german cooperation
DEUTSCHE ZUSAMMENARBEIT

Implemented by
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

EQuIP

Enhancing the Quality of Industrial Policies

Strategy Setting Document

Strategy Setting Document

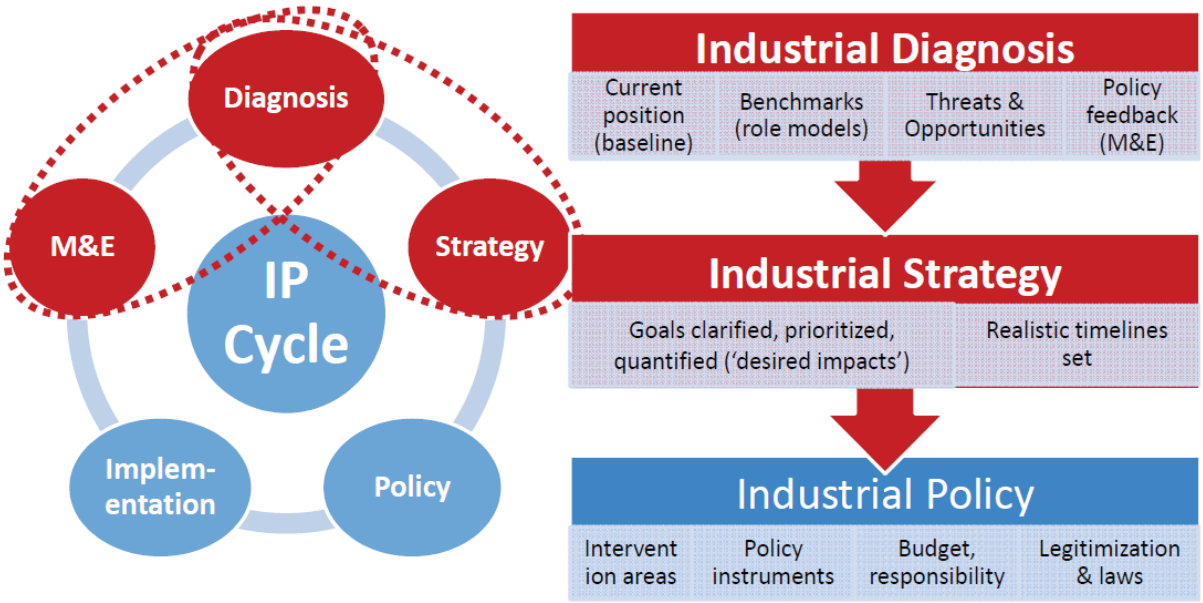
Contents

1. Introduction

As spelled out in the *Introduction to the EQuIP toolbox* document, the individual diagnostic tools are meant to help industrial analysts and policymakers to shed light on different aspects of inclusive and sustainable industrial development. The EQuIP toolbox also emphasises the importance of benchmarking against comparator countries and role models to contextualise a given country's industrial performance. These analytical findings can then be used to inform the definition of an evidence-based industrial strategy for the country in question. This document outlines an exemplary process for moving from the generation of an industrial diagnosis with the help of the EQuIP toolbox to defining the main building blocks of an industrial strategy roadmap and monitoring system.

With reference to the industrial policy cycle (see also *Introduction to the EQuIP toolbox* document), this document is mainly concerned with the stages of *Industrial Strategy* and *Monitoring & Evaluation* (*M&E*) by linking them to the *Industrial Diagnosis* stage; these are the red-coloured components of the schematic industrial policy cycle displayed in Figure 1. Hence, there is no reference to the processes of choosing concrete policy interventions (instruments) or implementing them (represented by the blue-coloured bubbles in Figure 1). These next stages of the policy cycle will be the focus of EQuIP phase 2, where industrial policy instruments will be compared and assessed on the basis of their suitability to contribute to the improvement of certain industrial performance objectives that are spelled out in a given country's industrial strategy.

Figure 1: The industrial policy cycle



Note: IP stands for industrial policy while M&E stands for monitoring and evaluation

