

Jobs for All? A Civil Society Guide to Understanding and Monitoring Industrial Policy

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A Civil Society Guide to Understanding and Monitoring Industrial Policy

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This guide is targeted at civil society organizations and individuals with an interest in engaging with and monitoring industrial policy in their countries. Relatively few citizen groups focus their advocacy on industrial policy, but many care about such issues as jobs, poverty reduction, and economic growth. Industrial policy is a key policy area for tackling these issues, and also one that is subject to considerable abuse. If industrial policy is to be used effectively, civil society and the public must guard against the kinds of waste and inefficiency that have often accompanied such policies in the past.

In order to encourage civil society to increase its engagement with industrial policy, we have tried to simplify the conceptual issues underpinning industrial policy and provide a starting point for engagement. Obviously, if civil society organizations are serious about monitoring industrial policy, they will need to do more research and learn more about the policies in their own countries. Nevertheless, this guide should still facilitate country-level work, particularly the example from Ghana at the end.

The guide is divided into five parts, with a short conclusion. The first part provides an introduction and answers the question: why think about industrial policy right now? The second part documents the global resurgence of interest in industrial policy, and some of the reasons why supporters have advocated its use in different countries. Part three focuses on the major policy tools that make up the industrial policy toolkit, providing background on how they are used and demonstrating that they often involve substantial financial resources that deserve to be monitored by civil society organizations. Part four makes concrete suggestions for how civil society can engage with and monitor industrial policy. Part five uses the example of Ghana's industrial policy as a test case to illustrate how civil society and members of the public could engage at country level.

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1. Introduction

This guide is inspired by the belief that shifting global views about development and an increased international focus on job creation taken together are likely to encourage governments around the world to try out new forms (or old forms packaged in new ways) of state intervention in the economy. These interventions will range from limited attempts to support private sector innovation to more substantial efforts to promote economic growth through what is commonly known as “industrial policy.”

The term “industrial policy” is sometimes used to describe a set of policies designed to encourage manufacturing. That is not how we use the term. **Instead, industrial policy is taken here to mean policies designed to encourage economic diversification.** What is meant by economic diversification? Suppose that an economy can be divided into three kinds of activities: agriculture, manufacturing, and services. Now suppose that 60 percent of the economic activity is in agriculture, while 20 percent is in manufacturing, and 20 percent is in services. Diversifying the economy might mean further shifting the economy away from agriculture and encouraging more manufacturing and services (thus reducing the dominance of one sector in favor of others).¹

How is economic diversification related to development and job creation? The evidence suggests that as countries develop, they tend to diversify their economies. The classic step in diversification is the first one: from a high concentration of activity in agriculture to greater manufacturing and/or service activity. Casual observation and empirical evidence support the view that as countries develop, they also produce a greater variety of things *within* these broad sectors, and that this variety supports a larger number of jobs.² Of course, it is true that economic growth and diversification do not lead automatically to job growth; but it is also true that countries do not drastically increase employment levels without growth and diversification.

This guide is not primarily concerned with assessing the advantages and disadvantages of active industrial policy. In undertaking the production of a guide that will help civil society to monitor and improve industrial policy, however, we are implicitly endorsing the view that industrial policy can *sometimes* be used effectively to promote economic diversification.³ Beyond that, we take no position on the utility of any of the specific policies discussed here, nor do we promote their use in any particular context or country.

Instead, we focus on the fact that almost all of these policies require the use of public funds to subsidize certain economic activities. As a result, like all fiscal policies, they are subject to mistargeting, waste, and corruption. This is one reason why many of these policies, which were particularly popular from the 1940s to the 1970s, went out of fashion in the first place. Extensive government intervention was frequently believed to lead to mismanagement and bloated, growth-suppressing bureaucracies. One response to these potential hazards would be to call for the elimination of industrial policy; the position taken here is rather that industrial policy is unlikely to disappear and can potentially be made to work better.

The purpose of this guide, therefore, is to discuss the kinds of policies that have been and are likely to be promoted in this new, more conducive space for state activism. While an increase in the use of these policies may represent a risk to the budget, **we view it primarily as an opportunity for enhanced civil society monitoring and engagement.** As Harvard University economist Dani Rodrik has argued, the new industrial policy requires transparency and public participation in order to be effective.⁴ The key goal of civil society in this sector should be to demand transparency and accountability, and thereby ensure that these policies do not stimulate corruption or foster inefficiency, but rather, and to the extent possible, support economic growth and job creation as they are intended to do.

1 It might also mean diversifying the types of activities that occur within each sector. For example, 20 percent of the economy may be dedicated to manufacturing, and 100 percent of that to food processing. Diversification might also mean shifting from 100 percent food processing to 70 percent food processing, and 30 percent production of industrial tools.

2 Jean Imbs and Romain Wacziarg, “Stages of Diversification,” *American Economic Review*, 93(1), March 2003, pp. 63-86.

3 If industrial policy were not at least sometimes effective, then it would make more sense to argue for its abolition than for ways to improve it. That is a position which is often taken by economists. For a useful discussion of the debate by industrial policy skeptics, see http://www.ycsg.yale.edu/focus/gta/case_for_industrial.pdf.

4 Dani Rodrik, “Industrial Policy for the 21st Century,” Faculty Research Working Papers, RWP04-047, November 2004. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=617544&rec=1&srcabs=920060.

In addition, civil society has a role to play in highlighting the costs and benefits of these policies, and the fairness of the distribution of these costs and benefits. Like all economic policies, industrial policy creates winners and losers, and there should be ample public debate about the implications for equity. For example, sometimes industrial policies are deliberately intended to foster greater development in particular regions, or types of region (e.g., urban or rural). Industrial policies may also favor particular industries over others, and thus certain types of workers, such as those in manufacturing rather than those in agriculture. Similarly, policies designed to stimulate investment in particular industries may have important implications for gender equity if jobs in that sector tend to be dominated by either men or women. For example, development patterns in some countries have pulled many women into manufacturing, but relatively few into extractives or construction.⁵ It may be reasonable for public policies to target different groups or have different impacts on different groups, but the reasons for pursuing these policies and their fairness should be discussed openly. It is also important for civil society and the broader public to monitor industrial policy because it can have unintended consequences: while it may be intended to channel benefits to depressed areas, it may end up subsidizing wealthier regions that do not need support. It is up to civil society and members of the public to ensure that these flaws in execution are rectified.

2. The Reemergence of Industrial Policy

A core assumption of this guide is that there is increasing interest at the national and international level in policies designed to spur job creation, and simultaneously a desire to find an appropriate role for the state in fostering economic development. Furthermore, these goals overlap and are part of a

general shift away from a worldview that emphasized a minimal role for the state that was limited to providing a regulatory framework within which the private sector would flourish. This view, which dominated development discourse in the 1980s and 1990s, saw economic growth and job creation as intertwined but argued that the private sector would drive both, with state intervention limited to creating conditions conducive to private investment. The current era is defined by a growing sense that leaving growth and job creation to the private sector alone is insufficient – however critical private investment may be.⁶

The issue of job creation has received increased attention, particularly in the past five years or so. Milestones include:

- In 2004 the African Union adopted the Ouagadougou Plan of Action, which committed African countries to employment-generation strategies.
- In 2007 the commitment to jobs moved to the global stage when Millennium Development Goal (MDG) 1, which is related to the eradication of hunger and poverty, was modified to include a reference to job creation. Target 1.B is now to “achieve full and productive employment and decent work for all, including women and young people.”
- In 2010 the G20 reaffirmed the global commitment to job creation in the Seoul Development Consensus for Shared Growth, making “private investment and job creation” one of the nine pillars of the Consensus.⁷ The Seoul Consensus also links job creation to equity issues, which has become a common trend across countries and institutions that are balancing their concerns for economic growth with a concern about the “inclusiveness” of that growth.

