

INNOVATE – COLLABORATE – GROW
Vanguard Initiative High Level Policy Forum – Scotland March 2015

Discussion Paper – Innovation

The Future of Smart Specialisation – As the S3 agenda moves from policy to implementation with an increasing focus on inter-regional collaboration, what will the future of smart specialisation policies and practices look like?

Chair – Brian McVey, Director of Strategy, Scottish Enterprise

Discussion Lead – Cristina Oyón, Head of Strategic Initiatives at SPRI, Basque Economic Development Agency

Background

In the last decade, Smart Specialisation emerged as an academic concept to underpin new policy thinking in the European Commission's approach to better align public efforts for innovation within the Member States. These principles were developed and adapted to form part of the European Commission's approach to regional innovation, particularly through utilising European Structural and Investment Funds (ESIF) to support and deliver regional Smart Specialisation strategies.

Having a Smart Specialisation strategy in place is now a requirement of the 2014-2020 programming period. However the Vanguard Initiative commitment to Smart Specialisation - as an approach to channelling and informing investment activity - goes beyond that required in the ex-ante conditionality of ESIF.

As a relatively new concept, there is still much work to be done to ensure that the implementation of Smart Specialisation Strategies enables regions to reach their full innovation investment potential. Feedback from Commission services suggests that there are still some key issues and improvements that have to be made, particularly in the way in which industry is engaged in the development and delivery of these approaches and in the ability of regions to collaborate and exploit knowledge and expertise to achieve panEuropean benefits including EU economic growth.

The Vanguard Initiative New Growth through Smart Specialisation was set-up with the aim of capitalising on the smart specialisation approach. Through industry-led strategies and exploiting complementarities in the creation of new EU industrial value chains through interregional cooperation, the Vanguard Initiative hopes to overcome existing challenges of fragmentation and a lack of critical mass to build globally competitive EU value chains.

Further information on Smart Specialisation can be found via the following links; [S3 Platform](#); [S3 and Cohesion Policy Factsheet](#)

Key Issues

The core purpose of the Vanguard Initiative is to drive new growth within and across member regions through the successful implementation of smart specialisation strategies.

This was reinforced and restated by the political leaders of the Initiative in [Milan](#) in November 2014.

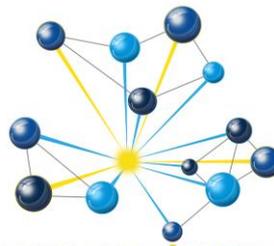
The critical factors that support successful design and implementation of smart specialisation strategies are relatively well known. The 2013 OECD Report, [Innovation Driven Growth In Regions, The role of Smart Specialisation](#) outlines some of the requirements for a successful S3 approach and the reasons why this may not happen across the board "Three types of strategic capacities are needed to grasp future opportunities: the capacity to identify local strengths; the ability to align policy actions and to build critical mass; and the ability of regions to develop a vision and implement the strategy." (OECD 2013)

Capacity to deliver and the ability to look and act outwith your own region to build critical mass are still barriers to successful implementation of Smart Specialisation. Some further challenges that have been identified are;

- Promotion of entrepreneurship across the board – including incentives for entrepreneurs to engage with – and help to lead on - this agenda
- Promoting General Purpose Technology platforms and networks – road mapping and making connections between public and private sector actors in different, but related domains
- Capacity within the region to understand strengths and future opportunities, ability to align available support accordingly, both upstream and downstream (e.g. from education to production)
- Strategic governance for smart specialisation – make the connection between prioritisation and investment
- Openness to other regions – get over "not invented here" and get on with understanding what you do best and who you can partner with to enhance your competitiveness.

Questions for Discussion

1. In reality, how well do our current smart specialisation strategies address market failures like fragmentation and lack of scale and incentivise industry participation in the design, development and delivery of these strategies? Do businesses and



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entrepreneurs understand smart specialisation and “what’s in it for them”? How can we best incentivise their participation?

