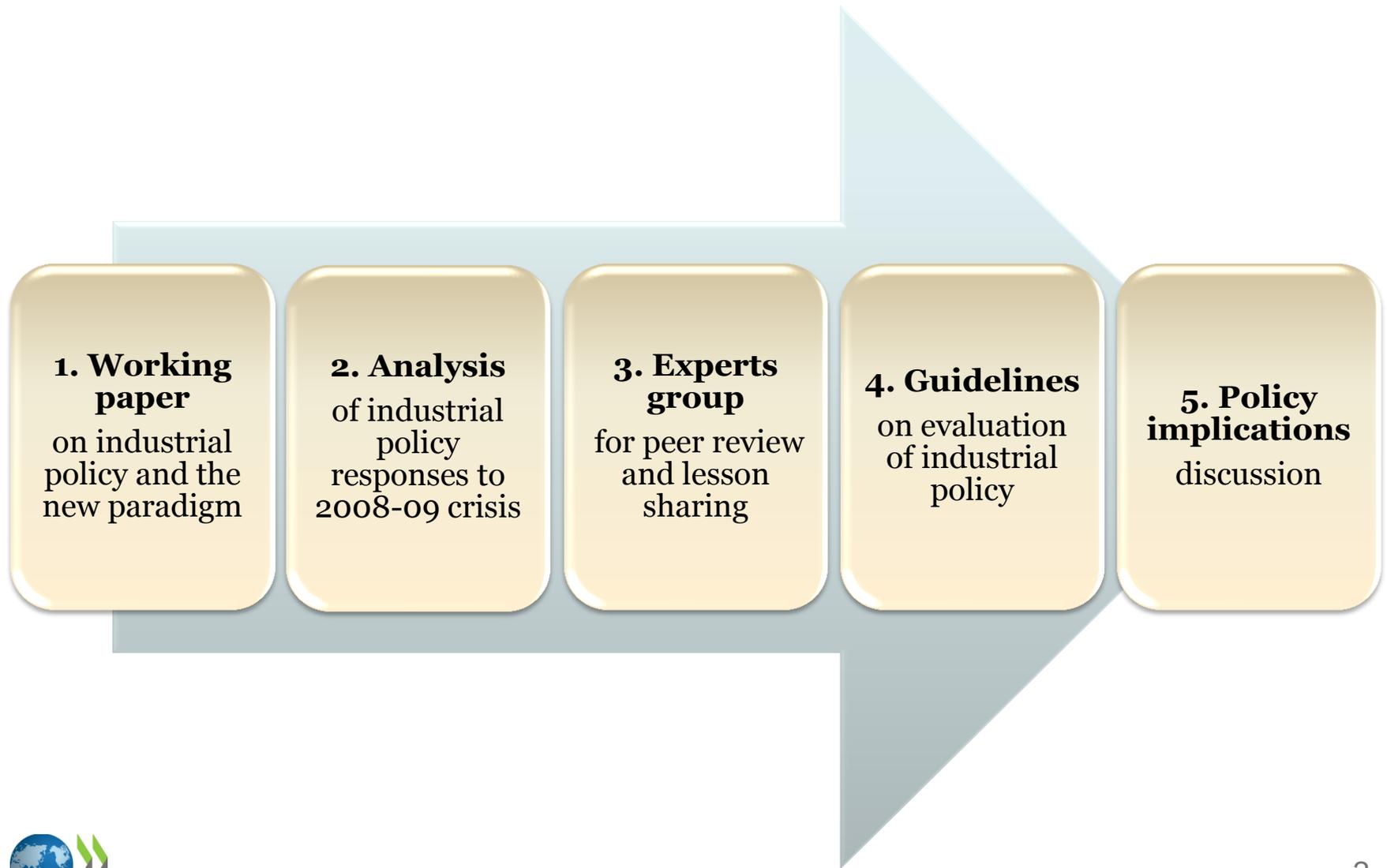# CIIE Expert Group on Industrial Policy Evaluation

