Proposal: An experimental 1 billion Productivity Impact Fund for Europe[1]

EXECUTIVE SUMMARY

A recurring challenge in policymaking is how to identify the most promising policy ideas and develop them into impactful programmes. The best policy ideas don't typically come from inside government ministries, but rather from actors across the ecosystem that are closer to businesses and their needs. Unfortunately, governments typically lack the funding instruments to encourage, identify and test novel policy ideas.

We propose the creation of an experimental 1 billion Productivity Impact Fund (PIF). This new fund would identify and test the most promising interventions to accelerate productivity growth and increase competitiveness in Europe.

With its bottom-up approach, this fund would crowdsource the best policy and programme ideas across Europe, and provide funding to test the most promising ones in the "real world", directly benefiting entrepreneurs, innovators and SMEs.

Funding would be conditional on rigorous evaluation, generating actionable insights for decision-makers across Europe on the impact of different types of schemes. Better evidence on what works and what doesn't would lead to better decisions on which programmes to scale, which ones to rethink, and which ones to stop.

Lastly, the example it would set (plus the incentives it would provide) would induce national, regional and local governments to become more experimental themselves, seeding a culture of evidence-based policymaking that is open to innovation and constantly seeks to increase value-for-money.

[1] A version of this proposal was presented to the Eurozone finance ministers at the Eurogroup meeting held on 7 November 2019.

If implemented well, this fund would spark a transformation in how member states use their own national budgets to improve their competitiveness, leading to more impactful policies across the board.

Experimentation funds are flexible instruments. The fund could be open to pilot schemes that address any of the barriers hampering Europe's economic performance, or instead target specific areas, such as scaling startups, improving SME management practices, accelerating digitisation and tech diffusion, increasing science commercialisation, or reskilling the workforce in response to AI, among others. The annex provides concrete examples of how policy experiments have been used to address many of these issues.

Over the next 7-year budget period European governments will invest over €1,000 billion in policies to support entrepreneurs and businesses to innovate and grow. The proposed Productivity Impact Fund would represent less than 0.1 per cent of this amount (1 billion). Investing 0.1 per cent to find ways to maximise the impact of the remaining 99.9 per cent represents a very modest investment, with huge upside potential.

The alternative is more of the same: continuing to spend public money on well-intentioned but low-impact policies, stifling policy innovation and agility, and failing to learn what works and what does not, at the expense of European competitiveness.

A new experimental 1 billion Productivity Impact Fund

Identify, test and support the most promising interventions to accelerate productivity growth and increase competitiveness in Europe

- Encourage innovative policy ideas
- Fund programmes in exchange for rigorous evaluation
- Learn what works best and scale it up
- Create a culture of innovation and evidence

An impactful EU investment

Leverage EU funding to increase the effectiveness and efficiency of member states' investment

€1,000+ billion

European countries' expected expenditure on policies to support businesses to innovate and grow in next MFF period

Invest 0.1% (€1 bn) to find ways to maximise the impact of the remaining 99.9%

PROPOSAL BACKGROUND

Addressing Europe's economic and societal challenges requires new policy ideas and more effective programmes

The European Union has a persistent productivity weakness. After decades of post-war convergence with the United States, that convergence has stalled, constraining living standards, competitiveness, and the fiscal capacity needed to sustain Europe's social model. There is broad agreement that Europe needs more effective policies to reverse this trend and ensure that the benefits of growth reach all EU citizens.

Increasing productivity is not the only challenge. Europe also faces new policy challenges that we have not encountered before (such as tackling climate change or innovating in defence), and which will require imaginative solutions. Moreover, the world is constantly changing, so old solutions may not work (if they ever did). Additionally, emerging technologies such as AI offer new and unexploited opportunities for policymakers, but it is unclear how best to take advantage of them. In short, we need new policy ideas, but also to learn whether they work.

Every year we invest over €150 billion without really knowing its impact or maximising value-for-money, hampering productivity growth

European governments invest over €150 billion every year supporting businesses to innovate and grow, as do many other governments around the world. Are we making the most of this investment? Are there more effective ways of using this funding? How would we ever know?