2. What are you currently doing in your own region which demonstrates a clear and positive departure from traditional approaches to innovation?
3. Successful smart specialisation strategies rely on an alignment with other supporting policy approaches with an economic growth focus (such as in competition, clusters, rewards, including innovation vouchers). To what extent is there complementarity across the Vanguard Initiative regions in adopting this approach to policy alignment, and how can this be improved? What are the gaps in practice and gaps in policy?
4. To what extent is there current capacity to understand and critically analyse relative strengths within and across different VI regions, and to devise approaches to capitalise on this? How can we build on our learning and experience of the VI Pilot activity?
5. How can we organise mutual learning to enhance the development of outward looking smart specialisation strategies to build EU capacity in global markets?

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Innovation Delivery Ecosystems – Innovation Ecosystems or cross-sectoral clusters are not ends in themselves but have to be action oriented; focussed on enhancing business competitiveness, especially amongst SMEs, and delivering growth and economic transformation through investment, innovation and internationalisation. What does this landscape look like across the Vanguard Initiative and how can we use it to support our shared objectives?

Chair – Dr Stuart Fancey, Scottish Funding Council

Discussion Lead – Petri Räsänen, Director for Innovation & Foresight, Tampere Region

Background

Innovation either builds on or invents new products or approaches in areas of existing expertise. Having an ecosystem or cluster that supports continued innovation, but also enables connections to other related applications, industries or value chains is critical to optimising the economic value of innovation.

The benefits in bringing together actors in a single sector within a cluster are well understood. However in previous years, the focus has been on how well the cluster has operated – i.e. the efficiency, rather than the effectiveness, of the cluster. Recently, policy approaches have evolved to consider the benefits that can be brought by bringing together wider interests (infrastructure, people, skills, technology) across related sectors within a single innovation ecosystem.

This is reflected in recent publications in the emerging industries space; in the profile that has been given to the development of Key Enabling Technologies and the importance of pan-European value chains; and, in the development of a refreshed EU Cluster Policy. As an Initiative, we are at the forefront of contributing to thinking on these matters at EU level. In October 2014, the VI drafted a clear statement on emerging clusters policy and fed this in to the European Commission Clusters Conference. However there is still considerable value to be gained in better understanding what makes these ecosystems and clusters work more effectively.

For example, in the past, the traditional approach to clusters was concerned with assets and infrastructure that were easily identifiable, capable of being managed and generally in a single, fixed location. Now, there is recognition that, in order to capture the true value of innovation, clusters have to be able to flex and adapt in response to

new intelligence and opportunities and to explore ideas outwith a traditional sectoral focus and regional setting.

Further background information can be found via the following links;

[European Cluster Panorama \(2014\)](#)

[KETs \(High Level Group/Sherpa Group\)](#)

[Cluster Response from the VI](#)

[Cluster Portal](#)

Key Issues

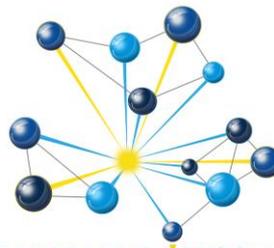
Supporting an effective innovation ecosystem is a critical component of delivering against the smart specialisation objectives of every region within the Vanguard Initiative and across Europe more broadly. Not only that, making the connections between these ecosystems is essential for the establishment of new EU, global and cross-sectoral innovation value chains that can compete in the global marketplace.

There are several key challenges to creating these ecosystems and cluster organisations;

- Supporting or adapting the focus of existing sector specific clusters to look at the spaces between (white space/emerging industries);
- Mobilising a critical mass of entrepreneurial and innovation potential that bridges the gap to markets and fosters a more demand-driven approach to innovation;
- Undertaking co-investment in European priority areas to stimulate and facilitate the direction of new innovation ecosystems; and
- Supporting and incentivising SMEs and other industry players to participate in the innovation ecosystem and find other regional, national and international partners.

