



# Towards a smart cohesion policy

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European cohesion policy should acquire a sharper edge. Convergence seen as its guiding principle may be a powerful motivating factor but cannot be the only centre of gravity of the policy. Cohesion should no more be directed at an unattainable 'sameness'. We should rather aim at internal compatibility, in order to be able to act externally as a coherent organism.

In thinking about cohesion policy inspiration should be drawn from the concept discussed in the field of innovation policy where the idea of "smart specialisation" has provided useful guidance to optimise government intervention. This new concept, which suggests a better use of regions' specific potential, is very much in keeping with a growing demand for cohesion policy to depart from a 'one-size-fits-all' approach, becoming a 'place-based' policy instead.


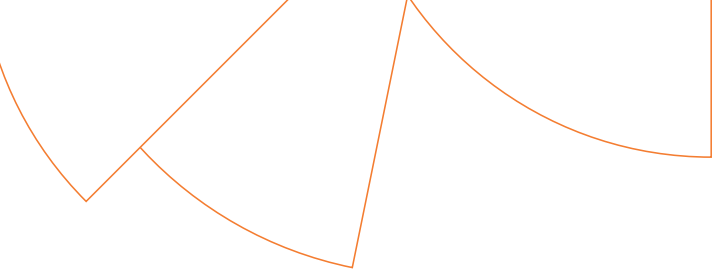
Nevertheless, potential synergies between the two are still not explored sufficiently. Cohesion policy is about much more than stimulating innovation. For some time, a perception has dominated that cohesion and innovation policies cannot go well

together, the former being focused on convergence and the latter on achieving excellence. Yet, the theme of innovation has progressively gained relevance among objectives of cohesion policy. As a result, cohesion may now just as well be perceived as a major European instrument of investment in innovation. A possible fusion of cohesion policy and smart specialisation, what we would call 'smart cohesion', may not only serve both policies themselves, but may also give a much-needed boost to European integration as a whole.

## The right time to act

In the next few months, the EU should engage in a 'smart' re-framing of cohesion policy.

First of all, the EU has already entered into the period of negotiations of the New Financial Framework. On June 30<sup>th</sup> 2011 the Commission put forward its proposal for the next seven-year budgetary period (2014-2020), opening the floor to reactions from the Member States. Negotiations are expected to last until the end of 2012, though in the meantime legislation in specific areas



will be prepared. In the case of cohesion policy, a formal meeting of ministers is scheduled for December 12<sup>th</sup>, 2011, when they should already specify the bases of a potential compromise agreement. This means that we are bestowed only with a few months wide window of opportunity for a 'smart' refurbishing of specific EU policies and programs.

Secondly, innovation is currently on top of the EU agenda. For the last two years we have been observing a 'silent revolution' in the EU innovation policy<sup>1</sup>. The first European Innovation Commissioner, Maire Geoghegan-Quinn, has managed to introduce innovation into the hard core of the EU agenda. In particular, she has succeeded in promoting an idea of "smart specialisation" as a way to make Europe2020 more effective than its predecessor and achieve greater coherence between European regional and R&D&I policies. A strong position of Commissioner Quinn may to some extent be explained by the fact that the importance of innovation in general has increased both in the global and the European context. The global economic crisis has drawn attention of decision-makers on an urgent need to focus on new sources of growth. This is especially acute in the case of the EU whereby one can note a growing consciousness that in the long run we would be able to compete with United States, Japan or China only if we act as one strong and consolidated economy.

Besides, for the last three years, cohesion policy has been a subject of vivid discussions, which have led to a widespread agreement that it should become a 'place-based' policy. Other of its possible reforms, reflected also in the Commission's

**While we can see a general willingness to reform the cohesion policy, the accent on its potential pro-innovative role seems to be insufficient.**

*Budget for Europe2020*<sup>2</sup> proposal, include an introduction of a new category of regions ('transition region'); thematic concentration; *ex ante* and *ex post* conditionality; a performance reserve (5% of cohesion budget reserved for best-performing regions or Member States); as well setting aside a separate Connectivity Fund for projects in transport, energy and ICT. While we can see a general willingness to reform the cohesion policy, the accent

on its potential pro-innovative role seems to be insufficient. Previously, in a communication *Regional Policy contributing to smart growth in Europe2020*<sup>3</sup>, the Commission has tried to explore a potential for cohesion policy to become 'smart'. There is a need - and an appropriate occasion - to reinforce this line of thinking in discussions over the future of cohesion.

There are two further, more general reasons why this is a suitable time to bet on 'smart cohesion'.

