European Association of Development Agencies
Association Européenne des Agences de Développement

Interregional Innovation Investment (I3) Initiative

Position paper – September 2020

1. Introduction

The European Association of Development Agencies (EURADA) was created in 1992 following the successful completion of an EU funded territorial cooperation project. EURADA represents 63 development agencies in 23 European countries.[1] Since its inception, the members of EURADA and the association have worked towards the development of European regions and territories. Today, development agencies ensure that regions are economically competitive, socially cohesive, and increasingly ready for the green and digital transitions. The members of EURADA, alongside other public actors, work to enable job growth in regions across Europe. Ensuring SMEs, midcaps and corporates work together, development agencies add economic and societal value to the regions in which they are embedded.

EURADA welcomes the Interregional Innovation Investment Initiative (I3) proposed by the European Commission. After decades of European policies fostering territorial cooperation, we believe that I3 is a logical step forward for a mature regional policy that will complement other actions.

1.1. Essential role of development agencies for interregional cooperation

Development agencies have been involved in most of the territorial cooperation initiatives. Since 1990, the agencies have played an active part in the Interreg programmes for cross-border economic cooperation, promoted integrated territorial development, and mutual policy learning to reinforce the effectiveness of cohesion policy. Development agencies have been key actors in four EU macro-regional strategies, the Instrument for Pre-Accession Assistance (IPA) and the European Neighbourhood Instrument (ENI) cross-border collaboration programmes.

The role of development agencies is crucial in the smart specialisation strategies. Indeed, numerous development agencies can be considered as the penholders when drafting RIS3, while others are deeply involved as animators of the regional ecosystem managing other intermediaries and engaging regional stakeholders, companies, SMEs and private corporations in the strategies. In the territorial cooperation of S3, development agencies are the main animators of the interregional partnerships of the S3 Thematic Platform.

[1] These agencies are bottom-up initiatives, publicly financed with enough autonomy to work in an agile way outside the mainstream of governments and they are designed to work under private law rules with companies, corporations, and entrepreneurs. All EU development agencies have close links to ERDF, but their interaction depends on the territorial organisation of the European countries. The relation between development agencies and ERDF could vary depending on the agency in question (Managing Authorities, Intermediate Bodies, or Beneficiaries).

1.2. Relevance of the initiative

"Divergence, asymmetry and fragmentation still hang over our Union." [2]

If Cohesion Policy is the 'beating heart' of Europe, then let I3 become the critical public investment needed to keep Europe's regions moving together. Commissioner Ferreira's remarks at the penultimate European Parliament Plenary session in July 2020 made clear that the socio-economic impact of the COVID19 crisis is one which requires an ambitious recovery plan for all. In this regard, I3 represents an opportunity to structure the ambitious recovery for regions together incentivising public private investments which are impactful and go beyond existing measures targeting territorial development. Ultimately, I3 should contribute to the creation of jobs and improvement of quality of life as part of Cohesion Policy.

The members of EURADA consider that the I3 initiative will be important to provide regional economic practitioners with an instrument that enables regions, with their development agencies, to exploit opportunities that would otherwise be overlooked. Development agencies working with I3 will be enabled and entrusted to internationalise and 'inter-regionalise', framed and structured by S3. The members of EURADA see that connecting regional innovation ecosystems with those territories that have similarities (or complementary approaches) will provide an opportunity to align regional policies with European value chains through interregional joint strategies of innovation.

Alignment of regional policies and investment with European value chains is not an additional food for thought. It is an approach within cohesion policy which echoes existing work already undertaken by the European Commission within the framework of the ReConfirm Initiative supported and implemented by, among others, Meta Group. The work of this initiative highlighted that regional actors were following primarily a *grants-based* approach as opposed to one favouring investments; ambition regarding 'inter-regionalising' was not sufficient; and there was still a need to go further in including private sector and related actors. These important findings highlight the relevance of I3 moving territorial cooperation to a new paradigm of interregional investment, which supports innovation.

2. General Recommendations

A careful design of the interregional innovation investment initiative will leverage bottom-up initiatives involving several European regions. We consider that the proposed budget of € 500 million if well managed could be enough to provide an effective top-up funding for individual joint projects with a previous settled investment commitment of private companies (SMEs, midcaps and corporations) and mobilisation of other public funds (ERDF or own regional funds).

