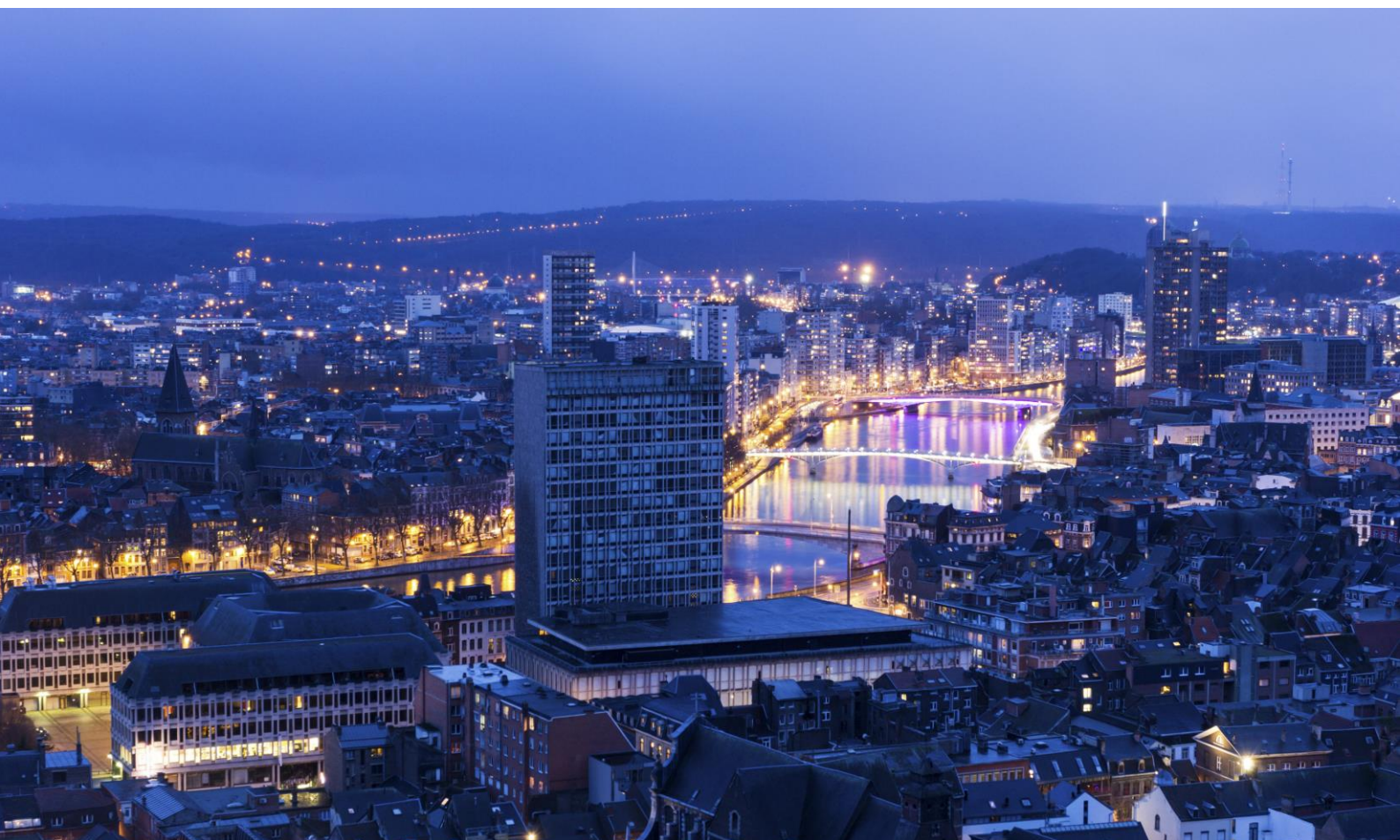




EC-OECD Pilot Action: Regions in Industrial Transition



# Wallonia's High Impact Action:

“Plastics Go Green and Circular” Challenge

**In-depth assessment**

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# In Brief

## Industrial transition in Wallonia

As a result of the loss of competitiveness of several traditional industry sectors (notably steel, coal, and machinery mineral sectors) since the 1950s, the Wallonia Region in Belgium faces three main industrial transition challenges:

1. Reduced economic output and low labour productivity, as well as high levels of unemployment, jeopardise the region's competitiveness and place it at risk of falling behind other European regions.
2. Innovation that is constrained by a narrow and technology-centred view of innovation and an ecosystem that could be better connected, limiting opportunities, and reducing the pool of potential innovators, especially among smaller firms.
3. A need to support a green and digital transition with the adoption of new technologies and practices, while balancing the creation of quality jobs and the need to reintegrate the unemployed in the regional labour market.

The region of Wallonia aimed to address these challenges by focusing on environmental sustainability in its High Impact Action (HIA). Regional policy makers in Wallonia sought to build a shared vision for and with local actors on how to tackle the specific challenge of plastics recycling. Through the HIA, the Walloon Directorate of Economic Policy has focused on connecting, developing, and supporting the regional innovation and entrepreneurship ecosystem. The HIA's key findings informed the region's Smart Specialisation Strategy (S3) renewal process. The findings were used to align the S3 with societal and industrial transition challenges and helped place significant emphasis on fostering strong collaboration among innovation stakeholders.

