

International Forum on Regions in Industrial Transition

23 November, 2022



Highlights

International Forum on Regions in Industrial Transition

The Organisation for Economic Cooperation and Development (OECD) and the European Commission jointly organised the **International Forum on Regions in Industrial Transition**. This event brought together more than **100 participants** from Europe and North America to gain insights from policy makers, practitioners, and experts on development in industrial transition regions, including through experimental governance approaches.



How to advance regional industrial transition

Strengthen capacity to ensure resilience in the face of future industrial transition challenges

To ensure resilience in the face of future challenges related to industrial change, policy makers should consider strengthening their capacity for effective stakeholder engagement, monitoring and evaluation of policies for innovation, and policy experimentation. With strengthened skills, policy makers can develop policy responses that are representative of stakeholder needs, adaptable to emerging challenges and truly innovative.

Use experimental governance for industrial transition

Experimental governance is a useful approach for policy makers to address transition challenges. It involves the piloting of innovative and flexible policy responses that reflect the interests of a wider range of innovation stakeholders. This approach can foster an environment that is more conducive to innovation, risk-taking, and transformative change.

Learn from transatlantic dialogue on industrial transition

The US and the EU are tackling the challenges of industrial transition in different ways. Learning from different perspectives on how to support innovation and entrepreneurship can benefit innovation stakeholders on both sides of the Atlantic.

Leverage Smart Specialisation Strategies to support industrial transition

Smart Specialisation Strategies can be crucial in meeting the challenges of industrial transition. Such strategies can help policy makers prioritise their innovation efforts through a bottom-up stakeholder engagement process. In addition, Smart Specialisation Strategies emphasise the importance of innovation ecosystems as a driver of economic growth. Regions facing economic decline and limited entrepreneurship can be revitalised by fostering an innovation ecosystem that can generate new ideas, technologies and products.



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The main role of monitoring and evaluation systems for innovation is still widely misunderstood, as it is still mainly conceived as a compliance or audit tool. In reality, it is a learning tool that enables policy makers to change their policies and capture innovation outputs. ”

- Dr. Kevin Morgan, Professor of Governance and Development at the University of Cardiff, delivered a keynote speech at the Forum.

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For 30 years, Lithuania's industrial policy strategy has focused on increasing productivity, but this is no longer sufficient. The key objective now is completing the technological and structural transformation of the economy into a green, digital, resilient and sustainable economy. ”

- Ieva Valeskaite, Vice-Minister, Ministry of Economy and Innovation in Lithuania



What policies and approaches are effective at supporting industrial transition?

- Capacity is key to building resilience: the ability of actors to drive and manage industrial transition needs to be built and is important for success.
- Effective stakeholder engagement for industrial transition requires targeted outreach to different audiences. Innovation intermediaries, such as clusters and business associations, can provide valuable insights on engaging regional stakeholders.
- Creating a more innovative and competitive ecosystem for innovation can reinforce the success of industrial transition. A cohesive innovation ecosystem can help align innovation expectations with regional needs and specific territorial requirements.

Regions in industrial transition typically face a struggle to regain their former dynamism and improve the living standards of their inhabitants. At the same time, the failure to do so will affect their economic productivity and growth, as well as the well-being of their residents. It can also influence democratic outcomes. The long-term economic decline, limited short-term labour market outcomes and constraints on access to quality public services experienced by many such areas can also affect citizen trust in government. Governments need to develop plans and policies to address these current and future challenges.

To effectively address industrial transition, there are three areas that must be prioritised. First, there is a need to improve the capacity of policy makers and innovation stakeholders to tackle the challenges that come with this transition. Second, it is important to enhance the resilience of regions in dealing with crises like the COVID-19 pandemic. Third and finally, creating a more innovative and competitive ecosystem for innovation is a fundamental driver for the success of industrial transition.

The key to ensuring resilience in the face of future challenges is to strengthen the capacity of regional policy makers and innovation stakeholders for managing industrial change. This, in turn, depends on an active nurturing of the regional innovation ecosystem, including by engaging stakeholders effectively, aligning innovation expectations with regional needs, and adapting to specific territorial requirements. In less developed and rural ecosystems, stakeholder engagement processes should be targeted to ensure successful innovation.

Finally, the need to ensure a successful transition should motivate governments to experiment with innovative initiatives that can advance regional innovation, while also evaluating the impact and cost-effectiveness of such policies. Experimentation is the process of policy piloting and learning-by-doing through which governments build their programming capacity and knowledge of what works. Its success also depends, however, on a regular assessment of the effects of policies and their implementation costs.