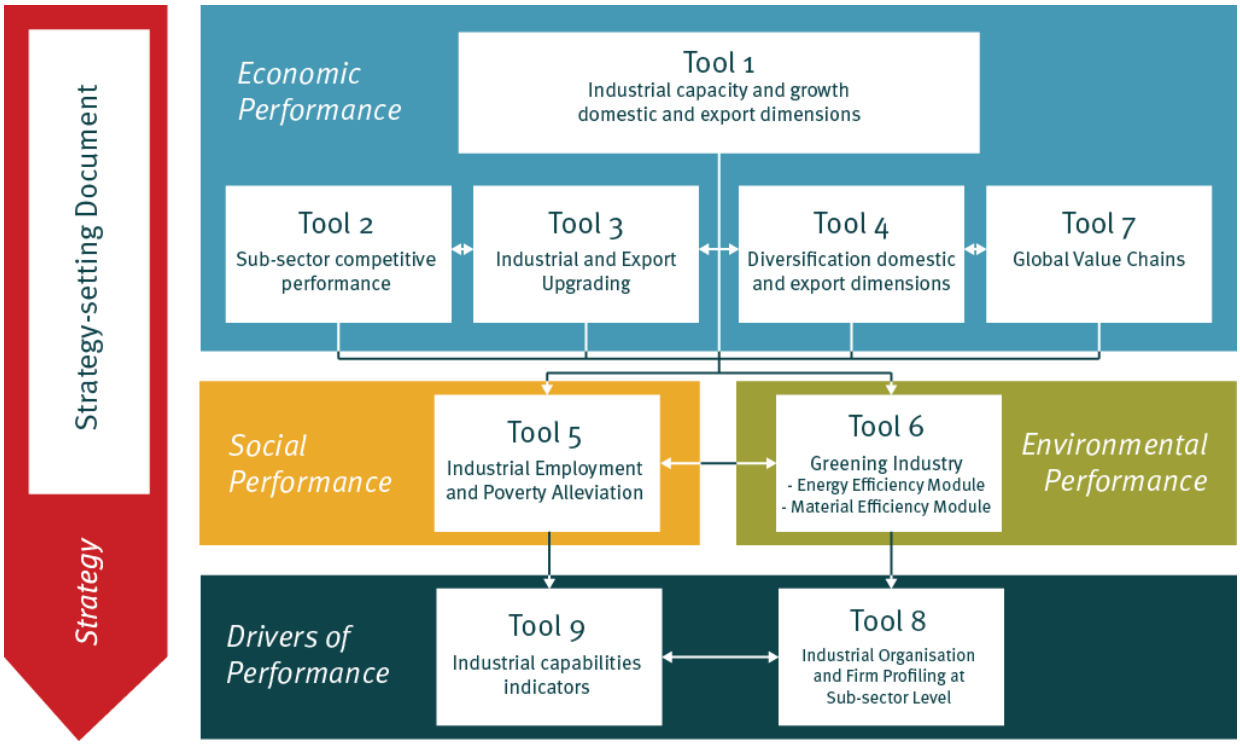
In a nutshell, the findings from an industrial diagnosis that has been elaborated on the basis of the EQuIP toolbox can feed into the formulation of an industrial strategy by **providing concrete target values** for the main dimensions of industrial performance that can realistically be achieved in a certain timeframe (e.g. over the next 5 or 20 years). On that basis, the EQuIP diagnostics also provide the **baseline data for an industrial policy monitoring system** and allow analysts to track performance over time (i.e. to monitor progress) and to examine the causality between industrial policy interventions and performance improvements (i.e. impact assessment / evaluation). The findings and insights from the M&E stage can close the policy cycle by providing feedback into the next Industrial Diagnosis in terms of which performance improvements have materialised,

which policy measures have worked and which ones have not. This ensures an **adaptive strategy formulation and policy learning process**.

It also deserves to be recalled that the strategy formulation process sketched out here is not supposed to be deterministic and prescriptive but flexible and adaptive. This is in line with the notion of **experimental industrial policy** which is outlined in the *Introduction to the EQuIP toolbox* document (see Figure 7: *Some principles for industrial strategy formulation with the EQuIP toolbox*). In particular it has to be ensured that EQuIP users have sufficient latitude in applying the different tools and in interpreting the findings generated according to country specificities. Using the EQuIP toolbox for the generation of an industrial strategy by external experts (e.g. international consultants or advisors) without pursuing a capacity development approach that enables national decision-makers, hence, is neither practical nor promising.

Figure 2 illustrates how this *Strategy Setting Document* relates to the industrial diagnosis and the EQuIP toolbox and provides an overview of the existing tools. A summary of these tools and an explanation how they interrelate can be found in the *Introduction to the EQuIP toolbox.* The Strategy Setting Document shall help integrate the results from the application of the EQuIP tools and explains how the different pieces of information can be pulled together in order to help policymakers taking informed decisions when formulating an industrial strategy for their country.

Figure 2: Overview of EQuIP tools



The following sections outline one possible process for moving from analysis to strategy formulation. This process should be understood as purely illustrative as the actual process will necessarily look very different in one country than in another. The EQuIP toolkit would still generate useful inputs into other approaches to define an industrial strategy, but it would require a customised planning of the process accordingly. The common feature of a **circular and iterative process**, where evidence is both an input into strategy formulation as well as an output of the monitoring and evaluation of interventions, should however be considered in any country context.