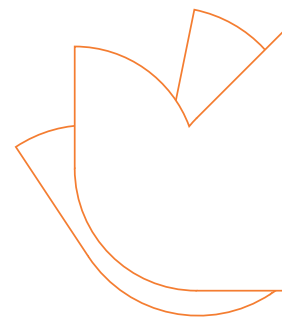
There is a growing perception that the EU is, once again, coming to a parting of the ways<sup>4</sup>. Fundamentals of the European project, like common currency, single market, Schengen agreement, common agricultural policy or cohesion, are successively put into question. Some even argue that the eurozone crisis threatens to blow up the EU from within. Citizens of the most suffering countries (like Greece or Spain) are increasingly expressing their disillusionment with politics, also at the EU level. At the same time, European leaders are acting under a growing *inquietude*, with a sense of limited impact on the course of things. All of this means that the whole European project needs to be given a new energy. Re-framing the EU as an organism

1 P. Zerka, "A New Innovation Spirit and the Future of Lead Markets", TGAE III - contribution to the Polish, Danish and Cypriot Trio Presidency of the European Union, June 2011

2 European Commission, "A Budget for Europe2020", Brussels, June 29th 2011, p. 11-12

3 European Commission, "Regional Policy contributing to smart growth in Europe 2020", Brussels, October 6th, 2011

4 J. Emmanouilidis, J. Janning, "Stronger after the crisis", European Policy Centre, June 2011



which is strong not because of its presumed homogeneity, but thanks to its harmoniously integrated internal differences, may help Europeans to regain faith in integration. This is where ‘smart cohesion’ comes in.

Finally, we are witnessing a global transformation in regional policies. The most clear-cut dispute has erupted between World Bank, opting for space-neutral approaches, and OECD which supports a place-based policy. In a nutshell, the former focuses on fostering maximum inter-regional factor mobility in response to wage signals in order to maximize factor rewards and achieve greater aggregate welfare<sup>5</sup>. The latter, emphasizes underdevelopment traps associated with location-specific externalities and market failures which can inhibit the potential of certain regions to grow<sup>6</sup>. Simple ‘convergence’ is increasingly questioned as an overarching policy objective. Instead, new focus is placed on the need to treat every region separately, supporting its specific strengths and eliminating the bottlenecks. Accordingly, greater attention is paid to the specificities of ‘lagging regions’. As Jose Enrique Garcilazo from OECD puts it, “an exclusive focus on the growth poles neglects the fact that the tail of the distribution still accounts for around two thirds of aggregate growth”<sup>7</sup>.

Most importantly, the sympathy of policy-makers is clearly moving towards the second approach,

which can be noted in the growth strategy of the Obama Administration and in “the philosophical approach which underpins the current reforms of EU Cohesion Policy”<sup>8</sup>. Prof. Barca, in the report “An Agenda for a Reformed Cohesion Policy”, advocates for “the full utilisation of the potential of every place or region”<sup>9</sup>.

All of this shows that there are favorable conditions for the reframing of cohesion in a ‘smart’ fashion. Still, uncertainty remains regarding the exact content of cohesion’s innovative dimension.

Re-framing the EU as an organism which is strong not because of its presumed homogeneity, but thanks to its harmoniously integrated internal differences, may help Europeans to regain faith in integration.



## Cohesion and innovation: old friends

**Notwithstanding a popular perception of cohesion policy, it has already played a crucial role as one of the EU’s most pro-innovative instruments.** This has been underlined in a recent *Innovation Union Competitiveness Report*, which observed that thanks largely to a gradual introduction of innovation objectives in cohesion policy, the proportion of EU budget dedicated to research, development and innovation (R&D&I) has increased from 3% in 1985 to 11% in 2009<sup>10</sup>.

Over this time, we have observed a significant increase in not only cohesion funds but also framework program dedicated to research and innovation (as demonstrates **Chart 1**). In the current programming period (2007-2013), 14,4% of all the Structural Funds are devoted to research, deve-



5 World Bank, 2009, „World Development Report 2009: Reshaping Economic Geography”, World Bank, Washington DC

6 OECD, „How Regions Grow”, OECD, Paris 2009; OECD, „Regions Matter: Economic Recovery, Innovation and Sustainable Growth”, OECD, Paris 2009