Following the experience of the regional economic development practitioners integrated in EURADA, an effective interregional innovation investment initiative should be:

- oriented to private companies;
- have structures that integrate all regions, including from non-EU countries;
- and stimulate synergies in ESIF, and perhaps beyond.

[2] Commissioner Elisa Ferreira, "On the Role of Cohesion Policy in tackling the socio-economic fallout from COVID19", European Parliament, 10 July 2020

2.1. Oriented to private companies

The resources should be dedicated as a top-up to facilitate co-investment with private actors from various European regions. Following on from the success of the SME Instrument, we consider that a private company centric I3 would entail a financial instrument which enables de-risking innovative interregional investments. An I3 financial instrument which can combine grants, alongside other forms of financing (i.e. blended finance), would go some way to reducing gaps in current investment projects at the European level. I3 as a financial instrument should include grants which de-risk the interregional investment projects. These grants should represent up to 30-40% of the overall investment that is envisaged. Furthermore, moving towards further addressing the needs of companies, which require additional support to continue innovation activities, an investment instrument can perform a leverage effect.

Understanding that private companies alone lack the means to access these funds. For a private company-oriented instrument to be successfully implemented, an awareness and openness to other actors within regional innovation ecosystems (e.g. Research centres) should be addressed by the initiative. Based on the experience of EURADA members, other actors can play a pivotal role in supporting private companies to produce innovations.

The members of EURADA make the following recommendations for an I3 oriented to private companies:

- Financial conditions should be easy to implement from a beneficiary perspective with the onus placed on a centrally managed instrument (in line with subsidiarity and enabling synergies).
- Operationally, the instrument should be a process characterised in a simple automatic way. Ensuring simplicity would entail only verifying if investment propositions matched required criteria.
- Required criteria should assess the international dimension of the operation, the level of ambition that is deemed appropriate, and bankability.
- Required criteria should be able to assess if partial seed funding is already secured by third party investors and ERDF managing authorities.
- Evaluations should be time sensitive and place importance on expediency (less than 3 months and 3 cut-off dates per year).
- Additionally, implementation should be agile and ensure the safe use of funds accompanied by easy audits.
- Practically, a competitive bidding call should be established for the financing of interregional projects with contributions from private funds and mobilised regional funds.[3]

These recommendations, particularly the importance of centralized management and operationally simple automatic procedures, should ensure that engagement with I3 is expedient and does not fall short due to perceived complexity/misunderstanding of implementation.

[3] Art.50.4 Eligibility: "All or part of an operation may be implemented outside of a Member State, including outside the Union, provided that the operation contributes to the objectives of the programme." Proposal for a Regulation laying down common provisions on the ERDF, ESF, CF and EMFF funds (COM/2018/375 final). This article is the new proposed formulation of Art 70 of CPR.

2.2. The structure should integrate developed, outermost, lagging behind regions and non-EU territories

The members of EURADA welcome the renewed focus, additional attention and support envisaged for less developed regions' typology. Less developed regions often find that they are engaged in low growth and/or income paths with missed opportunities for convergence. The inherent difficulties to participate in the I3 partnerships for these regional typologies, should be taken into consideration. The initiative should include specific measures to facilitate the participation of these regions. For example, it should include a higher level of net funding for these regions or special initiatives[4]. It is also advisable to include specific measures that support the management of I3 in these regions. The ReConfirm initiative[5] of S3P industrial modernization platform is a good example of how external experts have helped regional authorities to establish a credible pipeline of interregional investment projects.

With reference to the 'I3' strand 1 and 2 of the initial proposal, both strands should be balanced. Funds balanced between strands will ensure that the risk for fragmentation of resources is minimised, thus enabling stronger implementation of investment. Moving beyond innovation project development towards innovation investments is precisely what is required.

Additionally, EURADA envisages differentiated support measures to facilitate the participation of all European regions. Each bottom-up partnership should combine developed regions with other regions to integrate the economic diversity of Europe. Understanding that the EU's single market, in which all companies compete equally, is of great value (economic, political, and social). The I3 partnerships must be perfectly aligned with the economic reality facing distinct parts of the EU.