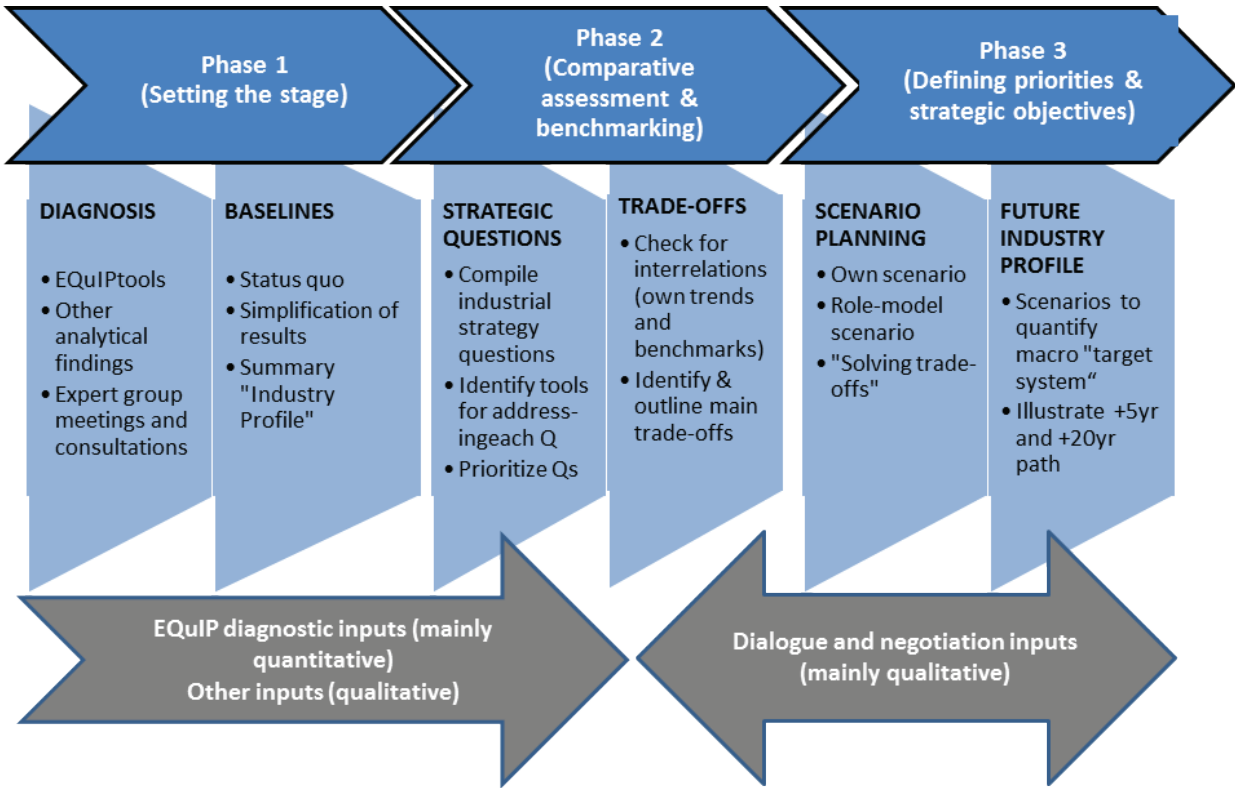
2. Contours of a strategy-setting document on the basis of the EQuIP toolbox

This section will sketch out how an industrial strategy-setting document drawing on insights from the EQuIP diagnostic toolbox could potentially look like. In practical terms, this illustration is meant to visualise how the different pieces of information created through the application of the EQuIP diagnostic tools can be pulled together in order to help policymakers taking informed decisions when formulating an industrial strategy for their country.

The process of industrial strategy formulation can be understood as zooming into one part of the industrial policy cycle that was introduced above, which is mainly concerned with the definition of priorities and targets by using the available information on the industrial sector. This would commonly include both analytical findings generated by the EQuIP diagnostic toolbox as well as other quantitative and qualitative investigations (e.g. field research or expert dialogue forums/ councils).

Figure 3 outlines a generic process that consists of three broad phases. The first step includes setting the stage and the establishment of a "current industry profile" for a given country which identifies baselines, drawing from a comprehensive industrial diagnosis. In a second step, it has to be clarified – through comparative analyses and benchmarking against peer countries and role models – which strategic questions and objectives are most relevant for the country's industrial sector. The last step foresees the definition of priorities and strategic objectives through scenario planning, resulting in the definition of a "future industry profile" for the country in question. The remainder of this document briefly introduces each phase.