5 In Malaysia, for example, female labor force participation as a share of total labor force participation in manufacturing rose from 28 percent to 46 percent between 1970 and 1995. By contrast, in mining, female labor force participation stagnated at around 12-13 percent over this period. In construction, women did see gains, but from a low of around 5 percent in 1970 to around 12 percent in 1995. See “Women in Malaysia,” Asian Development Bank Country Briefing Paper, Chapter 3, available at: http://www.adb.org/Documents/Books/Country_Briefing_Papers/Women_in_Malaysia/chap_03.pdf. On a global level, women tend to be underrepresented in manufacturing relative to agriculture or services, and policies that stimulate manufacturing employment may benefit them less than men. See <http://mdgs.un.org/agsd/mdg/Resources/Static/Products/Progress2010/MDG%20Report%202010%20-%20Gender%20Brochure%20En.pdf>.

6 There are also views that see a conflict between economic growth and job creation, at least in the short or medium term. In some sectors, growth may be driven by efficient, capital-intensive activities that destroy, or at least do not create, many jobs.

7 See <http://www.ibtimes.com/articles/81220/2010112/communique.htm>.

Over the same period, there has also been a shift in attitudes about the role of the state in the economy. Industrial policy remains controversial today, particularly in its most interventionist form of “picking winners” from specific companies in specific sectors, but even those who are fairly skeptical of government intervention have softened their stance in recent years.⁸ For example, in 2004, while explicitly disavowing industrial policy, economist John Williamson — who famously coined the term “Washington Consensus” and is generally skeptical of state intervention — called for a “national innovation system.” Under the proposed system, governments would provide support for innovation through tax credits for research and development, resources for technical education, and other investments that would help the private sector flourish.⁹

Others have gone much further. Dani Rodrik has called for a new industrial policy that will support entrepreneurship through “strategic collaboration between the private sector and the government with the aim of uncovering where the most significant obstacles to [economic] restructuring lie and what type of interventions are most likely to remove them.”¹⁰ His analysis draws on Peter Evans’ work on Korea, Brazil, and India, in which he identified the “embedded autonomy” of state agents as the key to successful development. By this, Evans meant that government had a crucial role to play that went beyond macroeconomic stabilization, but not as far as government ownership of firms. He called this version of industrial policy “husbandry” or “midwifery,” in which government works closely with the private sector to sponsor and encourage innovation.¹¹

According to Rodrik, free markets experience two kinds of problems that can lead to an important role for active government policy in promoting growth.¹² The first is related to the fact that entrepreneurs lack information; the second is related to the inability of private firms to coordinate innovation. Entrepreneurs in developing countries have limited information

about the types of activities for which their country has a comparative advantage (that is, what they can produce at a comparatively lower cost). Therefore, they have to experiment with different products, which is a high-risk activity. This is not unlike the situation facing entrepreneurs in developed countries, except that the rewards for innovation in developing countries are much lower. One reason for this is that protection of intellectual property is often limited in developing contexts; another has to do with the fact that innovation in poor countries is often around “tinkering” with products that already exist in the developed world, and there is unlikely to be patent protection for these small modifications. Thus the innovator in a developing country faces high risks, but little guarantee of potential rewards. The government can use a number of policies (discussed below) to lower the cost to entrepreneurs of undertaking these risks.

Coordination failures arise because of the lack of established markets for inputs, outputs, and/or complementary goods and services that would, if they existed, make a particular activity profitable. If producers of all of these goods and services could be brought into existence at once, then a country might be able to produce particular goods profitably for the domestic or even international market. No individual entrepreneur is able to bring into existence all of these markets simultaneously, so government may be able to take on the role of coordinating innovation or helping to create clusters of complementary products in order to reap the gains from innovation.

More recently, the World Bank’s chief economist, Justin Lin, called for a limited form of industrial policy, which he referred to as “growth facilitation and identification.” In a 2010 paper, Lin and Célestin Monga support industrial policy on the basis that “the historical record also indicates that in all successful economies, the state has always played an important role in facilitating structural change and helping the private sector sustain it across time.”¹³ Their view

8 “Picking winners” refers to the notion that government decides which firms should succeed in the market and subsidizes them. Today, many proponents of industrial policy accept that this can be problematic and that it is better to target broader aspects of the economy (such as research, innovation, or sectors) rather than particular firms.

9 See <http://www.iie.com/publications/papers/williamson0904-2.pdf>.

10 “Economic restructuring” refers to shifting the main economic activities in a particular country toward a different set of activities.

11 Peter Evans, *Embedded Autonomy: States & Industrial Transformation* (Princeton: Princeton University Press, 1995).

12 Rodrik, 2004. (See fn 3.)

13 See http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2010/05/18/000158349_20100518154747/Rendered/PDF/WPS5313.pdf.

is that government can use industrial policy to help countries exploit their comparative advantage in producing certain goods and services. This means that industrial policy can be effective when the resources that a country has, such as its land and labor supply, would make it profitable to produce certain things that it does not currently produce. Some economists go further still, arguing for more vigorous industrial policies that, in some cases, do not build on a country's comparative advantage. They argue that for countries to diversify, they have to move into areas where, at a particular time and looking at the available resources, they have no comparative advantage.¹⁴

Our purpose here is not to adjudicate these debates. Instead, we argue that the existence of vigorous disagreement about the appropriate types of activist state policies suggests that policies of this type have begun to move back into the mainstream. Evidence of policymakers linking industrial policy and job creation abound at both international and national levels. At the international level, a 2006 United Nations Development Programme report on Zambia argues that a "coherent and integrated industrial policy is necessary to achieve" poverty reduction by "generating employment at decent wages."¹⁵ The United Nations Industrial Development Organization describes the first goal of its industrial policy intervention in Iraq as achieving "sustainable and increased employment opportunities."¹⁶ The international agency also highlights job creation as a signature achievement of its industrial policy interventions in Ecuador.¹⁷

At the national level, governments, often led by their ministries of trade and industry, are

increasingly drafting industrial policies with an eye toward augmenting employment. Brazil's 2003 industrial policy plan described its first objective as the "generation of employment," followed by an expansion of exports and regional development.¹⁸ India also has put job creation at the heart of its new industrial policy approach.¹⁹ It is described as the second primary goal of its industrial policy, after enhancing productivity.²⁰ South Africa's 2010 Industrial Policy Action Plan (IPAP) was designed to:

expand production in value-added sectors, with high employment and growth multipliers that compete in export markets and in the domestic market against imports. In so doing, IPAP 2 also places emphasis on more labour-absorbing production and services sectors, increased participation of historically disadvantaged people and regions in the economy.²¹

In Ghana, the 2011 industrial policy documents describe the objectives of the policy as "to promote increased competitiveness and enhanced industrial production, with increased employment and prosperity for all Ghanaians."²²

Around the world, then, governments are talking with greater frequency about the need for an explicit industrial policy linked to job creation. While this is clearly not the only goal of industrial policy, it is becoming one of its principal motivations. Given this new discourse, it is likely that governments, some of which have already been experimenting with active industrial policies, will broaden and deepen their efforts. And this, in turn, means that they will put more public money on the line. In the next section, we consider exactly what they will do with this money.