# Final report

Presentation to CSTP Workshop

Paris, 20 October 2014

# Activities proposed in CIIE, April 2012

**1. Working paper**
on industrial policy and the new paradigm

**2. Analysis**
of industrial policy responses to 2008-09 crisis

**3. Experts group**
for peer review and lesson sharing

**4. Guidelines**
on evaluation of industrial policy

**5. Policy implications**
discussion

OECD

# Structure of final report to CIIE

- Introduction

- National experience I – specific policy areas
  - R&D support policies
  - Innovative public procurement
  - Capital market interventions –  support for risk capital

- National experience II – policy packages /policy mix
  - Cluster and regional policies
  - Sectoral approaches and Public private partnerships
  - National industrial strategy

- New industrial policy and the role of evaluation

- Conclusions and selected policy implications

# Definition of Industrial Policy

Any type of selective intervention or government policy that attempts to alter the structure of production toward sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention, i.e., in the market equilibrium

(Pack and Saggi, 2006)

"Industrial Policy is *any type of intervention* or government policy that attempts *to improve the business environment* or to alter the structure of *economic activity* toward sectors, *technologies or tasks* that are expected to offer better prospects for economic growth *or societal welfare* than would occur in the absence of such intervention."

OECD

# Why industrial policy evaluation is difficult

- Identification of controls and counterfactuals
- Data challenges and unit of analysis
- Interdependence between outcomes
- Multiple influences on economic outcomes
- Multiple objectives/instruments are common
- Time lags and long-run impact
- Context dependence – translating what works

  - *Global vs national welfare*
  - *Social and distributional impacts*
  - *Political economy*

# Cluster policies and business networks



- Target market failure and work with existing/emerging clusters

- Framework for dialogue/cooperation between firms, public sector, NGOs

- Mechanisms for interaction of local firms with research/training bodies

- Direct subsidies only modest effect on location

- Wider determinants of success rarely evaluated

- Role for Government in brokering business networking and creating informed demand, perhaps with a degree of financial support.
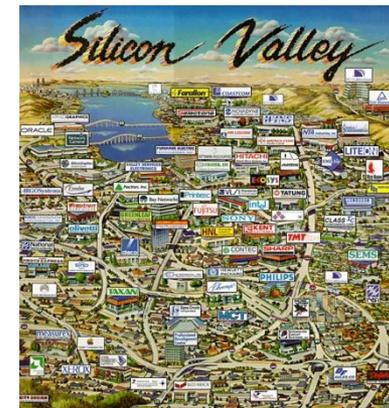
# Sectoral approaches and PPPs

- Some examples of sector success

- Little systematic evidence that sector performance related to degree of support or that sector focus necessary

- But sector strategies and PPPs offer natural conduit for new forms of industrial policy

- Soft, facilitative intervention, hard to evaluate

- Some work under way in TIP

- Netherlands plans to evaluate Top Consortia for Knowledge and Innovation

# National industrial strategy



- Examples of success in industrial strategy programmes (Rodrik, 2004; Bianchi and Labory, 2011; O'Sullivan et al, 2013; Stiglitz and Lin, 2013)

- Dearth of rigorous evaluation

- Less emphasis on product market support measures and more emphasis on support for technology and skills, PPPs, facilitation and coordination - newer and harder to evaluate.

- Successful implementation requires well designed plans for regular monitoring and evaluation
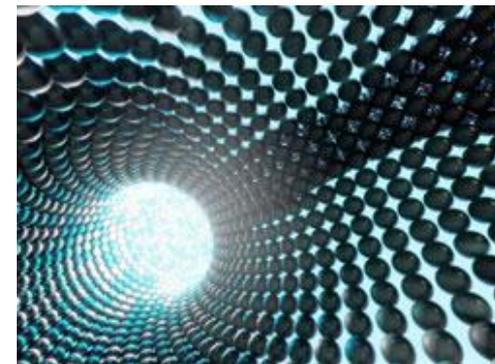
## Industrial Policy

- Emphasis on systems, networks, coordination
- Greater alignment of policy planning with needs of industry
- Technologies or broadly defined sectors rather than single firms
- Strategic rather than defensive