The What Works Centre for Local Economic Growth at the LSE reviewed almost 15,000 evaluations and evidence reviews of local economic policies, and concluded that only 2.4 per cent of them provided credible estimates of impact, and of those only one in four demonstrated a positive effect on employment (around 0.6 per cent of the total).[2] The remaining evaluations offered useful descriptive and implementation insights, but did not provide robust impact estimates that clearly demonstrated whether the policy worked or not.

[2] Specifically, the team assessed for each study the methodology used and their results. While not all of these were impact evaluations, they only found 361 studies (or 2.4% of the total) that involved a credible counterfactual and provided strong evidence of causality ("Credible" refers to impact evaluations satisfying the level 3 of the Scientific Maryland Scale, which means that they had a clear justification for why the companies that had not received the intervention would have performed in a similar way as those benefiting from the intervention if the intervention had not happened). Note that not all relevant questions can be addressed with counterfactual evaluation methods, but there is definitely immense scope to use them to increase the quality and quantity of evidence in this policy space.

Ultimately, this lack of evidence leads to policies that are less effective (or potentially even counter-productive), and the risk of wasting limited resources on programmes that do not work. As a result, despite substantial public investments, Europe's productivity is lower than it could (and should) be.

Policy experimentation can lead to more impactful policies

Abhijit Banerjee, Esther Duflo, and Michael Kremer were awarded the Nobel prize in Economics for their experimental approach to alleviating global poverty. Over the last two decades they have set up countless experiments to find out which were the most effective interventions to fight poverty. Over 850 million people have been reached by programmes that were scaled up after being evaluated by them or their colleagues at the MIT Poverty Action Lab (JPAL), the lab that they founded to pursue this research.

With their work, they have demonstrated the value of starting small, testing out different interventions to find out what works best, and then scaling them up. They have tested programmes in the same way as we test pharmaceutical drugs, using randomised controlled trials (RCTs) that compare the impact of an intervention relative to the status quo.[3] They have shown how our priors, beliefs, hypotheses or models can be wrong. And therefore that there is no substitute for testing new programmes rigorously in the real world. The knowledge they have generated has improved the lives of millions and radically transformed research in this field.

Innovation and productivity policies are neither innovative nor productive

The contrast with innovation and productivity policies is stark. While innovation policy is meant to encourage experimentation with new products, services, and business models, it is itself often neither innovative nor experimental. The same is true of the wider set of policies designed to boost productivity growth, including entrepreneurship, SME, industrial, and growth policies.

Becoming experimental means turning the current model of policymaking upside down. Despite all the unknowns, governments often act as if they had all the answers, rather than

[3] The idea behind randomised controlled trials (RCTs) is a simple one. Participants are randomly placed in a 'treatment' group and a 'control' group (or across multiple 'treatment' groups), and the impact of the intervention is estimated by comparing the behaviour and outcomes of the two. Randomised controlled trials can provide an accurate estimate of the impact of an intervention, without suffering the selection biases that hamper many other types of evaluation (although as with any other tool, trials can answer some questions but not others).

recognising that they don't. They introduce new policies without prior small-scale testing, assuming they have chosen the best design and hoping it will work.

The alternative is to follow the example of these Nobel prize winners: start small, trial different designs systematically, learn what works to increase impact and scale it up.

Policy experimentation has unexpected benefits

Policy experimentation encourages novel solutions to policy challenges and creates a dynamic of continuous improvement. It also makes it easier to discontinue unsuccessful programmes, given that there is a clear expectation upfront that the scheme will be time-limited unless it generates clear evidence of impact (how often are programmes started that won't work and don't have an end date?).

Policy experiments can also help de-risk the process of exploring new policy ideas and changes. By starting small and testing effectiveness early, experiments can in fact make it easier for risk-averse organisations to sample novel approaches and venture into more innovative fields, without having to commit large amounts of resources (and thus reputation) in the process.

Experimentation also lowers overall policy costs, because, despite investing a little more upfront in learning and evaluation, experiments allow policymakers to "weed out" ineffective programmes early on, potentially saving taxpayers from footing the bill. By considering alternative approaches, it also helps identify options that achieve the same or even better outcomes in a more cost-effective way.