As part of the multiannual pilot action 'Regions in Industrial Transition' launched by the European Commission (DG REGIO) with support from the OECD, the region of Cantabria in Spain received a grant of EUR 300 000 and tailored advice to design a High Impact Action (HIA) to support its industrial transition. The Cantabria HIA is part of the region's wider industrial policy and complements previous investments made by the region, for example in rural infrastructure for mobility, education, and health to attract younger people to settle in rural areas. The HIA contributed to industrial transition through a combination of mentoring, reskilling, inter-enterprise cooperation, and support for groups at risk of exclusion. Cantabria's Ministry of Innovation, Industry, Transport and Commerce – which led the HIA implementation – aims to continue with the types of activities originating through the HIA, including with dedicated staff, and engaging more companies in similar pilot projects. The Ministry also wants to expand the types of initiatives promoted by the HIA to sectors beyond agrifood.



Using experimental governance for industrial transition

- Experimental governance emphasises novelty and ambition, promotes constant learning, and depends on effective monitoring and evaluation. It can be used to test new governance arrangements, to introduce a new way of working in a region or regional (or municipal) administration, or to set the framework for piloting a new policy or programme concept. It promotes learning-by-doing, flexibility and adaptability.
- Collaborative participation by diverse stakeholders is an essential ingredient in experimental governance as it can generate more effective policy design and implementation, strengthen trust among actors, build social capital, and enhance the legitimacy of industrial transition.
- Using experimental governance means prioritising form, power, and resources. This requires strengthening relationships between public, private and third sectors, formulating and implementing policies using soft and hard power, and ensuring adequate financial and human resources.

Experimental governance encourages policy learning from past successes and failures. It depends on a systematic process that includes feedback loops and allows for experimentation with different tools or approaches as temporary adjustments to governance arrangements and policy piloting. The intention is to build flexibility and adaptability in policy making by developing, testing and adjusting responses to the challenges of industrial change.

Experimental governance is valuable for advancing industrial transition because it encourages policy makers to work with a wide range of stakeholders in innovation and industrial transition. This collaborative approach helps gather ideas and information that can contribute to policy design and allows for an iterative process of policy implementation.

By involving a wide range of actors in the collaboration process, they become more invested in the process and are more likely to see the potential benefits of industrial transition, rather than perceiving it as a top-down mandate or threat. In addition, experimental governance can help policy makers determine whether it is appropriate to extend initiatives to other industries, sectors, or territories, while also identifying areas that need to be adapted. When properly implemented, experimental governance or policy initiatives can create a sense of ownership and commitment to change among stakeholders and enhance the legitimacy of the industrial transformation process.

To adopt and improve the effectiveness of experimental governance and policy experimentation, regions need to consider three pillars: form, power, and resources. Form refers to the relationships between the public and private sectors, both formal and informal. Power concerns the formulation and implementation of policies, including the use of soft and hard power. Resources relate to the available budget. Policy makers must focus on strengthening these three pillars to develop experimental governance and policy experimentation in their regions.

Transatlantic perspectives on industrial transition

- There are structural differences between the US and EU approaches to industrial transition, for example stronger support for entrepreneurialism in the US through venture capital, and systematic programme-based funding in the EU.
- In the EU, industrial transition is propelled by a multi-tiered planning system and a variety of policy frameworks to guide individual implementation, where in the US the motor behind transition activities has very frequently been individual communities with their unique planning approaches.
- Despite differences in approach, there is some convergence in policy objectives between the two territories, and a more in-depth comparative analysis could help to identify effective industrial transition strategies.

In the US and the EU, the guiding principle for effectively addressing the challenges of industrial transition is to prioritise economic development based on local comparative advantages. In both cases, regional and municipal development agendas focus on promoting innovation, not only to renew economic growth in former industrial communities, but also to support other large-scale objectives, such as the promotion of new green industries.

The challenges of industrial transition in the US and the EU are similar, but how these are addressed varies on either side of the Atlantic.

- There is a capacity to rapidly respond to change in the US, while this is more difficult in the EU. Localised initiatives, supported by individual communities and a variety of funding mechanisms - as in the US - can result in greater immediate adaptability. By contrast, the structured-framework approach to policy planning, implementation and funding favoured by the EU provides a multi-annual, constant investment perspective.
- In the EU, Cohesion Policy has led to a strong focus on advancing innovation in lagging industrial transition regions. For instance, approximately EUR 56.6 billion of the European Cohesion Policy programme for 2021-2027 will be allocated to innovation and research. In the US, federal programmes such as the Infrastructure Investment and Jobs Act (IIJA), the CHIPS and Science Act and the Inflation Reduction Act (IRA), also target regional development through long-term investments and interventions. However, it is up to the individual states to make the most of these opportunities, taking a different approach to which areas are targeted for support.

