S3 Implementation – Past and Future

Policy Brief No 1

May 5th, 2023

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Manuscript completed in May 2023

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publication. Luxembourg: Publications Office of the European Union, 2023

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Abstract

This Policy Brief presents the debate from the first Expert Group meeting on February 17th, 2023. Expert Group members reunited to reflect on their experiences and to provide practical recommendations for the future of S3. Reflecting on Smart Specialisation Strategies (S3) and on the Entrepreneurial Discovery concept and practical implementation, experts brought examples of outstanding projects across EU regions, but also recognised the issues and obstacles faced by less developed regions, notably the lack of skilled human capital and of institutional maturity. Experts agreed that tailored support for less developed regions could be a strength for S3 implementation in the next programming period.

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1. INTRODUCTION

This Policy Brief summarises the debate from the first meeting of the Expert Group supporting the management of the Smart Specialisation Community of Practice on February 17th, 2023. The Group is composed of both academics, policy makers and practitioners so that both sides present and reflect on their experiences trying to converge to theoretically founded, practical orientations and suggestions for the future. These past lessons and prospects for the future, are summarised here.

The Smart Specialisation Strategies (S3) and Entrepreneurial Discovery concept, which were introduced during the 2014-2020 Programming Period, have laid the foundations of a new framework for the EU Regional Development Policy. Although strategic approaches and stakeholder involvement were not new concepts (many waves of Regional Innovation Strategies preceded S3), the introduction of ex-ante conditionalities and persistent deadlines have reformed the design and implementation of ERDF-supported regional policies. The S3 experiences are mixed. In some cases, the process was seamless and led to the development of excellent projects and even a new emerging culture. However, less developed regions lacked skilled human capital and institutional maturity required for the implementation of this ambitious approach. Additionally, some stakeholders lacked the necessary commitment to help advance beyond path dependence.

Appraisals of S3 have revealed both success stories and challenges. Some regions have achieved promising results, others have encountered greater difficulties. For the next Programming Period S3 will remain the dominant strategic approach and it will be complemented with tailored support to address the specific needs of less developed regions and ensure effective implementation.

2. LESSONS FROM THE PAST

Academics and policymakers widely agree that an effective regional development policy leading to territorial cohesion requires a strategic approach and active stakeholder involvement. Agreement mostly ends there when it comes to putting S3s into practice views start to diverge. Fortunately, in the Group discussions a wide agreement was reached that more and better support is needed in the 2021-2027 Programming Period for the S3 to be more effective.

The academic perspective of S3

The theoretical part of S3 was worked out in many research papers and policy committees resulting in specific recommendations to the regions. Systematic workshops, conferences and dedicated capacity building sessions were organised to pass the message on how to best design and organise the advancement of S3. The strong messages were to build on regional strengths, to address change with a dynamic/evolutionary change and to experiment with new tools.

The academic perception was that S3 proved most effective regions with mature ecosystems and administration. The Strategy worked well because these regions did not really need it, this is what they have been doing even before the S3 was imposed. There, the share of ERDF funding is minimal compared to the overall development budget, therefore selected projects are small but brilliant. Under these circumstance policy makers are willing to concentrate resources, take risks and experiment. The theory works.

Conversely, in less developed and transition regions with poor innovation ecosystems and limited administrative capabilities, the S3 implementation is a lot more challenging and this explains why it may prove less effective. There ERDF funding represents a large share of the overall regional policy, which is expected to respect path dependence. Rules and regulations discourage experimenting and institutional or behavioural change is complicated.

Practical problems faced by the regions

Policy makers, supported by their stakeholder communities, were called upon to design and implement this mandatory new strategy and were adequately informed about its theoretical components. But then they were asked to implement it within a regulatory framework, which was often difficult because they had to respect both ERDF and national rules, which were sometimes difficult to coordinate. The new concept was expected to be accompanied by new initiatives and experiments, yet the regulatory framework and the available resources were inadequate. Policy makers had to act to support local stakeholders and absorb the funds, and sometimes experimentation was not easy because of the established rules.

Even the request for synergies was not easy. Although there have been some successful examples of synergies in practice, silos between funding instruments and programs continue to be a persistent challenge. From the point of view of policy makers some scepticism was expressed for example on the extent to which H2020 (prescribing the trends for Horizon Europe) has really helped the regions in their development trajectory, even in the case when abundant funding was achieved. New types of cooperation are needed to ensure that R&I funding benefits the regions and not only scientific progress.

3. PLANNING A BETTER FUTURE

Targets and Expectations

The expectation from the second phase is that S3s can improve and contribute more to territorial cohesion, helping to reduce the innovation divide across EU regions. The less developed regions are more vulnerable and will require more support in terms of guidance and capacity building. Strategies are not expected to target economic growth and competitiveness alone but invest in the digital and green transformation of the regions, a twin transition that ensures both efficiency and sustainability in a longer-term horizon. Such changes need a 10–20-year horizon, in a challenging and constantly evolving global context.