Ultimately, experimental policymaking leads to more learning, better decisions, more impactful policies and higher value-for-money.

The annex provides concrete examples of how policy experiments have been used to assess the effectiveness of different programmes aimed at increasing productivity and competitiveness.

Some governments are making policy experimentation a priority

To realise the benefits of policy experimentation, governments need the right incentives, structures, cultures, and skillsets. Finland established a dedicated unit in the Prime Minister's Office, Canada mandated dedicated budgets for policy experimentation, and the UK has

embedded Test & Learn as a core principle of public service reform. The UK has also created a Metascience Unit to strengthen the evidence base on what works in research funding, and the US National Science Foundation has announced its own internal equivalent. Across Europe, several science and innovation funders have begun testing different approaches to R&I funding. The Heitor Report recommended that the European Commission build the same capacity for experimentation in FP10, a recommendation that has not yet been taken up. Some parts of the European Commission have begun to support experimental pilots, but experimentation remains the exception rather than the norm.

Several levers can help address the incentive misalignments that hinder policy experimentation and reshape perceptions of what is expected and feasible. Some sit with finance ministers — through the budget process or by creating dedicated funding mechanisms — while others lie elsewhere, such as reshaping institutional norms and risk appetites, establishing mandates, and building internal capabilities and teams.

Experimentation funds are a useful tool to identify and support new policy ideas

A recurring challenge in policymaking is how to identify the most promising policy ideas and develop them into impactful programmes. Novel ideas for programmes can come from anywhere in the ecosystem, not just from those who are directly involved in policy development inside government ministries. Unfortunately, governments typically lack the funding instruments to encourage, identify and test novel policy ideas.

In the spirit of open innovation, the best programme ideas often come from organisations that are directly working with businesses and have first-hand knowledge on their needs and constraints. However, many of these organisations often lack the resources, skills, incentives and risk appetite to develop their ideas into actual pilot programmes, and then to evaluate them to learn how well they work.

One tool that governments can use is experimentation funds. These funds are a very useful mechanism to identify, test and support the most promising ideas for support programmes tackling a particular policy challenge, learn how to implement them most effectively, and distinguish between those ideas that should be scaled up vs. well-intentioned but ultimately ineffective efforts.

Other policy areas, such as social policy or education, have already shown that this bottom-up approach to crowdsource new programme ideas can be a powerful strategy to tackle complex issues and generate better public outcomes. They have also shown that

putting these new ideas to the test through policy experimentation is not only feasible, but also of enormous value when it comes to designing new, more effective programmes.[4]

Example: The UK Business Basics Fund used an experimentation fund model to accelerate tech adoption

Pushing the knowledge frontier forward is not sufficient to reverse the slowdown in productivity growth. We also need to accelerate the diffusion of new technologies across the European economy, something at which Europe underperforms relative to the US. Even more worryingly, recent OECD research shows an increasing divide between the best performing firms and the remaining firms. Reducing the size of this gap could make a substantial contribution to productivity growth and help to reduce inequality.

This is not a new challenge, but past attempts have not been as successful as hoped, so the UK government tried a different approach to find more effective solutions. The UK's Business Basics Programme tested innovative approaches to encouraging SMEs to adopt technologies and management practices. Launched in 2018, it funded 32 projects — 17 randomised controlled trials and 15 proof-of-concept pilots — combining support for SMEs with the generation of rigorous evidence on what works. The programme produced one of the most comprehensive evidence bases on SME productivity interventions to date. Its results showed that a wide range of interventions can be effective, but also that many programmes fail to meet expectations — often due to implementation problems that become apparent early in delivery and could be addressed through more iterative approaches.

An experimental 1 billion Productivity Impact Fund (PIF) for Europe

Building on these experiences, we propose the creation of an experimental 1 billion Productivity Impact Fund for the EU. This new fund would identify and test the most promising interventions to accelerate productivity growth and increase competitiveness in Europe.