14 Justin Lin and Ha-Joon Chang's informative debate on the degree to which countries should deviate from comparative advantage can be found here: <http://www.econ.cam.ac.uk/faculty/chang/pubs/DPRLin-Changdebate.pdf>.

15 Victoria Chisala, et al, "Economic policies for growth, employment and poverty reduction: Case study of Zambia," UNDP, Lusaka: Zambia, 2006. Available at: <http://www.fanrpan.org/documents/d00397/>.

16 See http://www.unido.org/fileadmin/user_media/Services/PSD/BEP/FORESIGHT/Iraq/Project%20Document%20Iraq%20web.pdf.

17 See http://www.unido.org/fileadmin/user_media/Services/PSD/Clusters_and_Networks/publications/ecuador_case_study_websitedoc.pdf.

18 Mauricio Pinheiro, et al, "Does Brazil need an industrial policy?" English version, 2007. Available at: <http://www.fgv.br/professor/ferreira/IPEnglish.pdf>.

19 See <http://www.livemint.com/2010/07/20204613/India8217s-new-industrial-p.html>.

20 See India's Department of Industrial Policy and Promotion, Annual Report 2010-11, available at: http://dipp.gov.in/anrepo_e/AnnualReport_Eng_2010-11.pdf.

21 See http://www.thedti.gov.za/industrial_development/industrial_development.jsp.

22 Government of Ghana, Ministry of Trade and Industry, "Ghana Industrial Policy," available at: http://www.moti.gov.gh/home/index.php?option=com_docman&task=doc_details&gid=24&Itemid=128.

3. Industrial Policy Instruments

If governments are already utilizing active policies to stimulate growth and job creation, or are likely to do so with greater frequency in future, what exactly is the set of policies they rely on? In this section, we consider the policy mix, and the implications of these policies for the budget. Governments may use these policies to promote particular sectors of the economy; particular activities; or, most controversially, particular businesses. They may use these policies explicitly to increase growth or to spur job creation. Alternatively, they may view growth and job creation as side effects of other important policy goals, such as increasing exports to deal with balance-of-payments concerns. Whatever the stated reasons for using these policies, the argument here is that if governments want to engage in active policies to support growth and job creation, they are likely to choose some of the tools we describe.

Two caveats are in order. First: we will pay less attention to industrial policies that are commonly used, but which do not have a significant implication for public budgets. So, for example, import tariffs to protect infant industries have been used to reduce competition from abroad. These may generate some revenue for the government, but that is not their usual purpose. Indeed, if they are effective, they make goods from abroad so expensive that they do not enter the country and, therefore, generate limited revenue. This kind of protection has been important in many countries, but it has limited implications for the budget, so it is not our focus here. The same would apply to a number of other important industrial policies, such as local content requirements that force investors to use locally produced inputs.

The second caveat is that an important element of industrial policy is linked to investment in education and training. Many civil society organizations (CSOs) do monitor education, utilizing a variety of

approaches. Information about these approaches is available at www.internationalbudget.org. Civil society has paid less attention to training programs that are explicitly related to industrial policy, and these may be important for building skills that allow for economic diversification. Nevertheless, education and training are beyond the scope of this brief and will be tackled in future work.

Tax expenditures

A classic device for subsidizing particular activities is to give firms or individuals engaging in those activities a tax break. As noted, when applied to research and development, this tool even attracts the support of those economists who are deeply skeptical of industrial policy. Tax credits for research fall into a general category of tax breaks known as tax expenditures. They are known as such because they represent a deviation from standard tax law that results in the equivalent of an expense for the government, but which is not recorded on the expenditure side of the budget.

Tax credits for research can be expensive: in 2005 the United States spent around \$6 billion (or lost \$6 billion in revenue) on its research credit.²³ They are also opaque. Information on tax expenditures in general is not well reported in government budget documents. According to the Open Budget Survey 2010 (OBS), of those countries that release a budget proposal to the public, 75 percent provide little or no information about tax expenditures.²⁴ In addition, it is not always clear how to assess the true value of the research that firms undertake. This lack of clarity can lead to controversy about whether firms are accurately reporting how much they spend on research. This issue has come up in the case of exemptions provided to Brazil's high-tech industry.²⁵

The tax code may also be used to promote foreign direct investment, or domestic investment, through

23 U.S. Government Accountability Office, "The Research Tax Credit's Design and Administration Can Be Improved," November 2009. Though large in absolute terms, it is small with respect to overall revenues, which were over \$2 trillion in 2005. Available at: <http://www.gpoaccess.gov/usbudget/fy07/pdf/spec.pdf>.

24 Data from Open Budget Survey 2010, question 45. This is the number of countries scoring a C or D on this question. This assumes that all countries have some tax expenditures to report on, which is implied by the fact that no country scores an E, or "Not Applicable," on this question.

25 See George Charles Fischer, et al, "Recent Developments in Brazil's High Tech Industrial Policy," *Latin American Law & Business Report*, October 31, 2006. Available at: http://www.fischerforster.com.br/midia/pdf/20090326163206_RecentDevelopmentsinBrazilsHighTechFieldIndustrialPolicy.pdf.

the creation of tax holidays or rebates.²⁶ For example, Ghana offers industrial manufacturing enterprises a 50 percent rebate on corporate taxes for five years if they invest in operations outside of Accra or regional capital cities.²⁷ In Zambia, investors in particular sectors receive a zero percent tax rate on profits for the first five years of profitability if their investment is over US\$500,000.²⁸ The tax system may also be used to encourage exports. This may be done by providing a tax rebate for exporters that use imported (taxed) inputs, or a tax exemption on profits derived from exports (India has used both of these policies in the past).²⁹

In addition, tax rebates may work through the property tax system, as is the case in some U.S. states. In order to encourage “better” jobs, the state of California has, in the past, provided property tax rebates for five-year periods to manufacturing operations that create a certain number of jobs paying at least a certain wage.³⁰

Subsidized credit and credit guarantees

In addition to using the tax system, governments can provide subsidies intended to stimulate growth and job creation in other forms. For example, government may provide financing for certain kinds of investment at reduced interest rates. The value of the subsidy is essentially the difference between the cost of borrowing commercially and the lower cost of borrowing from the government. In Brazil, the state-run development bank (BNDES) provides subsidized credit to corporations that invest in the production of capital and consumer goods.³¹ It currently provides

those loans at an interest rate of around 6 percent, while the commercial rate is over 10 percent. Given the large size of the bank’s portfolio — it lent US\$80 billion in 2009 — this is a substantial subsidy. One estimate of the subsidy’s size is US\$2.3 million per percentage point difference between the commercial rate and the BNDES rate: approximately US\$11 million under current rates.³²

Governments may also provide subsidies in the form of a credit guarantee. This basically takes the form of what is known as a “contingent liability,” because it may or may not result in a cost to government, depending on whether the assisted companies thrive or fail. Credit guarantees allow companies engaging in risky innovation to borrow when they might otherwise have been turned down, because the government agrees to pay back the creditor in the event that the innovation is a failure. A credit guarantee is essentially a kind of public insurance policy for private loans. Credit guarantees may also be used to facilitate borrowing by smaller firms that represent a higher credit risk but can be an important source of job creation. In Japan and Korea, for example, where 99 percent of all businesses are small and medium-size enterprises, credit guarantees are extremely widespread; in 2005, the value of such guarantees represented over 5 percent of gross domestic product (GDP).³³

Credit guarantees can have a substantial budget cost. In Korea, for example, where they are sustained by continuous subsidies from the budget, the government committed approximately US\$1.7 billion to the Korea Credit Guaranty Fund between 2002 and 2005.³⁴

26 One particularly important tool of industrial policy that has become popular over the past few decades is the “special economic zone.” These are physical areas where firms are encouraged to invest through the use of a basket of incentives. Many of these take the form of tax expenditures. For example, in India, investors in SEZs can gain exemption from sales tax, service tax, income tax, dividend tax, and so on. See <http://www.sezindia.nic.in/about-fi.asp>.

