

New governance meets new
industrial policy:
PEMANDU and recursive policy
making

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Based on work in progress with Luke Jordan

New Industrial Policy

- Traditional industrial policy assumed that modern economies have a relatively fixed and familiar structure, with static linkages among key firms and industries.
- new industrial policy, like its close kin venture capital, assumes that sectors and markets are in constant flux, so what counts as key capacities cannot be taken for granted.
- Where traditional industrial policy focused on policy instruments for fostering key projects,
- new industrial policy generates new forms of public-private collaboration to identify and relax constraints—anywhere in the economy or society—on growth.
- But how?? Only rudimentary ideas about implementation. it was reasonable to doubt the state's capacity to allocate resources guided by a “map” of a modern economy, so why be confident of its ability to make such decisions under more demanding circumstances?

The need for new governance:

The implementation problem

- The recognition that traditional public administration by bureaucracy does not work
 - Top leaders/manager captured
 - Even without capture, rules run out, leaving room for
 - Discretion on the front lines
 - All this made worse by fragmentation of jurisdiction—silos
 - All these defects more grave in a volatile world, where all problems are cross-cutting or “wicked.”

The initial delivery-unit solution

- Labs and “walk throughs” to inform apex, limit possibilities for capture
- Define precise goals--KPIs
- Incentivize managers to achieve them (often via contract)
- Post-bureaucratic in that it de-emphasizes rules explicitly authorizes use of discretion
- But still principal agent model in that it assumes that original goals are correctly specified

PEMANDU (re)combines new industrial policy and the delivery unit

- Inspired by but transforms Toni Blair's cabinet delivery unit, by developing the capacity to correct missteps in goal setting and implementation, and thereby
- Creating institutions for effectively detecting and relaxing constraints –implementing new industrial policy--across a wide range of public and private activities
 - A Government Transformation Program (GTP) including education, public security and mass transportation projects
 - An Economic Transformation Program (ETP) including 11 sectors (Oil, palm oil, electronics, etc)
- Projects range from supporting K-12 reform to construction of very large infrastructure projects to building new, cooperative governance mechanisms for facilitating precision agriculture in paddy and palm oil.

PEMANDU's Innovation

- Also starts by convening a large number of stakeholders to develop an initial plan with suggestive but detailed idea--Labs
- But in a crucial contrast to principal agent model, this plan is regarded as provisional, not definitive.
- It and the targets it contains are, in effect, a set of rebuttable presumptions about how and towards precisely what to proceed.
- Together they initiate activity and discipline a process of monitoring aimed at diagnosing the underlying causes of problems in implementation rooted in misspecification, coordination, or context
- Not a principal agent model because lower-level decisions about implementation can lead to re-definition of goals
- Solutions, like knowledge, always considered provisional

Bump Ups, Penalty Defaults, Deliberation

- Authority is invoked not to penalize poor performance but to induce deliberative problem solving
- When participants hoard or manipulate information, producing deadlock, their disputes are “bumped up” to successively higher review bodies.
- If deadlock continues, participants will ultimately be subject to a “penalty default”:
- Control of the situation is taken from them and passed to a superior authority, likely to make all worse off.
- Fear of that outcome induces deliberation

The model presumes that information problems are continuous

- Planning and doing are intertwined.
- Hence guileless confusion about what to do and inability to do it are rife,
- and easily mistaken for opportunism.
- The danger of shirking or self-serving behavior is therefore best addressed by creating a regime of rich and regular information exchange among the participants, allowing the parties to distinguish and punish guile and address genuine problems of coordination and capacity.

Why is this model recursive?

- Because it uses the output of one round of review and revision as the input for the next round of implementation.
- Or, invoking the philosophy of American pragmatism, call it “experimentalist”
- Or we might equally link it to old traditions of Chinese political theory
- Not surprisingly, echoes institutional innovations in US states (StateStat in Maryland) and in regulation (Food Safety Act, 2010), plus “point surface” and “leading group” mechanisms in China

Recursion: How much and how (“70/30” rule)

- Idris Jala’s rule of thumb: **30%** of the initial plans are implemented exactly as they emerge from the Labs; the remaining **70%** are revised as in implementation.
- Does not mean only 30% of the initial plans are useful, as revisions typically build on the agreed starting point.
- Recursion within Labs
 - As trust builds the first week’s discussion is revised
 - As the result of mid-course “stress testing” of the prospective budget with Finance
- Lab re-do’s—when sectorial plans prove misdirected—in the electronics and engineering sector, for example
- Mini-labs to “tune up” a plan, with a smaller set of stakeholders, for one or two weeks, not six.