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[4] The idea of experimentation funds originated in other policy areas. For instance, the UK-based Education Endowment Foundation is conducting over 130 randomised controlled trials involving more than a 1,000 schools and 900,000 pupils in order to test different ways to improve educational outcomes. And the French government runs an experimentation fund for young people, a bottom-up approach to identify innovative interventions to improve youth outcomes (crowdsourced from organisations across the country), implement them at a small scale, and rigorously evaluate them to find out whether they work, before deciding whether they should be scaled up. More recently, both the European Commission and the UK government have taken up this idea and applied it to innovation and growth policy. The European Commission launched a small-scale pilot call for policy experiments targeted at innovation agencies across Europe and another one focused on regional development , while in the UK the government set up the Business Basics programme as part of their industrial strategy.

The fund would seek to encourage novel ideas and approaches that tackle these key challenges in an innovative way, but could also be open to testing existing interventions with limited evidence of impact.

With its bottom-up approach, this fund would crowdsource the best policy and programme ideas across Europe, both from traditional organisations and from newcomers. The funding provided would enable testing the most promising programmes in the "real world", directly benefiting entrepreneurs, innovators and SMEs.

Funding would be conditional on rigorous evaluation, generating actionable insights for decision-makers across Europe on the impact of different types of schemes. Better evidence on what works and what doesn't would lead to better decisions on which programmes to scale, which ones to rethink, and which ones to stop. Otherwise, without good evidence, it is impossible to allocate limited public resources to the programmes that have the greatest impact.

Lastly, the example it would set (plus the incentives it would provide) would induce national, regional and local governments to become more experimental themselves, seeding a culture of evidence-based policymaking that is open to innovation and constantly seeks to increase value-for-money.

If implemented well, this fund would spark a transformation in how member states use their own national budgets to improve their competitiveness, leading to more impactful policies across the board.

Experimentation funds are flexible instruments and can be targeted to specific policy challenges

Experimentation funds are flexible instruments, so the focus of the fund could be adapted depending on the priorities identified. It could be open to any pilot scheme that addresses any of the barriers that hamper Europe's economic performance, or instead target specific areas. Some examples include supporting entrepreneurs and scaling startups, improving SME management practices, accelerating digitisation and tech diffusion, increasing science commercialisation and deepening university-business collaboration, unlocking access to finance for intangible-rich SMEs, or reskilling the workforce in response to AI, among others. Alternatively, it could seek to address societal challenges such as climate change, for instance

by testing out interventions that increase adoption of carbon-saving technologies and behaviours.

Experimentation funds can also be adapted to support interventions with different levels of maturity. For totally new programme ideas never implemented before, small amounts of funding could be provided to support a first prototype or proof-of-concept. These small-scale pilots help to demonstrate whether an intervention is feasible, contribute to fixing early-stage design issues, and provide an early indication of businesses' likely demand and response.

For programmes that have shown some potential, the fund could support randomised trials that test the actual impact of an intervention and provide evidence on its cost-effectiveness. Finally, for programmes that have already demonstrated their effectiveness, funding could be provided to test tweaks or changes that may further increase their impact or reduce their cost, as well as to replicate programmes in other environments to learn whether they would work in a very different context.

This new experimental Productivity Impact Fund would be an impactful EU investment

European Union funding can achieve the highest impact when it focuses on investments that unlock wider changes in member states, rather than simply replacing investments that member states would have done themselves. Therefore, one way to leverage the EU's limited budget is to seek to increase the effectiveness and efficiency of the substantial investments that member states are already making in innovation and productivity-enhancing measures, helping to improve the competitiveness of both frontier and laggard regions and firms.

Over the next 7-year budget period European governments will invest over €1,000 billion in policies to support entrepreneurs and businesses to innovate and grow.[5] The proposed Productivity Impact Fund would represent less than 0.1 per cent of this amount (1 billion). Investing 0.1 per cent to find ways to maximise the impact of the remaining 99.9 per cent represents a very modest investment, with huge upside potential.

The alternative is more of the same: continuing to spend public money on well-intentioned but low-impact policies, stifling policy innovation and agility, and failing to learn what works and what does not, at the expense of European competitiveness.