27 See http://www.gipc.org.gh/faq_content.aspx?id=12.

28 See <http://www.zda.org.zm/node/175>.

29 See http://www-wds.worldbank.org/servlet/WDSContentServer/WDSContentServer/WDSP/IB/1994/09/01/000009265_3970716141717/Rendered/PDF/multi0page.pdf.

30 See California Budget Project, “Maximizing returns,” available at: <http://www.cbp.org/pdfs/2002/r0201edev.pdf>.

31 See <http://www.reuters.com/article/idUSN3029226520100930>.

32 See <http://www.businessweek.com/news/2010-11-03/rousseff-s-professor-must-wean-brazil-off-cheap-credit.html>. Estimates based on author’s calculations from figures in the article.

33 See http://www.bis.org/publ/qtrpdf/r_qt0612i.pdf.

34 See <http://www.smeg.org.tw/doc/JSD-1-4.pdf>. Calculation based on Table 11, and exchange rate as of Jan. 1, 2004 of approximately US\$1=1190 SKW.

While these kinds of subsidies are on the expenditure, rather than revenue, side of the budget, they may nevertheless also be opaque. Contingent liabilities as a whole are generally not very transparent; according to OBS 2010, nearly half of the countries (33 of 72) that publish their budget proposals include no information about these liabilities in the budget. Only 11 of the countries surveyed provide extensive information to the public about contingent liabilities.³⁵

Direct subsidies and direct production

Recall that among the justifications for industrial policy are that entrepreneurs in developing countries do not know in what sectors or areas the country has a comparative advantage and that tinkering with existing products to adapt them to local conditions is a high-risk activity with little guarantee of reward. Therefore, governments have tried using a number of tools that target these issues to promote entrepreneurship. Some policies help entrepreneurs with “cost discovery,” which means investigating the costs of trying to produce something to see if it is comparatively inexpensive and profitable. Others reduce the costs of innovative tinkering, or increase the rewards of successful tinkering for the innovator.

The most basic way of reducing the costs of innovation is for government to directly fund basic research that is intended to yield insights upon which commercial firms may capitalize. The goal of this research in developing contexts is often to find a way to adapt existing technologies to the specific needs of countries with limited infrastructure or other constraints. In India, for example, the Centre for Development of Telematics, a state-run technology agency, invested in research on a telephone switch — an old technology — to make it more suitable for rural India “so that it could operate without air conditioning under higher levels of heat and humidity.”³⁶ Once

technology such as this is developed, it can be passed on to the private sector for production.

Even if public funds are used to leverage private funds, investment in research and development (R&D) is expensive. In the 1960s the Korean government provided 97 percent of the research investment in the country. The government used public funding to leverage private funding over the 1970s and 1980s, so that its share dropped to around 20 percent, but it still increased public spending by over 50 times during this period.³⁷

Another set of policies helps businesses more directly. Governments may provide grants to finance feasibility studies, which reduce the initial costs of innovation and help entrepreneurs access private capital. These grants may be used to direct investment to specific kinds of activities. For example, the U.S. state of Colorado provides grants for feasibility studies where projects “will need to meet an economic development objective and, if implemented, will need to create new permanent jobs and/or retain existing jobs primarily for low- and moderate-income persons.”³⁸

Another activist policy is the establishment of business “incubators.” These may provide a variety of services — such as subsidized office space, access to shared administrative support, free or subsidized assistance with business plans, training in entrepreneurship, and information about regulatory compliance — all of which reduce the startup costs for new businesses. In Botswana, the Local Economic Authority offers these types of services, plus access to export finance, information on how to participate in public procurement tenders, and marketing services that link sellers and buyers.³⁹ There are a growing number of incubators around the world. The InfoDev Incubator Initiative has provided support to 60 of these — located in Africa, Asia, Eastern Europe, and the Middle East — to increase their use of information technology to enhance entrepreneurship.⁴⁰

35 Data from Open Budget Survey 2010, question 42. This is the number of countries scoring a C or D on this question. This assumes that all countries have some contingent liabilities to report on, which is implied by the fact that no country scores an E, or “Not Applicable,” on this question.

36 Evans, *Embedded Autonomy*, p. 134

37 Ibid., p.147.

38 See <http://www.colorado.gov/cs/Satellite/OEDIT/OEDIT/1167928016645>.

39 See http://www.lea.co.bw/article.php?id_mnu=20.

40 For more on this initiative, see www.infodev.org/en/Document.6.pdf.

In terms of their budget implications, the cost of business incubators depends on the services they provide and the degree to which they finance themselves by charging fees for some of their support. It is hard to know exactly how much public money different countries spend on incubators, which are financed at different levels and in a variety of ways. One case that gives some idea of the sums involved comes from the United States: the U. S. Commerce Department spent about US\$68 million on 31 business incubator projects through regular appropriations in 2009.⁴¹ However, this figure is likely much lower than the total spent on these institutions in the U.S. in 2009 because states and local governments also support business incubators, and even the Commerce Department itself supports other incubators indirectly through other programs.

Another, related form of direct support to firms is the creation of innovation funds, which directly invest in (i.e., provide equity capital to) new firms. This may be done in a variety of ways: the UK Innovation Fund invests in other venture-capital-type funds but not directly in firms, while Brazil's development bank, the BNDES, has taken direct stakes in Brazilian companies through a subsidiary, BNDESPAR.^{42,43} The phenomenon of public investment in private firms is quite widespread in Brazil: about one fifth of the companies listed on the Brazilian stock exchange count national or state governments among their top shareholders. South Africa's Innovation Fund supports entrepreneurs by providing co-investment alongside other venture capitalists through its Seed Fund.⁴⁵ The cost of these investments depends on the success rate of the ventures; governments are likely to actually make money on some of their investments when they sell their equity stake, but they will lose money on unsuccessful ventures.

Guaranteeing markets

A final set of policies we consider relates to interventions designed to address the coordination failures described by Rodrik and discussed earlier in this brief. Recall that these failures arise due to the lack of complementary markets for inputs, outputs, or related services that make a particular product successful. Entrepreneurs may believe that a good is marketable in a particular country, but they may be wary of investing in the absence of dependable suppliers of inputs, or of a market for their outputs. Or they may worry that without complementary services, this particular good or service is not marketable.

Governments can reduce coordination failures through a number of policies. Some of the relevant policies are variations on those we have already discussed. For example, a credit guarantee can reduce the risk to entrepreneurship for several activities simultaneously, permitting the creation of complementary markets. Since these activities are likely to be profitable in the presence of one another, the credit guarantee may prove to be relatively inexpensive. Direct subsidies to suppliers of inputs or for research on inputs, both of which are tools we discussed above, may also be used to reduce coordination failures. Governments may also function as "market makers," linking suppliers and buyers by providing information about existing opportunities and organizing trade fairs, as public agencies in Brazil have done.⁴⁶

Governments may try to produce guaranteed markets directly, as well. This may be done, for example, by privileging domestic producers through government procurement policies, as Japan and Korea did with their computer sectors, and as Brazil has recently announced that it would begin to do.⁴⁷ South Africa

41 Commerce Department, Economic Development Authority Annual Report, 2009: 19. Available at: <http://www.eda.gov/PDF/EDA%20FY%202009%20Annual%20Report.pdf>.

