german cooperation
DEUTSCHE ZUSAMMENARBEIT

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UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

EQuIP

Development of a Manual on the Selection of Institutional Setups for Industrial Policies

Toolbox Module

Institutional Setup

Toolbox Module: Institutional Setup

Contents

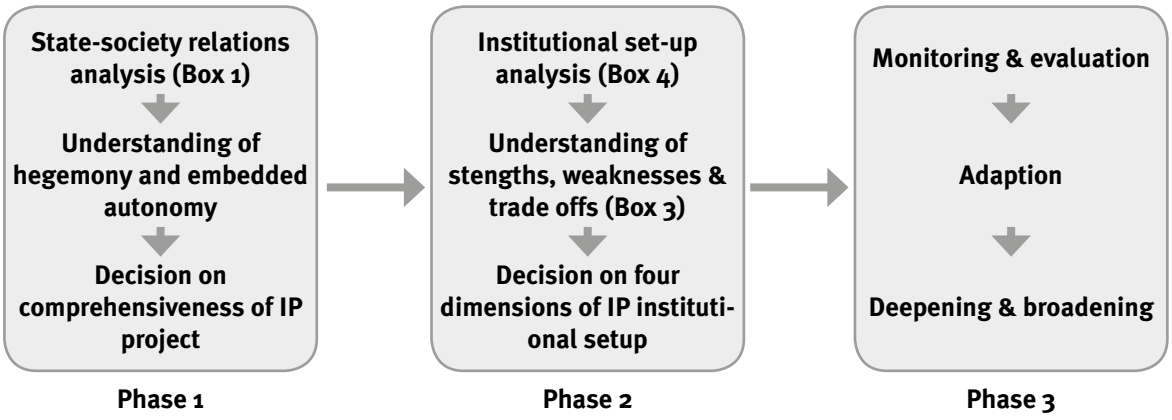
1. Introduction

The purpose of this project is to enhance the understanding of policy makers in developing countries of the different institutional setups available for industrial policy-making and to allow them to asses and adapt their respective institutional setups. A starting point of the project is that institutional setups cannot be freely chosen in a vacuum as they relate to specific country and political economy contexts, most importantly state-society relations, i.e. the interactions, power constellations and interests within and among the state and different social groups (private business sector, other civil society groups, international actors). Hence, the focus is not on developing a blueprint or identifying any universal best institutional setup, but on analyzing different options for institutional setups which policy-makers can use to compare and adapt to their own context.

This output develops a methodology in the form of a manual for the selection of country-specific institutional setups based on an analysis of state-society relations, the national and international context and the existing institutional setup. This focus explains the structure of this final output of the project which is organized largely in the form of descriptions, questions and guidelines for policy-makers on how to assess and take informed decisions on developing and adapting their institutional setup related to their specific country and state-society context. This country-specific analysis should build the basis for formulating the main pillars of the institutional setup for industrial policies. The analysis is complemented by six case study country examples on specific institutional setups and state-society relations.

The manual proposes a three phase institutional setup methodology – first, analysis of state-society relations, second, analysis of institutional setup dimensions and, third, monitoring, evaluation and adaptation. The first two phases involve an analytical process that informs the respective decisions on the comprehensiveness of industrial policy and the institutional setup. The third phase stresses the importance of continuous monitoring and evaluation and addressing key challenges and bottlenecks regarding the comprehensiveness of the industrial policy approach and the related institutional setup, aiming at adapting and broadening the industrial policy project. Figure 1 summarizes the methodology in a schematic phase diagram.

Figure 1: Phase diagram of institutional setup methodology



Source: Own elaboration.

Following these phases, the output starts with an overview of our conceptual framework on analyzing institutional setups for industrial policies and state-society relations. This is followed by a section with a description of and questions on state-society relations to understand the specific country context. Based on this main take-aways in terms of the comprehensiveness of the industrial policy approach are formulated. The next section highlights strengths, weaknesses and challenges of and asks questions on the four key institutional setup dimensions. Based on this the core pillars of the institutional setup are formulated. The next section discusses the importance of monitoring and evaluation and continuous adaptation, deepening and broadening. The last section concludes.

The focus of this output is to serve as a manual for policy makers. It is based on other outputs that can be looked at for further information.[1]

- **Output 1 "Framework to Assess Institutional Setups for Industrial Policies"** gives a more in depth overview of our conceptual framework.
- **Output 2 "Case Studies on Institutional Setups for Industrial Policies"** consists of six country case studies on the Republic of Korea, Malaysia, Brazil, Ethiopia, Mozambique and Kenya.
- **Output 3 "Identification of Main Policy Options for Institutional Setups for Industrial Policies"** discusses main policy conclusions and options.

1 This manual does not include references, for more details see outputs 1, 2 and 3.

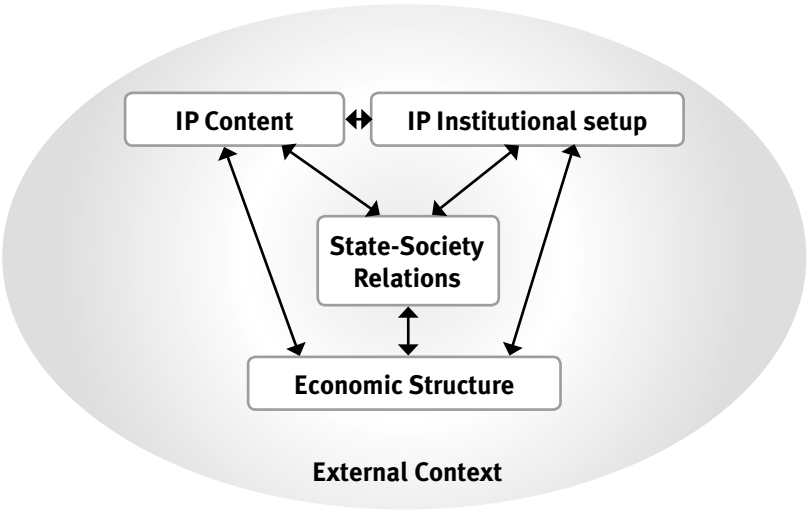
2. Overview of the conceptual framework

Industrial policy institutional setup: Our understanding of industrial policy is broad, and includes all policies (e.g. trade, fiscal, monetary, social, agriculture, mining policy) that affect the industrial development process of a country. In this vein, we also understand the institutional setup for industrial policy in a broad sense as including all institutions involved in and relevant for industrial policy design, implementation and evaluation. This includes industrial policy institutions in the narrow sense such as industry ministries or industrial development agencies, as well as industrial policy institutions in the broader sense such as finance ministries, research institutions, or legal frameworks that codify industrial development and assign a certain distribution of competences for industrial policy within state institutions.

Conceptual framework: The framework presented in Figure 2 shows the inter-linkages between the institutional setup for industrial policy and state-society relations as well as the economic structure, development level and degree of industrialization of a country (economic structure), the objectives and instruments of industrial policy (industrial policy content) and the external geopolitical and structural context (external context). The industrial policy content and institutional setup strongly depend on the underlying state-society relations and economic structure. Hence, in order to design an appropriate institutional setup for industrial policy, policy makers will have to take the underlying economic structure and state-society relations in their respective country into account, as well as the specific industrial policy content. External contexts can support or constrain industrial policies and hence also need to be taken into account to make policies and institutional setups effective. These country-specific inter-linkages do not mean that learning from other countries' experiences is not possible; to the contrary this is a very useful approach but it should not lead to copying from standard packages but selective adaptation to own country contexts.

This output focuses on the analysis of state-society relations and institutional setups for industrial policies, taking into account the economic structure and external context of a country as well as linking the institutional setup with industrial policy objectives and instruments. For a deeper analysis of industrial policy diagnosis, objectives and instruments (i.e. industrial policy content), have a look at the document "Designing a transformative industrial policy package".

Figure 2: Overview framework to assess institutional setups for industrial policies



Source: Own elaboration.

Economic structure: The economic structure and development level have a strong impact on industrial policy content and institutional setup. Most importantly, the level of industrialization, i.e. if countries are extractive resource-based or agriculture-based, have a large service sector or have a significant industrial sector at an early, mid or mature/late stage – impact on state-society relations as well as on the requirements for industrial policy and its institutional setup. Although this framework is applicable to different development levels, this project explicitly focuses on countries at an early stage of industrialization with a specific focus on low income countries (LICs). Hence, challenges and illustrations are largely selected based on their relevance for LICs. Such challenges include, for example, having a very small domestic industrial sector, a large share of the population linked to the agriculture sector, a large share of foreign direct investment (FDI) particularly in export sectors, and international donors playing a dominant role.

Industrial policy content: Industrial policy objectives and strategies vary in different countries, which have an impact on the question which industrial policy instruments are most effective and which institutional setups are most conducive. This links to EQuIP that focused on developing a diagnostic toolbox to enhance the capacity to assess the current performance of countries along economic, social and environmental dimensions and to develop appropriate strategies that relate to core development objectives of countries. Many countries aim not only for industrialization per se but for specific types of industrial development, most importantly employment generating and inclusive as well as environmentally sustainable industrial development paths. These objectives should be reflected in industrial policy instruments and in prioritization and targeting of specific sectors and/or activities. In this vein, EQuIP on industrial policy instruments focuses on the following ten industrial policy objectives: (1) increase productive activities, (2) deepen global market integration, (3) maximize domestic benefits, (4) generate productive employment, (5) improve quality of employment, (6) ensure inclusive production, (7) build economic resilience, (8) promote self-sufficiency, (9) improve resource efficiency and management, and (10) reduce pollution. The institutional setup needs to be reflective of the industrial policy content, since the institutional setup and the content of industrial policies are interdependent and hence institutions can facilitate or hinder the implementation of specific industrial policy objectives and instruments.

External context: External contexts include most importantly policy space for industrial policies. Policy space has declined due to trade and investment policies that limit the use of trade protection and investment requirements – such as export taxes or local content regulations – as well as macroeconomic conditionalities and liberalized financial markets that have made it more difficult to adapt macroeconomic policies (most importantly interest and exchange rates) in such a way as to support productive investment and industrialization. There is further high competition in global manufacturing exports, as many countries, including some very large countries such as China and India, pursue export-led industrialization in the context of globalization and global value chains. Moreover, the geopolitical context has changed in favor of a multipolar constellation. This has led to shifting trade and investment patterns with an increase in South-South and regional trade. Regional trading blocs have increased in importance in all regions. Also different types of donors have emerged, most importantly from emerging countries that generally have a more proactive view towards industrial policies.

State-society relations: Institutional setups are the outcomes of and are highly intertwined with specific political economy contexts as well as interest and power constellations within and among different social actors. Understanding these constellations is important to assess why certain institutional setups occur in the first place, why they are effective or not in industrial policy design and implementation, and how they can be changed. It is also important for understanding underlying questions such as why some countries adopt industrial policies and others don't and

why some industrial policies are successful and others fail. Hence, these 'politics' of industrial policy have an impact on what can be done in the context of the constellations of power, the political landscape and the administrative capacity of the country. These social constellations are even more important in the context of industrial policy which aims at proactively promoting structural change, i.e. support those economic activities which are seen as beneficial for achieving core development objectives. In doing so, industrial policy inevitably changes the distribution of economic benefits and costs, and thus will be contested among certain social groups.