[5] Assuming current expenditure levels, estimated at over €150 billion per year, continue over the next 7-year period.

ANNEX: Evidence from policy experiments to strengthen productivity and competitiveness

This annex presents 12 concrete examples showing how policy experiments can identify more effective interventions—and how conventional, non-experimental evaluations can lead to misleading conclusions.

Each case draws on a randomised controlled trial (RCT), widely regarded as the gold standard for proving cause and effect, to provide robust evidence on what works in practice. Beyond measuring impact, these examples illustrate how RCTs can be used to compare interventions, optimise programme design, and diagnose the underlying causes of policy challenges.

Three critical lessons stand out across these trials:

- Results are often surprising: Sensible-sounding policies can underperform (for example, expensive one-to-one consulting proving less effective than cheaper group-based support), while counterintuitive ones (such as training that leads weaker start-ups to "fail fast" and close sooner) can improve overall outcomes. Real-world testing is irreplaceable.
- Small design features often determine the outcome: How support is delivered, who is targeted, and how programmes are structured often determine whether an intervention succeeds or fails. Even small tweaks in the design—such as the precise content of a training programme—can have large effects. By testing these features directly, policymakers can identify which designs deliver the best results, rather than relying on assumptions.
- Experimentation and rigorous evaluation are feasible at scale: these trials show that such approaches can be implemented within public programmes and can generate fast, decision-relevant evidence.

A Productivity Impact Fund that ties funding to rigorous evaluation would encourage novel interventions while generating this evidence across Europe, enabling member states to scale what works, improve what underperforms, and discontinue what does not.

1. Management, business advice and networks

Teaching firms modern management raised their productivity by 17% — and the gains were still visible nine years later.

Textile firms in India were randomly assigned to receive free management consulting or to continue operating as usual. Treated firms became more productive and more profitable within a year, and were more likely to expand by opening additional plants. A follow-up nearly a decade later found that they continued to outperform the control group, providing strong evidence that management support can deliver lasting gains.

Source: Bloom et al., QJE 2013 · 9-year follow-up, 2020

Cheaper group-based consulting matched costly one-to-one support in the short term—and over time delivered 50% higher sales and profits.

Colombian SMEs were randomly assigned to receive intensive one-to-one consulting, lower-cost group-based consulting (at around one-third of the cost), or no support. Both approaches improved management practices initially, but over the following decade the group-based firms pulled ahead: they were more likely to survive and achieved substantially higher sales and profits (around 50% higher), even amid Covid and rising import competition. There is little evidence of sustained long-run effects for the more expensive individual model. The results highlight that how support is delivered, not just whether it is provided, can determine impact.

Source: Iacovone, Maloney & McKenzie, Rev. Econ. Studies 2022 · decade follow-up, World Bank 2026

Regular peer meetings between managers raised participating firms' revenue by 8% — a large effect at a fraction of the cost of traditional consulting.

Over 2,800 young Chinese firms were randomly assigned to take part in monthly small group meetings with other managers or to a control group with no meetings. Firms in the meetings group achieved higher revenue and profits and adopted better management practices, driven by peer learning and improved supplier–client matching. These gains persisted for at least a year after the meetings ended.

Source: Cai & Szeidl, QJE 2018

Subsidised business advice increased firms' turnover in the short term—but most of the effect did not last.

The UK government randomly allocated vouchers for external advice to more than 15,000 SMEs. Firms receiving support saw turnover rise by around 8% in the first year, but the effect

largely faded by the second year. Importantly, conventional (non-experimental) analysis wrongly suggested lasting effects — only the trial revealed they were short-lived. A direct illustration of why robust evaluation methods matter.

Source: Nunez Chaim, Overman & Riom, CEP 2024

2. Backing entrepreneurs and new ventures

Entrepreneurs trained to test ideas like scientists made better decisions, pivoted more decisively, and dropped weak projects sooner.