Figure 3: Illustration of an industrial strategy design process



Phase 1: Setting the stage

The first step consists of getting to a comprehensive diagnosis of the shape and characteristics of the country's industrial sector as well as relevant global patterns and trends. The EQuIP toolbox offers a wide range of diagnostic methodologies to consider for this, acknowledging that the most appropriate approaches and tools vary according to country characteristics. In past and present industrialisation efforts, countries have pursued a large variety of goals so that the possible list of such strategic objectives is extensive and has even grown more recently with the emergence of inclusiveness and environmental sustainability as key topics. The EQuIP toolbox aims to do justice to this multiplicity of possible industrial strategy objectives by covering a large range of analytical tools for shedding light on various topics. It does, however, not dictate that all countries should consider all dimensions of industrial development in the same way.

After industrial policy analysts have applied the relevant parts of the diagnostic toolkit, the findings compiled through this diagnosis can be used to establish a "current industry profile" which can serve as a baseline for the industrial strategy formulation and monitoring process. Figure 4 illustrates a possible template that can be used for this. Depending on the scope of the analysis conducted with EQuIP, this will be more or less comprehensive.

The "current industry profile" is composed of a list of indicators (drawn from the different EQuIP tools) on the economic performance, industrial employment as well as the environmental sustainability of a country's industrial sector. It includes the respective country (*Country A*) as well as relevant benchmarks and role models for comparative assessments (e.g. *Country B* and *Country C*). In the first column, industrial analysts and policymakers can insert the values of the different indicators for their own country (while the corresponding information on the relevant comparator countries have to be entered further to the right). This gives a comprehensive representation of the status quo of the setup and performance of the country's industry. At the same time, the values reported in this column also serve as baselines, i.e. as points of reference for the (future) measurement of progress on the different indicators. In the next column, users can indicate the trend that the different indicators have followed over the last five or ten years. This helps to highlight whether a country's industrial sector has experienced improvement (*upward arrow*), stagnation (*horizontal arrow*) or deterioration (*downward arrow*) in a given area.

The indicator values for the comparator countries help to determine the relative performance of Country A in each area. In Figure 4, Country A's relative performance is signalled through the use of colours underlying the values in the first column. Green means that Country A's performance is good relative to its peer group (i.e. the ensemble of comparator countries). By contrast, red signals that Country A's performance is poor relative to its comparator countries. Yellow indicates that Country A's performance is more or less in line with that of its peer group.

This summary of results in a "current industry profile" helps to simplify and structure the complex set of findings delivered by the EQuIP tools. It helps to identify (relative) strengths and weaknesses of a country's industrial sector (highlighted in green and red, respectively), and to distinguish those areas where a country's industry has seen a positive trend and an improvement in performance from those areas where it has been on a negative trend.

Figure 4: Template for a country's "current industry profile"

CURRENT INDUSTRY PROFILE							
		Country A		Country B		Country C	
ECONOMIC PERFORMANCE							
	Indicator	Value	Trend	Value	Trend	Value	Trend
1	Economic structure (towards more manufacturing content)	40%	↓				
2	Export structure (towards more manufacturing content)	80%	↔				
3	Industrial capacity	125	↑				
4	Export capacity	420	↑				
5	Industrial impact	0,03%	↓				
6	Export impact	0,40%	↑				
7	Domestic diversification	0,64	↔				
8	Export basket diversification	0,51	↓				
9	Export market diversification	0,73	↑				
10	Technological content of industrial production	30%	↓				
11	Technological content of export	48%	↑				
INCLUSIVENESS AND PRODUCTIVE EMPLOYMENT							
	Indicator	Value	Trend	Value	Trend	Value	Trend
12	Employment absorption of industry	45%	↑				
13	Employment intensity of industrialization	0,00025	↓				
14	Manufacturing labor productivity	4,8	↑				
15	Female share of manufacturing employment	36%	↑				
16	Employment elasticity of industrialization	0,52	↓				
17	Wage generation via industrialization	30%	↔				
ENVIRONMENTAL SUSTAINABILITY							
	Indicator	Value	Trend	Value	Trend	Value	Trend
18	Efficiency of resource transformation (MVA/DMC)	3.450	↓				
19	Energy efficiency of industry	1,2	↓				
20	Energy self-sufficiency	33%	↑				

Note: Red, yellow, green coloured boxes mean, respectively, low, medium, and high-level, relative to peer group