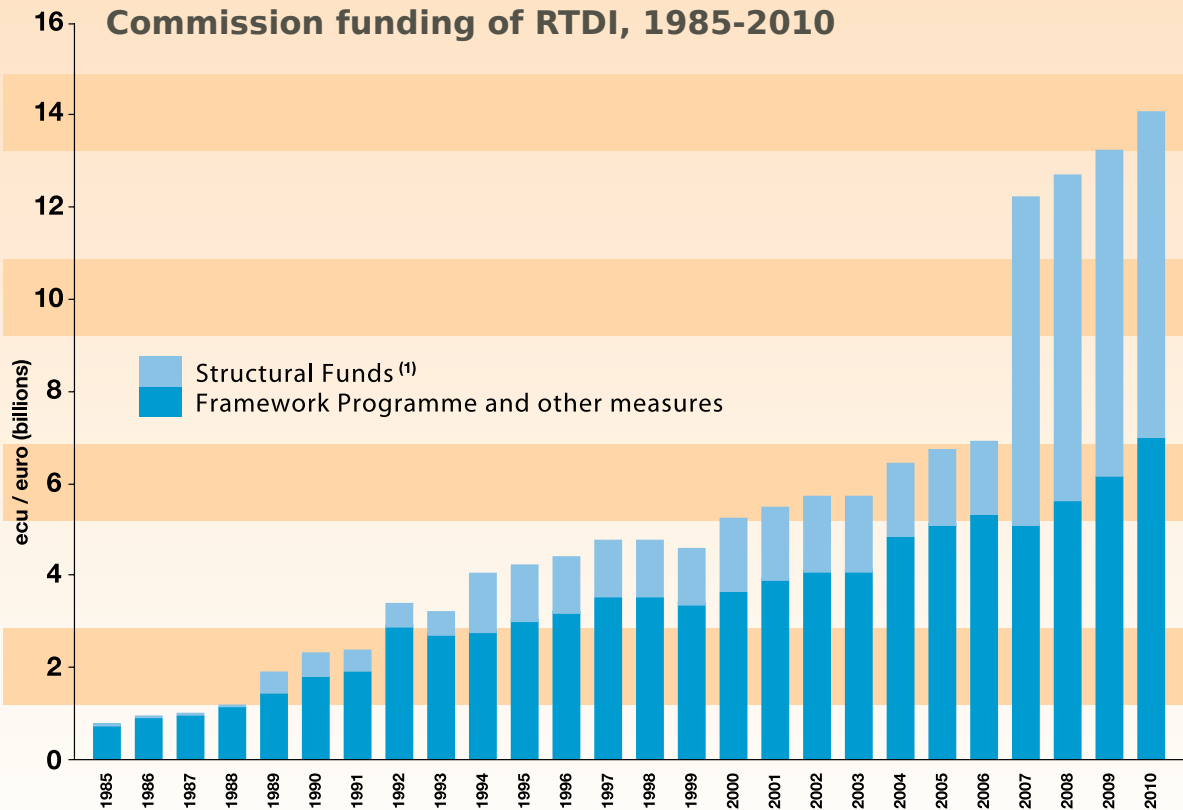
7 J.E. Garcilazo, J.O. Martins, W. Tompson, “Why policies may need to be place-based in order to be people-centred”, VOXEU, 20 November 2010

8 McCann P., Ortega-Argiles R., “Smart Specialisation, Regional Growth and Applications to EU Cohesion Policy”, Working Paper, 2011, p. 14

9 F. Barca, “An Agenda for a Reformed Cohesion Policy”, April 2009, p. 17

10 European Commission, “Innovation Union Competitiveness Report”, June 2011, p. 79

**Chart 1. Evolution of European Commission funding of RTDI, 1985-2010**



\*RTDI = research, technology, development and innovation Source: DG Research and Innovation Data: Eurostat, DG REGIO Note: (1) Estimated average annual funding.

Innovation Union Competitiveness Report 2011

development, technology and innovation activities (RTDI), in comparison with mere 5% in 2000-2006<sup>11</sup>. What is more, Structural Funds also support entrepreneurship, human capital and ICT, which would increase the total amount to 24,5% of cohesion funding<sup>12</sup>. Although EU funding of R&D reaches on average 16% of total national civil R&D budgets in EU-27, in some cases the 2007-2013 Structural Funds are a major source of funds for R&D, representing more than 100% of the countries' own national civil R&D budgets - up to 165% in Latvia<sup>13</sup> (as demonstrates **Chart 2**).