Questions for Discussion

1. How are VI Regions moving from a concept of a static, place-based cluster approach to innovation, to something more agile and dynamic supporting open innovation and co-creation? Examples from within your region?
2. How are new trends in innovation like user-driven innovation, social innovation, public sector innovation developing and being supported in your region?
3. How is the innovation potential in the space between traditional sectors and emerging industries being identified and optimised in your region?
4. What action is planned within your region to get from the more traditional approach to the kind of agile ecosystem described in this paper?
5. What capacity building is necessary to equip modern cluster organisations and managers for a more dynamic brokerage role (making strategic connections)?
6. Are the right support mechanisms and tools available at European level available or options to scale up successful regional approaches?



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7. To what extent are the innovation ecosystems/clusters across Vanguard Initiative regions currently interacting?
8. What more can be done to support this type of interregional collaboration amongst the Vanguard Initiative regions?

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Discussion Paper – Internationalisation

Interregional Collaboration – Vanguard Regions are committed to leading by example in the development of industry-led, inter-regional collaboration that supports the identification, development and delivery of globally competitive European value chains. What action is necessary to achieve this shared objective?

Chair – Donna Chisholm, Head of Business Innovation and Growth Sectors, Highlands and Islands Enterprise

Discussion Lead – Alessandro Marini, Director of AFIL, Lombardy Cluster on Intelligent Factory

Background

Recent EU industrial and innovation policy has highlighted the need for stronger, more industry focussed collaboration and co-investment across regional boundaries. The proposed development of Smart Specialisation Platforms in priority areas of EU strength is a case in point, referenced in the Commission’s Reindustrialising Europe Communication.

Inter-regional collaboration is widely supported across EU policy and funding programmes e.g. European Territorial Cooperation, including Interreg EUROPE and through the FP7 and Horizon 2020 programmes, as well as through specific articles within European Structural and Investment Funds (e.g. Article 70 ERDF). While these programmes offer new routes to collaboration across Europe, they often fall short of incentivising business engagement. In addition, they are time-limited in nature which can sometimes prevent the full potential of an idea being realised beyond the end of the project. They can also often be policy or research focussed, falling short of delivering on something that would be of sufficient relevance to industry and more obviously linked to economic growth.

Currently there is some distance to travel between the aspiration to deliver interregional and transnational collaboration and the support mechanisms that exist to make this happen. In spite of this, many successful examples exist. As Vanguard Regions, we have made a commitment to lead by example, building on existing experience, to deliver new approaches to industry-driven, interregional collaboration.

The VI pilot actions currently underway are exploring these issues. However, further consideration of how to create the optimum conditions to foster industry-led, interregional collaboration is required.

Further background information can be found via the following links;
[Communication – For A European Industrial Renaissance](#)
[Examples of existing collaborations](#)
[Interreg Europe](#)

Key Issues

For sustained, industry-led, inter-regional collaboration to become a reality, a number of enabling conditions must be present within the region, amongst collaborating regions and at a European level.

For example, some evidence emerging from early industry engagement in the VI Pilot actions suggests that industry players in complimentary sectors are not aware of one another's activity. This limits their ability to identify opportunities to collaborate, to innovate with scale capacity for international competitiveness, and to reap the economic benefits of related success.

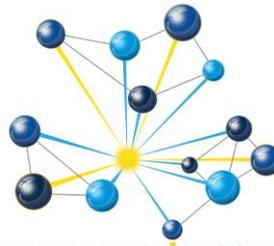
Regional actors and organisations can act as a bridge to facilitate knowledge exchange at a more specific industry-focused level than traditional brokerage, matching or policy learning activities allow. Enabling this requires intensive resourcing and support on the part of those involved, at all levels and at all stages of collaboration. The Learn, Connect, Demonstrate, Commercialise methodology developing through the VI Pilots supports this assertion and shows the positive potential of early and sustained industry engagement for a clearly defined purpose.

However there is more action required to incentivise industry partners to come together in advance of understanding ultimately "what's in it for them" – i.e. the value proposition.

Without sustained support to resource and develop this, the risk is that critical mass in European value chains is never achieved, thereby limiting the competitiveness of European industry in international markets.

