

## THE ECONOMIC IMPLICATIONS OF SMART SPECIALISATION GOVERNANCE

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- Smart Specialisation strategies are a legally binding condition for access to European Cohesion Policy funding for research and innovation in the period 2014-2020, and provide the strategic governance framework to guide investment in those areas.
- Weak or underdeveloped governance of Smart Specialisation strategies can undermine the effectiveness of the policy.
- This Policy Insight presents a general equilibrium analysis of the impact of the quality of Smart Specialisation governance on its macroeconomic returns.
- A combination of survey data on Smart Specialisation governance and the RHOMOLO spatial general equilibrium model shows that improving the Smart Specialisation policy governance significantly increases the investment-related impact of the policy.
- On the other hand, the results suggest that a considerably greater impact can be achieved by improving governance quality.
- This finding calls for interventions targeting those areas where the quality of policy governance is lagging behind.

### 1. Introduction

This Policy Insight presents recent research on the relationship between policy governance quality and the returns on research and innovation investments made within the framework of Smart Specialisation strategies under the 2014-2020 Cohesion Policy. The study is fully detailed in Gianelle et al. (2023).

Effective policy design and implementation rely on high-quality institutions and governance. The ability to create and carry out policies that meet real needs within the expected time and budget, and achieve objectives, is crucial. Sound governance, encompassing all these aspects, is fundamental for policy effectiveness, as it mediates the relationship between the desired outcome and the methods and resources that can be used to achieve it.

The results of an ex-ante evaluation exercise that assumes that a policy is properly designed and fully implemented as intended, may differ from ex-post reality. Ignoring the governance arrangements of the policy may lead to erroneous implications about its effect, and diminish the usefulness of ex-ante evaluations as a tool to guide policy action.

In the context of the European regional innovation policy for Smart Specialisation, evidence shows that in some cases the strategies were not in line with the design principles of the policy. The policies were often not implemented as expected, highlighting a gap

between the policy “on paper” and its translation into actual interventions and implementation (Gianelle et al., 2020).

This Policy Insight aims to bridge the gap between traditional macroeconomic simulations and real-world policy challenges. It addresses the pressing need for timely impact scenarios that consider factors influencing policy success, particularly in multi-annual policy programmes like Smart Specialisation strategies.

### *The policy impact of this research*

The results summarised in this Policy Insight are featured in the 9<sup>th</sup> Cohesion Report published by the European Commission’s DG Regional and Urban Policy.

### 2. Results

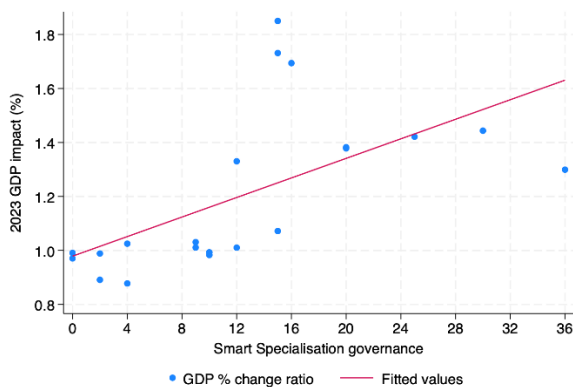
The macroeconomic effects of policy governance quality are assessed using RHOMOLO, the dynamic spatial general equilibrium model developed by the JRC in collaboration with DG REGIO.

The model is combined here with a survey-based measure of the quality of Smart Specialisation governance along two dimensions: management and inclusivity. The management pillar refers to the

policy's strategic management, in terms of the existence of clear responsibilities concerning objectives, fund deployment, coordination, and competencies, as well as adequate human resources. The inclusivity pillar refers to the involvement and participation of stakeholders in all stages of the Smart Specialisation strategy definition and implementation.

Due to data availability, the results of the analysis are limited to the 21 NUTS-2 regions of Italy. Nevertheless, given their different levels of development, the conclusions can provide valid insights into the wider EU context. Figure 1 shows a positive correlation between the quality of Smart Specialisation governance and the return on policy investment.

Figure 1. Correlation between quality of Smart Specialisation governance (horizontal axis) and GDP impact (vertical axis)



Source: RHOMOLO (Gianelle et al., 2023).

Thus, regions with a better Smart Specialisation governance experience greater GDP impact returns from innovation investments made through Cohesion Policy than regions with inadequate governance. These findings indicate a suboptimal implementation of the policy in poorly governed regions.

### 3. Conclusions

Results such as those reported here highlight the importance of all the phases of the policy cycle, from planning to implementation and monitoring. They call for a strengthening of administrative capacity in the EU, as improving the quality of governance at the regional level can increase the impact of European policies, leading to greater economic benefits in the short and long term in terms of development and convergence.

Moreover, the research approach adopted here calls for improvements in the way standard macroeconomic policy assessments are carried out, as the assumption of perfect policy implementation may often be unrealistic.

### How to cite:

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### Read more

European Commission (2024). 9<sup>th</sup> Cohesion Report. Luxembourg: Publication Office of the European Union. DOI: 10.2776/264833.

Gianelle, C., Guzzo, F., Barbero, J., and Salotti, S. (2023). The governance of regional innovation policy and its economic implications. *The Annals of Regional Science* online, <https://doi.org/10.1007/s00168-023-01241-2>

Gianelle, C., Guzzo, F., and Mieszkowski, K. (2020). Smart Specialisation: What gets lost in translation from concept to practice? *Regional Studies* 54(10), 1377-1388.

## RHOMOLO

*Dynamic Spatial CGE Model for EU regions*

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