Beyond the EU, the initiative should be opened to other territories that are not yet integrated and/or have existing relations as far as territorial development is concerned. Conscious of the legal framework, precisely TFEU, the members of EURADA understand the challenge of I3's inclusion of non-EU member states in a single cooperation fund. We therefore support the European Commission's proposal of rules which simplify non-EU member state regions' cooperation and the partial transfer for External Instruments resources to European Territorial Cooperation. This will recognise the fact that interregional territorial cooperation extends beyond the EU (while, of course, the EU is the ultimate owner). I3's openness to non-EU member states/countries could build on the excellent work of the Thematic Platform of Smart Specialisation. Opening I3, in a fashion concurrent with the rules, to non-EU countries could also act as an opportunity. EURADA sees an added value to integrating UK regions (EURADA represents three of Scotland's development agencies), who are longstanding actors in territorial cooperation. This opening should be reflected in parallel to integration for EU accession countries like Serbia, who are engaging with S3 and significantly involved in CBC programmes.[6]

[4] A good example is the initiative of the European Institute of Innovation and Technology with its Regional Innovation Scheme (EIT RIS), designed for EU Member States and Horizon 2020 Associated Countries in Europe who are modest and moderate innovators (according to the European Innovation Scoreboard).

[5] Regional Co-operation Networks for Industrial Modernisation Initiative (ReConfirm), is an EU funded project designed specifically to assist European regions and industrial stakeholders in implementing their action plan under the Smart Specialisation Platform for Industrial Modernisation.

[6] Examples from the members of EURADA ,such as the development agency from Middle Black Sea in Samsun (Turkey), which is a the partners of the S3P on Traceability & Big Data, show that S3 and territorial cooperation can have impact outside the EU for the EU. EURADA Members from Serbia have been increasingly active, notably implementing their S3 strategy this year.

2.3. Activation of synergies

Following the experiences of the past years, synergies work better on the level of beneficiaries. The financial regulation of the initiative should clearly indicate that it is a top-up fund that complements other ERDF, EU resources and private funds within the limits established by the regulation of competition. The investments would be reported to different sources of EU funding, with a clear indication of the intensity of the support. Indeed, it is clear that barriers still inhibit the creation of synergies between programmes. For the initiative to fully add value, existing barriers should be overcome.

In the current context of massive deployment of EU recovery funds to overcome the economic crisis, it is extremely relevant to allow the interregional investment initiative to be fully compatible with these economic recovery investments. Taking into consideration the whole programming period 2021-2027, I3 resources should facilitate other EU policies, especially those connected with the transitions of green economy and digitalisation (noting that the green transition will play a more dominant role). To leverage a full impact, € 0,5 bn should be accepted in full compatibility as a top-up of the regional funds of the interregional investment initiative with EU Research and innovation (R&I) programmes which are important programmes supporting territorial development[7].

3. Conclusions

To conclude, the members of EURADA welcome I3 for European Territorial Cooperation as it is within the association's very own DNA. The members of EURADA are committed to I3 as an initiative that will go far to reinforce interregional cooperation between 2020-2027. The future of interregional cooperation underpinned by I3 is something much bigger than a programming period. The future of interregional cooperation can mark a momentous change in the way European regions cooperate together. This change should be a strong foundation in which Europe continues to enable its regions (including the development agency members of EURADA) to make innovation investments fit for economic modernisation, notably the green economic transition.

The members of EURADA see I3's relevance and attributes, principally relying on the initiative acting as an evolution of the successes of the past thirty years in Regional Policy/Cohesion Policy notably thanks to INTERREG.

The Members of EURADA seek to contribute to the future success of this initiative.

The recommendations enumerated in this paper, from the members of EURADA, can be summarised:

- The proper management of I3 is an important consideration and the proposed budget of € 0,5 bn is sufficient.

[7] For example FP6, FP7 and Horizon2020 programmes have supported ERA-NETs that have facilitated the launch of common calls by development agencies based in different countries to support common R&I projects implemented by companies. Since 2010 many development agencies are involved in the knowledge and innovation communities (KICs) of European Institute of Innovation & Technology (EIT).

- I3 should be private company centric with an ease of implementation (including time sensitivity) appropriate for beneficiaries and their Managing Authorities.
- I3 should be centrally managed.
- I3's support should integrate all regional typologies, with a focus on lagging behind regions with additional external support provided to encourage convergence.
- I3 should, within legal boundaries, aspire towards greater involvement of non-EU countries, notably those regions from accession countries as well as UK regions.
- I3 should be built in a way that enables synergies with other EU programmes – enabling the joining up of ESIF and perhaps beyond.