### The HIA: "Plastics Go Green and Circular" Challenge"

Wallonia's HIA, the "Plastics Go Green and Circular Challenge", targeted commercialising new innovative services and products developed by start-ups and SMEs in the field of plastics circularity.

The HIA was structured around a challenge-based approach consisting of two calls for circular economy projects applied to the plastics industry. The first call focused on identifying relevant challenges. A communication campaign was organised to collect ideas from different types of stakeholders, including from the public and private sector, civil society, etc., on plastics-related challenges that had yet to be resolved. The second call focused on project proposals addressing one or more of the identified challenges. For each of the ten selected projects, lump sum grants of EUR 15 000 were awarded. The selected SMEs and start-ups also received advice and mentoring for implementing their projects.

### Governance and management of the HIA

The success of the HIA can be attributed to a combination of factors, with particular emphasis on two elements: the governance system and the effective involvement of regional stakeholders.

Regarding the governance system, the HIA was structured around three clearly defined governance levels: 1) the strategic management level led by the Walloon Directorate of Economic Policy; 2) an

implementation level managed by a consultancy firm, Möbius; 3) and a steering committee to oversee the projects and facilitate stakeholder involvement. This governance structure was praised by regional stakeholders as it defined clear roles and responsibilities for all actors involved in the HIA.

In terms of its management, the HIA relied a great deal on stakeholder engagement, not only to capture the stakeholders' needs but also to support the governance of the project. A diverse group of stakeholders were part of the Steering Committee, which ensured a more representative outcome to the governance processes. In addition, a stakeholder community was established to support the implementation of the HIA. The stakeholder community was instrumental in communicating with all participants in the HIA, who were able to quickly access all relevant information about the HIA.

## Results of the HIA and its impact on industrial transition

The HIA addressed the challenges of industrial transition in Wallonia in the following ways:

- It contributed to enhancing Wallonia's economic competitiveness by encouraging SMEs and start-ups to innovate and adapt their operations to sustainability, specifically in the plastics sector.
- It fostered innovation and the spread of innovative practices in the field of plastics recycling in the region, promoting a collective problem-solving culture that contributed to the development of a sustainable regional ecosystem in the plastics industry. It also provided a forum for regional stakeholders to discuss the broader challenges of industrial transformation and innovation.
- It facilitated activities that promote a green and just transition by supporting companies in identifying sustainable pathways in the plastics market, recognising the potential economic benefits of plastics circularity, and promoting the development of green and digital skills needed to implement such sustainable projects.

## The influence of the HIA on Wallonia's Smart Specialisation Strategy

The HIA helped to inform the design of Wallonia's 2021-2027 Smart Specialisation Strategy (S3) through experimentation. Lessons learned from the HIA on the clarity of governance arrangements, programme design through a challenge-based approach and the value of stakeholder engagement throughout the project cycle were applied to Wallonia's S3 renewal process. The Walloon Directorate of Economic Policy used the HIA's inclusive stakeholder engagement methodology as a model to implement a thorough revision of the S3, focusing on linking regional innovation to societal challenges and industrial transition. The renewal of the S3 also fostered a bottom-up approach to identifying regional innovation needs. The approach has effectively strengthened the involvement of academia, industry, and civil society in the entrepreneurial discovery process, fostering collaboration and a holistic understanding of the region's innovation landscape.

## Introduction

This case study provides an in-depth assessment of the High Impact Action (HIA) carried out by the region of Wallonia in Belgium. Wallonia's HIA, "Plastics Go Green and Circular", focused on innovation, innovation diffusion and the green transition to support industrial transition in the region. It promoted plastics circularity in the region through a value chain perspective and encouraging collaboration among companies. The insights generated from the HIA contributed to Wallonia's 2021-2027 S3 by inspiring a more inclusive

participatory stakeholder process, a stronger governance structure and a clearer strategic framework for innovation in the region (SPW, 2021<sup>[1]</sup>).

The purpose of this case study is to show how the HIA helped the region to achieve its industrial transition goals, and to see if an experimental approach can contribute to better results. Experimental governance can be defined as an iterative process of goal setting, exploring alternative approaches, and learning and monitoring (Morgan, 2018<sup>[2]</sup>; Wolfe, 2018<sup>[3]</sup>). This case study shows that adopting such an approach is not without preconditions and challenges but can help advance industrial transition if its learnings are well integrated into future regional innovation and smart specialisation strategies. The case study may serve as inspiration for practitioners and policy makers from other regions in industrial transition trying to advance their transitions, and notably regions that did not participate in the industrial transition pilot.

This case study consists of six sections. The first section describes the industrial transition challenges in Wallonia. The second section analyses the High Impact Action, including its objectives, activities, governance mechanisms and contribution to the industrial transition challenges. The third section elaborates on the experimental nature of the HIA. It sheds light on novelty in the HIA compared to previous policy approaches and on challenges encountered during the implementation. The fourth section presents Wallonia's Smart Specialisation Strategy and its relationship to the HIA. The fifth section focuses on the policy lessons learnt from the HIA for industrial transition and the renewal of the S3. The final section concludes the case study.