A more in-depth comparative analysis of how industrial transition is addressed on both sides of the Atlantic would help all regions to better understand "what works" and what lessons can be learned for future industrial transition strategies.

Shaping future opportunities for regions in industrial transition

- Industrial transition remains a long-term political priority across OECD Member countries and EU Member States, requiring sustained attention and action.
- Regions undergoing industrial transition frequently encounter resource scarcity in dealing with the associated challenges. To effectively maximise the impact of regional innovation strategies, there is a crucial need to establish a stronger linkage between regional innovation and available resources.
- Smart Specialisation Strategies offer a valuable approach for supporting industrial transition by facilitating a bottom-up, place-based discovery process. This approach provides a better understanding of the specific needs, challenges and opportunities of different sectors and stakeholders and can help create a vision of how to boost economic development in the region.

The term 'industrial transition' refers to the complex and multifaceted process of transforming a region's economic structure from traditional, frequently resource-intensive, industries to more innovative, sustainable, and knowledge-based activities. This process typically encompasses different areas such as employment restructuring, sustainable development, digitalisation, decarbonisation and more. Given its multi-faceted nature, defining industrial transition can be challenging. It involves a wide range of economic, social, and environmental factors that are often interlinked and difficult to disentangle. For example, the transition to a more sustainable and decarbonised economy may require adopting new technologies and retraining workers, as well as investing in renewable energy sources and infrastructure. Despite these challenges, prioritising industrial transition within regional development policies is fundamental as it poses acute challenges for different regions. For example, regions heavily dependent on traditional industries such as coal mining or heavy manufacturing may face significant economic and social disruption as these industries decline. With this can come challenges related to governance, institutional quality and potentially democratic outcomes. Developing strategies to help these regions diversify their economies, attract new investment, and create new job opportunities that are compatible with emerging economic and environmental trends is becoming increasingly urgent.

The success of industrial transition is highly dependent on cooperation between government, industry and research partners. Each of these actors brings unique skills, knowledge, and perspectives to the table, and by working together they can create innovative solutions to the challenges of industrial transition. Partnerships between these actors can lead to the exchange of ideas and the co-creation of innovative solutions. This ensures that policies and specific initiatives are realised with the most efficient use of resources and can support sustainable economic growth. Collaboration among innovation actors can also help to identify and address barriers or challenges to the implementation of new technologies or business models, such as funding and financing, access to infrastructure or regulatory hurdles.

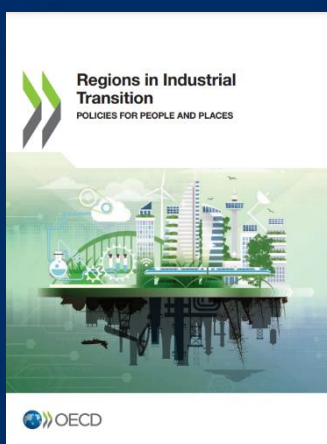
Smart Specialisation Strategies play an important role in addressing the challenges of industrial transition. They allow for a bottom-up approach to regional development by fostering a deeper understanding of a region's industrial needs, contributing to the creation of a clear vision for advancing sustainable economic growth. Additionally, Smart Specialisation Strategies are compatible with experimentation, allowing policy makers to test initiatives and adapt quickly to emerging challenges and opportunities. This flexibility can help regions navigate a changing environment, making all the difference in dealing with the complexities of industrial transition.

FORUM AGENDA

The Forum agenda can be found via this link: https://www.oecd.org/regional/multi-level-governance/RIT_FORUM_AGENDA_23NOV.pdf

PROJECT BACKGROUND

The Forum highlights the lessons and insights gained from a multi-year project on industrial transition. In 2018, the European Commission/DG REGIO with support from the OECD launched the pilot action 'Regions in Industrial Transition' to support ten regions and two countries in industrial transition prepare their Smart Specialisation Strategies (S3) and innovation policies for the 2021-2027 programming period. Findings from this work can be found in the OECD project synthesis report, *Regions in Industrial Transition: Policies for People and Places*. The OECD is continuing its work with DG REGIO on this topic with the aim to identify additional ways to support industrial transition – from recent experience with experimental governance to practical and actionable policy levers.



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