42 For more on the UK Innovation Fund, see <http://www.bis.gov.uk/policies/innovation/business-support/ukiif/about>.

43 Alberto Melo, "Industrial Policy in Latin America and the Caribbean at the turn of the century," Inter-American Development Bank, Working Paper #459, August 2001.

44 Joe Leahy, "Brazil looks to China for industrial policy," *Financial Times*, April 11, 2001.

45 OECD, *OECD Reviews of Innovation Policy: South Africa*, 2007. See http://www.oecd.org/document/20/0,3746,en_2649_34273_39294676_1_1_1_1,00.html.

46 J. Humphrey and H. Schmitz, "Principles for promoting clusters & networks of SMEs," UNIDO Discussion Paper No. 1, 1995. Available at: http://www.unido.org/fileadmin/media/documents/pdf/SME_Cluster/Humphrey.pdf.

47 Evans, *Embedded Autonomy*, pp. 100, 126; Diane Kinch, "Brazil overhauls industrial policy to cope with strong currency," Dow Jones Newswires, June 3, 2011.

has committed to using procurement regulations to support local industries, such as metal fabrication and pharmaceuticals.⁴⁸ The cost of such policies is difficult to measure but is roughly equivalent to the difference between the price of the privileged local product and the world market price for the same product. Alternatively, governments can provide buyer subsidies to private purchasers, as the Brazilian government has done for information technology (IT) products.⁴⁹

Finally, governments can help to promote industrial clusters where firms can take advantage of the rapid accumulation of skills and ideas shared within a network, economies of scale in purchasing, integration of small firms into larger, more efficient production chains, and so on. Public subsidization of industrial clusters of small and medium-size enterprises (SMEs) has been used as part of an industrial policy package in a number of countries.⁵⁰ Chile's *Proyectos de Fomento* (PROFO) initiative is among the most famous: PROFO was created to encourage networks of small firms to cooperate and increase their productivity. Publicly sponsored coordination through a broker and public subsidies are provided to help small groups of firms undertake common projects over the short and medium term; eventually, the PROFO cluster is expected to become independent and self-financing.^{51,52} Clusters such as these may also encourage new relationships between smaller firms and larger firms, strengthening local supply chains.

4. What Can Civil Society Do to Monitor These Policies?

Monitoring industrial policy is complex. Information is frequently unavailable, and estimating the true cost of many of these policies is difficult. For example, when government provides a credit guarantee, the true value of that guarantee is not known until later

(when the business fails and the government must cover a loan, or it succeeds and no direct cost is incurred). Likewise, we may know the "cost" of a tax expenditure, but not its true value. Suppose that a subsidy is offered to an investor to finance activities that yield job creation, further growth, and increased tax revenue. We do not know after the fact whether the investment would have occurred in the absence of the subsidy or not; therefore, it is difficult to estimate its true costs against the benefits it produced.

Yet these difficulties should not prevent civil society organizations from engaging with industrial policy. In this section, we explore some of the key areas where civil society can play a role.

Demand transparency

As noted, governments are notoriously opaque about the kinds of incentives they provide to encourage job creation and economic growth, as well as the costs. Information about tax expenditures and contingent liabilities is difficult to come by. Civil society has a role to play in demanding access to this information, publicizing it, and encouraging debate about the costs and benefits of these policies. For example, in Brazil, an independent civil society organization, iBase, has in the past pushed the BNDES to be more transparent about the kinds of projects that it has financed and their costs.⁵³ The organization created a website that draws on this information and makes it available to the public in a user-friendly format.

Greater transparency about the criteria by which incentives are awarded, and to whom they are provided, is essential for public debate about these incentives and for reducing the kind of corruption that has plagued these policies in the past. In addition, civil society can demand that governments be transparent about the design of subsidies and insist that governments produce information comparing the costs and benefits of alternative designs. For

48 Republic of South Africa, Department of Trade and Industry, "Industrial Policy Action Plan 2011/12-2013/14," February 2011. See <http://www.info.gov.za/view/DownloadFileAction?id=144975>.

49 Melo, "Industrial Policy in Latin America," p. 38.

50 Giovanna Ceglie and Marco Dini, "SME cluster and network development in developing countries: the experience of UNIDO," PSD Technical Working Paper, 1999.

51 Tilman Altenburg and Jorg Meyer-Stamer, "How to promote clusters: policy experiments from Latin America," *World Development*, 27:9 (1999).

52 The most recent cost estimate for PROFO that we could find was a 1996 budget of about US\$9 million, estimated to have risen to over US\$15 million by 1999. See http://www.eclac.org/publicaciones/xml/2/20082/lcg2135i_Alarcon.pdf.

53 See <http://internationalbudget.org/wp-content/uploads/Profile-of-IBASE-Brazil-2011.pdf>.

example, a research tax credit can be designed to provide a credit for all research, or only for the marginal increase in research after the tax credit is implemented. The cost implications are very different, and the latter design is likely to stimulate more research for less money. Governments can estimate the cost and benefit implications of such design modifications for any industrial policy, and civil society can demand that they do so. Where civil society organizations have the capacity, they can also undertake independent analysis of the advantages and disadvantages of alternative subsidy designs.

Transparency of Industrial Policy: What Can Civil Society Organizations Do?

1. A reasonable demand is that governments provide a handbook of all industrial policy incentives each year, which details design, cost, expected benefits, and changes from previous years.
2. More generally, civil society organizations should demand that all tax expenditures, contingent liabilities, and other subsidies should be costed out and included in the Executive's Budget Proposal.

Another important element of public expenditure transparency that is particularly relevant for industrial policy is comprehensiveness of reporting. In order to really understand what the government's overall industrial policy is doing, there must be a report that describes all existing policies, their criteria, and their costs in one place. Just as with other elements of the budget, it is impossible to make informed choices about trade-offs if all of the relevant revenues and expenditures are not reported together. Once information is collected in a single place, it allows the public to debate whether the government's industrial policy is focused properly on the most important areas. When governments do not produce comprehensive reports, civil society can attempt to create independent reports covering all industrial policies, and then disseminate this information widely.⁵⁴

Demand and monitor clear plans and targets

While it may be difficult to assess the true economic cost and value of industrial policies, it is much easier to evaluate whether government is using these policies as intended. However, doing so requires that the public know something about government's intentions.

Civil society organizations and members of the public can and should demand that governments produce clear plans and targets explaining the rationale for specific incentives, the number of businesses or investors they intend to support with these incentives, the number of jobs they intend to stimulate, the groups that are expected to benefit, "(by age, gender, region, and so on) and for how long they intend to provide these incentives. Governments can then be held accountable to their own plans. Civil society organizations can ask whether incentives are given to the types of investors that are supposed to be targeted and whether these investors are responding by taking up the incentives, whether they are creating new jobs, whether they are time bound as intended, and so on.

As noted, it is difficult to measure the impact of these incentives because it is difficult to know what would have happened in their absence. For example, firms may hire new employees after making use of an incentive, but they may have hired those employees anyway. On the other hand, if a set of incentives is intended to create new jobs and no new jobs are created, then this would suggest that the incentive is not achieving the desired impact (unless the sector would otherwise have been shrinking).⁵⁵ Even in the absence of definitive knowledge about impact, monitoring targets is still important.