## Industrial transition challenges in Wallonia

One of Belgium's three regions, Wallonia has a population of 3.6 million. Steel, coal, mineral, machinery, and textiles have been the cornerstones of Wallonia's economy throughout the industrial revolution. However, the decline of these sectors after World War II, due in part to industrial transformation, to globalisation and increased competition from Asia, has forced the region to seek new opportunities for economic growth (European Commission, 2019<sup>[4]</sup>). The region's economic structure has undergone considerable change, with a trend towards more advanced and environmentally friendly industries. For example, in February 2023, the Walloon government approved the implementation of two hydrogen projects of common European interest (IPCEI<sup>1</sup>) with a budget of more than EUR 88 million and a recruitment of 250 full-time equivalents (FTEs) (EIB, 2023<sup>[5]</sup>). Although Wallonia is modernising its economy, taking advantage of the new opportunities of the green transition, it still faces three main industrial transition challenges related to competitiveness: 1) innovation that is highly concentrated in some sectors and within a limited number of actors; and 2) the transition to a green and digital economy.

First, with respect to competitiveness, decreased economic output and low labour productivity contribute to the risk of the region falling further behind other regions in Europe. For example, the unemployment rate in Wallonia in 2022 was 7.3%, higher than the Belgian national average of 5.6% and the EU27 average of 6.2% (Eurostat, 2022<sup>[6]</sup>). Steering industrial transition and leveraging its potential benefits, such as a more competitive, resource-efficient economy based on new technologies with stronger employment opportunities and greater inclusiveness is a complex proposition. Success frequently depends on multi-sector and place-based solutions that are designed in close co-operation with regional innovation actors.

Second, innovation and innovation diffusion are limited in Wallonia. This is due, in part, to a narrow, technology-focused view of innovation. The lack of a broader definition of innovation, which is suitable for a wider range of companies and industries, limits the opportunities for innovation. It also reduces the pool of potential innovators as some firms, frequently the smaller ones, may not recognise that their idea to

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<sup>1</sup> Important Projects of Common European Interest (IPCEIs) are transnational projects making a sizeable contribution to the growth, employment and competitiveness of the European Union's industry and economy and are funded with state aid (IPCEI Batteries, 2023<sup>[26]</sup>)

make an operational, managerial, or organisational adjustment is also an innovation (OECD, 2022<sup>[7]</sup>). Moreover, innovation and innovation diffusion in the region are weakened by the fragmented innovation ecosystem in Wallonia, which lacks connectivity between its actors. This is due to innovation governance challenges, such as a lack of co-ordination and unclear responsibilities for co-ordinating the innovation ecosystem (OECD, 2022<sup>[7]</sup>). Addressing these governance challenges could improve the effectiveness of the implementation of industrial transition initiatives. A well-connected innovation ecosystem supports the development of new technologies, processes and business models and fosters collaboration between actors that can help industry become more competitive, efficient, and sustainable.

Third, there is space for Wallonia to further expand activities that support a green and digital transition. Achieving this can be based on the region's ability to adopt new technologies and practices aimed at improving the environmental performance of industrial processes, particularly in the renewable energy sector. Doing so could also help create new, high-quality jobs (SPW, 2021<sup>[8]</sup>). This is essential to meet the needs of emerging businesses and to keep the region's workforce competitive in a rapidly changing global economy, while balancing the need to support and retrain those who are out of work. (OECD, 2020<sup>[9]</sup>).

## Wallonia's HIA: Plastics Go Green and Circular

The "Plastics Go Green and Circular Challenge" was initiated by the Walloon Directorate of Economic Policy (*Direction de la Politique Economique du SPW Economie, Emploi et Recherche*). The aim of the HIA was to transform the industrial life cycle of plastics, from production to disposal, by encouraging start-ups and SMEs to develop innovative, sustainable solutions for plastics disposal.

The HIA helped Wallonia address industrial and societal challenges related to environmental sustainability. First, it showed potential for improving regional economic competitiveness by promoting innovative and resource-efficient solutions for plastics recycling that could meet the needs of different market actors, such as businesses, local authorities, public purchasers, civil society, and environmental NGOs (SPW, 2021<sup>[10]</sup>). Second, the HIA facilitated innovation and innovation diffusion in Wallonia, strengthening the regional ecosystem and intensifying discussions on industrial transition among regional stakeholders. Finally, the HIA supported the region's green transition by educating companies about sustainability pathways in the plastics market, thereby encouraging the design of new sustainable projects and the development of green and digital skills.

### Overview of the HIA and related activities

The HIA was implemented through a challenge-based approach in which the Walloon Directorate of Economic Policy actively involved stakeholders such as businesses, local authorities, civil society organisations and environmental NGOs in the process of identifying and defining societal challenges (Box 1). The region placed particular emphasis on environmental sustainability and, rather than relying on pre-defined solutions, fostered a collaborative process with stakeholders from different sectors of the plastics value chain to find effective solutions to improve plastics circularity. In taking this approach, the HIA not only addressed a green transition objective, it also fostered collaboration within the plastics industry, which can increase the region's potential for innovation and innovation diffusion by strengthening its innovation ecosystem.

#### Box 1. Wallonia's HIA challenge-based approach

The challenge-based approach was developed by the Walloon Directorate of Economic Policy (*Direction de la Politique Economique du SPW Economie, Emploi et Recherche*) and involves a

structured process to identify challenges, define a problem's scope, articulate potential solutions, and test and refine these, while also bringing a diverse group of stakeholders into the process. This approach is designed to tackle complex problems and encourage innovation through collaboration among different sectors and stakeholders.

