

Executive summary

Building on concrete examples, this book explores a number of emerging topics in innovation policy for sustainable growth and shared prosperity and develops the concept of experimental innovation policy, which integrates monitoring and evaluation at the policy design stage and throughout implementation. This approach can help improve the quality and efficiency of public expenditures supporting innovation policy.

The report also calls attention to the need for a more open approach to innovation and industrial policies that differs from traditional industrial policies. Open-economy policies focus on linking the better-performing segments of the private and public sectors, which helps to alleviate existing institutional constraints and helps develop new solutions. These policies often start at the periphery of policy making and are therefore less susceptible to rent seeking. In many cases, they do not have a large budget, as they rely on other policies and programmes. Also, by linking the better-performing segments of an existing institutional framework and searching for out-of-the-box solutions to familiar problems, they can help reshape the existing institutional framework. This approach shifts the debate on government activism in support of globally competitive industries from picking winners to a process of step-by-step transformation of the private and public sectors. Open economy innovation policies emphasise strategic collaboration with the private sector to ensure that interventions work as expected.

Key findings

Industrial and innovation policies characterised by top-down government interventions are not the right approach to development. The reasons for the failures of such policies are well known, and include the risks of capture by vested interests, lack of information on the economy and strong information asymmetry with private actors, and a lack of capability in the public sector for effective policy making. Another, more appropriate approach to innovation (and industrial) policy, involves search, experimentation, monitoring, learning and adaptation, all of which need to occur in a context of international openness to knowledge, trade, investment and competition. This new approach also rests on close co-operation with private and non-governmental actors, who are often better placed than governments to identify barriers to innovation, and point to areas for productive investment or policy action.

This new approach also rests on a much stronger focus on (diagnostic) monitoring and evaluation, which need to be embodied in programmes and policies from the outset. This is particularly important for new and emerging areas of policy, such as policies for bottom-of-the-pyramid innovation, high-growth entrepreneurship and green innovation, where there is significant experimentation underway and where the scope for learning and identification of good practices is the largest. Such learning should benefit from early and periodic sharing of lessons from policy experimentation at the global level, which will require strengthened mechanisms to identify and diffuse good practices, including through specific knowledge platforms and networks.

A number of other conclusions emerge from the various chapters. One of these is that some very successful new innovation policies have emerged from agencies and actors on the periphery of policy making. Such a peripheral position typically implies restricted room for large budgetary interventions, but can limit capture by vested interests and may enable more creative and co-operative policies than those emerging from more central agencies. The success of these agencies with smaller budgets also suggests that governments can achieve results in the innovation area in other ways than through public financial support alone.

Moreover, the development of new approaches and policies is not limited to governments alone. Non-governmental actors, such as private and social enterprises, foundations and other civil society organisations, play a key role in specific areas, such as health, and can be instrumental in developing new actions and scaling them up.

Finally, the chapters raise a number of issues for further research and policy experimentation. First, they raise questions on how policy makers learn from experience and mistakes that are made, how to encourage more entrepreneurial experimentation and appropriate risk-taking not only by enterprises but in policy making, how not only success but failure can be openly discussed and built upon, and how such learning can be organised, embedded and institutionalised in the policy-making process. Second, they point to a need to better understand systems and their behaviour, and how policy can influence the behaviour of (increasingly) complex systems to achieve more sustainable growth and shared prosperity.

More broadly, the book is intended to help launch a series of conversations together with further exploration, experimentation and learning into how to make innovation policy, its implementation and its measurement—including the measurement of investments in innovation capabilities by enterprises—work for better development impact in different domains and different country contexts.

Key policy recommendations

- Modern approaches to innovation (and industrial) policy require search, experimentation, monitoring, learning and adaptation, all of which need to occur in a context of international openness to knowledge, trade, investment and competition.
- These new policy approaches also require close co-operation with private and non-governmental actors, who are often better placed than governments to identify barriers to innovation, and point to areas for productive investment or policy action.
- Policy makers should incorporate monitoring and evaluation already at the design stage to improve the quality and efficiency of public expenditures supporting innovation policy.
- Governments can achieve results in the innovation area by involving agencies and actors on the periphery of policy making, which can limit capture by vested interests and may enable more creative and co-operative policies than those emerging from more central agencies. Such agencies may also be able to achieve more with less.
- Learning about innovation policies would benefit from early and periodic sharing of lessons from policy experimentation at the global level, which will require strengthened mechanisms to identify and diffuse good practices, including through specific knowledge platforms and networks.