Public subsidies to private actors are subject to fraud and corruption. They may be provided to firms or individuals that should not, according to the government's own criteria, benefit from them. This is true for everything from subsidized credit to business incubators. A 2010 investigation of European Union funds targeted to SMEs found that these

54 For an example of a civil society report that does this, and then performs an analysis of the appropriateness of government's economic development incentives, see California Budget Project, "Maximizing returns: a proposal for improving the accountability of California's investments in economic development," January 2002, available at: <http://www.cbp.org/pdfs/2002/r0201edev.pdf>.

55 There is an important debate about whether incentives should be provided to shrinking industries at all, since they are likely to need these subsidies for long periods, or until the industry disappears altogether. If we believe that subsidies should be time bound (temporary), they should probably not go to shrinking industries unless it is believed that this can help them to actually restructure in a way that permits growth and the eventual termination of the subsidy.

Plans and Targets: What Can Civil Society Organizations Do?

1. Civil society organizations can demand that governments engaging in industrial policy produce a medium-term industrial policy plan, including rationales for the overall mix of incentives, targets for their uptake, and estimates of impact.
2. Civil society organizations can demand that these policies target productivity increases, job creation, and economic growth. They can also demand that government conducts a baseline evaluation and sets up a monitoring and evaluation system to ensure that productivity, jobs, and the economy are, in fact, growing over time. Where possible, evaluations should compare similar regions, firms, or other entities of interest that have received incentives to those that have not in order to determine the efficacy of the incentives. Incentives should be time bound and subject to renewal only after evaluation.
3. Governments should collect data and publish information about the recipients of industrial policy benefits and the degree to which these recipients are responding to incentives through expansion and job creation.
4. Civil society organizations can track whether public subsidies are actually disbursed in a manner consistent with the plans and targets, point out discrepancies to parliament and the media, demand that parliament hold hearings on the use of industrial policy, and use these hearings to hold government to account for these divergences. Civil society organizations can also mobilize intended beneficiaries of industrial policy to share their stories and press for modifications that will better meet their needs.

funds were being widely used to provide subsidies to multinational corporations.⁵⁶ Evidence from Nigerian business incubators suggests that many companies that start in incubators never leave, in order to continue to exploit subsidized rent. In addition, space in the incubators has often been provided to politically connected firms, rather than to those with the best ideas and the greatest need for support.⁵⁷

In addition to accountability, the production and publication of these industrial policy plans allows for a public debate about whether they include the right incentives, whether their costs justify their benefits, whether they are appropriately targeted to achieve their objectives, and whether they even have the right objectives (such as economic growth or job creation). For example, the Congress of South African Trade Unions (COSATU) has put out its own guidelines to determine how and in what sectors industrial policy in South Africa should be used. COSATU highlights eight criteria that include the skill intensity of sectors, their degree of water use (as a scarce resource), and the degree of export orientation. COSATU has also demanded that government produce certain metrics

— such as the degree to which the sector is labor intensive — that will help to guide policy.⁵⁸

Even without definitive proof of impact, it is still possible to debate the objectives of policy and the reasonableness or plausibility of using particular incentives to achieve certain targets. This debate requires clarity about goals and open debate about plausibility. This step, in turn, calls for civil society monitoring of the implementation of subsidies to ensure that they are appropriately targeted, that the government is executing its own policies, and that a good-faith effort is being made to reach targets.

Demand targets that are consistent with equity and fairness

Civil society has an important role to play in ensuring that, in addition to being clear, targets and plans are designed in ways that enhance equity, rather than exacerbate inequalities. This may take different forms, including: preventing government from using certain policies; shifting policies so that they target

56 Cynthia O'Murchu and Peter Spiegel, "Grand vision loses focus in opaque system," *Financial Times* [U.S. Edition], November 30, 2000.

57 Oyeyemi Adegbite, "Business incubators and small enterprise development: The Nigerian experience," *Small Business Economics*, vol. 17 (2001) pp. 157 - 166.

58 COSATU, "A growth path towards full employment: COSATU Policy Perspectives," September 11, 2010. Available at: <http://www.cosatu.org.za/list.php?type=Discussion>.

different regions or sectors; or accepting policies as they are but using other tools to compensate regions and workers that do not directly benefit from industrial policies.

Some industrial policies may simply be bad policies, given the negative impact of the supported industry. For example, most members of the public might wish to stop the government from providing extra support for certain types of mining or industrial activity that cause extreme damage to the environment. Other policies may support useful industries but be targeted at regions that do not need them instead of regions that are struggling to attract investment. Civil society may wish to support these policies but push for them to be redirected in more effective ways. Finally, some policies may target sectors and regions where they genuinely can help the economy to diversify into areas that are more profitable and create more jobs; but, in so doing, they may accelerate inequality. In these cases, industrial policies may spur economic growth and job creation in ways that are unequal (favoring certain workers or regions), but justified for the country as a whole. However, fairness dictates that regions or workers who do not benefit as much from these policies be compensated in other ways. This competition can happen either through additional industrial policies, or through other policies (such as education or health policies) that are financed from taxes generated by the additional economic growth and job creation attributed to the industrial policies.

The Ghana tax rebate policy mentioned earlier favors investment in regions outside of Accra, specifically to avoid over-concentration of economic activities in the capital city. The European Union also has used its “structural funds” for industrial policies geared at promoting investment in less-developed regions of Europe. As the Organization of Economic Development (OECD) notes, targeting industrial policy to economically depressed areas is one of the most frequently used criteria for industrial policies around the world.⁵⁹ Industrial policies may be used, and arguably should be used, primarily to stimulate economic growth and job creation in areas where the private sector is not already investing heavily. They may also be used to target job creation

among particular sectors of the population that are disproportionately absent from the labor force. In the United States, the Work Opportunity Tax Credit reduces taxes for employers hiring particular types of workers, such as the poor, veterans, and ex-criminals.⁶⁰ Some countries, such as Senegal (which has a women’s entrepreneurship ministry), have adopted policies targeting job creation specifically for women.

While targeting industrial policy in these ways may make sense, targets may also be used to favor certain regions or groups for very different reasons, such as to promote national defense or to distribute patronage to certain ethnic groups. And where the private sector has decided not to invest in a particular area, or hire a particular type of worker, it is important to understand the reasons for this so that any subsidy is targeted to reducing or eliminating that specific problem. For example, do private employers avoid hiring the poor because of prejudice against them, or because they lack certain skills? Arguably, in the first case, a subsidy could balance a negative prejudice; in the latter case, though, it might be better to invest in training. It is, therefore, important for government to provide a rationale for its targets, so that these can be debated publicly and decided upon transparently.

Equity and Fairness: What Can Civil Society Organizations Do?

1. **Civil society should demand to know the target distribution of industrial policy benefits by region, sector, and type of worker; as well as explanations from government for the rationale behind these targets.**
2. **Civil society should also demand that government sponsor empirical evaluation of the actual incidence of the benefits of industrial policy to ensure that regional, sectoral, and employment targets are being met.**

⁵⁹ OECD, “Checklist for foreign direct investment incentives,” 2003. Available at: <http://www.oecd.org/dataoecd/45/21/2506900.pdf>. These strategies are nevertheless controversial, since they may encourage the use of subsidies for industries in areas where they are unlikely to thrive, making them costly and ineffective.

⁶⁰ See http://employmentincentives.com/federal_incentives/wotc.htm.