The benefits of a challenge-based approach include:

- Identifying the most urgent and relevant problems to be solved in a region;
- Gathering the perspectives of a wide range of stakeholders;
- Encouraging collaboration and knowledge sharing among stakeholders;
- Fostering innovation and creativity by encouraging project developers to take risks and experiment with new ideas;
- Increasing the possibility of generating more effective and acceptable solutions through the process of co-creation;
- Supporting the development of more sustainable solutions, with a long-term perspective and an understanding of the environmental, social, and economic impact of the problem and the identified solution.

Source: (SPW, 2021<sup>[11]</sup>)

For its HIA, Wallonia implemented the challenge-based approach described above, starting with a broad call for expressions of interest to identify challenges related to plastics recycling in the region. Once these challenges were identified, a second call for projects was launched, inviting SMEs, micro-enterprises, and start-ups to present solutions to the challenges identified in the previous call (Box 2). The support to the eight selected projects allowed them to test new ideas and to develop new collaborations. Some of them were stopped because of lack of clear profitability perspectives, some were reoriented toward new directions.

## Box 2. The HIA implementation process

The Walloon HIA, the Plastics Go Green and Circular Challenge, consisted of **three distinct stages**:

1. **A call for expressions of interest.** The call was addressed to all actors who were facing or might face challenges associated with the circularity of plastics: private sector, local authorities, NGOs, civil society organisations, scientists, research institutes and other stakeholders. These actors were asked to identify the main challenges associated with circularity of plastics, thus increasing the possibility that the funded projects could respond to real needs on the ground. Twenty-five challenges were presented, and ten were selected.
2. **A call for projects offering innovative solutions to the challenges raised and identified in stage one.** The call for projects was exclusively aimed at SMEs, micro-enterprises, and start-ups. Participation in the call was possible alone or in co-operation with other companies. Eight projects were selected from the 12 submitted to address the ten challenges identified in the first stage. The proposed solutions and projects in the plastics value chain were selected on the basis of selection criteria focusing on innovativeness, degree of maturity, technical and economic feasibility of implementation, environmental impact, clarity and quality of the project proposal and the ability of the company to mobilise sufficient internal resources to carry out the project (OECD, 2022<sup>[12]</sup>).
3. **Tailored support for implementing the eight selected projects.** Each selected project was awarded a EUR 15 000 grant to cover all costs related to project implementation (e.g. purchase of equipment, services, studies or data, personnel costs, etc.). The grant was specifically

designed to minimise red tape for selected projects. In addition to the grant, three individual coaching sessions were organised for applicants of the projects selected. During these coaching sessions, the participants could interact with experts (e.g. legal, environmental, and financial) to ensure the success of their projects. In addition, the progress of the projects and the way the grants were used were monitored, to follow the changing needs of the participants and adapt the coaching sessions. Finally, a workshop on financing opportunities was organised with the idea of helping the participants find more consistent and reliable sources of funding and financing. Plastiwin, the Walloon Plastics Cluster, was selected to follow up on the projects after one year.

Source: (SPW, 2021<sup>[11]</sup>)

Moving away from the traditional approach of companies working in isolation, the HIA strategy focused on a value chain perspective (OECD, 2022<sup>[7]</sup>). This perspective recognises the complex interdependencies of the various actors involved in the production, distribution, and disposal of plastics. By adopting this perspective, the HIA enabled a broader, more inclusive, and collaborative approach to project development to address the challenges identified in the plastics sector. For example, in the call for projects, it was possible to submit a project idea as an individual company, even if other partners in the value chain were needed to complete such a project. This strategy reduced barriers to entry and ensured that stakeholders were not excluded simply because they lacked partners at the proposal stage. This open approach created a network effect, encouraging numerous stakeholders to engage with each other, fostering greater collaboration and a more cohesive regional network.

### ***Governance and management of the HIA***

Effective governance was critical to the successful development and implementation of the HIA, in particular its clear three-level governance structure (strategic management, implementation and stakeholder engagement) with well-defined roles and responsibilities for all stakeholders. In addition, stakeholder engagement initiatives helped encourage regional innovation stakeholders to participate in the HIA's challenge-based elements (i.e., the call for expressions of interest and the call for projects). Finally, a comprehensive monitoring and evaluation framework focused on assessing the economic, social, and environmental benefits of each funded project, ensuring a multi-faceted assessment of project outcomes.

#### *Governance system of the HIA*

The Walloon Directorate of Economic Policy oversaw the management of the HIA (SPW, 2021<sup>[11]</sup>). For its implementation, the Directorate turned to a consultancy, Möbius, selected through a public procurement process. Möbius appointed a project manager to co-ordinate the project, helping the region meet the very tight, six-month, timeframe for the HIA's implementation. An important aspect of the HIA governance system was the creation of a Steering Committee, which was set up to oversee HIA projects, facilitate the sharing and exchange of experiences among the actors involved, and validate the progress of the projects. The Steering Committee was composed of representatives from different departments of the administration, regional clusters, the regional innovation agency, SOWALFIN, and the region's Cabinet of the Minister of Economy and Innovation. During the project, eight committee meetings were organised to ensure a continuous exchange among committee members. Thanks to its broad stakeholder composition, the Steering Committee supported horizontal co-ordination for the HIA, ensuring that the issues related to plastics circularity were adequately discussed at the regional level (OECD, 2022<sup>[12]</sup>). The Steering Committee encouraged the integration of different stakeholder perspectives into the decision-making process, which gave greater credibility to the committee's actions (OECD, 2022<sup>[7]</sup>). For example, by involving clusters and the regional innovation agency, the steering committee ensured that input was gathered from a wide range of industrial sectors in the innovation ecosystem. The industry-specific insights were crucial in promoting tailored solutions for plastics circularity within the region's key industries.