11 Ibidem, p. 29

12 Ibidem

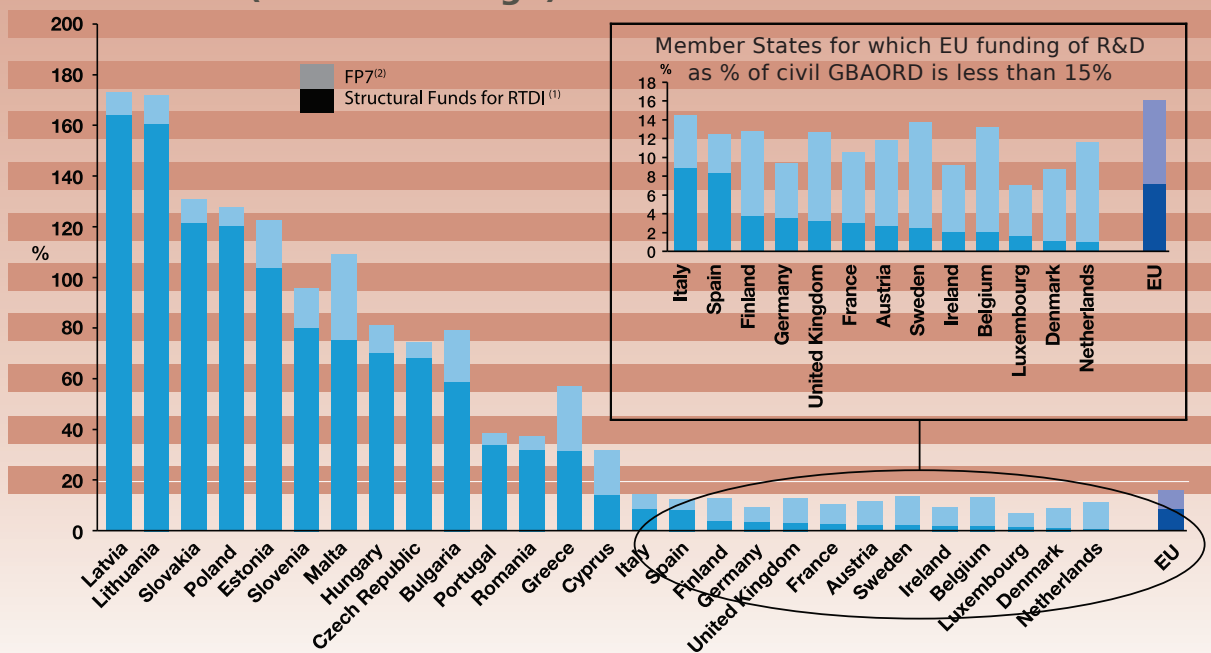
13 Ibidem, p. 255-256

In the current budgetary period (2007-2013), around 86 billion euro from the cohesion policy have been dedicated to innovation (including RTDI as well as support for entrepreneurship, human capital and ICT), whereas - as a matter of comparison - the budget of the Seventh Framework Program amounted to 53,3 billion euro, plus 3,6 billion dedicated to the Competitiveness and Innovation Framework Program - although it must be noted that these instruments differ in objectives and target other sorts of actors.

Apart from that, cohesion policy in general implemented in one country usually bears external benefits on its neighbors as well as on other Eu-



**Chart 2. EU funding of R&D as % of civil GBAORD, 2007-2009 (annual average)**



\*GBAORD = government budget appropriations or outlays on R&D

Source : DG Research and Innovation Data: DG Research and Innovation, DG REGIO

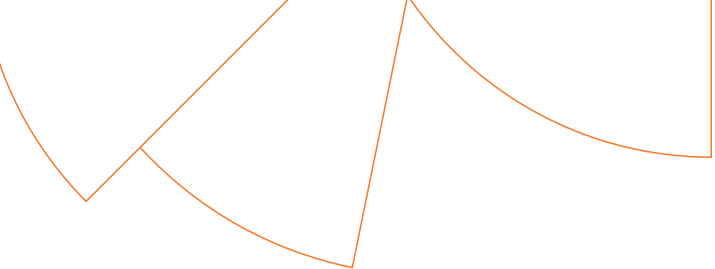
Notes : (1) Initial allocation of 2007-2013 Structural Funds to RTDI activities, annual average. (2) Received FP7 funding up to 2009, annual average.

Innovation Union Competitiveness Report 2011

European economies – including a positive impact on their level of innovativeness. The Institute for Structural Research, a Polish research organisation, has calculated that positive externalities of cohesion projects developed in Poland between 2004 and 2015 may largely compensate the costs incurred by EU-15 countries<sup>14</sup>. Every single euro spent on cohesion in Poland should earn them – on average – around 36 cents back in additional exports of goods and services. If we take into account the funds which had been received by those countries themselves through cohesion policy, then the balance will be even more favorable: they should get 46 cents back. Germany turns out to be the biggest beneficiary of Polish cohesion, receiving -respectively- 72 or 85 cents back.

14 Ł. Skrok, „Ocena korzyści uzyskiwanych przez Państwa UE-15 w wyniku realizacji polityki spójności w Polsce”, Instytut Badań Strukturalnych, Warsaw 2010

These positive externalities have both direct and indirect effects. Cohesion policy introduced in less developed Member States is directly beneficial to EU-15 countries because it generates additional demand (e.g. through subcontracting or demand for goods and services). However, indirect effects are over ten times stronger than direct ones, although occurring after a longer period. They involve, above all, extra imports resulting from the modernisation of the recipient economy and an increase in wealth of its citizens. Besides, the development of trade relations should favor an improvement in productivity in both a recipient economy and its trading partners, and at the end stimulate an increase in their level of innovativeness. All in all, there is a strong evidence to treat the Cohesion Policy as a positive-sum game, which requires a limited financial involvement



on the part of EU-15 while giving a significant return to the European economy as a whole.

