

Vanguard Initiative Position Paper

Regions and future EU policies for Growth and Investment

The 30 Regions of the Vanguard Initiative are committed to **leading by example** in delivering growth and jobs through **industry-led interregional cooperation, co-creation, and co-investment**, on the basis of smart specialisation principles¹. The engagement of our political leaders gives a framework to the actors in our innovation ecosystems and industry clusters to work together.

We are **learning by doing**: **The development and application of our methodology of Learn-Connect-Demonstrate-Commercialise has enabled successful identification of commercial opportunities.** Through detailed examination of capability, competence and capacity within our regions, and through working with industry stakeholders, we have developed joint demonstration projects.

One of the key benefits of learning by doing is that an evidence base evolves alongside the development of commercial opportunities, allowing identification of bottlenecks and real needs from the ground. This process takes time and requires trust and involvement of all parties. It leads to the need to shape new policy approaches and to improve existing support tools.

The European Commission has taken on board the experience of the Vanguard Initiative and has developed new policy initiatives as a result, e.g. the launching of S3 thematic platforms and new initiatives for clusters. The Council² and the European Parliament³ have also acknowledged the value of such bottom-up dynamics based on smart specialisation, notably for supporting regional development, involving industry, fostering synergies, developing ecosystems and cross-border clusters. We are convinced that our approach can be a **game-changer for growth and investment** and can foster a **renewal of EU policies for the future** that will benefit the whole of Europe. In that perspective, this paper outlines the **Vanguard Initiative's recommendations for future EU policies for growth, innovation and investment**, building on our past and current experience.

We welcome the acknowledgement by Robert Madelin, as outlined in his recent EPSC report⁴, that effectively addressing the innovation challenge in the **EU needs a fresh approach**, departing from the linear model – from R&D to the market – to adopt a **demand-driven and ecosystemic approach, anchored in the regions, but deployed in a collaborative way across Europe.**

¹ Read the 'Milan declaration' for more details :

http://www.s3vanguardinitiative.eu/sites/default/files/docs/general/milan_declaration.pdf

² <http://data.consilium.europa.eu/doc/document/ST-9863-2016-INIT/en/pdf>

³ <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2016-0320&language=EN&ring=A8-2016-0159>

⁴ http://ec.europa.eu/epsc/publications/notes/sn15_en.htm

KEY PRIORITIES FOR EUROPE

In the context of persistent low growth and global competition, **Europe needs innovation- and demand-driven investment that involves all levels of governance and contributes to the renaissance of industry for the 21st century.**

Key societal challenges for Europe are well-known – digitalisation, climate change, employment and inclusion, fighting poverty, efficient use of resources and sustainability, health and ageing population, security, mobility, immigration and refugees. Addressing these issues, while rejuvenating the EU economy, requires the **mobilisation of Europe's innovative and entrepreneurial potential**. The current approach, mainly through tools like JTI's or PPP's has shown its limitations for SMEs and must be enhanced by **more widespread bottom-up participation**. Putting money on the table and addressing framework conditions, while being an important part of the story, is not enough. Europe also needs its **proactive policies to support the generation and scale-up of ideas and projects** within regional ecosystems that will deliver solutions to these challenges. This requires as well appropriate 'matching' mechanisms between those projects and funding opportunities. Capacity and capability that already exists within large scale initiatives like JTI's or PPP's should be connected with smaller, agile, regional actors that must be supported to contribute innovative ideas, developed from the bottom up. Those topics are further developed thereafter.

MULTI-LEVEL GOVERNANCE AND THE ROLE OF REGIONS

Regions are the right place to address innovative ecosystems, making the links between Europe and industry/SMEs and research centres, as well as citizens. Regionally developed ecosystems, connected across Europe could be the driver of new European value chains. This requires the development of a **stronger multi-level governance model**, combining policy levers at different levels to reach shared goals.

At the same time, **interregional cooperation has to be further developed** to enable investment in EU value chains. Smart Specialisation is relevant in that process. The **regional dimension** is not only a matter for Cohesion policy, but **has to be considered systematically in the design of all EU policies**. This would be a decisive step in **identifying more synergies between policies**, but also in **making EU policies feel more relevant to people** on the ground.

USER- AND NEEDS- DRIVEN APPROACH TO FINANCING

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** that enables them to adapt to meet their needs, rather than having to shape their project to meet the needs of the policy.

This would be beneficial for ensuring that **EU policies and funds are based on outcomes and impact**, rather than process. Progress must be made on **simplification, visibility and accessibility of EU policies for companies** and SMEs in particular.

Moreover, a **user-driven approach enables different forms of innovations, stakeholders and competencies** to be included in projects (e.g. combining technological and process innovation in a single project).

The most innovative and close to the markets – but risky – projects with the potential to generate growth and added value often face obstacles in accessing the market, engaging in co-investment and passing through the 'valley of death'. **Getting investor-ready** requires consideration of a range of complex issues like the protection and sharing of intellectual property rights, the management of data, the development of a business case and of the

appropriate funding mix and the identification of the skills and expertise needed in the team that will take this forward. There is much scope for doing work at the EU level on those issues (notably for SMEs), building on existing instruments and approaches. **Developing appropriate funding tools, funding mixes (including the mix between grants and loans, public and private funding at different levels), and innovative use of funds that enable the support of industry-led pilots, networks of demonstrators and the most promising innovative projects** should be central to the EU's work in this area.