### *Stakeholder engagement and interaction*

Stakeholder engagement throughout the HIA focused on communicating all relevant information about the HIA to regional stakeholders in a clear and effective way. For instance, to ensure transparency and clarity for stakeholders, a detailed scoping document was prepared describing how the HIA would be conducted and managed. Stakeholders found the scoping document gave them a clear idea of what to expect from the HIA (OECD, 2022<sup>[7]</sup>). The Walloon Directorate of Economic Policy prepared the scoping document based on discussions among members of the Steering Committee and other innovation stakeholders in individual interviews.

A stakeholder community was established to support the HIA's implementation, including the relevant leading business organisations (e.g. Walloon Business Federation, Essenscia-Federation of Chemical and Biotechnological Enterprises, DENUO-Federation of Waste Recycling Enterprises and FEVIA-Federation of Agribusiness Enterprises). During the HIA, the stakeholder community, as well as the HIA Steering Committee and other communication partners, were instrumental in communicating the two-stage call for challenges and solutions through an extensive communication campaign. Communication channels included LinkedIn, news media (local newspapers, TV news and radio news), websites, mailing lists, and others.

### *HIA monitoring and evaluation*

The monitoring and evaluation framework established for the HIA adopted a comprehensive approach focusing on assessing the economic, social, and environmental added value of each funded project. To measure the results and impact of the HIA, the project manager developed a series of monitoring and evaluation indicators (Box 3) (SPW, 2021<sup>[10]</sup>). It also attempted to measure the extent to which the HIA raised awareness of the specific issue of circular solutions for the plastics sector. However, reliable data for the first two categories of impact indicators cannot yet be collected and the Walloon Directorate of Economic Policy intends to follow the supported enterprises for another year in order to collect further evidence.

#### **Box 3. Monitoring and evaluation indicators for the HIA**

The monitoring and evaluation result indicators for the HIA are:

- Number of partners involved at each stage of the challenge.
- Number of seminar participants.
- Number of challenges submitted.
- Number of projects submitted which responded to one (or more) selected challenge(s).
- Satisfaction score given by seminar participants.
- Number of communication campaigns.

To monitor impact, three categories of indicators were selected:

1. Estimated economic and social value-added corresponding to each of the selected innovation projects from the second phase of the HIA implementation process (e.g. jobs created or retained, new customer segments acquired, increased turnover and reduced costs).
2. Estimated environmental value-added corresponding to each of the 10 projects, e.g. CO<sub>2</sub> avoided, kg of plastic avoided in landfills, the lifecycle impact of a product.
3. Raising awareness among ecosystem stakeholders of green and circular solutions in the plastics sector.

Source: (SPW, 2021<sup>[10]</sup>)

### ***Industrial transition challenges that were addressed by the HIA***

The HIA helped Wallonia address three major industrial challenges linked to the broader societal concern of environmental sustainability. First, the HIA contributed to improving regional economic competitiveness by helping the region's companies promote innovative, resource-efficient, and inclusive solutions to the plastics circularity challenge. The challenge-based approach helped emphasise the development of stakeholder-based solutions, designed and implemented in close collaboration with regional innovation actors. Essentially, this approach enabled SMEs and start-ups to rethink their operations and strategies in the plastics sector and align them with efficiency and sustainability.

Second, the HIA promoted innovation and innovation diffusion in Wallonia. Through its co-ordinated efforts, the HIA facilitated the creation of a stronger, more mature, unified, and environmentally sustainable regional ecosystem focused on the plastics sector. Stakeholders worked together to address gaps in the value chain, fostering a culture of collective problem solving. This collaboration also provided a forum for regional stakeholders to discuss the broader challenges of industrial transformation and innovation. As a result, the HIA stimulated a more engaged discourse on industrial transition and innovation, contributing to the maturation and development of the innovation ecosystem.

Finally, HIA promoted activities that support a green and just transition. It invested in helping companies better understand the plastics market and potential pathways to sustainability. This inspired participating firms to consider how circularity can benefit their business. While the concept of circularity was generally familiar, its potential economic and productivity benefits were often overlooked. The HIA provided an opportunity to highlight these insights, encourage companies to design new sustainable projects, and foster the development of the green and digital skills needed to implement such projects.

### **The experimental nature of the HIA**

The experimental component of the HIA was to test a challenge-based approach to identify challenges and place-based solutions for plastics circularity. In addition, the HIA invited start-ups and SMEs to develop and test projects, supported by individual coaching and a grant, to implement the identified solutions and promote plastics circularity.

#### ***Exploring a challenge-based approach to policymaking***

At the time Wallonia's HIA was prepared, the region had no policy experience with using a challenge-based approach. The HIA helped test the approach as a way to find market-driven solutions in the plastics recycling sector with the intention of applying the approach to different smart specialisation priorities if successful. The fact that both the call for challenges and the call for projects were part of the same HIA encouraged innovation actors to start considering solutions at the very beginning of their problem-solving efforts. This integrated approach heightened the chance of projects being successful as innovation stakeholders had to immediately identify feasible solutions.