Phase 2: Comparative assessment and benchmarking

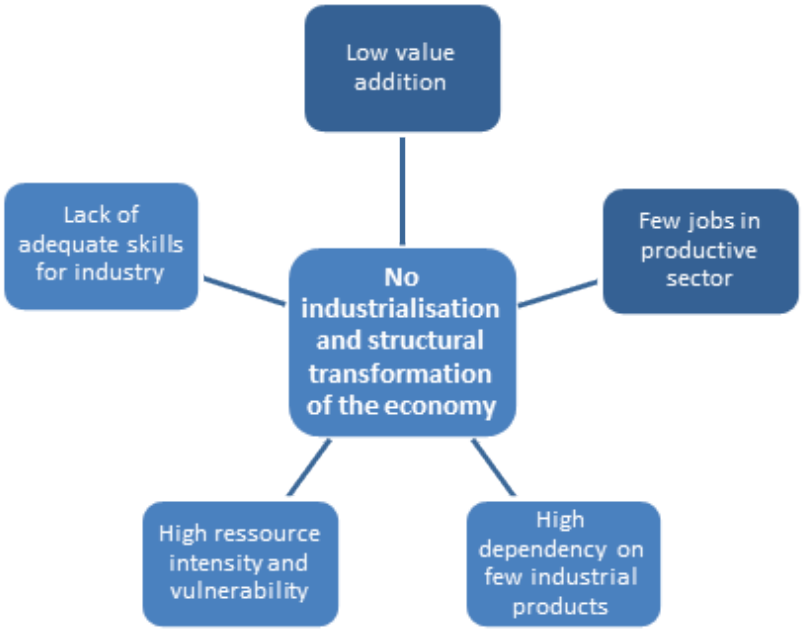
In a next step, it has to be clarified which strategic questions and objectives are most relevant for the country. This will require the analyst to compare the relative importance of the key findings and to engage in benchmarking exercises to learn from the successful experiences of other relevant countries in the past (role models). Typically, a very diverse range of strategic considerations are put forward under the heading of industrial policy in developing countries. Such plethora of challenges and desires for industrial development can make industrial strategy design processes highly complex and often overly ambitious.

The findings generated in phase 1 can point policymakers to those industrial strategy questions that possibly deserve particular attention. They thereby give policymakers leads on where to put the emphasis in industrial strategy formulation exercises. One option, for example, would be for the industrial strategy to focus on the current strengths of the country's industry and to build on them and develop them further. This would suggest a focus on the green cells in the "current industry profile". By contrast, the industrial strategy could also aim at catching up and at tackling the current weaknesses of the country's industrial sector – implying a focus on the red cells of the "current industry profile". The strategic notions of "following (latent) comparative advantage" or "defying comparative advantage" (or "leapfrogging") in industrial policy can hence both be informed by the EQuIP toolbox.

Moreover, looking at trends in past performance (both in the home country and comparator countries) can give policymakers a first idea of possible trade-offs between two strategic objectives (i.e. where two indicators have developed in opposite directions) and possible synergies between different dimensions (i.e. where two or more indicators have moved in the same direction). In practice, industrial strategies are likely to be informed by a mix of all these considerations but the "current industry profile" can serve as a useful starting point to identify strengths, weaknesses and trends as well as trade-offs between different performance dimensions (e.g. employment generation vs. upgrading of technological sophistication).

Let's assume we follow an example where Country A's ultimate objective is to spur a process of structural transformation in the economy so as to achieve higher levels of economic development and living standards for their population. On that basis, the country has utilised all of the EQuIP methodologies to conduct a comprehensive analysis of its industrial performance. The EQuIP toolbox has allowed analysts and policymakers in that country to identify some core strategic areas which are currently inhibiting their industrialisation process to contribute to their overarching objective. In this case, Country A has examined all of the various industrial performance trends and has realised that its industrial sector is currently generating very little value addition and employment relative to comparator countries. Country A therefore prioritises these two strategic challenges as improvement in these areas will directly manifest as a positive structural transformation of the economy towards more productive activities (cf. Figure 5).

Figure 5: Example of prioritised industrial strategy questions/challenges



In addition to these two key performance objectives, they have also identified some areas of high vulnerability which they would like to mitigate to contribute to a more stable industrialisation process. Country A pursued a fairly aggressive export-oriented industrialisation strategy in the past and through the application of the EQuIP toolbox they have realised that they are now highly dependent on only a few industrial products. Based on this finding, policymakers in Country A may decide to prioritise a diversification of the country's export basket to minimise its vulnerability to external shocks in demand. In recent years, they have also noticed that their industry is vulnerable not only to demand shocks but also to energy supply shocks. As a large energy importer, Country A's industrial sector has suffered from highly volatile energy prices. Through application of the EQuIP toolbox, policymakers in Country A have identified that their industrial sector has very low energy efficiency and have therefore prioritised improvements in this area to reduce their vulnerability to energy price changes. Finally, they identified a serious gap in the required industrial skills in their workforce that would need to be closed in order to allow significant progress on all these performance challenges.

