

Report from the working meeting "Smart Specialisation Strategies implementation: Priorities, Related Policies and Impact Assessment"

4th of April, Seville

The meeting gathered 18 stakeholders from 15 Member States and regions from across Europe, which have all submitted a preparatory work tackling the following set of questions:

1) Stocktaking of national/regional priorities and linkages with policy measures implemented/planned on their basis.

- Will the national/regional priorities be revised to refine the S3 strategy and/or to adapt to new market conditions and the global context?
- How are consistency/coherence being assessed? What data collection methods are being used? What is the role/involvement of regional stakeholders in the process?
- What complementary policy measures may need to be contemplated (policy roadmapping) in order to boost the impact of S3?
- What do you see as important critical junctures on the road ahead?

2) How does your country/region plan/propose to assess the impact of S3 (beyond checking the levels of output/indicators proposed)?

- For instance, changes in terms of funding decisions, or in terms of policymakers' and stakeholders' behaviour?
- And more broadly and importantly, towards the regional economic transformation that S3 is promoting?

I. Presentation by invited experts on a given topic

Some brief presentations given by participants in the introductory sessions are available on the S3 Platform website: <http://s3platform.jrc.ec.europa.eu/-/smart-specialisation-strategies-implementation-priorities-related-policies-and-impact-assessment-?inheritRedirect=true>

II. Reflection on the preparation of S3 Impact Assessment

II.1) In the morning session, two groups discussed about the "**Patterns reflecting national/regional economic transformation**" including indicators.

Different approaches to define and measure economic transformation were discussed, notably the distinction to be made between economic growth and economic transformation.

How to measure/assess transformation and not performance only? How to measure the impact of investments?

- Participants have emphasized knowledge-based features of economic transformation:
 - The creation of value and setting-up of new companies, the capacity to develop high added-value products and services in new and well-established key sectors and activities, and the capacity to integrate complex value chains.
 - The nature of jobs in the economy, the rise of high-skill workers and jobs profile within key sectors and in new activities were outlined. The changes in skills and curricula, skills mismatch in terms of labour market demand for specific knowledge compared with educational supplies (new jobs created in new activities), cross-sectoral labour mobility, the attractiveness in terms of new qualified workers coming from other regions and the challenge of brain drain were also mentioned.
 - The integration and synergy among sectors embedding a wider range of knowledge domains (cross fertilization), the interaction and dissemination between traditional and emerging sectors working together.
 - The internationalisation dimension of the economy and openness to new markets was also acknowledged, including the consolidation of international collaborations, the position in value chains, the level of involvement in innovation system networks, the increased export of value-added products, Foreign Direct Investment attractiveness in emerging sectors, and competitiveness level.
 - The digitalization of the economy and the transition to the circular economy.

- Other qualitative indicators of economic transformation included:
 - Changes in firms' business model, changes in the life cycle of companies, new financing models, companies investing in areas beyond their sectoral borders.
 - Level of public-private investments
 - The level of cooperation among companies, cooperation between companies and research centres and degree of collaboration (cross sectoral activities and projects), their access to knowledge, evolution of market size in time.

- Improved governance allows for better policy-making processes, hence pave the way to economic transformation
 - The improvement of the RIS3 governance system, providing an adequate organisational framework and relevant support to stakeholders and strengthening the Entrepreneurial Discovery Process. Listening to stakeholders to guide the RIS3 and detecting opportunities for investment (see point below).
 - The coherence of the multi-level governance at EU, national, regional and local is perceived as important, as well as the development of an integrated, synergetic approach between complementary funds.

- Stakeholders/beneficiaries can provide feedback on various elements including:
 - The impact of policy measures implemented
 - New patterns of development
 - Behavioural changes
 - Specific corporate-based and individual performance metrics

- Value chains positioning / benchmarking
- R&D performance, R&D expenditure.

- Capturing and measuring the impact of the Smart Specialisation Strategy itself in the context of the assessment of the national/regional economic transformation is a difficult task. Normally, existing official statistics do not cover the kind of data necessary to assess this economic transformation, and besides, new activities will be, at the beginning, “hidden” in larger traditional sectors. Thus, additional quantitative evidence together with a counterfactual analysis (cause-effect relationship) may be necessary, whereby data collection could encompass:

- A questionnaire that includes specific questions related to S3 implementation,
- And /or an ad hoc survey with micro-economic indicators aimed at stakeholders', together with an assessment of the policy measures implemented.