Questions for Discussion

1. What examples are there in your region of successful, commercially-driven, interregional collaboration?
2. What have the critical success factors been in delivering this outcome?
3. What needs to be done at regional, national, EU level to better enable industry-led, inter-regional collaboration?
4. To what extent are European initiatives like EU Missions for Growth, EU Business Centres and EU Business Avenues abroad being used and how effective are they?



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5. Is the approach we are taking through the VI Pilots the right value proposition to facilitate industry engagement? And what do we know about the most effective ways (and the right time) to take this opportunity to them?
6. How can we better use our collective knowledge and experience (especially from the VI Pilots) to inform EU Policy in this space?
7. What more can be done to support the Vanguard Initiative Pilots to achieve their full international potential, including new forms of collaborative intelligence-gathering and the internationalisation of innovation?

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Discussion Paper – Internationalisation

Interregional Sharing of Skills and Infrastructure – Realising our commitment to delivering inter-regional collaboration requires us to access the right people with the right skills and the right resources and infrastructure at the right time to deliver the most benefit to our projects and programmes. Only through making best use of our collective talent and infrastructure will we be able to build EU value chains that can genuinely compete in global markets. What action is required at EU, National and Regional level to achieve this?

Chair – Chris Brodie, Lead Manager, Key Industries, Skills Development Scotland

Discussion Lead -State Secretary Dr. Hartmut Mangold, Economy, Employment and Transport, Saxony

Background

Having access to the right people with the right skills and experience, and to the right research and industrial infrastructure is essential if projects or products are to be developed, commercialised and become globally competitive.

In constrained economic times there is a need to optimise public sector investment in infrastructure whether this is at research or pilot demonstrator scale. Across Europe, understanding the research and industrial infrastructure that is available and how it can be accessed and utilised is vitally important. There have been attempts to map the European Research Infrastructure landscape with initiatives like [MERIL](#), an inventory of openly accessible research infrastructures (RIs) of more-than-national relevance in Europe across all scientific domains, including the humanities and social sciences. However this picture is not complete and there does not appear to be a single source or mechanism for identifying and utilising available infrastructure.

Similarly there is a need to ensure that, where particular skill sets and expertise are required, it is possible to identify the right people and to match these to the opportunities (such as jobs). Traditionally much of the work in Europe to assist with the transfer of skilled labour has focussed on the mutual recognition of qualifications and measures like Erasmus + and Erasmus for Young Entrepreneurs. However, industry is changing, with new emerging industries developing all the time. There is a need to keep pace with these developments to ensure that future generations are able to accelerate and enhance Europe's ability to compete in a highly dynamic

global setting. It is unclear if current mechanisms in place – at EU, national and regional levels are sufficient to support this or if they are sufficiently aligned.

Whilst these are not issues that have been considered in depth by the Vanguard Initiative to date, they are of emerging interest and relevance as the VI Pilots move from the 'Learn and 'Connect' elements of their activity to 'Demonstrating' and 'Commercialising' their outputs. In this way, the VI Pilots can provide a useful opportunity to test the ease with which it is possible to gather this type of information and to facilitate the sharing of infrastructure and human resources to support the development of EU value chains.

Key Issues

While there may be a number of schemes and mechanisms across Europe to support the identification and use of research and commercial infrastructure, the ease with which (and the extent to which) there is an awareness and use of these is unclear.

In addition, by focussing on the principles of smart specialisation to inform our investment approach in our VI Pilot activity, it may be the case that the skills – in areas of emerging industry - required for projects and programmes will be at an early stage of development or in unfamiliar areas. Correspondingly, recognisable pan-European qualifications might be underdeveloped that would support the free movement of the right people in these emerging industries. Therefore, the speed and alignment of skills / qualifications supply and demand in areas of EU emerging industry will be a crucial factor in supporting EU competitiveness. There is a need to consider how these barriers can be overcome.

Questions for Discussion

1. What experience is there amongst Vanguard Regions in sharing skills and enabling access to research demo-pilot and industrial infrastructure across borders and beyond?
2. Who does this well and how can we as a Vanguard Initiative, committed to interregional collaboration, learn from this experience and replicate it to meet our stated objectives?
3. To what extent do we know what we already have? How can this type of interregional collaboration and sharing of skills and resources be made easier?
4. What are the barriers to achieving this and what actions would be required to address these barriers (at EU, national and regional levels)?
5. How can these actions be integrated/connected to the Vanguard Initiative Pilot actions in specific priority areas that are already underway?