A caveat: Even though state-society relations (as well as external contexts) importantly determine what can be done in terms of effective industrial policies and institutional setups, these structures and relations are not deterministic. Hence, conducting industrial policies and building and developing institutions for this purpose also impact on state-society relations and might garner and secure broader support for an industrial policy project at the national, sectoral or regional level as well as make certain policies and processes sustainable even if political support shifts. Institutions co-determine political will and commitment and have the potential to influence power constellations and politics. Hence, institutions have a life of their own, which is independent of but still influenced by state-society relations. Political backing, political loyalty of the bureaucracy, hegemonic elements and embedded autonomy are crucially important and explain why industrial policy institutions work effectively or not but institutions can also impact on these constellations and in this regard also have the potential to alter state-society relations. The same is true for external contexts that might exert either a facilitating or a constraining influence on industrial policy-making.

3. Analyzing state-society relations

The starting point of our analysis of institutional setups for industrial policy is an assessment of state-society relations. We do this by first describing five main social actors in society and second assessing the relationships and interactions within and between these actors by using the two core concepts of hegemony and embedded autonomy. Figure 3 below illustrates our approach to analysing state-society relations in a schematic way.

3.1. Social actors, hegemony and embedded autonomy

Societies are constituted by different social groups with contradicting and competing interests. These interests are deeply connected to their role in the productive system of an economy, e.g. labor, landlords, industrial or financial businesses. We identify five broad groups of social actors. Clearly, these groups are not homogenous as there are also different interests and power constellations prevailing within the five groups.

- **Political class:** The political class is composed of those groups, parties and networks that compete for and hold the political power and office, respectively, in a political society.
- **State bureaucracy:** The state bureaucracy is composed of a multitude of bodies, inter alia ministries, regulatory bodies, the security apparatus (police, military), public financial institutions (development banks), public education and research institutions, public utilities, private sector promotion agencies and expert and consulting bodies at different territorial levels of the state.
- **Civil society:** The civil society includes non-state actors and can be differentiated between the private business sector and other non-state actors.
  - The **private business sector** consists of businesses and can be divided in different groups depending on (i) how they derive their income (i.e. industrial, merchant, rentier, financial), (ii) if they are bound nationally or act transnationally (e.g. small and medium enterprises vs. transnational corporations), and (iii) whether they operate in the formal or informal sector of the economy. Although in reality, these characteristics appear in combination in a single firm, the three dimensions are important in co-determining the respective articulation of interests of the private sectors.
  - **Other non-state actors** (civil society in a narrow sense) includes a range of actors – in particular (i) labor unions and other workers' representations, (ii) NGOs in diverse areas, e.g. human rights, environmental protection and social welfare, (iii) churches and other faith-based groups, (iv) private education and research institutes and the academia, and (v) the media.
- **International actors:** International actors include (i) bilateral and multilateral donors, (ii) other international organizations like e.g. the UN, the WTO, the World Bank and the IMF, and (iii) private international organizations (e.g. standardization organizations like ISO, think-tanks, foundations etc.).

A challenge, particularly in a LIC context, is that civil society groups might not be organized (e.g. workers particularly in the informal sector, women's rights groups, business associations of firms in relevant industrial policy sectors, etc.) and/or if organizations exist, these organization might not adequately represent the respective sectors or social groups (e.g. male dominated

labor unions, party-affiliated labor unions, ethnical biased organizations, etc.). Since successful industrial policy relies upon certain civil society involvement – in particular, but not exclusively, business associations and labor unions – it is an important task for policy-makers to consider to which extent the promotion and empowerment of representative civil society organizations is required for the success of an industrialization project. Policies to support organizing of civil society actors might play an important role.

Is industrial policy on the agenda of the state? The role of hegemony

In order to be implemented by the state, there must be social forces supporting the development and implementation of industrial policy. This will come from actors that have an interest in certain industrial policies, e.g. industrial firms, by influencing state power in this way. There may however be other social actors whose interests are not in favor of industrial policies in general or of the specific orientation industrial policies may take, e.g. domestic agriculture, or some trading companies. Hence, industrial policy-making is subject to social struggle and depends on power constellations among actors with different interests towards industrial development and policy. In order to effectively design and implement specific industrial policies, policy makers have to be considerate about social power relations and the supporting and constraining role various social groups play with regard to certain industrial policies.

Successful industrial policy can be realized by the state heavily relying on coercion, but the more sustainable way to ensure and secure an industrial development and policy project requires some sort of hegemony in favor of industrial policy. Hegemony is a set of beliefs, values and social and cultural norms that are accepted by a majority of the citizens as legitimate principles of society. This is underpinned by material compromises, e.g. via wage, social and redistributive policies. An industrialization project aiming for political, intellectual and moral leadership is defined as a hegemonic project. In how far such a hegemonic project in favor of industrial policy becomes shared by the large majority of the population or remains contested will influence both the comprehensiveness of industrial policy and its long-term sustainability. Clearly, political will and commitment at the top by the political leadership is crucial, but for a sustainable industrialization project it needs to be combined with support at the bureaucracy and civil society level. Political leaders can start certain industrial policies, but to broaden them and reduce their vulnerability, broader support in the society in the form of material and normative hegemonic elements is key.

> **Hegemony** is a set of beliefs, values and social and cultural norms that are accepted by a majority of the citizens as legitimate principles of society. A hegemonic industrialization project needs to be underpinned by normative principles and messages (e.g. improve living conditions of the general public, promote equality, develop a dynamic society based on continuous improvements in science, innovation and research, etc.) and material compromises (e.g. via wage, social and redistributive policies).

Is industrial policy effective? The role of embedded autonomy

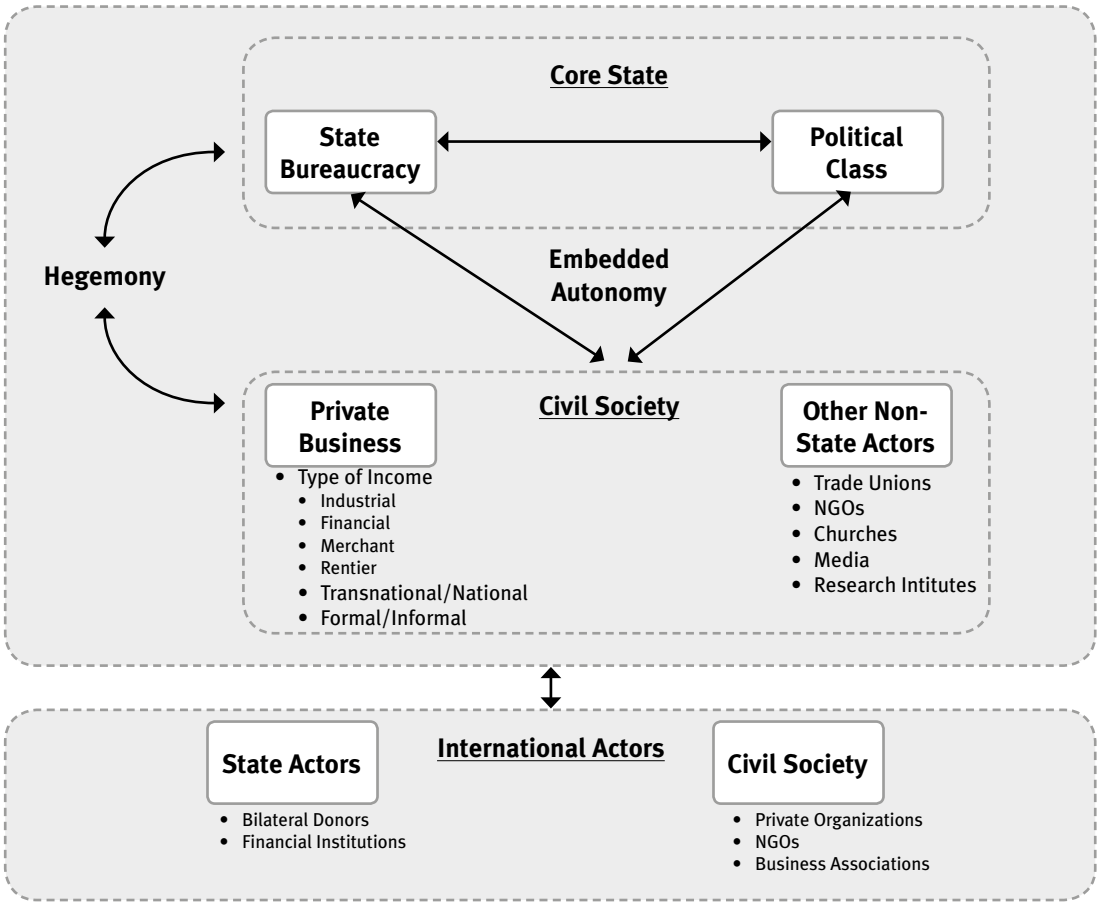
A decisive characteristic of the state that makes industrial policy effective is embedded autonomy. This concept means that states need to be independent of and yet responsive to civil society actors and particularly private sector actors by providing institutional channels for an ongoing negotiation process on goals and policies. Embedded autonomy is crucial for industrial policy to be effective, because state bureaucrats and the political class must not only be knowledgeable about the needs

of targeted industries (embedded), but also have sufficient independence of the dominant social forces and the targeted firms in order to be able to regulate these actors (autonomy). An 'embedded' state apparatus is essential, since 'the state' (especially bureaucrats) in charge of the design and implementation of industrial policies needs detailed knowledge about the productivity constraints and needs of targeted sectors and activities. A lack of 'autonomy', on the other hand, will threaten the effectiveness of industrial policy, since it might be captured by special interests that undermine the transparency, monitoring and evaluation of industrial policy processes.

Embedded autonomy is also crucial between the political class and the bureaucracy. Bureaucrats not only need institutional links to the private sector but also to the political class to ensure that their activities are embedded in and follow the broad political objectives and strategies of countries. This is also important to be not captured by private sector interests. On the other side, bureaucrats also need a certain degree of autonomy with respect to the political class to be able to manage the implementation and adaptation of industrial policies in an efficient way and to be shielded from political struggles and contestation. This is also important from a sustainability perspective. Installing bureaucratic autonomy in the form of procedures and institutions can create 'pockets of resistance' even if political leaders change – at least to a certain degree and for a certain period of time. Limited effectiveness of the bureaucracy is often related to skill issues, but also to limited autonomy in the form of hierarchies and cultures that concentrate decision-making and taking over of responsibilities at the top political level.

Embedded autonomy is crucial for industrial policy to be effective, because state bureaucrats and the political class must be knowledgeable about the needs of targeted industries (embedded) but also have sufficient independence of the dominant social forces and the targeted firms to be able to regulate these actors for the common good (autonomy).

Figure 3: State-society relations: Social actors, hegemony and embedded autonomy



Source: Own elaboration.

Comprehensive or selective industrial policy approach? The role of pockets of efficiency

State-society relations influence the comprehensiveness of the industrial policy approach which in turn affects the institutional setup. Policy makers that try to implement an industrial policy project that is not heavily relying on coercion need to establish some sort of hegemony. Often hegemony is difficult to achieve for a nation-wide comprehensive industrial policy project since consensus between the relevant social groups is typically hard to establish. In this case, industrial policies can start at a more selective level. Thus, if certain factors in terms of state society relations – political will and commitment at the top, strategic alliances/coalitions and elements of hegemony and embedded autonomy – come together, a comprehensive industrial policy model aimed at long-term structural transformation can be effective. However, if political will and commitment at the top is weak, strategic alliances/coalitions are non-existing or not developed, domestic private sector partners for industrial policies are lacking, no civil society support and limited embedded autonomy prevail, then a more modest and selective approach to industrial policy is required.