It must be noted that the distribution of benefits from industrial policy is not always straightforward. The Chinese case is a useful example. On the one hand, for many years, policies were used to create privileged regions on the coast of China, which in turn benefited more than interior regions of the country. On the other hand, however, this strategy did not result in benefits only for people living in these coastal provinces. In the first place, migrant workers from many parts of China have benefited from coastal job creation (although they have been denied a number of social services in the cities). Second, the creation of supply chains from rural, interior areas to the coastal regions also created new economic opportunities in China's interior, relative to the pre-reform era. Finally, policies that stimulated growth on the coast may have worked in part because of pre-existing geographical advantages, not only due to the policies themselves. Previous attempts to favor interior provinces failed in part because these regions lacked certain natural advantages.⁶¹

Nevertheless, the evidence suggests that coastal regions of China benefited more than the interior; and fairness dictates that, in such cases, policy should attempt to compensate people living in interior regions through, for example, greater public investment. When certain regions of a country benefit more than others — and this is defended on the grounds that it is better for the country as a whole — then civil society has a role to play in ensuring that all members of society do actually benefit. Similar arguments could be made on gender grounds: disproportionate job creation for men may benefit society as a whole, as men often live in families and share resources with their wives and daughters. But governments using public money to improve job creation for men also have an obligation to ensure that women and girls do benefit, particularly when redistribution within families does not actually reach many of those in need of support. One option would be for government to pursue other policies (not necessarily industrial), such as taxing wage-earners and using the proceeds to target improved schooling for girls.

Monitor expenditure flows created by these policies

Industrial policy can involve large transfers of public money to private actors. In addition to mistargeting and waste, these transfers may also encourage outright fraud. Even South Korea, which is generally considered an effective employer of industrial policy, has experienced its share of high-level corruption. For example, defense firms have exploited the procurement system by bribing bureaucrats to influence government purchases. That being said, government procurement is always subject to abuse, even in the absence of industrial policy.⁶²

Monitoring Expenditure: What Can Civil Society Organizations Do?

1. Civil society organizations can use Public Expenditure Tracking Surveys (PETS), social audits, procurement monitoring, and other mechanisms for ensuring that financial flows are reaching intended targets.
2. Civil society organizations can alert supreme audit institutions (SAIs) to the need to audit industrial policy and feed the auditor with information gleaned from their own monitoring of expenditure flows.

If the government is transparent about its plans and its expenditure, civil society can ensure, at the execution stage of the budget process, that public subsidies are reaching the intended beneficiaries, rather than disappearing into politicians' pockets (or those of their allies). This requires expenditure tracking of subsidies from government to beneficiary, monitoring of procurement policies, active engagement with the SAI to ensure appropriate oversight of industrial policy, and so on. This kind of civil society engagement has been used to monitor other types of government spending and can be modified for oversight of industrial policy.⁶³

61 For a discussion of these issues in the Chinese case, see Sylvie Demurg r, et al, "Geography, economic policy and regional inequality in China," NBER Working Paper 8897. Available at: <http://web.cenet.org.cn/upfile/115169.pdf>

62 Alberto Ades and Rafael diTella, "National champions and corruption: some unpleasant interventionist arithmetic," *The Economic Journal* (July 1997), pp. 1023-42. Available at: <http://www.people.hbs.edu/rditella/papers/EJCorrInterventionism.pdf>.

63 For examples of procurement monitoring and expenditure tracking, see Vivek Ramkumar, *Our Money Our Responsibility*, International Budget Project, 2008. Available at <http://internationalbudget.org/publications/our-money-our-responsibility-a-citizens-guide-to-monitoring-government-expenditures/>.

Deliberation councils

An important component of industrial policy in many contexts, particularly East Asia, has been the deliberation council. These councils bring together public and private sector actors to improve the coordination of public policy with private initiative, and to sensitize decision makers to the specific constraints on private sector growth.⁶⁴ In Japan, these councils have also included “representatives of the public interest” drawn from civil society, such as journalists and consumer groups. After being criticized in the 1990s for being opaque, the Japanese councils began to publish the minutes from their deliberations on the Internet.⁶⁵

Deliberation Councils: What Can Civil Society Organizations Do?

1. Civil society organizations may demand the creation of new deliberation councils, promote the use of existing councils, or try to adapt existing spaces to the goals of deliberation councils. With respect to adapting existing spaces, Sector Advisory Groups that are part of Medium Term Expenditure Frameworks may exist in what some governments have labeled the labor or commerce sectors where some of the relevant stakeholders already come together.
2. Civil society organizations can demand that councils of this type act in a transparent manner, publish their decisions and rationales, and then use this information to stimulate public debate about industrial policy plans.

Deliberation councils can provide an opportunity for citizen participation in industrial policy planning. They allow civil society organizations and people to better understand the nature of the constraints on

growth, and to press government and the private sector to focus on the importance of key issues, such as job creation, when designing subsidies and other industrial policies. They also create a formal mechanism whereby civil society can raise questions and try to hold government to account for its policies and plans.

5. A Brief Example: Monitoring Ghana’s Industrial Policy

This final section of the guide looks at a specific example of one country’s approach to industrial policy, and how civil society might engage with it. Ghana’s Ministry of Trade and Industry released a new industrial policy plan in 2011. The plan comprises two documents: the first is the “Ghana Industrial Policy,” and this is accompanied by the more detailed “Industrial Sector Support Programme: 2011-2015.” Both documents are available on the ministry’s website.⁶⁶ In this section, we provide an overview of the policies contained in these documents, linking them to the broad strategies outlined above. We then consider some rough ideas for how a civil society organization with an interest in monitoring Ghana’s industrial policy could get started.

What are the objectives of Ghana’s Industrial Policy?

It is important to start by recognizing that Ghana’s industrial policy plan is particularly targeted at manufacturing. In this sense, it is narrower than the broad conception that we introduced at the beginning of this guide (i.e., industrial policy as economic diversification policy). The government of Ghana (GOG) describes four “key development objectives” of its approach to industrial policy. They are to:

64 Rodrik, “Normalizing Industrial Policy.” Available at: http://www.hks.harvard.edu/fs/drodrik/Research%20papers/Industrial%20Policy%20_Growth%20Commission_.pdf.

65 Gregory Noble, “The diffusion and operation of deliberation councils in East Asia,” Paper for Delivery at the American Political Science Association, Chicago: 2004. Available at: http://www.hks.harvard.edu/fs/drodrik/Research%20papers/Industrial%20Policy%20_Growth%20Commission_.pdf.

66 See http://www.moti.gov.gh/home/index.php?option=com_docman&Itemid=128.

1. expand productive employment in the manufacturing sector;
2. expand technological capacity in the manufacturing sector;
3. promote agro-based industrial development; and
4. promote spatial distribution of industries in order to achieve reduction in poverty and income inequalities.

In addition to these key objectives, there is to be a special focus on SMEs, and on long-term economy-wide (i.e., beyond the manufacturing sector) productivity growth (p. 4).⁶⁷

Which industrial policies does Ghana plan to use?

A large number of the policies we have discussed in this guide make an appearance in “Ghana Industrial Policy.” To make it easier for entrepreneurs to access funds for manufacturing investment, an Industrial Development Fund will be set up (p. 12). The government also pledges to increase the share of the economy spent on public sector research and development to reduce the costs of innovation for the private sector (p. 23).

Incentives will be provided to exporters and selected” sectors within manufacturing (p. 31). Incentives will be provided to encourage manufacturers to use locally produced inputs, as well (p. 32). Following Korea, Brazil, and South Africa, the GOG will also try to use government procurement systems to encourage local manufacturing (p. 17).