After narrowing down the most important strategic issues that the industrial strategy should tackle it is also advisable to consider inherent trade-offs or possible win-win scenarios between the main performance objectives. The comparative assessment of Country A and its role model's past trends allows strategically relevant insights into this. Potentially the findings could suggest that at a given stage of industrial development, employment generation targets are less likely to be met by moving into more technology intensive industrial sub-sectors. On the other hand, these sub-sectors seem more attractive from an innovation, learning and export competitiveness perspective. The country's policymakers would need to decide how to deal with this trade-off in order to prevent inconsistencies in the strategy or to avoid facing unintended consequences when rolling out its policy interventions later on. On the other hand, observed empirical patterns of the past can also point to possible synergies that could be exploited to achieve win-win scenarios between two or more objectives which can help to fast-track the transformation process (e.g. mutual re-enforcement between increased resource efficiency and higher value addition in resource-intensive industrial sub-sectors).

Solving all possible trade-offs and win-win scenarios is not feasible (nor necessary), but thinking them through does help to better align policy solutions to the real challenges. Hence, it is advisable that the main apparent contradictions and synergies are discussed among experts so that an informed decision can be taken and reflected in the strategic plan of the country. The monitoring

and evaluation of industrial policy will allow to check whether trade-offs and win-win scenarios have actually materialised or not in the given context. Hence, M&E exercises provide the foundation for a more informed way of solving trade-offs and fostering synergies in the next policy adaptation cycle.

Phase 3: Defining priorities and strategic objectives

Underlying the EQuIP strategy-setting document is the recognition that wholesale reform strategies that aim at tackling all obstacles and constraints to inclusive and sustainable industrial development simultaneously hardly ever work. Therefore, prioritisation of objectives is an essential part of any industrial strategy formulation exercise. EQuIP suggests that such prioritisation among strategic questions/objectives is done on the basis of both diagnostic findings and dialogue and negotiations between stakeholders. That is, it advocates for an evidence-based but "open" prioritisation process that is not deterministic and allows for flexibility. For instance, and to pick up an example from above, industrial strategists using EQuIP can use the empirical findings to decide that the industrial strategy is either about building further on current strengths (green cells) or, alternatively, about tackling industry's main weaknesses (red cells).

Let's assume that on the basis of the preceding analysis and prioritisation, Country A has decided that they will develop an industrial action plan for the next 10 years which will aim to improve performance in the core areas of value addition, employment, export diversification and energy efficiency. They are now able to set targets and timelines for their industrial action plan using the indicators and values from their EQuIP diagnostics.

Table 1 below is an example of how a country could use the EQuIP toolbox to assess their performance relative to a "role model" so as to outline a target and timeline for their industrial policy objectives. This scenario planning exercise assumes that the prior experience of successful role models (which share certain core characteristics like income level, country size and endowments with Country A) is highly relevant for decision-making and strategic planning. In particular, the findings on the role models' improvements in certain industrial performance dimensions can provide a realistic "best case scenario" for Country A. For instance, if the role model improved a certain indicator by an average annual 15% over a ten year period, Country A could aspire to achieve a similar improvement in the future instead of continuing at its past rate of improvement (e.g. 2% p.a. over the last 10 years, which itself gives the low case scenario for the future).

Table 1: Illustration of scenario planning to establish targets and timelines

Strategic Challenge	EQuIP Tool	Country A's Performance (informs low case scenario)	Role model's Performance (informs best case scenario)	Assessment of scenarios	Roadmap (Targets and Timelines)
Low Value Addition	Tool 1, Tool 2	US$15 of Manufacturing Value Added (MVA) per capita (Current) 2% p.a. MVA Growth Rate (10 year period)	US$40 MVA/ Capita (Current) 15% p.a. MVA Growth Rate (10 year period)	Currently, Country A has a MVA per capita of $15 and would like to emulate the role model's performance of a 15% average annual growth rate in MVA over the next ten years.	Target: US$60 MVA/ Capita (with 15% p.a. growth rate) Timeline: 10 years
Low Employment Generation	Tool 5	Jobless Growth *(Employment Elasticity: -0.5)* (Combination of a -1% p.a. employment growth rate and 2% p.a. MVA growth rate over a 10 year period)	High Employment Generation *(Employment Elasticity 0.75)* (Combination of 15% p.a. employment growth rate & 20% p.a. MVA growth rate over 10 year period))	Currently, Country A is experiencing "Jobless Growth", which means that as MVA expands there is a simultaneous decline in industrial employment. They would like to emulate the role model's performance of an employment elasticity of 0.75 to correspond with their target of 15% p.a. MVA growth rate (0.75/0.15)	Target: 11% p.a. employment growth rate Timeline: 10 years
Low Export Diversification	Tool 4	90% share of top three products in total exports (constant for 10 years)	Reduced dependency on top three products in total exports from 85% to 50% over last 10 years.	Country A has a highly concentrated industrial sector, with three products accounting for 90% of total exports. They would like to emulate the Role Model who was able to reduce their dependency on their top three products by 35 percentage points over 10 years.	Target: 55% share of top three products in total exports Timeline: 10 years
Industry suffers from high energy price volatility	Tool 6	US$2 MVA per kg of energy (oil equivalent) Energy efficiency growth rate: 5% p.a. (over 10 years)	US$10 MVA per kg of energy (oil equivalent) Energy efficiency growth rate: 17% p.a. (over 10 years)	Country A has been suffering from high energy price volatility and would like to increase the energy efficiency of its industrial sector which, at present, only generates US$2 of value added from each kg of energy consumed. They have identified a Role Model who also had the same level of energy efficiency 10 years ago but by improving it at a rate of 17% per year, was able to achieve an energy efficiency of $10 per kg.	Target: US$10 MVA per kg of energy (oil equivalent) Timeline: 10 years