A selective approach to industrial policy should start by identifying and developing pockets of efficiency where political will and alliances/coalitions for industrial policy and some degree of embedded autonomy can be found or formed around specific sectors, regions, issues or projects. Pockets of efficiency are defined as pockets within the state apparatus where there is political will and private sector/civil society support as well as bureaucratic capabilities in conducting industrial policy and some sort of embedded autonomy towards the private sector and the political class.

Pockets of efficiency should be used – if successful – to politically seek further alliances and build coalitions for further projects. They can be used to garner the political support of top political leaders and, in doing so, also change state-society relations to ensure that industrial policies are implemented more broadly. Hence, even though an industrial policy project can be started at a selective level it should have in mind the importance of broadening policies and institutions to eventually create support, capabilities and institutions for a more comprehensive project.

> **Pockets of efficiency** are defined as pockets within the state apparatus where there is political will, civil society and particularly private sector support and bureaucratic capabilities in conducting industrial policies as well as a certain degree of embedded autonomy towards the private sector and the political class.

3.2. Questionnaire on and take-aways from state-society relations

This section develops a questionnaire for policy-makers to assess the specific state-society relations of a country in order to get a better understanding of an appropriate industrial policy strategy and institutional setup. The questionnaire focuses on actors and their interests and power relations around industrial policy, including the existence or not of (a) a certain hegemony for industrial policy, (b) embedded autonomy and (c) pockets of efficiency in certain sectors, regions or projects. The questions both (i) serve to assess the status-quo ('is'-questions) and (ii) highlight potential key issues and challenges within state-society relations that might support and/or undermine the scope and effectiveness of industrial policy ('should'-questions). The questions also capture external context factors (specifically under "international actors") that impact on the strategy and institutional setup. The questionnaire should sharpen the understanding of policy makers with regard to the specific state-society relations in their country and should be combined with methods to analyze these questions, such as data or policy document analysis and qualitative interviews of key industrial policy actors (actors in key industrial policy institutions, business associations, labor unions, etc.).

See Box 1 for the state-society relation questionnaire. Based on the information on and analysis of state-society relations gathered through this questionnaire, policy-makers should have a better understanding about and be able to make informed assessments and decisions on (i) the overall hegemony or lack thereof around industrial policy and which social actors are supporters or opponents of an industrial policy project, (ii) the degree of embedded autonomy of industrial policy-relevant state bureaucrats vis-à-vis the political class and the private business sector, and (iii) the comprehensiveness or selectiveness of the industrial policy approach and the identification of pockets of efficiency in certain sectors, regions or projects. This understanding should also make it possible to develop strategies to extend the hegemonic elements, the embedded autonomy of the bureaucracy and the comprehensiveness of industrial policy (see Figure 4 for a schematic overview of this process).

Hegemony: In terms of hegemony, it should become clear which social actors in the political class, the private business sector and the civil society will support an industrial policy project and which strategies can be developed to ensure and strengthen their support. Mechanisms to include these actors in the industrial policy making process will be important. It should also become clear which social actors will oppose the industrial policy project and if there are any strategies that could be developed to convince them to support or at least not actively oppose such a project. This could either involve offering these groups a specific deal and/or including these actors or

excluding them in industrial policy depending on power constellations and their specific interests. An understanding of the interests of and related constraints coming from international actors will also be crucial to adapt industrial policies and strategies accordingly and to simultaneously build new international collaborations that are more conducive and supportive of an industrial policy project (if such international actors should be available). Also an understanding of which social actors, particularly the media, educational institutions and faith-based communities, can offer argumentative and moral support for the industrial policy project should be developed.

Embedded autonomy: In terms of embedded autonomy, an understanding of the role of the industrial policy-relevant state bureaucracy in terms of skills, capabilities, procedures, practices and cultures should be developed. Further, the relations between the state bureaucrats and the political class as well as the private business sector in terms of on the one hand links and interactions, common understandings and cooperation (embeddedness) as well as on the other hand decision making space and protection from political struggles (autonomy) should become evident. This understanding should enable policy makers to develop strategies that improve the capabilities, procedures, embeddedness and autonomy of the bureaucracy.

Comprehensiveness: This analysis is also the basis for deciding on the comprehensiveness versus selectiveness of the industrial policy approach. If political will and commitment at the top, strategic alliances/coalitions and elements of hegemony and embedded autonomy are in place, a comprehensive industrial policy approach can be effective. If political will and commitment at the top is weak, strategic alliances/coalitions are non-existing or not developed, domestic private sector partners for industrial policies are lacking, no civil society support and limited embedded autonomy of the bureaucracy prevail, a selective industrial policy approach is required. In both cases, but particularly in the selective approach, the identification of (potential) pockets of efficiency in terms of certain sectors, regions or issues as priority projects to seek further support is required.

Box 1: State-society relations questionnaire

	Hegemony (or support for IP)	Embedded autonomy (or effectiveness of IP)
Political class	1. Is the political class in favor of IP or opposing IP? Which groups support IP, which oppose it, and for what reasons? How strong is the support for or opposition against IP? 2. Are factions of the political class invested in IP relevant sectors? Do these sectors potentially benefit from IP, and hence is there a material interest of the political class in IP, or are these sectors potentially negatively affected from IP? 3. What room for building a pro-IP coalition does exist? Which are the key allies in such a coalition? What are the crucial factors that could strengthen such a coalition? 4. Is the legitimacy of the political class dependent on economic growth and industrialization? If not, on what is its legitimacy based? Can this be linked to industrial policy objectives? 5. What strategies and instruments exist for the political class to disseminate information on IP and promote support for IP amongst private as well as civil society actors, in particular through the media?	1. Is the political leadership in terms of providing a vision, objectives and strategic guidelines for IP strong? Is political leadership concentrated on a few key persons or distributed more broadly among the political leadership? 2. How strong is the formal institutionalization of the overall IP strategy and implementing policies through laws, regulations, guidelines etc.? 3. How strong and sustainable is the financial resource base for effective IP? Which mechanisms could be used to establish a stable financial endowment for IP? 4. How are relations between the political class and the private sector structured? Has the political class links to and understands the concerns of the private business sector and civil society actors (embeddedness)? 5. Has the political class autonomy vis-à-vis the private business sector to enforce IP measures that are not necessarily in the sectors' (short-term) interest? 6. To what extent is the political class involved in the day-to-day management of IP? Is direct involvement desirable or necessary in order to ensure policy effectiveness? If yes, under which rules and conditions? If no, would the political class be supportive in building up an effective bureaucracy for implementing IP? Who would be the key supporting actors in this respect?

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Box 1: State-society relations questionnaire

	Hegemony (or support for IP)	Embedded autonomy (or effectiveness of IP)
State bureaucracy	6. What are the main views and interests of the bureaucracy with regard to IP? Which parts of the bureaucracy support IP? Are there relevant parts that oppose IP? 7. Is the power structure within the state bureaucracy conducive to IP? Which elements in the institutional hierarchy of the State are crucial for securing support for IP (e.g. prime minister's office, central bank, financial ministry)? In how far do existing IP related state institutions have power to influence and overrule other state institutions to push for IP measures and policy coherence? 8. How do you assess social importance and prestige of the state bureaucracy? Which elements in the prevailing bureaucratic culture do you identify as supporting and limiting, respectively, the introduction of IP? 9. Which elements in the wider institutional architecture of the government do you identify that are (potentially) supportive of IP, having in mind particularly (i) research institutions, (ii) universities and other educational institutions as well as (iii) social and cultural institutions, such as state-sponsored media?	7. How do you assess the main characteristics of the prevailing bureaucratic culture? What is the role of meritocratic principles with regard to recruitment, payment, career advancements? What is the role of patronage, clientelism, and corruption? 8. How do you assess the degree of autonomy of the bureaucracy vis-à-vis the political class/ government and the private sector, respectively? Do potential IP institutions have autonomy vis-à-vis the political class that enables them to adapt IP measures to changing circumstances and problems? 9. Has the bureaucracy links to and understands the concerns of the private business sector and civil society actors (embeddedness)? Which mechanisms exist which embed the bureaucracy with the private business sector and civil society? Do IP relevant bureaucrats have adequate information about the specific needs of the firms and concerns of civil society groups? 10. What mechanisms exist that secure that the bureaucracy enjoys sufficient autonomy vis-à-vis undue influence from the private business sector so as to e.g. implement IP measures that are not necessarily in the sector's (short term) interest? 11. How do you assess the level of technical and managerial skills prevailing in the bureaucracy? Are skills concentrated at the top level or more broadly spread? What are constraints in this regard and how can they be overcome in order to increase the technical level of competence for implementing IP? 12. Which degrees of freedom do bureaucrats have in decision-making and in assuming responsibilities? Is this concentrated at the top level only or also beyond? What are cultural or legal constraints in this regard that hamper effective decision-making and how can they be overcome? 13. Are there already pockets of efficiency within the state bureaucracy? What lessons can be drawn from them? Does the potential to use them for supporting the creation of pockets of efficiency with respect to the implementation of IP exist?

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Box 1: State-society relations questionnaire

	Hegemony (or support for IP)	Embedded autonomy (or effectiveness of IP)
Private business sector	10. What is the structure of the private business sector in terms of importance, power and interests of industrial, merchant, rentier, financial as well as formal/informal sector and transnational/domestic firms? How important and powerful are the interests of local/national firms relative to those of transnational firms? Is there a private industrial sector base that can be addressed through IP, or is the industrial base to be newly developed? 11. What is the organizational structure of private business sector interests? Are interests organized separately and fragmented, or is there a mechanism for forming common positions at work? 12. Are there parts of the private business sector that support IP? Do they have a business organization that represents these firms and has the capacity to push for IP measures? Are there parts of the private business sector that oppose IP? Do they have a business organization that represents these firms and has the power to act against IP measures? How are relations between these two opposing business groups and the political class structured? 13. Which potential private business sector parts are likely supporters of IP? Which deals could be proposed to them? Who are potential strategic partners for IP (e.g. merchants, diaspora investors, informal sector, foreign capital)?	14. Do business associations exist and are they representative of the private business sector? Do they represent the interests of the whole private sector or are they fragmented, i.e. only representing specific private sector industries? 15. What mechanisms exist for the mediation of different private business sector interest? Are these informal or more institutionalized? Is the government involved in mediating private sector interests or conducive in establishing mediating mechanisms that could support the implementation of IP? 16. Does the private sector actively engage in vocational training, research and innovation, technology policy, or support institutions active in these sectors? Is there potential to set up cooperative links between these institutions and IP state institutions?
Civil society	14. What are the most important and powerful civil society actors? What are their interests? 15. To what extent are civil society actors organized? Which sectors of civil society dispose of an effective and representative organization? 16. Which civil society groups (including labor unions, NGOs, faith-based groups) are supportive of or against IP? To that extent and how can they be convinced and included in an IP project? So, what are feasible strategies to mitigate conflicts and to get their support? 17. Which social groups are expected to be positively or negatively affected by IP measures? To what extent those negatively affected able to oppose and obstruct IP measures? 18. Which are the civil society actors (e.g. churches and faith-based groups, the private media) that exert the strongest influence on the formation of values and beliefs of citizens? Under what conditions will such actors become partners for the promotion of industrial development? How can the private media be effectively used to support IP?	17. What structures of industrial relations do exist? What is the role and effectiveness of labor unions? How are the interests of labor articulated and what mechanisms are established for the mediation of workers' interests? How could such structures be used for the effective implementation of IP? 18. To what extent are the interests of local communities (e.g. ethnic or indigenous) organized at regional and national level, and what mechanisms exist for the mediation of their interests vis-à-vis the national state? Are these mechanisms conducive for the mediation of IP related issues and problems? 19. What general communication channels, points of access and venues for the articulation, mediation and conflict resolution between the state, the private business sector and civil society do exist? Which of these channels are of particular relevance for IP and could be built upon for communication and the mediation of conflicts? 20. Which members of the private media sector are likely a supporting partner for IP and could accompany the establishment and implementation of IP?