Yet, cohesion could do much more for innovation, just as it could let innovation do more for cohesion. Fortunately, we can observe a growing awareness of this double potential. In his highly influential report, Prof. Barca suggests “to shift some of the focus of cohesion policy to investment in research and innovation”<sup>15</sup>. To some extent, this means that innovation may crowd out other objectives, both within the EU budget and in cohesion policy itself. This can already be seen in the Commission’s “Budget for Europe2020” proposal<sup>16</sup>, whereby an allocation for the Framework Program has increased from 53,3 up to 80 billion euro, whereas in the case of cohesion policy we can expect prioritization of innovation-related investments in competitiveness and transition regions as well as lesser support for non-innovative investments (like institutional capacity building) in convergence regions.

However, the effects of this crowding-out may be mitigated by the establishment of a common strategic framework for all structural funds<sup>17</sup>, which thus could become better aligned with other EU policies (including common framework for research & development) and with objectives of Europe2020. This would be consistent with Barca’s argument that “place-based interventions can be coordinated with the EU policy aimed at supporting areas of excellence, turning it into a comprehensive European policy for innovation”<sup>18</sup>.

15 F. Barca, op. cit., p. 130

16 European Commission, „A Budget for Europe2020”, op. cit., p. 11-12

17 Ibidem, p. 12

18 F. Barca, op.cit., p. 130-131

**It is through the support for innovation that regions could better utilize their specific growth potential and contribute to European cohesion understood as greater EU’s internal compatibility.**



But at the same time, we should emphasize a crucial role that innovation itself has to play in leading towards a newly-defined European cohesion. Differences between European regions concern not only their level of development, but also their innovative performance. It is through the support for innovation that regions could better utilize their specific growth potential and contribute to European

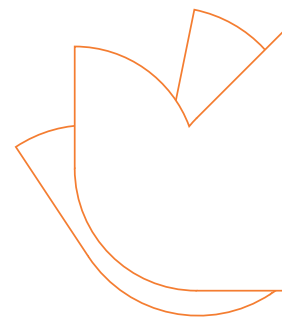
an cohesion understood as greater EU’s internal compatibility. However, this should not consist in a homogeneous copying of biotechnology or nanotechnology centers (whose duplication has been identified as one of the reasons for weak competitiveness of European research on average), but rather in fostering individual strengths, specific for every region.

A pro-innovative role of cohesion is underestimated just as often, as is a pro-cohesive role of innovation.

## Breaking up with a two-tier curse

While Europe is clearly double-speed in its level of development, an accompanying two-tier conception of EU innovation policy (supporting excellence in some areas and catching up in others) only petrifies this situation or even makes it worse. In order to overcome this divide, cohesion funds for convergence countries must progressively be re-directed towards ‘smart’ investments.

The already mentioned *Innovation Union Competitiveness Report 2011* demonstrates that there are still large discrepancies in innovative performan-



ce between the old (EU-15) and the new (EU-12) Member States, which usually hold also at the regional level. These differences include, as is easy to predict, a share of GDP spent on R&D, both by government and business; number of patents and scientific publications; share of population having completed tertiary education; or employment rate in knowledge-intensive activities. However, a poor performance of new Member States in these respects correlates also with their weak participation in European research networks as well as in co-publication and co-patenting projects. Although in some cases (R&D spending, European patent applications) they register an annual growth higher than the European average, still the gap in a general innovative performance does not seem to narrow fast.

The participation of the EU-12 institutions in the 7<sup>th</sup> Framework Program has been very weak compared to Western Europe. In a program which is centrally managed by European Commission, they have found it extremely difficult to compete in excellence with their EU-15 counterparts. However, a hasty conclusion that the EU-12 regions simply need more R&D funding, may be misleading. If they are spending a large part of cohesion funds on highways and other types of hard infrastructure, and less on training or R&D, this is often because their biggest gaps as well as key obstacles to growth can be found in those areas.

This is very much in keeping with the concept of 'intellectual capital'. According to this idea, every economy should aim at balancing the four components of its intellectual capital: the structural, social, human and relational one. There may be regions which perform well in the human capital

dimension, but where people would emigrate to other regions or countries because, first of all, there may be not enough hard infrastructure and R&D base which could attract investment, especially FDI; and secondly, because very often what is also lacking is the guiding idea of development - in the sense of an in-depth reflection about the real strengths of the region and their utilization for development. If this lack of vision is reflected also in regional education and training systems, then it should not be surprising that the graduates look for job opportunities in other places.