But this specific information collection would not allow for a benchmark-type comparison with other regions, unless the questionnaires and surveys are designed in a coordinated way at the European or, at least, national level.

An assessment of the role of the S3 approach in the economic transformation of the region should include at least 3 dimensions: changes in the economic sectors (path creation dynamics and its relation to S3), technological areas (uptake and/or acceleration in scaling-up innovation) and societal challenges.

- Besides, participants have highlighted the necessary long-term perspective to engage in the impact assessment exercise.

It was stressed that assessing long-term objectives in short periods is a big challenge, especially when policy objectives established require longer periods to produce results.

It is important to develop both intermediary result indicators and proxies to identify whether the national/regional economy is going in the right direction at a certain point in time. Hence having both intermediary objectives and milestones (5-6 years) and being able to provide concrete indicators to stakeholders, together with long-term objectives and related action plans (15 years) (e.g. 20 year time span needed from the research phase to the market phase of pharmaceutical products).

The participant from Portugal stressed the importance of taking full advantage of the knowledge and experience acquired in previous programming periods (cross fertilization, bringing new technologies into traditional sectors, etc.). The challenge is to ensure that the results of research investments made during the previous programmes come into play in the market in the next programme. If necessary, the policy tools and instruments can be adjusted.

A comparison between the mid-term evaluation and the final evaluation at the end of the programmes could encompass: the number of companies active in RIS3 priority areas, number of companies and clusters present in value chains and networks, acceleration in entering the market, size of the consortium and their evolution in time, results from projects, activities of key companies at national level (RDI direction), acceleration of the digital innovation, etc.

By way of example, the case of Portugal:

"If the objective is to have more integrated value chains, one could compare the existing consortia and projects approved, with the ones from previous Framework Programmes and check if they are wider, more structured and diversified. If this is the case, it indicates that the instruments developed and the support system in place are adequate, and led to the creation of the necessary conditions for the stakeholders to develop their plans.

When assessing collaborative R&D projects, one should compare current programming period with former ones:

- Number of proposals presented
- Total eligible investment
- Number of companies involved (and level of companies entering for the first time collaborative R&D projects)
- Size of the consortia, number and type of partners
- NACE code diversity
- Main emerging domains and main consolidated ones."

II.2 In parallel, in the morning session, one group discussed about the **behavioural changes regarding policy-makers, stakeholders and beneficiaries, including related indicators**

The discussion focused on the quality of the financing applications for innovative projects and the elements required to increase the quality of these applications. Some of the elements identified were:

- A well-functioning innovation system is key to promote collaboration among different types of partners and ensure joint activities
- It is important to have a good scheme of incentives to motivate stakeholders to work together.
- ERDF might have reached its peak. It might be time for using other sources.

- 3 key challenges were outlined:

✓ Governance: Trust is seen as crucial to activate stakeholders' behavioural change.

Importance of building trust among stakeholders and the public sector before stakeholders change their practices and develop joint activities (understanding of the S3 concept and its benefits, developing a common interest among stakeholders around a strategy, developing SMEs' trust in the innovation system).

Multi-level governance: the articulation between the national, regional and local level is seen as important in the implementation of S3, especially to keep the different interests alive.

Some regions have emphasized the need to get greater decision-making power at regional level and have pointed out the lack integration of the Smart Specialisation approach and related EU innovation policies at national level.

- ✓ Maintaining momentum in the Entrepreneurial Discovery Process (active engagement of SMEs and research, providing relevant feedbacks to stakeholders / monitoring system)
- ✓ Financing instruments (ERDF, H2020, national funds): need to simplify the procedure and add some flexibility (impact on behavioural changes) to facilitate the assimilation by stakeholders. Some regions emphasize the need for greater subsidiarity in the management of ERDF at regional level. It was stressed that ERDF funding might not be enough and that S3 might need to move to the "next level".

By way of example, the case of Tuscany (Italy):

"Behavioural changes need to be investigated within a counterfactual perspective, in order to avoid biases coming from the limited amount of resources as well as the ordinary diffusion of mainstream technologies that could have been implemented even without the provisions of the regional RIS3. Within this perspective, we are very much interested on new path creation dynamics, on one side, and in scaling up innovation for existing paths, on the other.

With regards to the latter (scaling-up innovation) we are interested in the implementation of research results in new product and processes, as well as in the possible diffusion of them within existing supply chains.