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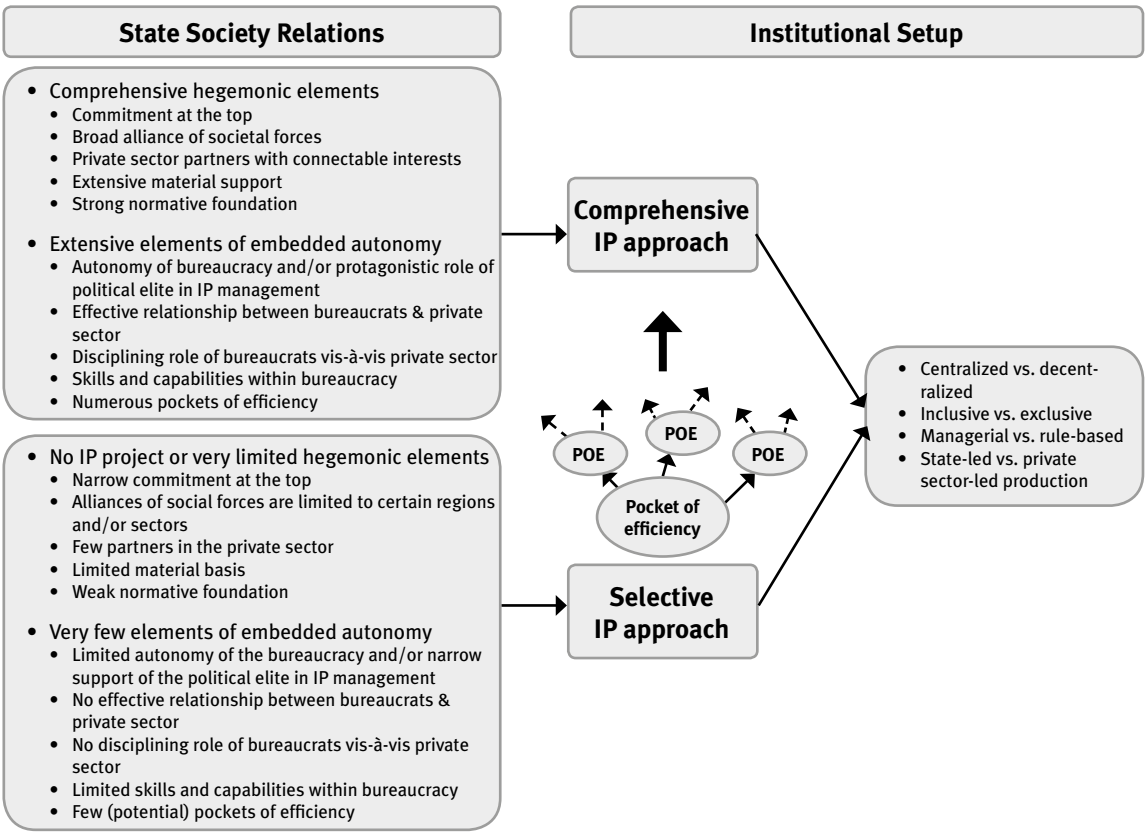
Box 1: State-society relations questionnaire

	Hegemony (or support for IP)	Embedded autonomy (or effectiveness of IP)
International actors	19. Which international organizations and donors support IP and thus are potential financiers of IP measures? Which international organizations and donors oppose IP? How could the latter be convinced to support IP or at least not act against IP? 20. Which international treaties and agreements, to which your country is a signing party, can be used to support IP? Which agreements constrain your policy space? What would constitute elements to overcome possible hurdles from such international commitments? 21. What is the role of regional agreements and which mechanisms do exist in regional cooperation for the support of IP? 22. What is the role of bi- and multilateral agreements and which mechanisms do exist in bi- and multilateral cooperation in order to support IP? 23. Are transnational firms already present in the country potential partners to promote IP? How can they be convinced to support IP? 24. How are activities of donors in the field of industrial policy aligned with each other? 25. To what extent are activities of donors oriented towards national strategies and priorities?	21. Which formal and informal venues and mechanisms exist to articulate and mediate between the interests of international actors (transnational firms, international organizations, donors) and national actors? How could such mechanisms be made more conducive for IP matters? 22. What forms of cooperation and strategic alliances could be fostered with pro-IP actors at the international level? 23. Is there potential to link up to IP institutions in other countries and set up cooperations, both on a technical level but also at a political level?

Source: Own elaboration.

Figure 4: State-society relations, comprehensiveness of industrial policy approach and institutional setup (1)



Source: Own elaboration.

4. Developing institutional setups for industrial policiest

4.1. Four key institutional setup dimensions

The institutional setup of industrial policy heavily depends on the underlying state-society relations and related to this the degree of comprehensiveness and the content of industrial policies. Therefore, there is no one-size-fits-all institutional setup, but a certain number of base-line or prototype options can still be identified that will need to be modified to any country-specific context. Main dimensions of institutional setup prototypes are: (i) centralization versus decentralization, (ii) inclusiveness versus exclusiveness, (iii) managerial versus static bureaucratic governance, and (iv) state- versus private sector-led production. There is a dynamic relationship between the institutional setup of industrial policy and state-society relations and associated objectives and instruments of industrial policies. The institutional setup is thus not only reflecting state-society relations, but also affecting and affected by the content of industrial policies.

Centralization versus decentralization: A key question with regard to the institutional setup of industrial policy is its degree of centralization in terms of state institutions. We distinguish between horizontal and vertical centralization or decentralization. Authority can be spread out from the central political level to other elected politicians and/or to the bureaucracy at a horizontal level. There is no blueprint on how the authority to decide on the design and implementation of industrial policy should be divided within and between the political class and the bureaucracy. This can be done by a central ministry or another central super-ordinated institution or through a more network-based structure with strong coordination between different ministries and institutions. Important is the extent to which a separate industrial policy agency exists and has powers above other ministries and public agencies. Centralization also has a vertical, sub-national or territorial dimension: authority can be parceled out from larger territorial units to smaller ones. This territorial shift has the potential to change the scope of an industrial policy, e.g. from the national to the regional and local level. The territorial dimension is influenced by the size of the country, with large countries typically experiencing a need to decentralize power to some extent in order to control their territory.

Inclusiveness versus exclusiveness: A fundamental concern of any industrial policy regime is its degree of inclusiveness versus exclusiveness. This is related to the form of governance structures – more democratic or authoritarian – but extends beyond that as even in authoritarian contexts there might exist to a certain degree a requirement for inclusive institutional setups. An inclusive industrial policy regime will aim at considering the interests of a wide range of social groups, including the private sector, non-business civil society and international actors, and thus must include institutionalized mechanisms that enable different social actors and groups to articulate and negotiate their interests. Inclusiveness can be understood in two forms – first, as processes and mechanisms which ensure that broad social actors are included in policy-making and hence have a voice and, second, as outcomes being inclusive in terms of reaching broader social groups through poverty reduction, redistribution, employment generation or wage increases. In terms of institutional setup we refer to the former, taking however into account that these two forms are often related and that particularly inclusive policy processes and institutions ensure that the interests of broader social groups are taken into account in a systematic way.

Managerial versus static bureaucratic governance: A further differentiation of institutional setups for industrial policy concerns the degree of managerialism in industrial policy-making.

Managerialism is understood as discretionary decision-making power and autonomy of bureaucrats to implement industrial policies under a mandate given to them by the political class. This should ensure efficiency, flexibility and adaptability of policy-making commensurate to prevailing circumstances. A managerial approach to industrial policy gives bureaucrats a certain degree of autonomy, which enables them to manage industrial policies in a more flexible manner as they have freedom to adapt instruments according to changes in circumstances, emerging challenges, new insights or the needs of recipients. Managerialism is closely connected to capabilities and skills on the one side and the existence of embedded autonomy of the bureaucracy towards the political class and the private sector on the other side. The main issue is not if industrial policy making takes place within the 'government', the bureaucracy, or is outsourced to private organizations, but if the actors have capabilities and a certain degree of autonomy to effectively implement and adapt policies.

State-led versus private sector-led production: Industrial policy measures often focus on the overall conditions for private firms to be productive and innovative with more or less direct/selective versus general/horizontal interventions. The state can however also take on a more direct role in the industrialization process, e.g. in the provision of finance and infrastructure and in the form of state owned enterprises (SOEs) in productive sectors. Hence, the question is if the role of state is constrained to a regulatory function or if the state is directly involved in finance, infrastructure or productive activities. In a state-led production model, the state must not rely on the decisions of private firms to invest in new technologies or sectors, but has the potential to steer the industrialization process more directly. SOEs face the danger of being less efficient as they are not exposed to markets and competition which would force them to become competitive. But historically, there have been examples of countries with a dynamic and competitive SOE sector, importantly shaping the industrialization process.

4.2. Relevance of the four dimensions – illustrations from six case studies

In output 2 of this project, six case studies on institutional setups for industrial policies were conducted. Table 1 shows the characterization of the institutional setups along the four dimensions as well as along the comprehensiveness of the industrial policy approach of the case study countries. Below we distill main conclusions on the four institutional setup dimensions from the case studies. Box 2 presents a summary overview of the six case studies focusing on the most important characteristics and take-aways.

Table 1: Assessment of comprehensiveness and institutional setup dimensions for case studies

	Comprehensive	Centralized	Inclusive	Managerial	State-led production
Rep. of Korea	+++	+++	+	+++	+++
Malaysia	+++	+++	++	++	++
Brazil	++	++	+++	++	++
Ethiopia	+++	+++	+	++	++
Mozambique	+	++	+	+	+
Kenya	+	++	++	+	+

Note: +...weak, ++...medium, +++ ...strong.
Source: Own elaboration.

Comprehensiveness: The case studies include three cases with a comprehensive industrial policy approach (Republic of Korea, Malaysia, Ethiopia), two with a selective approach (Mozambique, Kenya) and one with an intermediate approach (Brazil). The comprehensive approaches to industrial policy were possible because of strong political will and commitment, at least some support from the private business sector, and elements of embedded autonomy. The comprehensive approaches were characterized by high centralization, selective inclusiveness towards the private business sector, relatively well-developed managerialism and at least some state-led production in strategic areas. The case studies with a more selective approach to industrial policies were to some extent able to promote pockets of efficiencies in certain areas and sectors. Successful pockets of efficiency were also based on some political commitment, selective private sector support and certain elements of embedded autonomy. The institutional setups vary in the different cases but generally they are characterized by a lesser degree of centralization and state-led production but important elements of managerialism and selective private sector inclusiveness.

