

# Smart specialisation in the European Semester

## Towards multi-level governance for co-investments in green and digital transitions

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### 1. Introduction

The EU is at a historical turning point as an economic and political bloc of countries that seek their common future in a new multipolar world order. The European Commission's 'Next Generation EU'<sup>2</sup> recovery proposal marks the development of a collective will to maintain a geopolitical role for Europe in this new world order as a leader of a faster global response to climate transition.

The recovery of our economies from the Corona shock is a huge challenge for the adaptation of governance structures in the EU because countries and regions are unevenly affected (e.g. aerospace or automotive industries, travel and tourism are often the bedrock of specific regional economies). But the paradigm shift for a new green, digital and resilient growth strategy puts an even higher demand on an appropriate governance involving all stakeholders, ensuring their co-ownership of these strategies. Recovery strategies will require not only a clear overall direction (e.g. the Green Deal) and massive investment (e.g. Next Generation EU) but also a gearing up of institutional capacity in Europe to define clear objectives for local investment and to adapt accordingly the (re)distribution mechanisms for the expenditure of European funds on the path to sustainable growth.

This is a highly political process, within the constraints of the present tri-partite institutional arrangements (Council - Commission – Parliament), where the consensus between the Commission and the Member States is decisive for future directions. But the institutions have also to adapt to the reality of transformations taking place in territories across the EU, with their own ecosystems for innovation and with local economies that are connected with/through international value chains. The rise of the place-based innovation model is exemplified by the rise of smart specialisation strategies and the 'entrepreneurial discovery process' approach to involve regional stakeholders in priority-setting for future growth activities.

Now it is the moment to mobilise fully the potential of smart specialisation as a twin governance approach within the new mission-oriented approach of the Commission for its ambition of climate neutrality by 2050. The following sections will open a discussion on the need for stronger multi-level governance in order to deliver transformational strategies at European, national, and regional levels.

The European Semester is the locus of new economic policy in the EU. At its centre is the national reform programme for restructuring the national economies which is now charged with monitoring recovery and resilience plans.<sup>3</sup> In the European Semester we find a supervision role of the European Commission, in particular for control over areas where it has a strong mandate (such as the Stability Programme) but with an additional role in most other areas via 'recommendations'. This formal role is already combined with a process of policy assessment in partnership (with country visits that have a high visibility) which can be strengthened with technical assistance in the future.<sup>4</sup>

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<sup>1</sup> See <http://www.efiscentre.eu/portfolio-item/friends-of-smart-specialisation>

<sup>2</sup> [https://ec.europa.eu/info/sites/info/files/factsheet\\_1\\_en.pdf](https://ec.europa.eu/info/sites/info/files/factsheet_1_en.pdf)

<sup>3</sup> [https://ec.europa.eu/info/sites/info/files/2020mff\\_covid\\_recovery\\_factsheet.pdf](https://ec.europa.eu/info/sites/info/files/2020mff_covid_recovery_factsheet.pdf)

<sup>4</sup> "Technical support can be requested for the preparation and implementation of the recovery and resilience plans through the Technical Support Instrument." (ibidem)

The experience with smart specialisation strategies (RIS3<sup>5</sup>) as an ‘ex-ante conditionality’ for accessing EU funding is an important element for a revamped European Semester encouraging the reform of economies with the help of Resilience and Recovery Plans. To ensure the effectiveness of European funding and its territorial balance, RIS3 offers a proven and transparent approach. Reform plans will therefore require strong place-based innovation strategies building on structural transformation and on alignment in European value chains. The already positively tested smart specialisation approach can inspire ‘Smart Recovery Plans’ at regional and national level.

## 2. What is lacking in present policy framework for transformation?

In earlier papers<sup>6</sup> the Friends of Smart Specialisation have analysed the Green Deal as a growth strategy that entails such an amount and breadth of investment in so many new markets that it will need the full involvement of all countries and regions (sub-national level). But neither regions nor smart specialisation are identified as important drivers within this growth strategy. Moreover, in the New Industrial Strategy, there is a continued emphasis on green and digital transitions as the direction for a stronger European industrial policy. But the vision on ‘industrial eco-systems’ is largely focused on Brussels-based ‘alliances’, and again there is no mention of smart specialisation.<sup>7</sup>

With the new €560 billion Recovery and Resilience Facility to boost new growth there is a new opportunity to rebalance the governance approach. The lack of inclusion of the territorial dimension is a major weakness for any plan that proposes to address the strengthening of the resilience of European economies as a key pillar in the new growth strategy. The capacity to adapt the strategy to local circumstances, and to use the diversity of economic potential in the EU as an insurance against shocks, will need the governance skills of the local stakeholders within the broader European governance framework.