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Discussion Paper – Investment

Funds & Financial Instruments - What are the common access to finance problems across the Vanguard regions? What are the short, medium and longterm options for the Vanguard Initiative to support interregional cooperation through the application of financial instruments?

Chair – Ian McCall, Head of Investment and Access to Finance, Scottish Government

Discussion Lead – Pat McHugh, Investment Director, Scottish Investment Bank

Background

In November 2014, European Commission President Jean-Claude Juncker presented an [Investment Plan for Europe](#), which is currently setting the overall agenda for accelerating investment across the EU. The Plan seeks to connect viable projects with European added value (large and small) with investors and address the current lack of private sector investment in the real economy. The main strand of the Plan is the proposed establishment of a new European Fund for Strategic Investments (EFSI), with €21 billion committed with the aim of leveraging €315 billion in investment in infrastructure and SME projects from third parties (Member States, National Promotional Banks, private investors). Participation of third parties could, for example, come in the form of equity-oriented regional investment platforms. The EIB will provide Technical Assistance to help the establishment of appropriate channels.

A 'project pipeline' will be established to provide information on investment projects which are: economically viable with the support of the initiative; sufficiently mature to be appraised on a global or local basis; and of European added value and consistent with EU policy priorities. While the opportunities presented by EFSI and the project pipeline remain unclear, the Vanguard Initiative will continue to actively engage and position itself in this agenda.

In the context of the wider Investment Plan, the Commission has launched a new platform for advisory services on financial instruments: '[fi-compass](#)'. The [multinational strand of 'fi-compass'](#) is of particular relevance to the VI as it includes an open call for project proposals (once a year or every two years) for more than two regions wishing to set up multinational financial instruments targeting shared investment priorities. 'Fi-compass' could cover up to 95% of the costs to set up the Financial Instrument (but make no contribution to its capital).

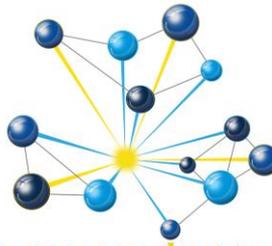
Key Issues

The [Milan Declaration](#) was signed by the political representatives of the Vanguard Initiative, at their annual political meeting (November 2014), and states the need for the Vanguard regions to step up co-investment efforts, in particular exploring solutions to leverage public-private investments to support demonstration and piloting of new value chains in European industry clusters. As the work of the pilots advances, understanding how to take forward commitment to joint funding investment is a critical area for the Vanguard Initiative to take forward.

Initial responses to the financial instruments/access to finance survey of Vanguard regions has indicated that the most common acute problem across the membership is access to early-stage financing/risk capital for SMEs. Experience of using financial instruments is extremely varied, ranging from very limited experience to long-term experience in developing financial instruments. In addition, the Vanguard Initiative currently lacks instruments for co-financing demonstrators and pilots.

Potential options for the Vanguard Initiative's work in this area include:

- **Actively engaging with the EIB** (supported by Technical Assistance) in the exploration of co-investment mechanisms in quality investment projects for the renewal of European industry that are part of the Vanguard Initiative project pipeline.
- Exploring the possibility of a **dedicated investment platform** for a European pilot infrastructure for the Industrial Renaissance.
- **Focusing on the pilot activity and the growing need for each pilot to generate a joint investment plans** – this level of activity, while complex, is based on a pragmatic need for the regions involved in the pilots to consider how participating regions can contribute to each pilot's investment agenda. Projected timescale: shorterterm (12-18 months)
- **Developing a joint project plan, under which each partner would be responsible for sourcing funding** – this approach relies on a greater level of pragmatism, which would see the Vanguard Initiative regions taking forward their investment commitment by contributing to a joint 'fund'. The routes to setting this up would depend on the capacity of each region. Projected timescale: medium-term (1-3 years)
- **Developing a joint plan with a joint funding structure, for example a transregional holding fund** – 'Fi-compass' could finance the setting up of a specific Financial Instrument for Vanguard Initiative activity FI (2016 or 2017 call for applications). Projected timescale: longer-term (3-5 years)



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Questions for Discussion

- What are the key priority actions for the VI to take forward to develop our co-investment commitments?
- Which actions should be taken at EU, Member State and regional levels to support this agenda?