Centralization: Some degree of centralization – understood as having a central super-ordinated institution – is important in early stages of industrialization to ensure political alignment and support for an industrial policy project as the overarching national goal and to reduce the silo mentality common in many state apparatus. However, the most important aspect is high level policy coordination which requires some centralization and hierarchy of industrial policy institutions as well as the involvement of different ministries and agencies, given the broad nature of industrial policy making. Hence, of highest importance is the balance between a central decision-making and mediating body and the inclusion of diverse decentralized agencies. Even in a more centralized institutional setup, industrial policy implementation and adaptation can and should take place at a more decentralized level, e.g. in specific sectors, value chains or at the regional level. Centralization of the management of industrial policy has been strong amongst most of the country cases, with comparatively little variation between countries which is indicative of the pivotal role of centralization for effective management of industrial policy. Relatively weaker levels of centralization are either explained by the federalist structures of large countries (Brazil), by state fragmentation due to e.g. civil war (Mozambique) or ethnic conflict (Kenya).

Inclusiveness: Inclusiveness in a democratic context is an important normative perspective that is increasingly shared among industrial policy makers. Hence, even though historically many industrial policy institutions were not inclusive, with inclusive elements only developing on the way in the context of the economic development process and struggles around distributional issues and social standards as well as democratisation processes, this is not the model policy makers might want to follow today. Instead, policy makers should already focus on certain inclusive elements during early phases of industrialization and industrial policy in order to establish broad support within civil society and thus enhance the sustainability of the industrialization project. Mechanisms to include the private sector are important for the effectiveness of industrial policy making. Often, communication between the bureaucracy and the private sector could be improved to ensure commitment and create a two-way process that is not dominated by bureaucrats introducing policy changes, nor by firm representatives complaining about their constraints. Research institutes and particularly labour unions as well as other civil society groups such as local communities, faith-based groups and NGOs could also be included in developing strategic plans to ensure a broader industrial policy alliance. But it also has to be clear that there are not only win-wins in terms of inclusion, but also trade-offs, particularly with regard to the distribution of benefits and costs of industrial development in the population. Inclusiveness has played a limited role in most of the country cases, with the notable exception of Brazil. While the private sector has been at least partially included, labour unions and the wider civil society have hardly been formally involved in industrial policies.

Managerialism: Managerialism in the execution of industrial policy has varied considerably amongst the six case studies. While some and, notably, comparatively successful countries have adopted more managerialist styles of industrial policy making with top level politicians taking a protagonistic role in the management of industrial policies, in other countries traditional styles of public administration (static bureaucracy) seem to be predominant. In order to adopt managerialism, skills, prestige and a certain meritocratic culture of industrial policy institutions are important. These qualities can be supported by making the institutions special in terms of structure, recruitment, wages and other regulations. Most importantly, bureaucrats need to have flexibility to adapt policies related to changing circumstances or contexts and learning on the way. This requires a certain autonomy, the construction of which might however necessitate administrative reforms to be implemented and learning processes to be initiated. During such a transition period a pro-active role of political leaders in day-to-day industrial policy making might be needed, which has precisely been the case in many LICs. The relationship with the private sector is also of crucial importance since managerialism requires elements of embedded autonomy and related communication and coordination mechanisms.

State-led production: The extent of state-led production varies across the six case studies. While virtually all states played an active role in the provision of infrastructure services via SOEs, most states were also to some extent active in providing finance via public financial institutions, while only some have also been involved in productive activities, actively building up industrial sectors, in particular capital-intensive and heavy industries with the Republic of Korea and Malaysia having the most pronounced state led-production elements. The latter is related to the absence of private industrial entrepreneurs to invest in certain new risky sectors and the strategic role of these sectors in the industrialization project.

Box 2: Case studies on institutional setups for industrial policies

South Korea (1960s-80s) – the prototype of a comprehensive and centralized institutional setup

South Korea is the showcase example of a comprehensive and centralized IP approach. The industrialization project was based on a political class with strong commitment and leadership in economic development in the context of the Cold War and a partnership between the political class and important parts of the private business sector (chaebols). IP were pursued within a very centralized institutional setup under the leadership of a superagency (Economic Planning Board) with extensive powers, e.g. with regard to budgeting, and a close relationship to the Deputy Prime Minister and the President to ensure policy alignment. The centralized institutional setup was also used to implement and monitor resource allocation and performance in the context of state-led IP and to stabilize and control social forces. The bureaucracy was managerialist in the management of IP with a strongly meritocratic culture and close relationships to the chaebols. The process was not inclusive with only big business representatives (chaebols), producer associations and research institutes being involved in decision-making and monitoring processes with exclusion and repression of particularly labor. SOEs played an important role in infrastructure and strategic productive sectors and the state controlled the banking sector.

Malaysia (1970s-80s) – ethnic conflicts as motivation for an industrialization project

Malaysia pursued a comprehensive approach to IP. They key motivator of the IP project in Malaysia was the socio-economic marginalization of ethnic Malay relative to ethnic Chinese. A committed ethnic Malay political class and an efficient bureaucracy with roots in the colonial period established a comprehensive IP with a redistributional agenda along ethnic lines. The industrialization project thus particularly focused on the promotion of ethnical Malay capital and of SOEs in strategic sectors. Furthermore, FDI in the export sector and foreign capital-state joint ventures to support heavy industries played a strong role. Even though IP reflected the interests of ethnic Malay, ethnic Malay workers and peasants were not included in IP making. Only the ethnic Malay private sector close to the party, managers of SOEs, foreign businesses and research institutions were included. There were important managerial elements in the institutional setup given high capabilities of bureaucrats and certain autonomy to adapt policies. The institutional setup was very centralized. The key IP agencies were centered around the Department of the Prime Minister, particularly the Economic Planning Unit, responsible for the formulation and implementation of the key development plans and strategies. The key ministry was the Ministry of International Trade and Industry particularly concerned with the progress of the manufacturing sector.

Brazil (2000s-today) – a testimony for an inclusive institutional setup

After a rather successful first period of industrialization in the 1950s and 60s, under the Lula administration, IP regained importance and has played a key role in the economic policy mix since the early 2000s. Brazil is a testimony to an inclusive institutional setup, both in terms of including civil society into policy-making via newly created institutions and of distributing economic benefits to the wider population. The high degree of inclusiveness is based on the specific state-society relations and the "alliance of losers'. The Lula administration maintained close relationships with labor unions and other civil society organization as well as productive businesses but was not able to align monetary and exchange rate policies. On the institutional level, the National Industrial Development Council, which included top-level ministers, the president of the Brazilian development bank and 14 civil society representatives, played a particularly important role to include civil society in the IP strategy development process. The inclusiveness was further improved via sectorial organizations and thematic committees that included various civil society organizations and business representatives. Another asset of the Brazilian model refers to the importance attached to the public banking system in providing funding for long-term productive investment, particularly in a financial environment that is characterized by monetary orthodoxy. The institutional setup was decentralized and uncoordinated institutional setup with limited power of key IP institutions, giving rise to a decision-making cacophony with individual interests of participating ministries prevailing. This also reduced managerialism even though skills are available.

Ethiopia (1990s-today) – a comprehensive institutional setup in a low income country

The case of Ethiopia shows that a comprehensive IP approach is also possible in low income countries. Despite limited resources and capacities, the state adopted an export-oriented agricultural development-led industrialization plan with a strong sectorial focus and policy alignment. The basis of the comprehensive approach to IP is a political class with strong commitment and leadership in economic development. The institutional setup is centralized, coordinated by the Prime Minister's Office, but institutions exist at sector and regional levels as well. The industrial policy process is generally not inclusive with the exception of parts of the private sector. Some elements of managerialism exist in the institutional setup, however with limitations. The political class is strongly involved in IP management and high level bureaucrats have high skills and commitment, but at the lower levels of bureaucracy limited skills, formalism and reluctance towards assuming responsibility present impediments to managerialism. Industrial policy making is state-driven, but FDI plays an increasing role. Party affiliated companies with a strong regional and ethnical orientation play an important role.

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Box 2: Case studies on institutional setups for industrial policies

Mozambique (1990s-today) – promoting pockets of efficiency under unfavorable conditions

The case of Mozambique highlights the problem of limited support of the political class for IP which has led to a fragmented IP regime and institutional setup. Hence, Mozambique is pursuing a selective approach to IP by promoting pockets of efficiency with varying success. The approach is private-sector led and relatively liberal with limited sectorial interventions. Many different ministries and task- and sector-oriented agencies are engaged in IP making. The state lacks a coordination platform internally and externally towards the private sector, other civil society actors and donors and has limited institutional capacity to design and coordinate more interventionist IP. The case of Mozambique also highlights the potentially problematic role of donors undermining the inclusiveness of policy formulation towards national civil society as well as the developmentalist orientation of the state given the strong reliance on aid funds. The case of Mozambique nonetheless shows that successful IP via the promotion of pockets of efficiency is possible under unfavorable political conditions. For example, the sugar rehabilitation policy managed by the National Sugar Institute had the goal to upgrade sugar cane production and sugar processing and to provide employment opportunities, infrastructure and social services. This coincided with the interest of foreign firms from South Africa and Mauritius that wanted to rehabilitate the sugar industry as part of their regional expansion strategy. The bureaucrats in the National Sugar Institute had experience in the sector and were also able to mediate between foreign investors and the political class.

Kenya (1990s-today) – a selective approach on the basis of a developed institutional setup

Kenya is pursuing a selective approach to IP due to a lack of political commitment and funding in the context of ethnic divides as well as political and distributional struggles that limit policy effectiveness and sustainability. The ethnic power configuration in Kenya is prone to changes after elections, leading to large instability and potential conflicts which limits the scope for long term policy planning. The IP design mainly focuses on private sector development. The institutional setup is rather centralized at the national government level, the recent constitutional change towards decentralization notwithstanding. Key player is the Ministry of Industry, Investment and Trade. Compared to other SSA countries, Kenya has a rather well-developed institutional setup. Managerialism in the bureaucracy is nonetheless weak. This is primarily related to limited commitment of and autonomy from the political class and not to limited skills and capabilities of the bureaucracy that are relatively well-developed. Sustainable funding of IP institutions seems to be a key issue. The inclusion of civil society stakeholders in IP institutions remains selective with only parts of the private sector and the main public research institutes included. Even though there are quite well-established industrial relations structures in Kenya, labor unions tend to be excluded from IP making.

Source: See Output 2: Case Studies on Institutional Setups for Industrial Policies.

4.3. Tackling trade-offs and challenges of institutional setups

In developing an institutional setup for a specific country context, it has to be taken into account that every institutional setup has strengths and weaknesses. Policy-makers thus face various trade-offs when opting for a specific institutional setup. Being aware of these trade-offs enables policy-makers to reduce potential negative effects and optimize the institutional setup to the particular political, economic and social conditions at play. Box 3 summarizes key strengths and weaknesses among and within the four institutional dimensions (+ and -) and identifies key challenges to consider. The recognition and pro-active management of these trade-offs and challenges is an important task for industrial policy makers.