The building of a knowledge-based economy in Europe may in some cases consist in investing in basic infrastructure. 'Smart' does not automatically mean R&D-only.



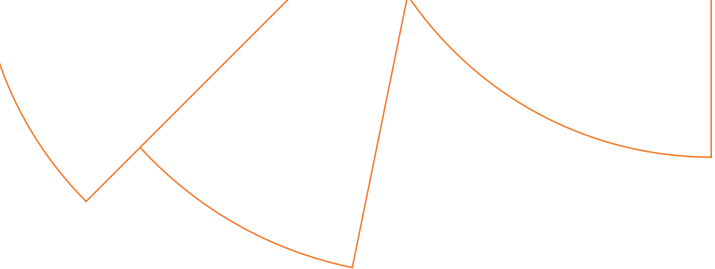
Cohesion policy must not lead to a situation of 'carrying logs to the wood' by, for example, building new highways where they have no meaningful added value.



In order to finally break up with the curse of the two-tier Europe, two powerful regional development assumptions need to become accepted and internalized at regional, national and European levels alike.

On the one hand, the building of a knowledge-based economy in Europe may in some cases consist in investing in basic infrastructure. 'Smart' does not automatically mean R&D-only, because many regions need first to become reconnected to the European system.

On the other hand, cohesion policy must not lead to a situation of 'carrying logs to the wood' by, for example, building new highways where they have no meaningful added value. This is why the idea of 'smart specialisation', as a one that draws attention to the region's growth potential rather than to its backwardness, should become a starting point for any policy of regional



development. It is through the lenses of ‘smart specialisation’ that the public intervention should be planned – because not every vision may demand the same actions.

The concept of ‘smart specialisation’ is meant to reconcile European polarisation and distribution, that is the targets of both innovative and cohesive Europe. According to Dominique Foray: “too many regions in Europe opt to compete in the same worldwide or European tournament in the field of biotechnologies or information technologies. This sheeplike behaviour inevitably leads to a collection of subcritical systems and results in an unhealthy uniformisation of the European knowledge base”<sup>19</sup>.

Originally, the concept related only to European research. Foray argued that:

“while the leader regions invest in the invention of a General Purpose Technology (e.g. biotechnology, information technology) or the combination of different GPTs (e.g. bioinformatics), followers must invest in the co-invention of applications, that is development of the applications of a GPT in one or several important domains of the regional economy. (...) [As a result] these regions enter into a realistic and practicable competition logic, by defining a competition arena composed of a small number of players”<sup>20</sup>.

Nevertheless, this idea has quickly attracted a wider interest, surpassing a narrow context of research policy and being tested as a potential element in a more general development policy, in particular – EU cohesion policy.

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19 D. Foray, „Understanding ‘Smart Specialisation’”, [in:] „The Question of R&D Specialisation: perspectives and policy implications”, European Commission Directorate-General for Research, 2009, p. 22

20 Ibidem, p. 19

## Towards a smart cohesion policy

The idea of ‘smart cohesion’ may constitute an optimal response to the double need of reinvigorating the cohesion policy and making the European innovation system more coherent. This is why its translation into the context of regional policy, while not automatic, is a crucial challenge.

The European Commission has already taken account of it in the document *Regional Policy Contributing to Smart Growth in Europe*. It has suggested that all regions, especially those which are not competing worldwide on a technological frontier, should develop their own smart specialisation strategies in order to maximise the combined impact of Regional Policy and other EU policies. Although the EC has explained that the aim of this action will be to “concentrate resources on the most promising areas of competitive advantage”, it has not yet made clear how these areas should be identified and translated into the framework of Cohesion Policy.

P. McCann and R. Ortega-Argiles try to resolve this difficulty by suggesting that:

“...if smart specialisation is to be successfully integrated into regional policy it is necessary to develop regional policies which promote technological diversification amongst the most embedded industries which have the relevant scale to generate significant local impacts, whilst at the same time promoting the connectivity of the region without inadvertently creating an adverse Krugman shadow effect”<sup>21</sup>.

This broad recommendation is based on two particularly interesting observations:

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21 McCann P., Ortega-Argiles R., op. cit., p. 18



First of all, less prosperous non-core regions, which usually dispose of already specialised industry structures, may actually need not specialise but rather diversify. Thus, the authors recommend a 'specialised diversification', which they understand as "diversifying into technologies which are closely related to the existing dominant technologies"<sup>22</sup>. They refer to F. Neffke, according to whom the "inflow of new firms and the founding of new local firms are both systematically higher in fields which are technologically diversified but also closely related to the existing dominant fields of the region, while outflows of firms or firm failures are more likely in sectors unrelated to the existing regional technological profile"<sup>23</sup>. This argument is very much consistent with an idea that in their research activities less innovative regions should focus on 'applications' rather than on 'general purpose technologies'. The assumption behind it is that those applications would be closely related to an already existing skills and industrial base, while going beyond region's current activities.