## 3. A window of opportunity to make a leap forward

For the implementation of the Recovery and Resilience Facility<sup>8</sup> the European Commission proposes a central role for the European Semester to conduct the monitoring of the new national reform plans (including the country’s Recovery and Resilience Plan) that Member States have to submit and implement in order to receive grant support. The European Semester is at the heart of the political process to connect the national and the European growth strategies. What is missing is a policy-focused dialogue between the EU and national levels and sub-national entities.

Therefore, the European Semester for the recovery and the green and digital transition will need to be transformed in order to develop fully the ‘partnership’ approach that the Commission envisages. It should avoid the pitfalls and ultimate disappointment of the Lisbon Strategy that promised ‘the most competitive and dynamic knowledge-based economy in the world’ the failure of which was apparent in the fragmentation of the investments for the 3% R&D objective.<sup>9</sup>

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<sup>5</sup> Research and Innovation Strategies for Smart Specialisation (RIS3), see <https://s3platform.jrc.ec.europa.eu/>

<sup>6</sup> See <http://www.efiscentre.eu/portfolio-item/friends-of-smart-specialisation>

<sup>7</sup> “The Commission will undertake a thorough screening and analysis of industrial needs and identify ecosystems needing a tailor-made approach.” A New Industrial Strategy for Europe, 10-03-2020.

<sup>8</sup> “The Recovery and Resilience Facility will be embedded in the European Semester. Member States will submit national Recovery and Resilience plans as part of their National Reform Programmes. These plans will contain their investment and reform agenda for the years ahead, as well as the investment and reform packages to be financed under the Facility. The Commission will assess the plans on the basis of their impact on competitive sustainability, economic and social resilience, sustainable growth, and green and digital transition of the Member States.” In ‘The EU budget powering the recovery plan for Europe’ (COM(2020) 442).

<sup>9</sup> Because of fragmentation and duplication of public R&D spending in member-states, the concept of smart specialisation was developed in 2007 (Expert Group Knowledge for Growth). But afterwards its application was limited to cohesion policy (ERDF). The EC had two budgets for R&I in the programming period 2014-2020: 80 billion in Horizon 2020 (also dispersed over many strands) and approximately the same

The challenge is to develop an adequate governance framework for recovery plans that are integrated at the EU level, in order to deliver the double transition. This governance framework can build on new thinking in innovation policy such as the ‘mission-oriented approach’<sup>10</sup> for giving direction in system changes on the one hand, and on the multitude of European partnerships that support the discovery process of new opportunities across borders on the other. With the Recovery Plans there is now both a need and a window of opportunity to develop a European governance model combining top-down ‘directionality’ and bottom-up ‘discovery’. Transformation can only be achieved by combining both components.

#### 4. A new political economy for transformation which includes smart specialisation

The political and economic context of the European Semester has changed dramatically. In particular, there has been a shift towards fiscal policies to stimulate the economic recovery while the Stability Pact has been (temporarily) put aside as one of the main pillars of the European policy surveillance. While monetary policy tended to hide choices for redistribution behind ‘quantitative easing’, EU and national fiscal policies and their coordination will be much more political as choices and priorities need to be agreed.

Macro-economic policy, conceived for promoting aggregated demand to bring economic relief with deficit spending, is now confronted directly with the question of distinguishing between consumptive and productive investment, between economic actors with a future and those that are already on their way out. These are questions that macro-economic policies are not well equipped to answer. Therefore, new industrial policies are needed to identify future growth domains and the role of supportive infrastructures. But ‘picking winners’ from the top has failed before and has often had a bad press.<sup>11</sup> What are the guarantees to avoid this scenario with the Commission ‘identifying industrial ecosystems’<sup>12</sup> and promoting alliances often composed of the usual suspects without links to local and regional innovation ecosystems?

Smart specialisation has gone already a long way to solve the dilemma between targeting investments and crowd-sourcing opportunities for local development with the ‘entrepreneurial discovery process’. Prioritising public investments in R&D and innovation for targeted activities is extended gradually to the broader set of policies for transformation (in particularly education and training<sup>13</sup>) that are needed to act together for tailored smart specialisation solutions. The role of strategic cluster organisations as an intermediary level to align the business actors at European level is increasingly recognised.<sup>14</sup>

The experience of the European Commission with the RIS3 ex-ante conditionality for access to ERDF<sup>15</sup> in the 2014-2020 programme has resulted in more than 120 identified smart specialisation strategies at regional or country level. Smart specialisation is a European policy approach that has been widely

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amount under objective 1 (R&I) in the European Regional Development Funds that was attributed under de ex-ante conditionality of designing a Research and Innovation Strategy for Smart Specialisation (RIS3) on regional level.