Box 3: Institutional set-up strengths, weaknesses and challenges

Centralization

+ Centralization facilitates developing a national vision and broad IP strategies
+ A central super-ordinated IP agency/entity ensures political alignment around industrialization and IP as overarching national goal, restricts silo mentality common in public agencies and changes hierarchy in state institutions
+ Centralized industrial development planning has an important role for achieving policy coherence for industrialization and facilitating monitoring and evaluation
+ Centralization lowers costs through economies of scope and scale and allows for tighter financial control
+ Centralization is particularly important in early-stages of industrialization and IP in contexts of limited state capacity, since it enables retaining a critical mass of experts

– Planning, implementation and stakeholder involvement can be more effective at decentralized levels
– Centralization might have negative effects on inclusiveness and increase non-democratic elements
– Centralization can have negative effects on embeddedness of the state, since centralized institutions might be 'too far away' and isolated from practical issues

• Centralization and decentralization are related to questions of political will and alignment as well as capacities and skills at different state levels
• Decentralized institutions will in any case have an important role in IP implementation
• Inter-ministerial/agency coordination is of crucial importance in centralized and decentralization setups
• With increasing territorial size of a country, regional/vertical decentralization gains in importance

Inclusiveness

+ Institutionalized stakeholder involvement and coordination mechanisms between state and civil society are important for democratic and legitimacy reasons
+ Inclusiveness can increase support for industrialization and IP project within private business sector and other civil society and hence contribute to the sustainability of IP
+ Inclusiveness, particularly towards private business sector, can make IP more effective through having positive effects on embeddedness of bureaucracy
+ Representation of interests of diverse stakeholders allows pro-active problem-solving due to early recognition of potential problems and conflicting interests

– Consideration of various interests might lead to diluted IP focus and no priorities
– More active inclusion of civil society (e.g. labour unions, local populations) might lead to conflict and resistance in case their demands cannot be accommodated
– Stakeholder involvement and consultation is time-intensive and reduces flexibility of policy-making and can hence have negative impacts on managerialism

• Some sort of institutionalized stakeholder involvement with the private business sector is important for effectiveness as without their willingness to participate, any IP is doomed to fail
• Inclusion of workers and labour unions will typically become more important in later stages of industrialization as trade-offs will increase because of the increasing importance of skill improvements for technological upgrading and the domestic market as an outlet for domestic production
• Inclusion of local communities affected by industrialization projects will be important as otherwise certain IP projects might be blocked
• Inclusion of research institutes can have an important role in increasing effectiveness of IP, particularly in terms of technological upgrading
• Donor involvement may be imperative given their role as funders but donor conditionalities may limit ownership

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Box 3: Institutional set-up strengths, weaknesses and challenges

Managerialism

+ Managerialism increases effectiveness and efficiency of IP
+ Managerialism allows to adapt IP to changing circumstances and private business sector needs and challenges in a flexible manner
+ A managerialist culture in the IP bureaucracy attracts talent and allows for the recruitment of qualified people that are results-oriented and less prone to capture by private sector interests or corruption

– Autonomy of the bureaucracy might be abused to deviate from the strategic objectives mandated by the political class
– Managerialism may reduce the possibilities for inclusiveness since inclusion might protract speed and flexibility of decision-making processes
– Manageralism in IP bureaucracy might lead to mistrust and conflicts with the incumbent bureaucracy, if the latter considers career models and remuneration of the new managerialist bureaucracy as unjustified privilege

- Some degree of managerialism is crucial to ensure efficiency and adaptability of IP
- Managerialism requires close relationships and learning between bureaucrats and the private business sector
- A managerialist approach with strong involvement of the political class might deliver short-term results, but undermine the long-term sustainability of the IP project, if not accompanied by the building-up of a managerialist bureaucracy
- Managerialism requires permanent capacity building and skills development which might necessitate hefty upfront financial resource allocation and a long-term budgetary commitment
- Managerialism requires the delegation of competences and the development of a meritocratic culture that increases commitment and allows for decision making, assuming responsibility and risk taking

Public-sector led production

+ SOEs can play a complementary role to private sector productive activities, particularly in pioneer activities/ sectors
+ Public financial institutions have an important role for resource allocation in IP projects by providing long-term funds at affordable cost and by offering incentives for productive investments, particularly in unfavourable macroeconomic contexts
+ Many infrastructure sectors have characteristics of a public good which makes public provision more efficient

– Public-sector production can be inefficient as SOEs are often not disciplined by competitive markets
– SOEs are particularly prone to cronyism
– An inflated state sector might hamper private sector development, depending on the complementary role of SOEs

- Public institutions have a particularly strategic role in infrastructure and finance provision, though their effective governance puts heavy demands on the capacities and capabilities of the state
- State-led production can be the outcome of an intentional plan or because there is a lack of private firms willing or able to engage in strategic activities which leads to the crucial question whether to team up with private sector partners (e.g. merchants, diaspora investors, informal sector, foreign firms) to support the establishment of a new group of indigenous entrepreneurs or alternatively opt for the setup of SOE
- Engaging in IP implies parting with laissez-faire policies and involving in market intervention, which might be unpopular with the private sector, civil society or international donors, particularly if it involves the build-up of SOE in the productive sector or in infrastructure services, which are seen as competitors to incumbent private entities

Source: Own elaboration.

4.4. Questionnaire on and core pillars of institutional setup dimensions

This section develops a questionnaire for policy makers to assess the institutional setup for industrial policy along the four dimensions centralization, inclusiveness, managerialism and state-led production of a country and to identify main trade-offs. See Box 4 for the institutional setup questionnaire. Based on the information and analysis of the institutional setup for industrial policies gathered through this questionnaire, policy-makers should be able to make informed and context-specific decisions on the four institutional setup dimensions and related strengths, weaknesses and trade-offs. This understanding should also make it possible to develop strategies to address challenges and trade-offs within and among the four institutional setup dimensions. The institutional setup dimensions can be applied at the national, but also at the regional, sector or project-based level related to the comprehensiveness of the industrial policy approach. The institutional setup dimensions are also related to the industrial policy content, i.e. the objectives and instruments of industrial policy. Hence, policy-makers should also consider the compatibility of the institutional setup with specific objectives and related instruments. This will be particularly relevant with regard to two dimensions: (i) the degree of inclusiveness and (ii) the issue of state-led production. The degree of centralization and managerialism, on the other hand, are not as much affected by the specific industrial policy objectives and instruments. See Figure 5 for a schematic overview of this process.

Box 4: Institutional setup questionnaire

General assessment of status quo

1. Which are the main state bodies responsible for IP (e.g. agencies, ministries)?
2. Does the current institutional setup have more centralized or decentralized characteristics? To what extent do IP agencies and coordination mechanisms have power and influence over other IP relevant ministries and agencies (e.g. finance ministry, central-bank, technology and education ministries, trade ministry)?
3. Which stakeholders and civil society groups are included or excluded in the IP institutional setup and on which level? Which rights do they have and in which ways are they included?
4. Do bureaucrats have sufficient autonomy vis-à-vis the political class and the private sector in order to implement IP effectively? Or is the bureaucracy heavily bound to a static setup? To what degree are political leaders involved in the day to day IP making? Do IP institutions have sufficient resources and capabilities in order to fulfill the IP objectives?
5. Is the industrialization process mainly driven by the private sector, or is the state involved in infrastructure, finance or productively activities? Is the role of the state complementary to or crowding out private sector activities?

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Box 4: Institutional setup questionnaire

Centralized vs. decentralized

6. Where does the political responsibility for IP reside and who is steering the process? How are functions and responsibilities split? Is there a separate industrial development agency or an inter-governmental agency or one Ministry in charge?
7. How many agencies with different agendas are involved in IP making? What are the organizational and hierarchical relations among these agencies and how are conflicts resolved? Is there a central 'superagency' that has the power to push for IP measures as the overarching national goal and achieve policy alignment?
8. How is the territorial composition of the state and the distribution of competences across different governmental levels organized? Which decisions are made centrally at the national level? Which decisions are more suited for decentralization to regional and local levels? Which specific tasks are organized regionally and which mechanisms for inter-regional coordination exist be established?
9. Are there problems and deficits, respectively, with regard to policy coherence and lack of public promotion of IP? Does the resolution of these problems necessitate a more centralized institutional design?
10. In how far are state capacities sufficient to opt for a more decentralized institutional design? Are there large capacity and capability differences within the bureaucracy (institutions, levels/hierarchy, sectors, regions)? What does this mean for centralization vs decentralization?
11. Are there sufficient inter-ministerial/agency coordination mechanisms in order to manage a more decentralized institutional setup?
12. Is there a need for external decentralization (delegation of authority to conduct IP to an organization external to the state) in order to bypass inefficient state structures? If yes, in which segments of the IP-related bureaucracy are these inefficiencies particularly pronounced?

Inclusive vs. exclusive

13. Which specific institutional structures exist to include the private business sector and civil society actors? Is the focus on (i) information provision from the state, (ii) consultation from the private sector and civil society to the state or (iii) debate among state and non-state actors? Which power and responsibility do participants have?
14. How are meetings between civil society organizations and IP institutions organized? What is discussed in terms of topics, hierarchy (visions/strategies, objectives, policies, implementation) and level of detail? How are discussions moderated? How are conflicts mediated? What is done between meetings?
15. Which private business groups are included in IP institutions' consultation and/or communication channels? Which private business groups have the possibility to articulate their interest and concerns? Which private business groups have the power to influence IP measures?
16. Which civil society actors are included in IP institutions' consultation and/or communication channels? Which civil society actors have the possibility to articulate their interest and concerns? Which civil society actors have the power to influence IP measures?
17. Is there a specific social group (including ethnicity) that has favorable access and influence on IP decisions? Does this undermine the legitimacy and long-term sustainability of the IP project?
18. Is the exclusion of certain social groups jeopardizing the support for the IP project? Can the support for the IP project be improved by broadening inclusion? In how far is broader inclusion jeopardizing the objectives and strategies of the IP project?
19. Which, if any, are the central elements of the system of industrial relations in place? Through which mechanisms are the interests of workers represented both at the shop floor and in the political arena? Is the organizational structure of trade unions conducive to institutionalized dialogue and negotiations with both firms and the state? Is successful implementation of the IP strategy dependent upon cooperation from organized labor, or would a pro-active inclusion of labor threaten the IP project due to incompatibility between the IP strategy (e.g. export- and low labor cost-based industrialization) and workers' demands (e.g. higher wages)? Are the interests and concerns of local communities considered when e.g. large-scale infrastructure, mining or industry projects are realized? To what extent do institutionalized procedures for consultation and legal remedies for affected local communities exist? Is the improvement of such consultation procedures and remedies politically feasible?

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Box 4: Institutional setup questionnaire