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Discussion Paper – Investment

European Structural and Investment Funds – European Structural Investment Funds (ESIF) can be used more efficiently and synergies between different EU, national and regional policies can be made, as well as increasing public and private investments. How can the Vanguard Initiative better deliver this within and across their regions?

Chair – Shane Rankin, Scottish Government, Deputy Director European Structural Funds

Discussion Lead – Daniel Kronmann, Skåne Region

Background

[European Structural and Investment Funds](#) (ESIF) are designed to work together to support economic development across all EU countries, in line with the objectives of the Europe 2020 strategy and to act as a catalyst for further public and private funding.

There is a clear priority for all of these funds to strengthen regional economic and social cohesion. In ERDF, this is evidenced through investment in growth enhancing sectors to improve competitiveness and job creation. In the 2014-2020 Programme there is a significantly greater focus on outcomes and on ensuring that it is possible to draw a direct line between investment and jobs and growth. The ERDF also finances cross-border/inter-regional cooperation projects.

In addition to ERDF and the provisions within the regulation (e.g. Article 70), there are a number of tools and initiatives that also enable interregional collaboration for example Interreg and previous ERA-NET programmes.

Smart Specialisation has been positioned as a key enabler for identifying and targeting investment priorities under ESIF and all national and regional authorities¹ are required to have smart specialisation strategies in place. While this gives a clear statement of intent around the smart use of funds, the extent to which Smart Specialisation principles are embedded across funds and the extent to which it is possible to exploit funding synergies within and across regions remains unclear.

¹ http://ec.europa.eu/regional_policy/index.cfm/en/

Within the Milan Declaration all regions from the Vanguard Initiative are committed to;

- Facilitating access to combined funding for co-investment projects, taking advantage of better synergies between regional, national and European instruments to support this interregional collaboration.
- Exploring solutions to leverage public-private investments through European Investment Bank/European Investment Fund, in particular to support demonstration and piloting of new value chains in European industry clusters.

Key Issues

In delivering on the commitments agreed by our political leaders in Milan, there is a need to understand the extent to which the ESIF models that each of our regions have adopted are able to support this.

This discussion session requires a clearer understanding of whether and how the different VI ESIF models are able to interact, and how funding synergies and collaborative investment can be realised across other programmes and across VI regions

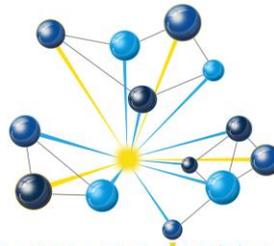
How can we achieve greater leverage from our ESIF programmes to deliver on our VI commitments?

Are there challenges and disincentives in what has been agreed in the operational programmes that will prevent us from delivering our Vanguard Initiative commitments?

What are the other funds and instruments that can be utilised and combined to support Vanguard Initiative activity? Is ERDF the only mechanism for S3, or are there other areas of ESIF (e.g. Rural Development) that could support delivery in this way, bioeconomy for example?

Questions for Discussion

1. How do Vanguard Regions currently utilise their ESIF funds to support the delivery of smart specialisation strategies?
2. Do all funds under the Common Strategic Framework reflect the smart specialisation priorities of your region?
3. Have Vanguard regions constructed their OPs in a way that build the capacity to access wider EU funds and opportunities? And how can this support the delivery of our VI commitments?



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4. Are there barriers in the way in which our OPs have developed, independently of our Vanguard Initiative commitments, that will prevent us from achieving the outcomes stated in the Milan Declaration?
5. If there are, what can be done to address this?
6. What other sources of funding at national and regional level can be mobilised to support Vanguard Initiative activity?