With regards to new path creation, we are interested in new business areas activated by beneficiaries as a consequence of regional funding related to RIS3, with special attention, for instance, to new business model detected, new industry research partnerships enhanced as well as new competences and skills required. Another important topic within this perspective is the analysis of entrepreneurship dynamics related to main technological roadmaps. Industry space approached could be implemented to analyse sectorial co-occurrences and correlation with new enterprises activated".

- Indicators

Some reflections expressed that behavioural change is difficult to measure. It was also stressed that innovation needs to be defined before launching any surveys.

- Number of businesses and research institutes involved in RIS3 projects
- Number of cooperation projects
- S3 investment impacting at municipal level
- Development of innovation clusters
- Uptake/acceleration in scaling-up innovation
- Moreover, Capacity building assessment is seen as a key indicator of change: capacity in terms of monitoring, planning, evaluation, the design policy instruments and the development of related indicators should also be taken into account.
- Commercialisation of new products;
- Innovative companies.

III. Stocktaking of national/regional priorities and linkages with policy measures implemented/planned on their basis

In the afternoon, participants were divided in three groups to reflect, respectively on "Revisiting/Refining Priorities", "Coherence/Consistency policy & road mapping " as well as "Critical junctures on the road ahead".

III.1. Revisiting/Refining Priorities

Participants discussed about their different interpretation, understanding and approach to define what an S3 priority is and its scope (vertical priorities vs horizontal priorities)

- Some RIS3 have gone through a mid-term evaluation; others are currently in the process of performing it
 - In most cases, there were no major changes regarding the RIS3 update and priorities: fine-tuning the existing priorities, refining sub-priority areas (narrowed down or substituted by others), detect the new types of collaborations and their economic potential.
 - In some cases, new dimensions were introduced such as the internationalisation, the territorial cohesion criteria (sub-regional coverage), or addressing societal challenges.
 - As the resources remaining were reduced, public authorities tended to increase the focus and narrow down their priorities.
 - Some regions have outlined that thematic priorities should/will further respond to social challenges and integrate business needs.

- Methodology used

The Entrepreneurial Discovery Process was widely used to engage with territorial actors. Stakeholders' consultation is a common way to detect priority areas and activities (through interviews, calls for projects analysis, level of demand for a priority; if low, such priority was taken out and replaced by a new one)

- Related indicators used for priorities:

Unanimous answer: indicators related to the Operational Programmes (ERDF, ESF, EARDF) were mostly output, outcome and results indicators (number of projects received on specific priority areas, etc.)

Monitoring system and collection of data closely related to the OPs.

(The group has not tackled the revision of the indicators as such, but rather the types of indicators used thus far).

III.2 Coherence/Consistency policy road mapping assessment, data collection methods, involvement of stakeholders, complementary measures to boost the impact of S3

- Coherence/Consistency

✓ Yes some consistency has been achieved to a certain extent:

- Attempts to align policy instruments with RIS3 (sometimes successful, sometimes less)
- Methodology: EDP is largely adopted (recommendations, impact)
- Sharing regional issues at national/ European level but further harmonisation is necessary

- Coherence is being achieved, as witnessed in project calls selection (importance of co-financing regulations). Yet, coherence depends on policy mix (develop the use of tools such as the Seal of Excellence) State aid rules are an obstacle in the policy mix and competition regulation imposes important limitation. Combining ESF to ERDF is allowed but very difficult to implement ("acrobatics").

✓ The S3 approach is recognised as a useful approach: Regions and Member States are improving their RIS3 beyond the ex-ante conditionalities. The Smart Specialisation approach is widely embraced, knowledge acquired.

✓ Timing of the Operational Programme:

- The mismatch between policy instruments (OP) and the strategy (RIS3), should be smaller in the new programming period (lack of experience / capacity building - supportive role of the S3 Platform)
- Mis-alignment between policy instruments with different objectives (at EU level, e.g. H2020-Excellence / Regional funds - place-based, territorial dimension)
- Complexity of coordination between various levels of government - different levels of responsibility
- Demand for Simplification in the regulations (State-aid rules limit the possibility of using Cohesion funds to implement S3).

- Policy Road mapping

A main question raised was whether policy road mapping for RIS3 built in a holistic way or not?

The road mapping exercise is not yet systematic, implicit rather explicit, perceived as useful to do and some initiatives are emerging. Not present in the conception phase but recognised as important point to develop in the implementation phase.