Secondly, both science and industry in peripheral regions are often poorly connected to other regions (not only in infrastructure, but also as regards a day-to-day cooperation and communication). Therefore, strategies of smart specialisation should, on the one hand, focus on the development of linkages, but on the other hand, centre on the region's already most connected industries or research areas. Still, there is a risk of an adverse Krugman shadow effect "whereby the networking actually promotes further out-

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flows of knowledge of skills"<sup>24</sup>. In order to counter it, an overall intervention through cohesion policy should, in our opinion, continue to support the building of hard infrastructure, whose underdevelopment is often a primary source of lagging regions' weak linkages with other regions. It is all the more important in the

regional context because regions are usually more open than nations, and they often trespass national borders. In fact, this is one of the reasons why EU-wide regional policy has an added value over interventions at national level.

Besides, McCann and Ortega-Argiles show that 'smart specialisation' may have different rank depending on the region's level of development as well as its integration with other regions. Most interestingly, it may not be that appropriate neither for the most developed urban centres and leading knowledge regions, nor

for the most isolated regions: Strategies of smart specialisation should, on the one hand, focus on the development of linkages, but on the other hand, centre on the region's already most connected industries or research areas.

the former usually having a diversified and an already innovative economy, and seldom qualifying for regional funds; while the latter not only lack sufficient scale but also cope with an immediate need to promote connectivity with more central regions. Still, the concept seems to be very well-suited for 'intermediate regions', especially given their growth potential as well as concentration possibilities, that is "sufficiently large population to generate agglomeration or network effects"<sup>25</sup>. This is good news for Cohesion Policy, in which 'intermediate regions'

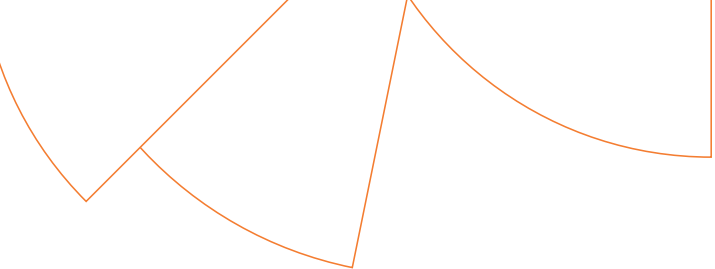


22 Ibidem, p. 16

23 Neffke F., Henning M., Boschma R., "How do regions diversify over time? Industry relatedness and the development of new growth paths in regions", Economic Geography, 2011


24 McCann P., Ortega-Argiles R., op. cit., p. 18

25 Ibidem, p. 18



If we want the 'sticks and carrots' systems to be effective, then every region should be subject to the same rules.

constitute an important target, and whose position may actually get stronger if a new category of 'transition regions' is accepted in the next financial framework (although the two must not be confused). However, it should not lead to a conclusion that smart specialisation strategies shall only be obligatory



if a region applies for innovation-justified funding among a limited list of thematically concentrated priorities. If we want the 'sticks and carrots' systems to be effective, then every region should be subject to the same rules. Instead, the planning may take shape of 'deep smart specialisation strategies', no longer being limited to the region's specialisation potential but also touching upon its overall development vision.

Finally, there is an inescapable problem of rent-seeking which relates to the question of who should develop such strategies and who should evaluate them. This problem has already been raised by Barca:

"rent-seeking can take several forms: public research centres and universities tend to define the agenda of cooperation solely from a research perspective and overestimate its application potential; less developed regions might be biased by having additional social aims, such as supporting support; large firms might try to use interventions as a form of leverage for maintaining a plant production against competition from lower cost locations; smaller firms may be reluctant to take long-term risks and might try to use innovation support to fund short-term activities; intermediaries might exploit their special knowledge to charge all the other institutions unreasonable fees"<sup>26</sup>.

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26 F. Barca, op. cit., p. 134

Similarly, McCann and Ortega-Argiles observe that "smart specialisation logic implies newness, variation and differentiation, and these very features may undermine some of the monopoly positions of local elites"<sup>27</sup>. In order to prevent the appearance of a rent-seeking scenario, the EC should follow Barca's suggestions and their own initial intuitions and support the use of outcome indicators and conditionalities. An *ex-ante* conditionality would consist in supporting a project depending on whether a region has prepared a smart specialisation strategy which fulfills predefined standards. This points to the need for the EC to establish such standards, together with clear guidelines on how regions should prepare their strategies. There should also be a performance-based conditionality, whereby a second part of financing may be dependent on verifiable results of the first phase. This requires an earlier agreement on indicators which would be used to evaluate the performance of regions.