#### ***Supporting start-ups and SMEs by creating a space for experimentation***

The HIA also promoted an environment for regional innovation actors to test and experiment with innovative projects that may not have been funded through regular project calls. Start-ups, SMEs, and micro-firms stated that they would not have experimented as extensively as they did without the HIA grant

and coaching (OECD, 2022<sup>[7]</sup>). Start-ups and SMEs were encouraged to come up with innovative and experimental ideas, the implementation of which was supported by the HIA grant and individual coaching sessions. The experimental nature of the HIA, with broad participation from different types of start-ups and SMEs, resulted in a diverse range of projects, including non-technological ones, such as deposit systems for reusable food.

However, there was concern among innovation actors that some firms would return to business as usual after the innovation projects were launched and would not implement long-term changes. In order to address this possibility, fostering the long-term innovation capacity of firms needs to be part of the process. For example, the HIA shows that innovation should not be based solely on funding and financing of a specific project. Instead, the focus should be on creating a more systematic change in the regional entrepreneurial mindset. This could be achieved by encouraging actors in the innovation ecosystem to adopt a mindset that sees innovation as a continuous process – one that forms an integral part of their operations and not just a one-off activity tied to specific projects. Establishing platforms and channels for knowledge sharing and collaboration is one mechanism that can support this effort.

### ***Challenges encountered during the HIA implementation***

During the HIA, one of the main difficulties encountered was designing projects close to the market and ready for commercialisation. Project leaders in the participating companies expected projects to take less time to be operational. After the first business coaching session, the general assessment provided by the SME project leaders themselves revealed some significant shortcomings in the HIA, including (SPW, 2021<sup>[11]</sup>):

- **Difficulties in designing projects given time and resource constraints.** It was difficult for project managers to gather all the information needed to develop a solid project, as time and financial resources were limited. For example, the time allocated for project implementation was six months. Furthermore, the budget of EUR 15 000 allocated to each participating SME was seen as a constraint, as it was considered too small to develop truly innovative projects in the plastics sector. However, while the grants were not attractive to SMEs, they were attractive to start-ups. The latter were particularly satisfied, mainly due to the minimal bureaucracy required for grant allocation.
- **Cost/benefit considerations.** Promoting the importance of circularity among many different actors was a large challenge, as not all companies were aware of how it could benefit their activities. Walloon companies were open to the concept of circularity, but only if it did not involve excessive costs.
- **Engagement during the COVID-19 pandemic.** The HIA was implemented during the COVID-19 pandemic period, which posed several challenges in terms of planning activities and organising physical meetings. Virtual tools were used, but the crisis, combined with a timing that coincided with a summer holiday period, made it difficult to mobilise the community.
- **Mixed reception by stakeholders of communications associated with the HIA.** According to stakeholders, the communication approach for the first call was effective and stakeholders were adequately involved. However, for the HIA's subsequent stages regional stakeholders felt that more could have been done to communicate which projects had been selected, the status of project implementation and, more generally, to provide regular updates on the status of the HIA. Greater transparency and collaboration with stakeholders throughout the communication cycle would have improved the dissemination of project information and progress, and potentially could have attracted additional partners or resources.
- **Knowledge sharing among innovation stakeholders.** Despite its well-developed and sequential implementation approach, stakeholders highlighted that a method to collect, organise and share the lessons learned from each project was missing. Incorporating this in any future initiative of this

type would not only help strengthen the region's internal knowledge of policy effectiveness, and the innovation capacity of SMEs and enterprises, it could also highlight good practices and build enthusiasm among potential and existing participants.

- **Consumer reticence to buy recycled items.** Identifying potential customers was a common challenge across all projects. Consumers were often reluctant to buy recycled products because of their higher cost. This challenge affected the implementation of the HIA, requiring SMEs and start-ups to find innovative marketing strategies for their HIA-funded products and services.

## Wallonia's Smart Specialisation Strategy and its relationship to the HIA

When developing its S3 for 2021-2027, Wallonia identified two significant S3 governance challenges that ultimately could also benefit from lessons learned through the HIA (SPW, 2020<sup>[13]</sup>): a lack of clarity in the roles of S3 actors and limited stakeholder collaboration in the entrepreneurial discovery process (EDP).

### ***Aligning the updated Smart Specialisation Strategy with the region's industrial and societal transition challenges***