Official Changes in Goals

(don't try to read this slide or the next)

Revision type	Steps	Discipline	Spurred by KPI monitoring
Modification to project plans	- Working group consensus - May/may not seek SC approval - Follows standard processes if involves budget or policy change	- KPI monitoring (both discipline and spur) - Standard governance procedures	
Addition or removal of individual projects	- Working group conducts in-depth study, comes to consensus - SC approval must be sought - Standard budget processes must be followed thereafter	- Steering Committee consensus - Budgetary authorities - PM approval, if project is substantial	
Wholesale revision of an NKEA/NKRA	- NKEA owners/PEMANDU decide current program inadequate - SC approval to hold Lab or mini-Lab and for its results	- SC consensus required - Same hurdles as for any "Lab" outcomes (budget approvals, etc)	
KPI modification	- Minister completes KPI request form during semi-annual review - Request reviewed by PEMANDU, final decision from PM alone	- Multiple veto points for turning down request - Disallowed reasons for requesting change	
New program-level goals	- Prompt by newly discovered firm, chance encounter, study group, etc - Form consensus <i>outside</i> of any formal supports	All of the above	

Less visible implementation changes: bump ups and the penalty default

Frequency	Action	Format	
Annually	Annual report	Report published; televised address by PM	
Once- to twice per year	"Putrajaya Inquisition"	Meeting chaired by PM to clear any issues not solved in lower meetings	Penalty default
Semi-annually	PM's performance review	Closed-door meeting: only PM, Minister, and PEMANDU CEO	
Monthly to quarterly	Steering committee meeting	(Co-)Chaired by Ministers, with senior officials from all agencies: principal decision making forum	
Weekly to fortnightly	Meeting of technical working group	Problem solving with relevant managers: principal working session	Bump up
Weekly	Progress report	Emailed, uploaded, and available on iPads	

KPIs and Measuring Success

- Tempting to use KPIs as a straightforward measure of success—each sets a goal, the goal is achieved or not, and PEMANDU’s accomplishments can be measured by toting up the results associated with KPIs that have been met.
- Leaving aside obvious attribution problems (PEMANDU always cooperates with many other actors) there is an important ambiguity in the function of KPIs
- They are not only measuring rods of progress, but also devices for triggering problem identification and problem solving that can lead to redirecting efforts and eventually the resetting of goals
- In a perfect world the KPIs reflecting misdirected efforts would immediately be replaced by new ones capturing the reorientation—but of course we don’t live in a perfect world and there is delay between the realization interventions need work and improved interventions (See the KPIs for E & E, or for education)
- So to measure progress probably need a report card system of “output” measures like KPI’s and “process” measures that indicate how well the system of diagnostic monitoring (the bump ups, etc) is working
- That might then also help us assess the degree to which the current KPIs actually do reflect the current, intended orientation of the program.