The GOG will follow the Chilean PROFO example and support the creation of industrial “clusters” where manufacturers will be able to acquire land easily, access services, and increase their use of technology. In doing so, the GOG hopes to promote industrial development in rural areas (pp. 13, 16, 34). Related to this, the policy includes support for the development of subcontracting, so that small firms will be tied into

wider networks of production with larger firms (p. 15). There is also support slated for business incubators to increase the use of technology in manufacturing (p. 28).

Lest it seem that no consideration has been given to the costs of these strategies, the chapter on incentives ends with a “policy prescription” to: “incorporate financing for strategic interventions in the annual budget.”

The breadth of approaches that the GOG is embracing in this industrial policy plan provides ample opportunities for civil society monitoring. But, as described above, they are still too vague to allow civil society organizations and the broader public to hold the government accountable for implementation. Fortunately, the government has taken the additional step, in its “Industrial Sector Support Programme: 2011-2015” (ISSP), of providing further details about each of these policies and the amount of money that will be allocated for their implementation.

To what has Ghana actually committed?

Though it still lacks important details, the ISSP does provide a foundation for assessing the actual commitments the government is taking on. Consider, for example, the Industrial Development Fund: the document commits the Ministry of Trade and Industry to preparing a memo on the working of the fund by September 2011; draft legislation is to be sent to parliament in the first half of 2012; and the fund is to be operational by the end of 2012 (p. 65).⁶⁸

This provides some clear targets for monitoring, but the document goes further in two key ways. First, the ISSP’s logical framework includes indicators of success, such as the progressive reduction of interest rates on loans to the manufacturing sector from about 30 percent to about 15 percent by 2015, and a target of almost GHS300 million (about US\$200 million) in loans and matching grants to the sector by that same year (p. 86). Second, the ISSP also contains a budget estimate for most of the projects listed. For

67 To make it easy for readers to follow this analysis, we have included page numbers from the document titled “Ghana Industrial Policy,” in the text. The document is available at: http://www.moti.gov.gh/home/index.php?option=com_docman&task=doc_view&gid=24&tmpl=component&format=raw&Itemid=128.

68 As in the previous section, for ease of following our references to the document, we have included page numbers in the text. All refer to the “Industrial Sector Support Programme: 2011-2015.” Available at: http://www.moti.gov.gh/home/index.php?option=com_docman&task=doc_view&gid=23&tmpl=component&format=raw&Itemid=128

example, US\$10 million is to be set aside each year for five years for medium- and long-term loans from the Industrial Development Fund (p. 108).

Similar types of information are available for other policies. In order to accelerate development in rural areas and areas outside of Accra and the Ashanti region, the ISSP contains a project called “spatial distribution for accelerated industrial development.” Under this project, the central government will work with districts to draw up Action Plans, integrating industrial development into their medium-term plans. This will take place by July 2012. Districts will be encouraged to create district-level incentive schemes, and these are to be developed by the end of 2014. The indicator of success for this project is that the share of manufacturing in regions outside of Accra and Ashanti will rise from 50 percent to 65 percent by 2015. About US\$30,000 is to be set aside to help districts develop incentive schemes in 2012.

What can civil society do with this information?

The first thing civil society organizations can do with information such as this is to ask questions. While the government of Ghana provides more information than most governments about its plans, there are still many details missing. One indicator of the overall success of the industrial policy plan is to create 100,000 jobs in manufacturing by the end of 2015, which is concrete, ambitious, and aligned with the first objective of the plan. The question is: which parts of the plan are likely to stimulate the bulk of these jobs? The plan is divided into 18 projects, and each of these is assigned indicators of success, too. For example, a target was mentioned above for reducing the interest rate on loans to the manufacturing sector. But none of these 18 projects have an indicator specifically for job creation. How does GOG intend to link the 18 projects to the overall goal of job creation, and how will they, or the public, know if the policies are working? The government must have some idea about how the projects it is supporting will create jobs; otherwise, the number of 100,000 is simply wishful thinking. **Ghana’s plans have an admirable degree of transparency, but civil society organizations can still demand a clearer link between policies and targets.**

This problem extends to the link between the objectives, the projects, and the budgets assigned to each project. Recall that one of the projects, “Project

12: Spatial distribution for accelerated industrial development,” is designed to increase the share of manufacturing outside of Accra and Ashanti. A key element in this strategy is the creation of district-level incentive schemes to encourage industry to locate in districts around the country. The budget for this activity includes about US\$30,000 for the development of these schemes, and an additional US\$10,000 for meetings with central government ministries to approve the schemes. But there is no money in the budget for actually implementing the schemes. Where is the money going to come from to provide the incentives? Again, while the degree of clarity and transparency of the plan is relatively high, the quality and quantity of budget information is insufficient to fully understand how the project will be implemented and reach its objectives. This provides another opportunity for civil society to ask questions and demand greater transparency and alignment between policies and goals.

Because the level of information provided is fairly high in some areas, it is also possible to undertake some monitoring of expenditure flows. For example, a key element of the plan is to provide additional financing for manufacturers. Many of the heaviest investments in this area fall under “Project 3: Financing for industrial development.” For example, the Industrial Development Fund (IDF) will receive US\$50 million over five years for medium- and long-term loans and an additional US\$50 million for a Venture Capital and Leasing Fund. The IDF is also set to receive additional funds under other projects, such as US\$20 million to build infrastructure for business clusters under “Project 4: Improved land and infrastructure for industrial development.” As should be clear, there are large resource flows set to be channeled through the IDF. **Civil society organizations could begin by engaging with government on the laws and regulations that will govern how these funds are used and eventually transition to monitoring the implementation of these regulations and the money that is spent.**

Finally, the industrial policy plans do take into consideration some equity issues. The previously mentioned project on “spatial distribution” tries to address regional inequality in levels of development. “Project 17: Gender in industry” is specifically targeted at improving the ratio of women to men in the manufacturing sector and increasing the number of female owners receiving industrial support. These equity-related targets also present opportunities for public engagement. First, civil

society organizations can monitor these targets to ensure implementation. **They can also demand that government keep and disseminate good statistics to assist them in monitoring.** In the case of gender data, the government has committed to collecting and analyzing these data under Project 17; civil society organizations could both ensure that this happens, and work to ensure that the kind of data they want to have is actually being produced. **There is also a role for civil society organizations in ensuring that women and socioeconomically disadvantaged**

groups are aware of existing programs and incentives and are able to take advantage of them.

For example, the government's Project 17 includes "sensitization" for government managers about the need to lend specifically to women, but it does not include outreach to women to make them aware of these opportunities. Civil society can also transmit messages from these groups to government about how to make programs more accessible and incentive schemes more useful to these groups in order to ensure high uptake.



Conclusion

For good or for ill, we are entering a new era of industrial policy. This may present hazards to the budget if these policies are not judiciously utilized, transparently implemented, and carefully monitored. Fortunately, we are also entering an era of expanding budget transparency and civil society budget advocacy. Civil society organizations from around the world have developed tools to engage with and monitor government budgets, and these tools must be applied not only to social services, such as education and health, but also to industrial policy.

This guide is just a primer. It offers an overview of the logic of industrial policy, several of the key tactics used to promote economic diversification, and some preliminary ideas for how civil society organizations can engage with industrial policies. Much work remains to be done. Other policies have been considered and used, and governments will probably continue to innovate. Civil society organizations have responded to these policies in a variety of ways, as well, and they too will continue to innovate. We hope that the next version of this guide will draw on this innovation on both sides to provide a more comprehensive assessment of how civil society organizations and the broader public can engage with industrial policy.



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