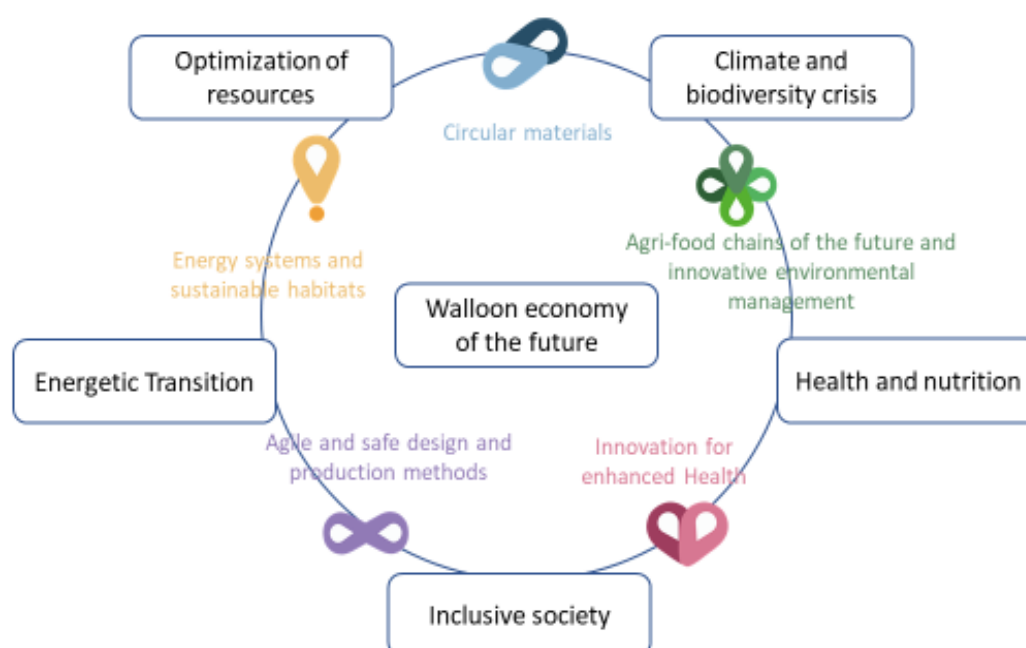
Wallonia's updated S3 has been aligned with the region's industrial and societal transition challenges using a challenge-based approach, inspired by its successful use in the HIA.

First, in the S3 renewal, the challenge-based approach helped to identify six key societal challenges for Wallonia<sup>2</sup>. The identified challenges were validated through stakeholder interviews, prioritising those with a demonstrated appeal or interest to Walloon actors and businesses. Based on these societal challenges, the Walloon Directorate of Economic Policy introduced five Strategic Innovation Areas (SIAs) in the new S3 (Figure 1). The SIAs in Wallonia promote co-operation between companies, research institutions and the government in order to accelerate innovation and economic growth in the region.

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<sup>2</sup> These include resource optimisation, energy transition, climate and biodiversity, health and healthy food for all, an inclusive society and the Walloon economy of the future.

Figure 1. Wallonia's five strategic innovation areas (SIAs)



Source: Wallonia's Smart Specialisation Strategy (S3) 2021-2027 (27 April 2022). Presentation prepared by Florence Hennert, economist at the Economic Policy Directorate of the Walloon Public Service

Second, building on the experience of the challenge-based approach in the HIA, the Walloon Directorate for Economic Policy launched a call for expressions of interest for Strategic Innovation Initiatives (SIIs), which are concrete projects that would address the objectives of the SIAs. This provided an opportunity for regional innovation actors to work together on identified problems in a way that was not constrained by project-based calls with pre-defined budgets.

The link between the challenge-based approach and the S3 renewal becomes clearer when considering the three-stage process used in the HIA. The first stage involves a call for expressions of interest to identify challenges. This was followed by a call for innovative solutions to these challenges, targeted at SMEs, micro-enterprises, and start-ups, and culminated in tailor-made support for the implementation of the selected projects. This sequence of stages mirrors the development of the SIAs and SIIs in the updated S3, where a similar process of identifying challenges and calling for innovative solutions is followed. The challenge-based approach of the HIA thus served as a guiding framework for structuring the S3 renewal, ensuring a strong focus on the industrial and societal transition challenges facing the region.

### ***Improving clarity in roles and responsibilities for S3 implementation***

For the 2014-2020 period, Wallonia's S3 was managed and implemented by a diffused network of actors co-ordinated by the region's Office of the Minister of Economy. However, the roles of these actors were not always fully clear and explicit. This lack of clarity can lead to duplication of efforts (e.g. stakeholders may be unintentionally working on the same task), gaps in responsibilities (e.g. some tasks may be overlooked), miscommunication (e.g. activities left undone thinking that someone else is responsible) and inefficiency (e.g. sub-optimal outcomes). Walloon's regional stakeholders called for a clearer identification of roles and responsibilities in the S3 governance model. Inspired by the HIA's three-tiered governance model, the 2021-2027 S3 updated its governance model to provide clearer leadership and defined roles, taking also a three-tiered approach (OECD, 2022<sup>[12]</sup>):

1. **The strategic level**, managed by the Ministry for Research, Innovation and the Economy.
2. **The operational level**, managed by the S3 working group which includes the Public Service of Wallonia (Walloon Directorate of Economic Policy and Research Department), the Innovation Agency, the Digital Agency and the Cabinet of the Minister.
3. **The participatory level**, which involves stakeholders such as research centres, civil society, higher education establishments companies and Clusters. Furthermore, an enlarged S3 working group was created to include all other relevant public authorities to foster collaboration and optimal implementation of the S3.

### ***Improving stakeholder collaboration in the S3***

The lessons learned from the HIA were also applied to building more effective co-operation and collaboration among S3 stakeholders (OECD, 2022<sup>[12]</sup>). As with the HIA, great care was taken to ensure that as many stakeholders as possible were involved in the development of the S3 so that it was as representative of the region as possible. For example, the S3 adopted and implemented co-ordination cells for each of its Strategic Innovation Areas (SIA). These co-ordination cells are composed of representatives of the public administration and the clusters (OECD, 2022<sup>[7]</sup>). They play an active role in implementing the SIA roadmaps, managing stakeholder interactions, leading the EDP, and supporting the S3's strategic innovation initiatives (SIIs). The co-ordination cells also facilitate matchmaking between actors based on their competencies.