The use of conditionality is in keeping with an argument that "public investment into R&D does not create *automatically* conditions for growth"<sup>28</sup>. According to A. Bonaccorsi, the ultimate result of increased R&D support, including through regional funds, depends on a careful design of policies. In order to limit policy failures, a mechanism of policy learning must be strengthened: "In many cases, the simple definition of conditionality rules washes away the most diffused and harmful forms of rent seeking and inefficient behaviour"<sup>29</sup>.

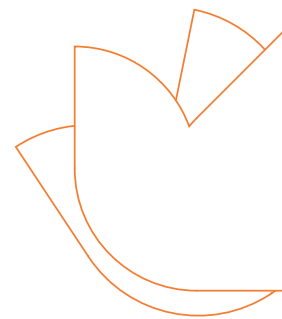
There is one more possible, less obvious, positive externality of 'smart cohesion': it may contribute to addressing Europe's democratic deficit.

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27 McCann P., Ortega-Argiles R., op. cit., p. 20

28 A. Bonaccorsi, „Towards better use of conditionality in policies for research and innovation under Structural Funds”, Report Working Paper, January 2009, p. 4

29 Ibidem, p. 25



If local stakeholders are given responsibility in choosing their regional specialisation strategies, then this should empower the local dimension of European politics. This requires the EC to be careful not to overbureaucratize the whole process. If 'smart cohesion' turned out to be seen as a top-down policy, managed by an all-mighty Brussels or imposed on regions by national capitals, then it would risk becoming counterproductive.

## Conclusions

The next months will be a period of intensive discussion over the shape of the next EU financial framework and resulting reforms to European policies and programs. The Commission's initial proposals aim at greater simplification and integration of instruments, as well as at their foundation on place-based and pro-innovative dimensions.

This is good news for the idea of **'smart cohesion'**, which assumes that cohesion policy should take account of both underdevelopment gaps and specific sources of growth of regions, in order to help them determine their optimal place in the European system and to foster creation of a strong and consolidated European economy. In more concrete terms, this would require:

- **a close alignment between cohesion and innovation policies** (specifically: between their respective common strategic frameworks), so that synergies between the two are reinforced. Innovation policy should be treated as an instrument helping Europe to become more economically, socially and territorially coherent, while at the same time cohesion policy should be used to boost Europe's level of innovativeness. They should not be treated as separate, or even opposite policies, but rather as two sides of the same coin.

- **that all regions be obliged to draft their own 'deep smart specialisation strategies'**

which would constitute a point of reference to conditionality rules applied to particular projects. The strategies should be prepared at regional level, involve local stakeholders, and be consistent with both National Reform Programs and EC's standards and guidelines, which also means that they ought to be verified and supervised at both national and community level. The strategies should be 'deep' in that they would not only focus on areas of actual or potential innovative specialisation, but would also refer to specific non-innovation bottlenecks explored in particular regions which may currently constitute the most important barrier to their economic growth.

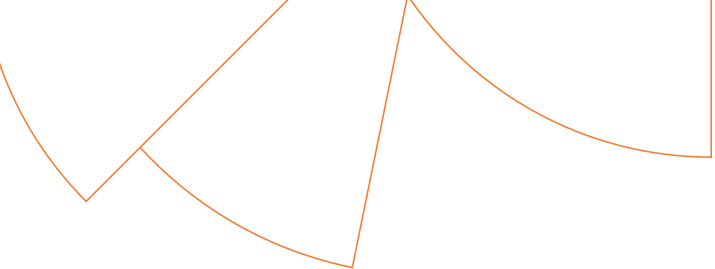
- **that any sort of cohesion policy intervention (including e.g. trainings or basic infrastructure) be conceived as forming part of such a comprehensive 'deep smart specialisation strategy'**. This would make it

easier to use 'sticks' (e.g. *ex ante* and *ex post* conditionality) and 'carrots' (e.g. national and European performance reserves) irrespective of whether a region is more or less technologically advanced. At the same time, it should help us end with a two-tier thinking about innovation -and economy- in Europe.

The most important objective of 'smart cohesion' is to lead to a more consolidated European economy which would be stronger thanks to its heterogeneity, and not in spite of it. This task

Cohesion policy should take account of both underdevelopment gaps and specific sources of growth of regions, in order to help them determine their optimal place in the European system and to foster creation of a strong and consolidated European economy.





would consist in making cohesion more pro-innovative and benefiting more from a pro-cohesive potential of innovation. As we have demonstrated, general ideas on how to add 'A' to 'B' are already there. What is needed right now is a careful elaboration of details and a political courage to make a decisive step and start thinking cohesion anew.

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