The context and the New European Innovation Agenda

the New Innovation Agenda (NIA), which the European Commission adopted in July 2022[1] recognises explicitly that "*despite …. efforts, regional disparities in research and innovation performance remain deep across the EU and this innovation divide has been increasing*". Therefore, is includes the conviction that "*uptake of deep tech innovation and the ability of regions across the EU to contribute to, and benefit from innovations will also be strengthened through actions to address the persistent innovation divide across Member States and regions*". This will enhance internal cohesion and deliver wider economic and social benefits - at present, the highest performing regions are up to nine times more innovative than the lowest performing ones and technological output as measured by patents is concentrated in regions hosting the headquarters of large companies and with a high share of manufacturing companies. Specific interventions are mentioned in this context:

- Fostering connected regional deep-tech innovation valleys across the EU, which will bring together less and more innovative regions with a view to addressing the most burning challenges facing the EU, namely reducing the reliance on fossil fuels, increasing global food security, mastering the digital transformation (including cybersecurity), improving healthcare and achieving circularity. Joint Horizon Europe and ERDF support will be provided for interregional collaboration activities that feature collaboration between at least one less innovative and another more innovative region.

- More emphasis on Synergies between cohesion policy programmes and Horizon Europe through a detailed Guidance Document.

Although the importance of addressing the innovation divide is acknowledged and specific measures are suggested, the Group Members expressed concern about whether the Communication was appropriate for addressing the needs of the less developed and transition regions, and specifically how such regions could effectively be integrated into the deep tech agenda. It was argued that the concept of deep tech needs to be clearly defined, to ensure that companies with limited resources and lacking absorptive capacities could truly benefit from the emphasis on deep tech. A definition aligned with S3 would be "concrete technological solutions to societal challenges".

Further points on the New Innovation Agenda addressed the prominence of interregional cooperation and the instrument I3. The Expert Group recommended that it is still important to further reflect and try to define how to link interregional instruments.

4. KEY ISSUES AND RECOMMENDATIONS

The main topic of interest addressed by the Group, upon request of the European Commission, was how to improve S3 implementation, and the used of ERDF funding. To best address this topic the Group focused on specifying the main purpose of S3, looking at the key

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[1] https://research-and-innovation.ec.europa.eu/strategy/support-policy-making/shaping-eu-research-and-innovation-policy/new-european-innovation-agenda_en

issues that arose from the discussions and formulate some recommendations on how to address them.

The purpose of S3 should not be simply to generate innovation projects that can be financed by the Structural Funds. If its aim is to bridge the innovation divide a much more ambitious process is necessary. The entrepreneurial Discovery Process is expected to orient the regions towards generating new dynamics and connections within and between regions and thus evolving to become competitive and resilient economies. Such a process is long and needs exploiting all available opportunities and adopting behavioural changes.

Meeting such ambitious carries inherent risks (how to get things right) in terms of ensuring that things are done correctly and managing complexity. In order to succeed, policies need to prioritise and strengthen interventions in three critical areas:

- accelerating and improving capacity building,
- finding ways to experiment leading to new, place-based appropriate interventions, and
- coordinating policies in a dialectic top-down and bottom-up interaction.

The relevance of capacity building

The more ambitious policy design begins with bringing together diverse stakeholders to explore and implement new innovation pathways that can address regional challenges and opportunities in more effective ways. In this process capacity building plays a key role.

Investments in capacity building were already included in the previous Programming Period, need to be reinforced and be adapted to each region's needs. The literature highlights the importance quality of governance and institutional maturity. This stresses that capacity building is relevant both for the economy and public administration. In particular, one needs to focus on how to support weaker regions, which were struggling to develop a S3 and implement it effectively. Capacity building in the economy will need to be closely linked to the S3 selected areas.

The merits and challenges of experimenting

The conception to overcome path dependencies and experiment with new types of policies and measures was present in the 2014-2020 Programming Period but policy makers faced barriers because of the administrative complexity and stakeholders' interests for continuity. Policy makers had to promote the instruments that would not create any doubts on their compliance with EU or national accounting rules and could thus be "easily" financed by ERDF rather than experimenting to identify the best instruments addressing the real needs of the region. The targets of speed and absorption rates as well as the complex interaction of European and national accounting rules hamper experimenting. The members of the Expert Group agreed that it has not been easy to experiment with ERDF funding in the past and a more conducive environment is necessary.

It was agreed that experimentation is key for improving performance. For the ERDF to supported experimentation, which is a behavioural change, it is suggested to:

- Identify actions that are actionable within the current regulatory framework.

- Identify actions can be more transformative but are hampered by the current regulatory framework and make proposals to adapt the regulatory framework, to become more innovation/experimentation friendly.

- Promote discussions about how technology/technological solutions (deep tech) can contribute to address local challenges.

- Promoting experiments/testing by empower new actors who were until now not participating in innovation (e.g., rural regions, students in engineering, adults invocational training).

Ensure effective coordination

A successful development strategy requires a coordinated effort that brings together both top-down and bottom-up approaches. Policy makers play a crucial role in identifying long-term transformational needs, but they must also be responsive to the potential of the local productive forces. By doing so, they can foster the creation of a local innovation ecosystem and support its effective functioning. For the ecosystem to thrive, it is important that the main actors have a regional and local focus, while also being integrated into the global context. This ensures that the ecosystem is well-positioned to leverage global opportunities while also addressing local challenges.

Coordinating a multitude of traditional small and medium-sized enterprises (SMEs) is crucial for regional specialisation in less developed and transition regions. However, for a more ambitious strategy, it is also important to foster the growth of startups and scaleups to revitalise the production sector. Additionally, it is necessary to consider the role of large companies and the possibility to position regional companies in global value chains. While financial support is less of a priority for larger companies and multinationals, they can be enticed by a dynamic innovation ecosystem, well-connected local clusters, and a highly skilled workforce.