Overall, the HIA's findings helped restructure Wallonia's S3 by improving the governance arrangements, including a clearer assignment of responsibilities among actors, stronger stakeholder engagement and greater collaboration among innovation actors.

### **Policy lessons from the HIA for industrial transition**

The HIA led to a set of policy lessons emphasising stakeholder engagement and the value of embracing an experimental approach to innovation to address industrial transition. These lessons were also incorporated into Wallonia's revised S3.

- **Nurturing demand-driven innovation initiatives can support a stronger place-biased approach to industrial transition.** The challenge-based approach at the heart of the Walloon HIA helped prioritise societal challenges and solutions with demonstrated potential for implementation by the region's actors and businesses. The approach also helped regional policy makers identify innovation initiatives that were reflective of the needs specific to a place (e.g. the HIA projects and SIIs).
- **Clearly established governance arrangements at the outset can better support decision making.** The HIA highlighted the importance of well-designed governance arrangements from the start of the project. HIA implementation was organised around a strategic management level, an implementation level, and a steering committee. This structure allowed participants to clearly recognise who was responsible for what. By including a diverse set of stakeholders, not only did it build stakeholder buy-in for the initiative, but it also advanced knowledge sharing and exchange. The result was greater capacity in meeting industrial transition objectives, including those associated with innovation and innovation diffusion.
- **Building a collaborative environment pays long-term dividends.** Collaboration can be a powerful tool for strengthening the innovation ecosystem and creating a culture of innovation in a region. Even if the co-operation on a specific topic or project ends, the innovation actors will have strengthened their relationships and networks, and these links will last over time. The HIA helped

strengthen Wallonia's innovation ecosystem by facilitating joint projects, thereby building greater collaboration capacity and information exchange practices among innovation stakeholders.

- **Facilitating the collection of data, information and knowledge through an established learning system can advance innovation.** Experimentation in innovation policy is based on innovation actors testing ideas as much as possible. Supporting this with a learning system that collects knowledge and data is fundamental for actors to more easily learn from mistakes that have already been made, add to the collective knowledge of what works and what does not work, and adapt future innovation initiatives to new insights. One of the main weaknesses of Wallonia's HIA was related to the learning system. Innovation actors highlighted the lack of a systematic approach to collecting and organising the main lessons learned from each project.
- **Non-financial incentives can be as welcome and useful as financial ones.** Coaching and mentoring can be valuable for and welcome by start-ups and SMEs. It can help them build skills, for example in project development – as was the case in Wallonia, obtain external input into project development, build their contact list, and strengthen their networks.

## Conclusion

The Walloon HIA is a strong example of how regions, by applying an experimental policy approach in an underdeveloped sector that supports transition aims, can tackle industrial transition. In this case, plastics circularity. By adopting a challenge-based approach, the region was able to stimulate innovation, build a more cohesive innovation ecosystem and strengthen its commitment to environmental sustainability.

The HIA methodology, which prioritised stakeholder engagement to identify the region's specific challenges, supported start-ups and SMEs in their search for innovative solutions to the environmental challenges associated with plastics by creating an experimental space to foster dynamic ideas.

The HIA also had a significant impact on the redesign of Wallonia's S3. It emphasised the importance of multi-level governance processes, multi-stakeholder input, collaboration in innovation projects and the alignment of regional innovation with societal challenges and industrial transition.

The lessons learned from the HIA and the challenge-based approach could be scaled up to address other challenges related to industrial transition (e.g. the digital divide, as the challenge-based approach could be used to identify key challenges related to the digital divide and to identify solutions and ideas to address such challenges). The challenge-based approach has the potential to stimulate the curiosity and engagement of regional actors and to create a more integrated innovation ecosystem. Furthermore, Wallonia's approach to industrial transition, driven by its commitment to inclusiveness, innovation, and sustainability, can serve as a model for other regions undergoing similar transitions.

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## Annex: The EC-OECD Pilot Action on Regions in 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<sup>3</sup> in industrial transition prepare their Smart Specialisation Strategies (S3) and innovation policies for the 2021-2027 period. The pilot action was designed in two phases. The OECD supported the first phase with a series of five thematic workshops held with two cohorts of participants, each including five regions and one country. The findings from these workshops were collated into an OECD synthesis report, *Regions in Industrial Transition: Policies for People and Places*.

As part of the project, eight of the original regions and the two countries received a EUR 300 000 grant from DG REGIO as well as tailored advisory services to design a High Impact Action that could support their industrial transition strategies.

The OECD is supporting the European Commission with an assessment of each High Impact Action. The aim is to take stock of the potential benefits of different types of High Impact Actions on industrial transition and of the policies that support them. Each assessment considers the actual or expected results of individual High Impact Actions through an understanding of their objectives, activities, governance mechanisms and experimental nature. The in-depth analysis also explores how each pilot region/country expects their individual High Impact Action to contribute to their industrial transition and advance their smart specialisation strategies and governance.

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<sup>3</sup> The regions are Cantabria (Spain), Centre-Val de Loire (France), East North Finland (Finland), Grand Est (France), Greater Manchester (UK), Hauts-de-France (France), North Middle Sweden (Sweden), Piedmont (Italy), Saxony (Germany) and Wallonia (Belgium). The countries are Lithuania and Slovenia.

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