This is clearly a challenge for current EIB instruments, which require a size of investment that is too large for **the most innovative, more risky, smaller projects, which may carry the seeds of future EU growth. Possibilities offered by financial instruments for investment projects stemming from interregional collaboration** (such as setting-up pilots, demonstration infrastructures, shared facilities, modernising production processes and creating new production lines in European priority areas such as Key Enabling Technologies and Digitalisation) **should in particular be explored**, in collaboration with regional stakeholders and investors.

An appropriate **State aid framework** is also required for facilitating interregional cooperation projects in the field of innovation, research and innovation.

A FRESH APPROACH TO SYNERGIES

This new approach to funding also calls for the development of **a fresh approach to synergies between policies. Developing co-investment projects requires a new design of projects**, combining a regional development perspective with a collaborative one, combining the development of regional assets with openness and collaboration with European partners. New management rules must be developed to allow **mixed funding of innovative projects from different sources (public/private, EU, national, regional funds), tools, domains, and across regions**. A renewal of current programmes and budget architecture that supports the implementation of smart specialisation, anchored in the regions, but linked to EU priorities and deployed across Europe, should be on the agenda. Accomplishing this will require the **breaking down of traditional silos and an acceptance that delivering results is more important than who was responsible for initiating them**.

Each of Commission's Directorates General has its own budget to spend and its own strategic objectives. Identifying practical opportunities to ensure that the totality of this support genuinely achieves something that is greater than the sum of its parts is one of the challenges for the future we should continue to work on collectively.

EU ADDED VALUE: DEVELOPING EU NETWORKS AND VALUE CHAINS

The EU added value criteria is usually considered as central in the European financial framework debate, but remains quite difficult to define precisely. However, the collaboration aspects are not questioned. That being said, **finding partners, achieving critical mass and sharing the early stage risk of pursuing new collaborative opportunities remain common challenges**.

The approach of **interregional collaboration, co-creation, and co-investment along value chains**, developed by the Vanguard Initiative, has the potential **to generate a strong and visible added value at all levels**, including for industry and SMEs. Building critical mass is essential for the EU and its industry to be competitive at the global scale.

From the Vanguard Initiative experience, identifying the potential for collaboration; mapping parts of the value chain; identifying key stakeholders and capability across regions, specialisations and needs, is a key stage in the process. This requires **coordinated effort, building capacity, knowledge and trust. The public sector, particularly at the regional level, can facilitate this process** within their regions. However, it is essential that the **right**

conditions for building collaboration networks around shared strategic interests and shared value are created. There is a clear role for the European Commission in supporting this type of activity.

CLUSTERS

The Vanguard Initiative is committed to using clusters and other innovation intermediaries in our regional ecosystems as the backbone of new emerging cross-EU and cross-sectoral innovative value chains. **Upscaling inter-cluster networks at EU level** can be a strong catalyst for engaging innovative actors (including companies, research institutions and public bodies) in EU value chains and foster open innovation in Europe.

That is why we have⁵ – and will continue to – advocate for **the development of an ambitious EU cluster policy** as a central part of EU industrial policy. We support the initiatives of the Commission in this field⁶, which should be further scaled-up in the next programming period. Furthermore, 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.

The reconfiguration of value chains is complex and requires mixing competencies that cut across regions, sectors, firms and people. Adopting a cluster perspective that recognises and supports what the added value of happens at the intersection where different clusters meet could facilitate the development of a mix of support tools dedicated to groups of enterprises rather than to individual ones, to cross-sectoral approaches and collaborative EU partnerships.

In conclusion, these are the **broad lines of a renewal of the agenda for investment, innovation and growth advocated by the Vanguard Initiative**. Its implementation will require **leadership and revamped governance at all levels and an innovation oriented; demand driven budget for Europe and its regions that is focussed on results.**

The Vanguard Initiative recommends that:

- *Europe's proactive policies must support the generation and scale-up of ideas and projects that will deliver solutions to societal challenges from the bottom-up. The capacity and capability that exists within large scale initiatives like JTI's should be connected to smaller, agile, regional actors that must be supported to contribute their innovative ideas.*
- *A more flexible, user- and needs driven approach to policy and funding is adopted, facilitating the most innovative and close to the markets projects passing through the 'valley of death'. EU policies should further address investor-readiness issues like the protection and sharing of intellectual property rights, the management of data, the development of business cases and of the appropriate funding mix and the identification of the skills and expertise needed.*
- *The regional dimension is considered systematically in the design of all EU policies, especially those concerning growth and investment.*
- *Developing appropriate funding tools, funding mixes, and innovative use of funds that enable the support of industry-led pilots, networks of demonstrators and the most promising innovative projects should be central to the EU's work. Possibilities offered by financial instruments for investment projects stemming from interregional collaboration should in particular be explored.*

⁵ http://www.s3vanguardinitiative.eu/sites/default/files/docs/general/vanguard_initiative_cluster_workshop_-_final_statement_vf.pdf

⁶ e.g. COSME call for inter-cluster collaboration.

- *A fresh approach to synergies is adopted. New and flexible management, financial and State aid rules must be developed to allow mixed funding of innovative projects from different sources (public/private, EU, national, regional funds), tools, domains, and across regions.*
- *A renewal of current programmes and budget architecture that supports the implementation of smart specialisation, anchored in the regions, but linked to EU priorities and deployed across Europe should be on the agenda.*
- *The European Commission should create the conditions for building collaboration and open innovation networks around shared strategic interests and shared priorities.*
- *A mix of support tools for clusters dedicated to groups of enterprises rather than to individual ones should be developed to enable cross-sector approaches and collaborative EU partnerships. Furthermore, 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.*

The Vanguard Initiative is fully committed to further developing this collaboration and elaborating new growth-enhancing policy approaches with European Institutions.