<sup>10</sup> See [https://ec.europa.eu/info/horizon-europe-next-research-and-innovation-framework-programme/missions-horizon-europe\\_en](https://ec.europa.eu/info/horizon-europe-next-research-and-innovation-framework-programme/missions-horizon-europe_en)

<sup>11</sup> See <https://www.oecd.org/dev/development-posts-industrial-policy.htm>

<sup>12</sup> “The Commission will undertake a thorough screening and analysis of industrial needs and identify ecosystems needing a tailor-made approach.” A New Industrial Strategy for Europe, 10-03-2020.

<sup>13</sup> See the recent new skills agenda published by the EU [https://ec.europa.eu/commission/presscorner/detail/en/ganda\\_20\\_1197](https://ec.europa.eu/commission/presscorner/detail/en/ganda_20_1197)

<sup>14</sup> The role of cluster organisations at EU level was acclaimed by Commissioner Breton as an appropriate level to react quickly to the COVID-crisis. See: Clusters for Next Generation EU: Dialogue Commissioner Thierry Breton - European Clusters Alliance, 30 June 2020 ([https://www.youtube.com/watch?v=AnLdoOJt6\\_E&feature=youtu.be-](https://www.youtube.com/watch?v=AnLdoOJt6_E&feature=youtu.be-))

<sup>15</sup> Part I of Annex XI CPR established a link between the ex-ante conditionality – requiring EU Member States and regions to identify the knowledge specialisations that best fit their innovation potential, based on their assets and capabilities, through a process of ‘entrepreneurial discovery’, i.e. involving key innovation stakeholders and business - and any ERDF investment priorities under thematic objective n°1 (strengthening research, technological development and innovation).

[https://ec.europa.eu/regional\\_policy/sources/docgener/informat/2014/eac\\_guidance\\_esif\\_part2\\_en.pdf](https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/eac_guidance_esif_part2_en.pdf)

adopted (not just in the EU<sup>16</sup>), providing a shared methodology and a shared narrative. Smart specialisation enables regions to identify and publicise their transformation investment priorities that support the building of European value chains and collaborative activities.

This is now a strong precedent for assessing the Recovery Plans, replacing the ‘absorption logic’ of distributing grants to a ‘targeted investment logic’. But it needs also careful appraisal of its limitations in a cohesion policy approach that has been mostly inward looking. Smart specialisation is in essence an approach for political priority setting informed by the best entrepreneurial elements in the local economy building on comparative strengths for the future. Repositioned like this, a European governance model of smart specialisation is a model for de-centralised but aligned choice-making in local economies, which is structured by smart European regulation and joint investment objectives to make Europe-wide system transitions possible.

Smart specialisation strategies, developed by regions which take into account the top-down directionality provided by the Green Deal and the new EU Industrial Strategy and from a bottom up perspective involve quadruple helix stakeholders in the design and implementation, provide an important economic and democratic legitimacy. This economic and political legitimacy is important to counter fears of richer countries contributing funds for ‘wasted investment’. Questions on which sectors to support and where to invest when all sectors have been badly hit are answered by reference to regional priorities that take into account competitive advantage and societal challenges, while understanding and seeking complementarity with those of others. Smart specialisation is a transparent methodology that can provide a solid basis for assessing objectively the conditions to use EU funding most productively.

## 5. A new economic governance for European value chains

The Corona crisis is a combined demand and supply shock. In this perspective the recovery policy to restart the economy is similar to a system transition that requires a combination of supply and demand measures to start the engine. Not all sectors of the economy have been hit in the same fashion, but whatever the sector, a systemic recovery policy can only work if economic measures address the whole value chain that has to be stimulated. Hence, the post-Corona growth policy cannot, and will not, restore the old economic production and consumption norms. The imposed disruption of global value chains is coupled with the need for reorganising European positions in these global value chain for strategic autonomy and local resilience.