## Evaluation

- Greater use of RCTs and experimental methods
- Piloting and evaluation
- Better micro data, better econometric methods
- Developmental evaluation (Patton)

# Traditional vs developmental evaluation

| | Traditional evaluation | Developmental evaluation |
|---|---|---|
| **Purpose** | Renders definitive judgements of success or failure. | Provides feedback, generates learning, supports direction or affirms new direction. |
| **Success measure** | Measures success against predetermined goals. | Develops new measures and monitoring mechanisms as goals emerge and evolve. |
| **Independence** | Positions the evaluator outside to assure independence and objectivity. | Positions evaluation as an internal, team function integrated into policy development. |
| **Design** | Design the evaluation based on linear cause-and-effect logic models | Designs the evaluation to capture system dynamics, interdependencies and emergent interconnections. |
| **Learning** | Aims to produce findings generalisable across time and space | Aims to produce context-specific understanding that informs further policy development. |

OECD

# The industrial policy evaluation challenge

|  | Single measure | Policy mix |
|---|---|---|
| **Standard/ well understood** | Simple – just do it better, use rigorous counterfactuals, control groups, state-of-the-art estimation techniques. | Complicated – apply single measure techniques to components where possible, take account of interactions and multiple treatments and influences. Frameworks important. |
| **Uncertain/complex** | Complex – use experimental methods, test/learn/adapt. | Complex and complicated. Counterfactuals may not be possible. Apply single measure techniques to components, take account of interactions and systemic effects, use qualitative measures and more informal methods of learning by doing. Iterative, eclectic approach needed |

OECD

# Principles for industrial policy evaluation - 1

- ***Make an explicit commitment to the importance of evaluation.*** Open acknowledgement, at the highest possible level, of the importance of evaluation, and an explicit commitment to undertake *ex post* evaluation of all significant industrial policy initiatives. Mandatory evaluation when public funding is provided.

- ***Insist on the development of data and evaluation strategies before programmes can begin.*** A clear evaluation strategy for a programme from the outset, with an *ex ante* evaluation plan, accompanied by a data strategy to ensure that the necessary are collected from the outset. Governments have a duty to make such data available. Possible role for the OECD in promoting internationally comparable data sets.

- ***Choose a proportionate evaluation technique appropriate to the programme concerned.*** For major programmes, more use of experimental techniques involving random assignment and rigorous methods. But such approaches are expensive, difficult to implement. So studies of smaller programmes might employ other methods.

# Principles for industrial policy evaluation - 2

- ***Evaluating industrial strategy requires an eclectic approach and mix of methods.***

    - Evaluation of industrial policy has some catching up to do in the application of rigorous techniques.   For simple evaluation of single instruments, better understanding and better data now provide an opportunity for strengthening the evidence base.

    - Central to new industrial policy is the notion of an 'experimental state' using evaluation as a policy tool in developing modern industrial and innovation policy.  Developmental evaluation approaches offer a possible way forward.

    - Industrial strategy is more difficult to evaluate where it involves 'softer' interventions, often involving dialogue and public-private partnerships – use a structured approach to testing hypotheses about industrial strategy and tracking progress.

    - Use triangulation across different methods where possible (and proportionate).

# Principles for industrial policy evaluation - 3

- ***Insist on full disclosure in evaluation reports.*** Describe methods and evaluation parameters used, methodological drawbacks, and areas of subjective judgement. Commitment to early publication of evaluation findings, accompanied by relevant meta-data to facilitate online searches. The OECD could play a role in establishing a common format for such meta-data.

- ***Robust governance mechanisms to ensure evaluation is objective and free of political influence.*** Ideally, the body that implements the evaluation would work with programme managers but would not be dependent on continued contracts from the sponsor of the programme.

- ***Good mechanisms for policy learning.*** Need to establish good lines of feedback and communication and an institutional setting that would help foster a more positive culture for the evaluation of industrial policy.

# Thank you

*with grateful acknowledgement to members of the Expert Group and to Alistair Nolan, Nick Johnstone and Dirk Pilat for their input and guidance*

## Ken Warwick

T: +44 1932 355390

M: +44 7823 535316

warwickeconomics@btinternet.com