In this example, policymakers in Country A have set four core targets for the next ten years, on the basis of its own and a role-model's past performance. However, they recognise that in industrial policy there can be important trade-offs or situations where interventions to promote one policy objective can actively undermine otherwise positive performance trends. The EQuIP toolbox emphasises important trade-offs which can occur, for example, between rapid labour productivity gains and employment generation (through a labour-intensive industrialisation trajectory). Therefore, it will be important to continuously monitor not only the main targets outlined above, but also the other values in the current industry profile (Figure 3) so as to identify worsening or improving performance in other industrial performance dimensions. This continuous monitoring will be critical to learning what works, where, when and under what conditions so that industrial policies can be continuously adapted and re-oriented for maximum impact.

The figures produced through this scenario planning exercise can feed into a "future industry profile" (Figure 6) which serves to quantify the "target system" of the industrial strategy and which simultaneously acts as point of reference for the monitoring system to track progress (against the specified targets) over time. The "future industry profile" hence includes not only the indicators for the main priority objectives, but also the other performance indicators and can serve as a baseline for the evaluation of the success or failure of industrial policies. Both this future industry profile and the current industry profile can best be generated and updated in the format of a systematic database that the industrial strategy analysts compile and regularly use for the elaboration of studies and policy briefs on industrial performance. Such an "industrial observatory" has proven highly useful in a number of countries in the past and it can also combine the generation and summary of EQuIP analysis together with other relevant analysis that has been conducted in the country.

Figure 6: Template for country "Future Industry Profile"

FUTURE INDUSTRY PROFILE				
ECONOMIC PERFORMANCE				
	Indicator	**Current Level**	**in 5 years**	**in 10 years**
1	Economic structure (towards more manufacturing content)	40%	43%	45%
2	Export structure (towards more manufacturing content)	80%	82%	85%
3	Industrial capacity	125	180	210
4	Export capacity	420	480	510
5	Industrial impact	0,03%	0,03%	0,04%
6	Export impact	0,40%	0,42%	0,42%
7	Domestic diversification	0,64	0,65	0,67
8	Export basket diversification	0,51	0,55	0,56
9	Export market diversification	0,73	0,75	0,75
10	Technological content of industrial production	30%	32%	35%
11	Technological content of export	48%	50%	53%
INCLUSIVENESS AND PRODUCTIVE EMPLOYMENT				
	Indicator	**Current Level**	**in 5 years**	**in 10 years**
12	Employment absorption of industry	45%	48%	46%
13	Employment intensity of industrialization	0,00025	0,00027	0,00027
14	Manufacturing labor productivity	480	530	560
15	Female share of manufacturing employment	36%	37%	39%
16	Employment elasticity of industrialization	0,52	0,55	0,51
17	Wage generation via industrialization	30%	29%	29%
ENVIRONMENTAL SUSTAINABILITY				
	Indicator	**Current Level**	**in 5 years**	**in 10 years**
18	Efficiency of resource transformation (MVA/DMC)	3.450	3.600	3.850
19	Energy efficiency of industry	1,2	1,4	4,7
20	Energy self-sufficiency	33%	35%	40%

3. Conclusion and way forward: Moving from evidence-based strategies to industrial policy instruments

This document sketched an example of an evidence-based industrial strategy-setting process and outlined how findings from applying the EQuIP diagnostic tools can be structured and used by policymakers in developing countries to formulate strategies that promote inclusive and sustainable industrial development. While more deterministic approaches to industrial strategy design can deliver a "new strategy" within several weeks or a few months, the EQuIP approach aims at creating lasting strategic decision-making capacities rather than quick fixes. We believe that this is more in line not only with the idea of country ownership of industrial strategies/policies but also with the recognition of the superior effectiveness of an iterative and experimental approach to industrial policy which has been emphasised in recent academic and practitioners' debates.

The authors of this toolbox and strategy setting document are aware of the limitations of the EQuIP toolbox. The presented tools do not encompass all relevant aspects for industrial diagnosis and analysis, they rather present a selection of the issues, that seem most relevant to the authors. The toolbox is to be seen as work in progress, additions and alterations in the next years will most likely be necessary.