The political concept of ‘European value chains’ has become a central category of European governance.<sup>17</sup> But the present economic models or industrial (sectoral) categories are not adapted to support such a value chain approach yet. We will have to construct the bridge while walking on it. However, we do have plans and practical experience from early experience with smart specialisation partnerships across borders, which organised ‘smart complementarities’ in new value chains.<sup>18</sup>

Therefore, a governance for transformation must combine European, national and regional recovery plans in their contributions to structure the new European value chains for sustainable growth. Therefore, the requirement of these plans is to be outward looking and to identify the areas of co-investment in smart complementarities and the opportunities to share infrastructures for

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<https://s3platform.jrc.ec.europa.eu/documents/20182/322704/Smart+Specialisation+in+the+world%2C+an+EU+policy+approach+helping+to+discover+innovation+globally/4b7e6bb8-88de-4cf9-b45d-c9c66a225930>

<sup>17</sup> So far, nine strategic value chains have been identified at EU level in DG Grow: Microelectronics, High Performance Computing, Batteries, Connected and Autonomous Vehicles, Cybersecurity, Personalised Medicine and Health, Low Carbon Industry, Hydrogen and the Internet of Things

<sup>18</sup> See the Vanguard Initiative for examples of cross-border pilot projects <https://www.s3vanguardinitiative.eu/>

transformation. In this European governance model, the cluster organisations that organise local ecosystems and connect them internationally become a central change agent in the European entrepreneurial discovery process for aligning Plans.<sup>19</sup>

## 6. The European Semester with ‘Smart Recovery Plans’.

European solidarity in fighting the crisis is not sustainable without a long-term strategy to use the single market for new market creation and increase the strategic autonomy of European economies. This longer-term common objective can structure a ‘conditionality’ on short-term investment expenditures that is acceptable to all. Therefore, the design and implementation of smart specialisation strategies can become a voluntary conditionality of mutual commitment for green and digital transformation in European missions and industrial ecosystems, and at the same time a reassurance for those that fear a ‘transfer union’.

These smart specialisation strategies can develop the dynamic comparative advantages of all countries and regions in these new markets. Such a new narrative on ‘European’ smart specialisation strategies can bridge the divide between present receivers and givers to secure sustainable growth for all and converge the objectives of cohesion and competition policies. This new narrative recognises the role of a place-based industrial policy, for positioning across borders innovation niches in European value chains (as drivers) that can spill-over to the local economy (through related variety<sup>20</sup>) and build local resilience on the basis of a new sustainable growth (i.e. a circular economy approach), while strengthening European positions in global value chains.

The European Semester can embody this new industrial policy approach for the transition to a new growth model with a joint top-down and bottom-up approach to recovery, building on political leadership for long-term commitment and the co-ownership of the bottom-up actors. But the continuing fragmentation of the innovation policy frameworks over different Directorate-Generals and 27 countries, with their own concepts and instruments for similar challenges, is a major handicap for cooperation among the innovation actors ‘at the sharp end’ (public agencies, research institutes, companies...). The political will to establish and streamline a joint European innovation system to spur the twin transition can be kick-started with designing and aligning national and regional transformation strategies for smart specialisation as key-drivers for recovery plans.

Therefore, the European Semester should adopt a multi-level approach for place-based solutions through ‘smart recovery plans’ that integrate the regional RIS3: “Our industrial ecosystems are increasingly integrated and connected. Research, engineering, manufacturing, assembly and servicing often take place in different parts of Europe and allow businesses to be more competitive and focus on what they do best. **This will be exactly what is needed for Europe’s recovery.**”<sup>21</sup>

## 7. How to fit-in smart specialisation in the European Semester?

The European Semester is the key to a multi-level governance of recovery plans for transformation. The European Semester of 2021 will be the first in a new partnership between the European Commission and Member States to co-design and implement the recovery plan in the context of the modernisation plan for transition to a new growth strategy. Hence, the lessons from the ‘ex-ante conditionality’ used in cohesion policy, to promote a shift in distribution of ERDF towards research and innovation with a place-based approach, is a valuable experience.

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<sup>19</sup> [https://ec.europa.eu/growth/industry/policy/cluster\\_en](https://ec.europa.eu/growth/industry/policy/cluster_en)

<sup>20</sup> For a definition, see <https://www.onlines3.eu/phase-4-priority-setting/4-3-related-variety-analysis/>

<sup>21</sup> COM(2020) 456 Europe’s moment: Repair and Prepare for the Next Generation.

A new kind of ‘conditionality’, driven by some Member States to avoid unproductive use of grants from the EC budget through the Recovery and Resilience Facility is now on the agenda. But such conditionality, in the shape of targeted investments in the recovery plans according smart specialisation strategies for transformation, is in the interest of all countries and regions. Because smart specialisation was initially designed for national innovation policies to streamline the R&D spending at EU level with the help of national and regional specialisations,<sup>22</sup> there is already a European rationale that can become a cornerstone for effective and efficient public budget support of national strategies for recovery and transition. In cohesion policy RIS3 is now treated as an ‘enabling condition’ for guiding research and innovation investments.<sup>23</sup>

