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Bottom-up industrial policy at territorial level

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We are being increasingly approached to assist cities and large towns with bottom-up innovation and industrial policies in developing countries. There is a lot of literature on national industrial policies, but how these can be applied at an urban or territorial level is not often discussed in much detail. Industrial policy is closely related to innovation systems policy and may even target similar institutions and actors, but differs in that it typically focuses more on structural change and addressing persistent market failures.

This article will provide some answers to four frequently asked questions about bottom-up industrial policy in developing countries, with the emphasis on green economic development and the circular economy (see article *From value chains to circular economic systems*).

1. Why does bottom-up industrial policy not emerge spontaneously in developing countries?

In cities and large towns in developing countries, it is an exception rather than the rule to find local stakeholders with a good track record of cooperation between the public, private and civil society aimed at ensuring

prosperity, attractiveness of the location and continued investment in appropriate public infrastructure. It takes strong leadership to start, maintain and expand such joint activities. This is harder to achieve in developing countries where there are many competing priorities (see article *Competing priorities: trade-offs between “green” and other topics*).

2. What does a bottom-up industrial policy look like?

Bottom-up industrial policies all look different as they are shaped by local priorities and the capacity to work together over extended time periods. The “policy” is actually an ongoing process of dialogue that results in collaboration. Successful policies recognise pioneers and support local initiatives.

In its infancy, bottom-up policy is more about coordinating a process than about planning. Planning becomes more important as early success attracts more participants with additional resources. Good project management becomes critical when multiple public and private organisations are contributing resources.

As more experience with local industrial policy is gained, the territorial portfolio becomes more balanced between short-term and longer-term priorities. Visionary local



leaders must constantly direct attention to matters that may be beyond the control or daily attention span of stakeholders. Successful policies maintain a balance between participatory processes and planning, but must also balance different time horizons. Where possible, support of short-term priorities should be done in a way that provides options or creates momentum for priorities with longer-term impact.

3. What is the role of meso institutions in bottom up industrial policy?

At the heart of industrial policy is the continuous effort of identifying and addressing pervasive or persistent market failures. These market failures often reveal themselves in symptoms such as underperformance of enterprises, high costs or consistent patterns of underinvestment in greener technology, or low growth. An important mechanism to address these issues are meso organisations that respond to these patterns, whether based in the territory or beyond.

Rodrik, Hausmann and Sabel (2008) identify three main types of persistent market failures that hamper development, also relevant at local level:

- a) *Self-discovery externalities*: Learning between different “agents” what new products can be produced profitably in an economy, and how.
- b) *Coordination externalities*: New local economic activities are often required simultaneous by different investors

upstream, downstream and in parallel or in related industries. For instance, to promote a circular value logic (see *article From value chains to circular economic systems*) would require stakeholders who may not even be aware of each others’ existence or interests to develop new concepts along a new value chain that does not yet exist.

- c) *Missing public inputs*: Private production typically requires highly specific public inputs – legislation, accreditation, R&D, transport and other infrastructure specific to an industry – of which the government and meso institutions often have little up-front knowledge.

Businesses find it hard to identify unique capability that exists in other businesses or in public institutions, therefore institutions that are aware of local capability in the private sector can play an important knowledge-brokering and coordination function. Meso organisations can play an important role in observing, capturing and communicating persistent patterns of failure from their area of expertise vertically to enterprises and government policy makers and horizontally to other meso level institutions.

Where the institutions do not yet exist, or cannot change, local development efforts will remain hampered until sufficient resources and political will can be harnessed to figure out which institutions should be established and which issues they should seek to address.

4. Why are meso organisations not responding to local issues?

We are often confronted by local institutions, government programmes or development agencies that are not able to respond to local priorities. This inability to respond to local requirements are due to the following reasons:

- a) Institutions may be designed to promote specific solutions in a supply push, with little incentive or leeway to adjust their offer.
- b) Current solutions may not be viable on near-term demand. This minimum viable scale is often created by limits in existing and affordable technology, but over time becomes possible due to innovation.
- c) Local plans may not be formulated in a way that shows how they enable national strategies or meet funding criteria specifications.
- d) Incomplete decentralisation or insufficient local accountability of nationally funded institutions, resulting in local stakeholders not being able to influence public resources and priorities.
- e) No institution having the authority or legitimacy to improve coordination between other institutions reporting to other government departments, i.e. a public coordination failure.

f) Funding or budgets that are determined very narrowly or inflexibly.

g) Simply not being interested in the local agenda

Not all these issues can be addressed from a local perspective. From our experience, clearly articulated strategies and strong lobbying of national departments can sometimes create small windows of opportunity where nationally controlled meso organisations can become interested and involved in addressing local requirements. In conclusion, bottom-up industrial development is a process of discovery of local constraints, but more importantly local opportunities. Over time, more planning and broader collaboration would depend on transparent planning. Autonomous meso level organisations are important in supporting these processes and also being responsive to local short-term and longer-term priorities.

References:

Hausmann, R., Rodrik, D. & Sabel, C.F. (2008). Reconfiguring industrial policy: A framework with an application to South Africa. Working Papers. CID Working Paper No. 168: Center for International Development, Harvard University