Managerial vs. static bureaucratic governance

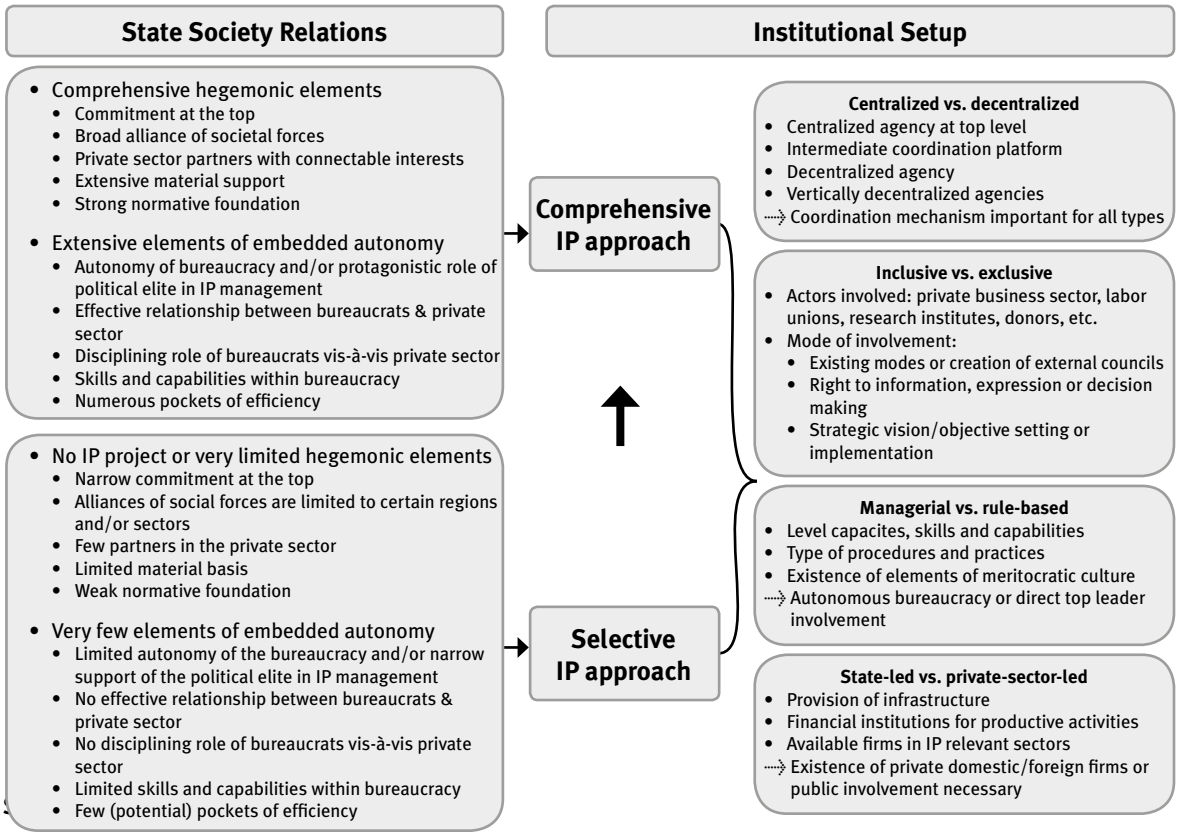
20. Is the political class involved in the day-to-day management of IP, and if yes, to which degree? To what extent is this effective or disturbing the implementation of IP? Does the bureaucracy have sufficient autonomy vis-à-vis the political class to implement IP measures effectively and react to changing circumstances? If no, in which sectors is the lack of autonomy particularly severe?
21. Do bureaucrats have adequate information about the specific needs and concerns of the private business sector and concerns of civil society actors? If no, in which areas are information deficits most pronounced?
22. Is the bureaucracy sufficiently 'autonomous' vis-à-vis the private business sector in order to effectively implement IP?
23. Is there need for capacity building within the bureaucracy, particularly in IP institutions at different lavels, to be able to implement IP measures effectively? If yes, in which areas are capacity and skills deficits most acute?
24. Do bureaucrats have knowledge about and experience in specific IP measures (e.g. sectorial, export orientation, attracting foreign direct investments, establishing joint ventures, technology transfer, dealing with donors) and is there a need for external advisors?
25. Is the recruitment of the bureaucracy, particularly in IP institutions merit-based, or do other factors overshadow such practice (e.g. party affiliation)?
26. Are there special incentives for capable, well-educated and experienced experts to work in IP institutions (e.g. higher remuneration, high reputation)?
27. ?

Private sector-led vs. state-led production

28. Which infrastructure bottlenecks exist? Are there private actors and interests available to provide this infrastructure effectively? Does 'the state' have the capacity, resources, skills and knowledge for the required activities? If no, who could be potential partners (local firms, FDI, JVs, donors)?
29. How is the financial system structured? Could the industrialization process benefit from state-led resource allocation, e.g. through the buildup of public or development banks? Does 'the state' have the capacity, resources, skills and knowledge for the required activities? If no, who could be potential partners in developing the required financial and institutional capacities (e.g. local firms, FDI, JVs, donors)?
30. In which productive sectors does the state play a complementary role to the private sector? Does experience suggest that the state disposes of the capacity, resources, skills and knowledge for productive activities? What is the experience with respect to forms of cooperation between the state and other actors (local firms, FDI, JVs, donors)?
31. Are public companies and SOEs characterized by cronyism and inefficiencies? Is this a generalized practice or does it relate to specific sectors and companies? What are the particular reasons and root causes for it?

Source: Own elaboration.

Figure 5: State-society relations, comprehensiveness of industrial policy approach and institutional setup (2)



Centralization: In terms of centralization, based on the analysis of the above questions, a decision has to be made about the degree of centralization or decentralization in terms of state institutions relevant for industrial policy making. With regard to horizontal (de)centralization, three broad and schematic types can be identified - centralized, intermediate and decentralized institutional setups (Figure 6). Obviously, the specific institutional setup chosen might lie between the three schematic options presented and involve further elements, depending on the prevailing circumstances and power configurations.

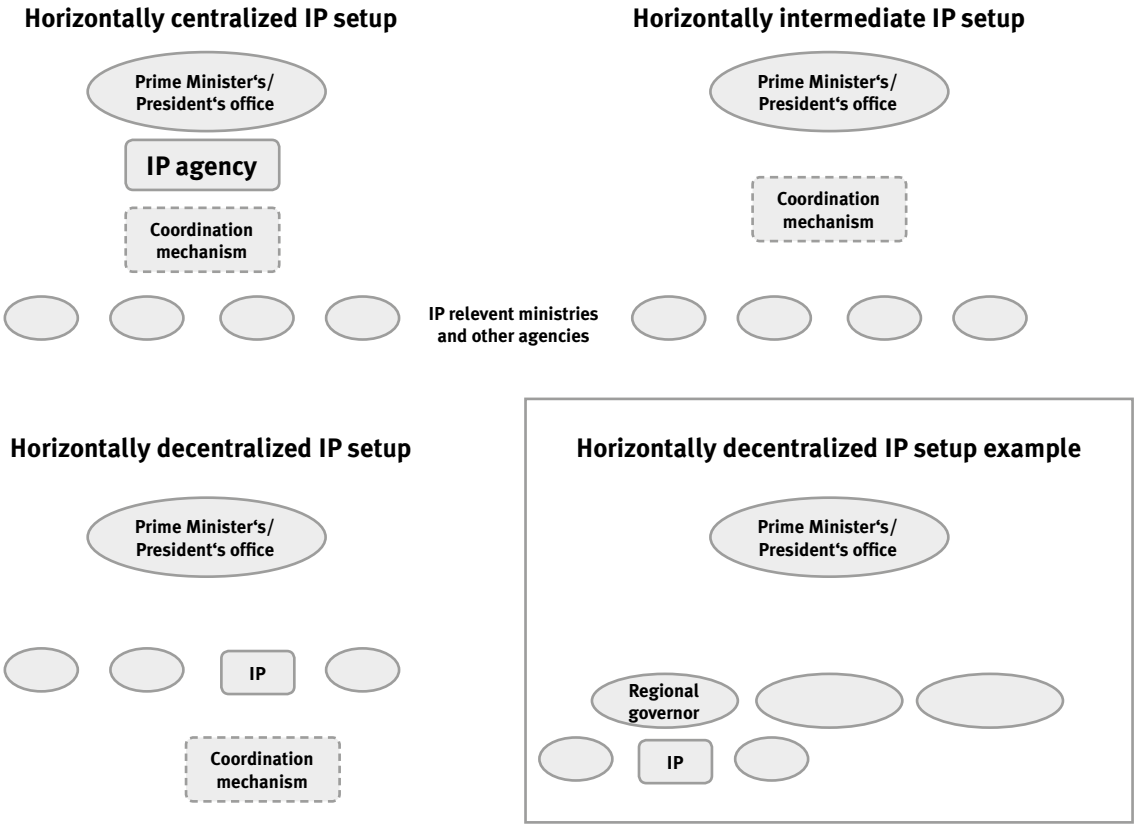
- A centralized institutional setup incorporates some type of super agency with extensive power to formulate and implement industrial policy. The super agency has close ties to the Prime Minister's or President's office and enjoys relative strong autonomy vis-à-vis the political class as well as decision making powers vis-à-vis other ministries and industrial policy relevant agencies. Such a centralized institutional setup is dependent on a functioning coordination mechanism to ensure effective management of industrial policy and policy alignment.

- An intermediate institutional setup does not have a specialized industrial policy agency with extensive power. Instead, a coordination mechanism with close ties to the Prime Minister's or President's office ensures that all industrial policy relevant ministries and agencies are effectively coordinated. The key difference to a centralized institutional setup is that there is no ministry or agency in charge of industrial policy on a higher hierarchical level relative to other ministries. Hence, this setup is even more dependent on a functioning coordination mechanism.

- Within a decentralized institutional setup, there is an agency or ministry specialized in industrial policy, but it has no power over other industrial policy relevant institutions (e.g. ministry of finance, ministry of infrastructure, central bank, etc.). The coordination mechanism of such an institutional setup thus lacks power to overrule organizations with contradicting agendas to the industrial policy project.

There are many reasons why policy makers should consider some degree of vertical decentralization, e.g. in order to take account of the size of a country, federalist distribution of competences or regional differences (e.g. economic, social, cultural), to accommodate the claim to power of regional interest groups, or in the hope to enhance the embeddedness of the institutional setup. Vertical decentralization however runs the risk of limited coordination. The implementation of a centralized coordination mechanism is thus also important in more vertically decentralized industrial policy setups, particularly in the case of a comprehensive approach to industrial policy.

Figure 6: Centralized, intermediate, decentralized and vertically decentralized institutional setup types



Source: Own elaboration.

With regard to comprehensiveness, a comprehensive industrial policy approach is generally more centralized than a selective approach, since there is a need for institutions that have the power and capacity to coordinate and establish policy alignment at the national level. To advance a selective industrial policy approach, it is also important to develop more centralized links or institutions to improve coordination between the increasing number of pockets of efficiency as well as to try to develop more coherent policies. At least, it would be necessary to ensure certain links to the national level for policy coordination and coherence but also in terms of facilitating the replication of and learning from best practice projects.

When deciding on the degree of centralization of the institutional setup, policy makers need to be aware of the accompanying trade-offs (Box 3). Key strengths of a more centralized institutional setup include most importantly achieving policy alignment and coherence and effective coordination as well as reducing the silo mentality of individual ministries. Cost-efficiency is a further strength. A more decentralized institutional setup can be particularly favourable in cases of a large territory with differing regions and limited coherent policy support at the national level. Planning, implementation and stakeholder involvement might also be more effective at decentralized levels.

Inclusiveness: In terms of inclusiveness, based on the analysis of the above questions a decision has to be made about the degree of inclusiveness versus exclusiveness in terms of civil society involvement. Four main sets of issues have to be decided on:

- First, on the broadness and types of civil society actors included, e.g. only representatives of the private business sector or also research institutes or trade unions and NGOs as well as international actors (e.g. international institutions, donors, business associations, NGOs);
- Second, on the core institutional structure of civil society stakeholder involvement which can be inclusion in existing institutions, bodies or committees (internalization) or the creation of new bodies or councils that are attached to existing institutions (externalization);
- Third, on the type of inclusion and the power given to the stakeholders. Basically three options can be distinguished: (i) right to information, (ii) right to consultation, and (iii) right to co-decision-making. The power given to stakeholders will influence their ownership of the industrial policy process, i.e. whether they will adopt a more active or passive role in the institutional setup;
- Fourth, on the scope and agenda of inclusion: should this involve (i) the discussion of the overall strategic visions and objectives, or (ii) the specifics of implementation policies, e.g. decisions on particular projects and programs? In addition, operational guidelines need to be elaborated which specify the codes of conduct, communication structure and decision-making rules of the respective bodies. For such bodies to be effective and legitimate, the determination of these procedural rules is of crucial importance.