What would be new in these smart specialisation strategies as part of the national recovery plans, is a commitment to co-invest in the common objectives of the new growth strategy, its missions and industrial ecosystems. The new narrative for smart specialisation as a prioritisation of public investment in place-based transformation plans with a European (value chain) dimension can be co-owned by all policy levels. Instruments have to be put in place to support across borders the entrepreneurial discovery process of private investment opportunities.<sup>24</sup> As an OECD report notes ‘Policy ownership is crucial to facilitate the better use of public spending...ownership cannot be achieved in isolation...(But)...is a process that evolves over time and through constant interaction between supra-national, national, and subnational governments...’<sup>25</sup>

The first milestone is submitting the current RIS3 as part of the first Recovery and Resilience Plan in October 2020. The second milestone is to institutionalise the role of smart specialisation in the governance of innovation and transformation on all levels by April 2021 for the 2021 European Semester. Regions and national governments should thereby submit revised smart specialisation strategies considering the Green Deal and the post-COVID19 recovery strategies as joint challenges needing European alignment and co-investment.

In order to make this possible the necessary preconditions have to be created at all levels. This can be based on a joint policy framework for the promotion of European industrial ecosystems. The following steps will mutually support a multi-level alignment of recovery and transformation plans:

1. The **adaptation** of regional and national smart specialisation strategies in line with the European green, digital and resilience strategies (sustainable smart specialisation strategies, with support of the S3 Platform).  
These strategies will propose investment priorities on the basis of strong regional ecosystems and will implement them with combined regional, national and European resources.
2. The **integration** of such strategies in the national plans.  
The Recovery Plans are voluntary. Member States, therefore, can aggregate in their national strategies the smart specialisation priorities for their sub-national ecosystems that have a significance in the European industrial ecosystems and strategic value chains, and use these investment priorities in the national climate and energy plans.
3. The **assessment** framework at EU level for the national and regional recovery and modernisation plans in the context of the EU Semester.

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<sup>22</sup> “In a global environment, Europe must also develop its **own distinctive approach to innovation which builds on its strengths and capitalises on its values** by: ... Involving all actors and all regions in the innovation cycle: not only major companies but also SMEs in all sectors, including the public sector, the social economy and citizens themselves (‘social innovation’); not only a few high-tech areas, **but all regions in Europe and every Member State, each focusing on its own strengths (‘smart specialisation’) with Europe, Member States and regions acting in partnership.**” Europe 2020 Flagship Initiative Innovation Union SEC(2010) 1161, [https://ec.europa.eu/research/innovation-union/pdf/innovation-union-communication-brochure\\_en.pdf](https://ec.europa.eu/research/innovation-union/pdf/innovation-union-communication-brochure_en.pdf)

<sup>23</sup> [https://ec.europa.eu/commission/publications/regional-development-and-cohesion\\_en](https://ec.europa.eu/commission/publications/regional-development-and-cohesion_en)

<sup>24</sup> Such as the proposed Interreg ‘Component 5’.

<sup>25</sup> OECD (2018) Rethinking Regional Development Policy-making page 10

The integration of smart specialisation strategies can be assessed as an enabling condition for effective recovery investment plans. But the framework of assessment of these smart specialisation strategies has to be widened from a mostly regional development perspective (cohesion) to a European policy framework focused on European industrial ecosystems and their strategic value chains with partnerships involving all regions. This European reference framework will help to assess the effectiveness of these plans for the new growth strategy at regional, national, and European level, and to monitor their implementation with a common pipeline of co-investment projects in European value chains.

The co-creation of a genuine multi-level governance for (place-based) recovery and transformation possibly will be the result of different converging political initiatives, but the role of the European Commission to convene political actors and to set the agenda for the European Semester will be decisive. In this endeavour, the European Commission should be supported by European institutions such as the Committee of the Regions<sup>26</sup> and the European Economic and Social Committee<sup>27</sup> as well as relevant European networks.

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<sup>26</sup> A recent draft opinion on 'A New Industrial Strategy for Europe' underlines 'the need for a clear monitoring and evaluation system as recommended in the Smart Specialisation Strategies; stresses that this should be carried out at all three levels: EU, Member States and regions should evaluate every two years; suggests that the Commission include this in the European Semester and link it to the National Reform Plans for Member State level'

<sup>27</sup> A recent EESC opinion (June 2020) argues that '...radical reconstruction has to be reflected not only in new or adjusted policies, but also in new competences involving all actors (in relations between the Member States and the EU institutions, and internally among the EU institutions themselves) according to the principle of subsidiarity. (EESC proposals for post-COVID-19 crisis reconstruction and recovery:)  
<https://www.eesc.europa.eu/en/agenda/our-events/events/552nd-plenary-session-10-11-june-2020>