Across several randomised controlled trials in Italy and the UK (covering more than 750 firms), founders were assigned either to a "scientific" approach—formulating hypotheses, testing them, and updating based on evidence—or to more conventional training. Those trained in the scientific approach made more informed decisions, selected stronger projects, were quicker to discontinue ideas that were not working, and achieved better performance.

Source: Camuffo, Gambardella et al., Management Science 2020 · large-scale replication, SMJ 2024

Training start-ups to "fail fast" led weaker ventures to close sooner — while the survivors raised more funding and performed better.

An experiment with 553 science- and technology-based start-ups across 12 US co-working spaces randomly gave founders intensive short-term training, or not. Treated start-ups were more likely to shut down, and sooner — but the survivors raised funding faster and in larger amounts, with higher employment and revenue. The results suggest that the training helped founders of weaker ventures to "rationally quit" earlier and reallocate effort more effectively—a counterintuitive finding that would be difficult to identify without a randomised trial.

Source: Bailey-Rihawi, Fehder, Floyd, Hochberg & Lee, NBER 2026

3. Innovation, R&D and technology adoption

Small innovation vouchers triggered genuine new university-business collaboration, with effects in the Netherlands still visible 12 years later.

Innovation vouchers have been tested through lotteries at scale. In the Netherlands, 8 of every 10 vouchers funded a university-business collaboration that would not otherwise have happened; twelve years on, treated firms had higher survival, more R&D and higher employment. An Innovate UK trial found voucher recipients more likely to launch new products

and to apply for patents, highlighting the potential of this relatively low-cost instrument to generate lasting, additional impacts.

Source: Netherlands / Cornet, Vroomen & Van der Steeg, CPB 2006 · Netherlands, 12-year follow-up · UK / Kleine, Heite & Rosendahl Huber, Research Policy 2022

Randomly allocated R&D grants raised firms' projected private R&D investment by 48% — but some of the money displaced spending they would have made anyway.

In Spain (Extremadura), an EU-funded programme offered SMEs R&D grants of up to €250,000. Proposals were independently scored: the strongest were funded, the weakest were rejected, and those in between entered a lottery, creating a clean randomised trial. Early results show that firms receiving grants reported a 48% increase in projected private R&D investment, although part of the subsidy simply displaced spending they would have made anyway — highlighting the importance of targeting and design.

Source: DG REGIO Cohesion Policy RCTs 2025

Matching SMEs with scientists led to more—and more effective—research partnerships, with particularly strong gains for AI-focused firms.

In Croatia, randomly selected SMEs were matched with scientists through structured workshops and follow-up support, while a control group received neither. Early results show treated firms formed more research collaborations and achieved better outcomes from them, with AI-focused firms seeing the largest gains in product development and R&D hiring. The results provide early evidence that actively brokering links between science and business can deliver meaningful benefits.

Source: DG REGIO Cohesion Policy RCTs 2025

AI-adoption training more than doubled treated firms' monthly sales — an early but striking result.

In Czechia, firms were randomly assigned to receive structured AI-adoption training or to a control group. Early, short-term results based on a small-scale pilot indicate that treated firms increased monthly sales by 117% and profits by 66%, with peer learning among participants a key driver.

Source: DG REGIO Cohesion Policy RCTs 2025

4. Labour markets

Beware headline success: a French jobs programme helped participants partly by shifting jobs away from others.

A large French trial varied the share of jobseekers receiving intensive placement support across 235 local labour markets. Participants found work more quickly, but some of these gains came at the expense of similar non-participants. As a result, the overall impact on employment was much smaller than participant-level results suggested, and largely temporary. This highlights how programme-level evaluations can overstate true impact, and why accounting for displacement effects is essential.

Source: Crépon, Duflo, Gurgand, Rathelot & Zamora, QJE 2013

When firms overestimated the burden of labour regulations, providing accurate information increased hiring by 12%.

Around 1,800 South African firms were randomly given free access to a labour-law information service, or assigned to a control group. Six months later, employment at treated firms was 12% higher. The intervention corrected firms' misperceptions about regulatory constraints and increased hiring—without any change to the regulations themselves—highlighting that perceived barriers can matter as much as actual ones.

Source: Bertrand & Crépon, AEJ: Applied 2021