform to standard administrative models. They are more organic and require a more flexible approach to policy and funding including a fresh approach to synergies between policies. Development of ‘big projects’ that embody the missions and strategic priorities are a key-driver of transformation. Strong interregional cooperation supports the development of co-investment in big projects which require a new design, combining a regional development perspective with a collaborative one (‘smart complementarity’), combining the development of regional assets with an open approach that facilitates collaboration with European partners.</p>

	Interregional cooperation is also needed to support interregional cluster policy the role that clusters can play as bridges between actors within regions and outside, as channels for business support to SMEs, should be reflected in EU policies.
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