A "Holistic approach" was not present from the start but improvements are being made during the implementation phase (learning by doing).

The Governance structure (capacity building) and the EDP are recognised as important elements for policy road mapping.

Several points were raised:

- Importance of realizing the need for policy road mapping
- Capacity building is important for coherence and policy road-mapping

- EDP continuity can help with boosting the holistic characteristics in implementation; much depends on where the RIS3 decisions are made and how close to the top they are in terms of governance.
- the approach to EDP affects policy measures and their consistency/coherence with RIS3
- Policy road mapping is addressed but often in a fragmented way rather than systematically, depending on personalities; the systems are often not set up to do that.
- Simplification of regulation is needed to boost coherence/consistency
- Coherence between regional and national levels is important (e.g; in Portugal, SMEs draw regional S3 funding and large firms draw national S3 funding).
- RIS3 often seen as ex-ante conditionality to be fulfilled, not as a litmus test for the implementation phase

- Data collection, indicators

- Good governance index
- Check governance structure towards policy road mapping (if it exists, the form it takes, its efficacy, etc.)
- Results of continuous EDP (Stakeholders' survey)
- EDP's views on policy road mapping
- Budget allocated to projects conforming/related to RIS3 priorities
- Review of the projects' selection process and outcome
- Patterns of development of sectors
- Number of new firms
- Number of new stakeholders involved

III.3 Critical Junctures on the road ahead

- Importance of explaining the Smart Specialisation approach to stakeholders and make sure that it is well understood. RIS3 is not necessarily about technological changes, it also encompasses new organisational features and new models of interactions among key stakeholders. Hence, strong emphasis should be put on adequate communication and dissemination to get a wider range of stakeholders involved in the S3 process. One way can be to make S3 data accessible to a wider audience.

- The Entrepreneurial Discovery Process (EDP) is acknowledged as a useful instrument: one of the challenges is to identify the right interlocutors and to incentivize stakeholders to participate in the long term to the RIS3 approach and further target their activities along the line of the S3 priorities identified. Public institutions play the role of facilitators and need to develop the right argumentation with the adequate policy support instruments to maintain momentum and ensure that the S3 priorities are revised/refined on an on-going basis, according to the economic context.

Several issues were outlined in that respect:

- Major companies that are already performing well do not see the need to engage in S3 related activities. It can be particularly difficult to convince them of the potential benefits of participating in R&D projects that they may gain by doing so
- Lobbies' reluctance to change and stakeholders' risk aversion attitude, regional ecosystems working in a self-sustained way under each priority
- Need for simplification to facilitate SMEs' participation in EU funded programmes, developing an effective support system to consolidate their commitment
- Maintain a continuous dialogue across sectors to boost cross-fertilization
- Constant need to integrate an array of ground-breaking new technologies in the S3 process
- Skills needed by the public sector and stakeholders.
- Statistical data available for Key Enabling Technologies is not helping. Statistical data should be complemented by foresights analysis and qualitative data.

- Furthermore, harmonisation between various territorial levels represents a considerable stake: the regional and national level on one hand, together with the European level on the other hand; the needs of small communities should also be taken into account to respond to their specific societal challenges. Hence a methodology should be developed to further align support policy instruments (innovation, financial) and enhance multi-level interactions – cooperation.

- Smart Specialisation Strategy (S3) is perceived as a broad development strategy, and not just a mere setting for the use of regional funds. Yet participants pinpointed the need to improve the framework conditions to foster international cross-regional projects and innovation competences. Notably, building-up complementary regional competencies can promote companies' involvement in international collaboration / S3 partnerships, developing joint financial resources.

By way of example, the case of Tuscany (Italy):

"The main challenge is to enforce the regional governance of the S3. The S3 paradigm has very ambitious goals but has to cope with strict regulations with regards to EU funds, different management, monitoring and control systems and above all, a rapid and continuous change of the present context and of future scenarios.

A consistent governance system, able to detect strategic investments in a very effective and rapid way is the main challenge ahead. Shared mechanism of monitoring, managing and controlling between Strategies and Regional Programmes could be promoted to foster a better alignment among them, (...).

For the next programming period (reference to the connection with the European Semester, the 5+2 annual scheme, the importance of interregional partnerships, etc.), the attempt to enforce the regional governance as an efficient mechanism to detect opportunities and take decisions should be at the core of the EDP, intended as an ongoing process involving main innovation stakeholders."