In general, it is rather unlikely that this approach, similar to all other known approaches to industrial policy, will yield the perfect result. An M&E loop is built into the toolbox in order to correct initial decisions which lead towards unintended results. The approaches in the toolbox are based on data which should be available in many of the developing countries and it neglects more sophisticated statistics that would only be found in OECD countries.

Hence, EQuIP does not solely aim at the design of the most sophisticated five-year or 20-year industrial strategy for a given country by international advisors. Rather, it aims at creating national pockets of excellence for industrial strategy design, monitoring and continuous adaptation that can review existing plans/strategies, question new advice received from international advisors, propose new initiatives, and (maybe most importantly) monitor whether on-going programs are delivering results which are in line with the strategic vision of the country.

In a nutshell, EQuIP will not deliver industrial strategy blueprints for developing countries as other approaches to industrial policy design attempt. Instead, it provides a range of inputs into an independent national industrial strategy setting and experimental policy learning process that is evidence-based and flexible.

However, once a country has identified some core strategic priorities and targets based on their own baseline performance and the performance of others, some questions still stand: *How can a country reach these targets i.e. what is the most appropriate institutional setup? What policies and instruments can be deployed to achieve these objectives? Which types of instruments are best suited for which strategic objectives?*

These critical questions will be the focus of EQuIP Phase 2. At the heart of EQuIP lies the fundamental belief that there is no "one-size-fits-all" approach to industrial policy and that depending on a country's unique context, priorities and objectives, different measures will be more or less appropriate and effective. However, despite the fact that there may be no single blue-print for industrialisation, countries can learn a great deal from global experience and evidence.

Lower-income countries face the difficult challenge of trying to spur and promote strategic priorities with limited funds. This means that it is very important for countries to first have a balanced understanding of which industrial policy instruments are most appropriate for which strategic

objectives. This information will need to come not only from academic and development literature but should also be grounded in specific illuminating case studies which countries can examine in more depth as they craft and adapt their own industrial policies.

However, due to high levels of technical specialisation among experts and policymakers, there is a tendency to over-articulate benefits and under-articulate the potentially negative consequences that a particular instrument can have on other industrial performance dimensions. Therefore, EQuIP Phase 2 should and will strive to fill this critical gap by outlining not only how instruments connect with particular strategic objectives but also how they inter-relate and can potentially trigger negative side effects. In other words, it should allow countries to consider the *industrial policy mix* as a whole, rather than continue designing and implementing a large range of interventions in a piecemeal fashion.

With the capacity building materials of EQuIP phases 1 and 2, countries will then be in a position to make more balanced and informed decisions when selecting and designing their industrial policy mix. EQuIP will therefore help empower industrial policymakers to design evidence-based industrial strategies, deploy industrial policy instruments and then monitor and adapt their policies on the basis of their initial industrial diagnostics. It is in this way that EQuIP strives to emancipate lower-income countries from their current dependence on foreign consultants and "industrial experts" to pursue new and innovative, independently designed industrial strategies which respect the unique context and objectives of their country.

Table 2 gives an illustrative summary of how the strategic objectives of EQuIP phase 1 could be combined with the discussion of policy instruments in EQuIP phase 2.

Table 2: Moving from strategic objectives to policy instruments

Strategic Objective	Policy Instrument
Value Addition	Subsidies for technological upgrading - Case Studies: India, South Africa, Mauritius - Potential negative side effects: Employment and inclusiveness objectives (higher technological sophistication can reduce labour intensity and exclude lower-skilled populations)
Employment Generation	Trade protective policies for labour intensive sectors - Case Studies: China, Ethiopia - Potential negative side effects: Reduced export competitiveness (trade protection can reduce the ability of these sectors to compete in the international markets, thus reducing industrial exports)
Export Diversification	Special Economic Zones (SEZs) - Case Studies: Indonesia, Cambodia, Ghana - Potential negative side effects: limited taxation, local value addition, domestic production and labour exploitation
Energy Efficiency	Matching Grants for SMEs to purchase more energy-efficient technologies - Case Studies: Brazil, India, Thailand - Potential negative side effects: lack of sustainability (requires simultaneous skills upgrading to ensure effective use of new machines)

**Note: This table is purely illustrative and is not reflective of actual case studies or in-depth analysis of instruments*

v. 1.0 - June 2015

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
E-mail: policy@unido.org

DEUTSCHE GESELLSCHAFT FÜR INTERNATIONALE ZUSAMMENARBEIT (GIZ) GMBH
Friedrich-Ebert-Allee 40, 53113 Bonn, Germany
E-mail: sv-nawi@giz.de

Website: **www.equip-project.org**