

Smart Specialisation: championing the EU's economic growth and investment agenda?

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Introduced as an *ex ante* conditionality in the 2014-2020 Cohesion Policy, Smart Specialisation Strategies (S3) require regions to develop smart priorities and direct investment efforts towards growth-oriented innovation. In the space of only four years, S3 has become widely regarded as a success story across the Cohesion Policy community, as a place-based driver of EU competitiveness. For some regions, it has offered scope to deepen existing practices. For others, S3 has introduced new approaches to achieving innovation-oriented growth. There is, however, quite some distance to cover if S3 is to accelerate its support role in delivering EU growth and investment. This would require redefining the role of S3 and re-positioning this in the post-2020 Multi-annual Financial Framework (MFF).

S3's appeal to a wide range of regional contexts has been manifest in several new initiatives (e.g. support for lagging regions, Stairway to Excellence¹ and the Vanguard Initiative²) aimed at strengthening regional innovation eco-systems and spearheading new approaches to industry-led, inter-regional collaboration. This progress has been emphasised in the European Commission's new S3 Communication.³ The European Commission has added weight to regional momentum for boosting S3-focused, inter-regional partnerships and has developed new vehicles to accelerate progress, with the aim of creating scale investments based on joint industrial priorities (such as thematic Smart Specialisation Platforms and European Strategic Cluster Partnerships). It is doubtful whether this significant strand of activity (from the combined efforts of the regions and the European Commission) would have emerged without the S3 policy agenda.

This catalytic dynamism was not foreseen when S3 was originally introduced. Its traction is testament to the efforts of both EU institutions and EU regions. However, S3 can do more to support regional innovation efforts, in response to technological change and industrial modernisation. The new S3 Communication outlines the need to accelerate reforms. But can momentum be accelerated to deliver S3's intended role in driving EU economic growth and investment?

One crucial limiting factor is that S3 has largely escaped the notice of member states, with the exception of a few (whose size is more regionally-oriented or where the baseline of regional innovation expertise and capacity was very low). While some have recognised its contribution to regional innovation, many have paid – at best – lip-service to S3's potential in supporting EU growth ambitions. Moreover, they have overlooked its value as a tool to harness much needed EU investment by applying S3, market-led principles to better articulate 'hot spots' of EU competitiveness. Arguably, it is the absence of top-down commitment from member states which has stymied inter-regional efforts to realise the benefits of bottom-up collaboration and investment. This echoes a continued lack of appetite from member states for an EU Industrial Strategy, and signals a lack of readiness on their part to ease, optimise and leverage approaches to joint investment (e.g. in emerging technologies and the circular economy). In an increasingly competitive global marketplace, EU member states require to join forces to deliver such investments for sustained and enhanced industrial leadership. S3 could play a key part in delivering this, positioned within a more ambitious EU growth and investment drive.

With the S3 Communication calling on greater growth-oriented, investment efforts, there is a need to examine the EU framework which supports such delivery and to assess if it is truly fit for purpose. The 2014-2020 European Structural and Investment Funds (ESIF) framework required rigorous planning for investment priorities, with the result that funding is – by and large – already committed for most of the programming period. The scope for S3 to further accelerate the performance of ESIF-oriented investment in this programming period is thus limited.

¹ <http://s3platform.jrc.ec.europa.eu/stairway-to-excellence>

² <http://www.s3vanguardinitiative.eu/>

³ http://ec.europa.eu/regional_policy/sources/docoffic/2014/com_2017_376_2_en.pdf

In addition, S3's visibility in the wider EU growth agenda remains limited. The Europe 2020 Strategy – underpinned by the European Semester – has failed to demonstrate the role which S3 could play in mobilising investment efforts, not only in the Cohesion Policy arena but across the full range of EU growth-oriented measures (such as Horizon 2020). The role which could be played by the European Fund for Strategic Investment (EFSI) remains unclear in the absence of a clearer pathway to align other growth-related, funding sources (as well as domestic funds).

Furthermore, the S3 agenda – as part of a wider Cohesion Policy logic - has tended to favour an agglomeration rationale (i.e. 'trickle down' benefits spreading beyond the targeted geography, such as ancillary services in a neighbouring area to support a core industry from an urban centre), despite growing evidence that this delivers concrete benefits to too few regions. This suggests the need for a stronger place-based focus, to deliver tailored, regional responses, and to address disparities and lack of convergence. The new S3 Communication notes a pilot action targeted at lagging regions, albeit that the agglomeration challenge is likely to require a much more fundamental response.

Despite a growing recognition of the need for EU-wide investment in underpinning technologies, this is not well-reflected in the EU's current growth strategy or the thematic objectives linked to the ESIF. This risks perpetuating the 'lock-in' and path dependency challenge arising from long-term investment in a narrow suite of priorities. With hindsight, perhaps the most glaring omission in the S3 agenda was the missed opportunity to align it to the EU's structural reform agenda. This would have supported greater alignment between S3 and Europe 2020 / the European Semester, thereby providing stronger S3 visibility and linking it to a wider EU growth agenda (including addressing key EU challenges in skills and jobs).

Therefore, while there is growing, bottom-up momentum for S3, this has not been matched by a top-down vision to maximise S3 delivery by positioning it clearly within the EU's growth and investment agenda. The post-2020 programming period could set a new trajectory for the S3 agenda with a greater focus on investment and structural reforms. However, its success would require several conditions to be fulfilled:

- **Stronger positioning of S3 as an EU economic growth enabler** – this implies that S3 is recognised well beyond the confines of a future Cohesion Policy and the EU regional innovation eco-system. It should be tied to a new EU growth strategy, with relevance across the whole spectrum of EU growth-enhancing policies. A continued positioning of S3 within the confines of Cohesion Policy would signal limited commitment and ownership of this agenda beyond this Policy context.
- **S3's support role in the delivery of structural reforms** – S3 requires a re-orientation from solely focusing on innovation-driven growth, to supporting all EU territories to deliver growth through structural reforms. This implies a better understanding of the 'diagnostic' value of S3 i.e. using S3 at a local level to understand strengths and weaknesses in the labour market and in understanding skills needs. In turn, this could better support the creation of tailored structural reform policy responses to labour market challenges.
- **Making S3 'stick'** – beyond its position as a Cohesion Policy *ex ante* conditionality, the S3 agenda needs clearer support and surveillance within a reformed EU economic governance system. This would encourage stronger alignment with relevant policies and funding (at local, national and member state levels) and offer greater leverage potential for investment across research, science, innovation and industry communities. This could also help to address the EU's commercialisation deficit, whereby the EU's science and research performance is not readily translated into EU products, services and technologies.
- **Investment leverage to drive industry leadership** – S3 has encouraged greater industry engagement in the EU's growth agenda but gaps in the wider policy framework and funding pathway hinder long-term industry commitment. Improved connectivity across local, regional and national sources of investment would provide stronger assurances to industry of EU commitment, as well as encouraging greater industry leadership. An S3 'compass' could assist in directing these investments, and so support the generation of a market-driven orientation to EU global competitiveness. This could also shorten the 'distance' to and improve the relevance of the EFSI.

The S3 agenda has – to date – created strong foundations from which to build robust regional innovation systems. It has significant potential to deliver much more for EU growth and investment, but would require a more holistic EU response than is currently the case. With the post-2020 MFF debate already underway, there is an opportunity to create the right conditions to achieve this. This is clearly within the grasp of the EU to deliver, provided that the next MFF sets out a stronger policy alignment of EU growth-enhancing measures, recognising of the role which S3 can play in driving innovation and industry-focused investment.

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