With regard to comprehensiveness, there is no specific relation between the degree of comprehensiveness of an industrial policy approach and its degree of inclusiveness. The institutional setup of comprehensive as well as selective industrial policy approaches can be inclusive or exclusive in nature, depending on the state-society context and the objectives of the industrialization project. With regard to the latter, certain objectives can only be achieved if certain social actors are included in industrial policy making. Hence, depending on the specific objectives, different social groups will have to be included in the institutional setup to ensure that these objectives are met and increase the effectiveness of related industrial policy instruments.

For example, the improvement of the quality of employment (objective 5 in EQuIP on industrial policy instruments), will only be achieved in a substantive way if representatives of workers, e.g. labor unions, are included in the industrial policy making process. Similarly, the deepening of global market integration (objective 2) will depend on the consideration of export oriented and in a LIC context often also foreign business interests and concerns. Likewise, the maximization of domestic benefits (objective 3), e.g. via increasing embeddedness of foreign firms or the strengthening of national value chains, will heavily depend on the strategic inclusion of local firms and business groups in IP institutions. Furthermore, to ensure inclusive production (objective 6), the institutional setup has to consider and be broadened to include so far excluded social groups and ethnicities. However, depending on the specific industrial policy objectives, the institutional setup may be 'selectively inclusive' vis-à-vis different social groups. This also implies that not all civil society groups need to or can be represented in all institutions; instead the inclusion of civil society groups should be aligned with the specific objectives of industrial policy as well as their affectedness of industrial policy measures.

There are also certain trade-offs attached with regard to the degree of inclusiveness and exclusiveness (Box 3). A more inclusive institutional setup has the potential to increase the support of the private business sector and other civil society groups as well as enhance the embeddedness of the bureaucracy in order to increase the effectiveness of industrial policy making. A very high degree of inclusiveness, on the other hand, might lead to a diluted industrial policy focus with a lack of priorities. Furthermore, important industrial policy measures might also be prevented due to the resistance of certain interest groups represented in industrial policy institutions. These trade-offs need to be understood in the specific country context and taken into account.

Policy makers might face the difficulty that they desire a more inclusive institutional setup, but no representative civil society organizations (e.g. labor unions, business associations, women rights organizations, informal sector organizations, ethnic groups, etc.) exist. In this case, policy makers need to facilitate organization and related capacity-building within civil society and/or abolish mechanisms and laws that prevent the formation of organizations that represent marginalized social groups. Furthermore, policy makers could also apply various alternative consultation methods, such as workshops and focus groups that target excluded social groups in order to enhance the inclusiveness of the institutional setup.

Managerialism: In terms of managerialism, a certain degree of managerialism is central to ensure flexibility and adaptability of industrial policies. This can happen in two ways – first, through a certain degree of autonomy of the industrial policy relevant bureaucracy or through direct involvement of top political leaders into the day to day management of industrial policy making. Hence, based on the analysis of the above questions a decision has to be made about the degree of autonomy of the bureaucracy versus direct involvement of high level political leaders. This will largely depend on three aspects – (i) the capacities, skills and capabilities of the bureaucrats relevant for industrial policy making, (ii) the existence of procedures and practices in terms of decision making and responsibility taking within the bureaucracy beyond political leaders, and (iii) the existence of some type of meritocratic culture that can be used as a basis to further develop independent and autonomous bureaucratic structures. If these aspects do not exist, it might be necessary to have a strong direct involvement of the political leaders in industrial policy making to get things done and ensure managerialism.

With regard to comprehensiveness, comprehensive as well selective industrial policy approaches need to be managerial to implement industrial policies effectively. Overall, a comprehensive industrial policy approach has more favorable preconditions (e.g. higher degree of consensus, committed political class, autonomous bureaucracy, state capacity) to establish a higher degree of managerialism, but also selective approaches can be managerial if political will and capabilities exist in pockets of efficiency and they can be effectively shielded from political disturbances.

The degree of managerialism thus interlinks with all mentioned objectives in EQuIP, since the effectiveness of industrial policy to achieve these objectives will heavily depend on some degree of managerialism.

The establishment of important elements of managerialism is desirable and hence the negative trade-offs with a more static approach are marginal (Box 3). Managerialism is nonetheless attached to some problems that should be taken into account. Most importantly, a higher degree of autonomy for the bureaucracy might lead to the abuse of powers and capture by private business sector interests, particularly if there is lack of a broader meritocratic culture. Within a managerial approach, strong involvement of top political leaders faces the challenge of broadening the scope and scale of and ensuring the sustainability of industrial policies. Hence, although such an approach may be initially necessary to achieve a certain degree of managerialism, strategies for a transition to a more autonomous bureaucratic institutional setup should be developed.

State-led production: In terms of state-led production, the analysis of the above questions should lead to an understanding of the interests and capacities of actors in the private sector – national and international ones – to fulfill key infrastructure, financing and productive activities. If such capacities exist and the private sector actors can become partners in the industrial policy alliance or coalition, a more private sector-led production approach can be pursued. If such private capacities are not available, or only to a limited extent or if these actors cannot be aligned as partners, a more state-led production approach might be required. With regard to comprehensiveness, a comprehensive industrial policy approach also tends to have a higher degree of state-led production in the form of provision of infrastructure and finance and/or of a complementary role in the productive sector, since generally only more comprehensive policies allow for such strategic state interventions. But in some cases public institutions or SOEs could also play a role on a sector, region or project-based level.

This institutional setup dimension has a clear link to the industrial policy content as the content and the specific objectives will determine to an important extent which infrastructure, financing and productive requirements are necessary. For example, to achieve a reduction in pollution (objective 10 in EQuIP on industrial policy instruments), technological innovation will be crucial. Since investments in green technologies might be considered to be too risky relative to profitability, the state might intervene via various instruments (e.g. subsidies, credits, state-financed research centers) but also might need to engage more directly in investing in such pioneer activities. In order to promote the self-sufficiency of a country's economy (objective 8), the state might need to pool resources to establish productive SOEs in relevant sectors in cases of missing private investment. Furthermore, to increase productive activities (objective 1) or generate productive employment (objective 5), a country might find this objective to be easier achieved via heavier state involvement in the financial sector and the allocation of resources (e.g. via development banks, public banks).

There are also important trade-offs to consider with regard to a more public- or private-sector led production approach (Box 3). SOEs can play an important complementary role to the private sector, particularly in pioneer activities and the provision of infrastructure, and public financial institutions can play an important role in the allocation of resources by providing affordable funds and incentives for productive investments. Public-sector engagement in productive activities can however be inefficient in the case that it is not subject to a competitive market or prone to cronyism. Further, an inflated state sector might also hamper private sector development, if the role of SOEs crowds out private sector activities.

Trade-offs between institutional setup dimensions: Trade-offs do not only exist within the four institutional setup dimension, but also between them. Based on the analysis of the above questions, policy makers should particularly consider trade-offs between (i) centralization and inclusiveness, (ii) inclusiveness and managerialism and (iii) centralization and managerialism:

i. Centralization and inclusiveness: A highly centralized institutional setup might decrease the degree of inclusiveness, since the access of civil society actors to the decision making center at lower levels will be limited or less effective as most decisions are not taken at these levels. A higher degree of decentralization might thus be beneficial in terms of inclusiveness. Hence, centralized setups that aim for inclusiveness must develop mechanisms to include civil society actors from different levels at the centralized industrial policy agency and coordination mechanism.

ii. Inclusiveness and managerialism: The inclusion of key industrial policy actors, particularly industrial policy-relevant private business sectors, is important to increase the embeddedness of the bureaucracy and thus also increase the managerial character of the bureaucracy. However, a high degree of stakeholder involvement and extensive consultation mechanisms also increase the necessary time to formulate, implement and adapt industrial policies and might therefore reduce the flexibility of policy-making. A high degree of inclusiveness thus also has the potential to negatively affect the managerialism of the institutional setup. Hence, inclusive setups need to address this trade-off particularly through carefully considering the specific mode of inclusion of civil society stakeholders. In this regard, it might be advisable to focus inclusion on the development of the strategic vision and objective setting, while reserving concrete implementation decisions and the conduct of day-to-day activities to the bureaucracy.

iii. Centralization and managerialism: A high degree of centralization might have negative effects on the embeddedness of the bureaucracy and therefore reduce the managerial characteristics of the state apparatus. A more decentralized structure can be more effective in establishing and developing relations of the bureaucracy with industrial policy-relevant private sector groups and thus enhance managerialism. Hence, centralized setups need to take this into account, particularly through developing close relations and communication channels between centralized decision making and more decentralized implementation agencies. A high degree of centralization, on the other hand, can also benefit the degree of managerialism, if the specific institutional setup is able to enhance policy alignment and coordination.

5. Ensuring monitoring, evaluation and adaptation

Policy makers should treat institutional setups as dynamic and not static. Over time, the economic structure and state-society relations of a country change, thus altering the priorities, strategies and objectives of an industrialization project and with it the requirements of the institutional setup. Furthermore, even during times of relative stability, policy makers need to make sure that the industrial policy content and the institutional setup is effective and in line with the industrialization project. Hence, to ensure the success of the industrialization project, the institutional setup should incorporate a monitoring and evaluation system in order to adapt elements of the institutional setup to changing circumstances and correct for inefficiencies and insufficient effectiveness. It should involve both an element of regular self-evaluation on the part of the stakeholders involved in the institutional setup from the bureaucratic and civil society side, and in certain intervals (e.g. 3-5 years), an external peer review by e.g. industrial policy makers from other countries and international experts, respectively. Though formal assessments at discrete points in time will be important, it is pivotal to embed these exercises in a broader industrial policy learning culture, which encompasses both the members of the bureaucracy as well as the business and other civil society stakeholders.

While the assessment of specific industrial policy projects and programs will typically rely on established evaluation methodologies, the evaluation of the institutional setup involves a higher dose of judgemental, and thus disputable, elements. For instance, the assessment, whether a particular consultation format with private business or other civil society organizations has proven effective or not, inevitably involves a discourse between the involved stakeholders and might be biased by the interests and views of the specific stakeholders. If ownership of the process of industrial policy-making is seen as an added value, the views of the diverse stakeholders need to be taken into account and any final outcome needs to be transparent and appreciative towards the inputs given by all stakeholders. Any subsequent decisions on changes to the institutional setup should thus if possible be taken with the consent of affected stakeholders and need to be endorsed by the political representatives in charge of industrial policy. If major modifications are unavoidable, the reasons need to be clearly communicated and the potential consequences of inaction highlighted.

6. Conclusions

Institutional setups and industrial policy content depend on the specific state-society relations, and all institutional setups face certain trade-offs. Since state-society relations, such as social actors and their interests in terms of industrial policy and power constellations, capacities and capabilities at the bureaucratic level for industrial policy making, hegemonic elements and degrees of embedded autonomy as well as external geopolitical contexts, differ between countries, a blueprint for an optimal institutional setup cannot be formulated. Instead, developing and adapting an institutional setup for industrial policies requires analyzing the specific country context with the help of concepts such as hegemony and embedded autonomy as well as the four institutional setup dimensions and related strengths, weaknesses and trade-offs.

Given the dynamic character of the industrial policy process, it is also important to emphasize that institutional setups will have to be regularly monitored and evaluated, and subsequently adapted, should inefficiencies emerge or industrial policy priorities change. Thus, industrial policy-makers need to design a monitoring and evaluation mechanism, not just for industrial policy implementation, but also for the institutional setup itself. This monitoring mechanism should allow for a regular and critical reflection of the effectiveness and efficiency of the prevailing institutional setup and make suggestions for changes if necessary. It should also promote a learning culture, which encompasses bureaucrats and civil society stakeholders.

v. 1.0 - May 2017

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