And, yes, the system can be gamed

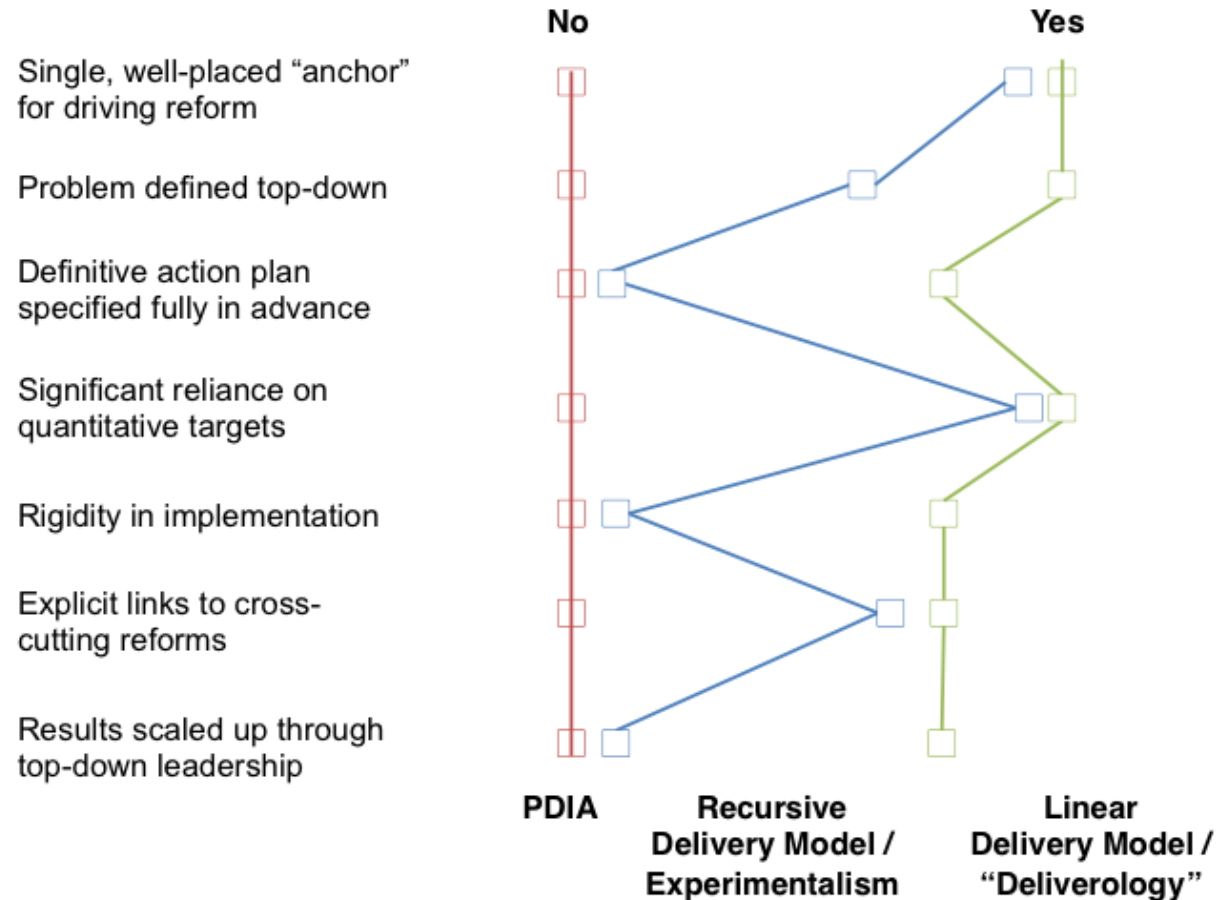
- PEMANDU itself is active in reform of education
- But its methods have apparently been commandeered by the Ministry to Education to create an accountability system—the “Performance and Delivery Unit” (PADU)—that mimics the responsiveness of PEMANDU processes, but is ultimately accountable only to the Ministry itself.
- PADU is meant to implement a detailed, admirable Education Blueprint. But PADU’s governance is seriously flawed. Its Board consists of the senior officials of the MoE itself, so that its CEO is comparable to a Department head, without direct access to the Minister of Education. Nor does PADU have a reporting line to the Prime Minister, the Cabinet or any other structure outside the Ministry.
- It reports to those whose performance it is supposed to monitor. Though PADU’s openness gives ground for optimism, “bump ups” and the “penalty default” have been disabled, which likely matters more than the surface replication of the Labs

Institutionalized Learning—contrast with “problem driven, iterative adaption” (PDIA)

- In several ways the recursive model resembles “problem driven, iterative adaption” (PDIA), though in fact it differs fundamentally in two ways:
- **LEARNING.** PDIA sees adjustment and adaptation as “muddling through”— pairwise choice amongst salient alternatives, with no connection to analysis or theory.
- in the recursive model, the deliberative clash of views obligate the participants at every level to make their successes and failures accessible to outsiders in the broader community of reform as well, enabling learning.
- **INSTITUTIONS.** PDIA assumes that adaptive institutions result from local exploration, so high-level policy makers should not speculate about institutional design and foster instead an “authorizing environment’ for decision-making that encourages experimentation.”
- The recursive model also rejects universally optimal institutions. But it argues that the processes that induce deliberation and contextualization—bump ups, penalty defaults-- can be usefully organized as the meta-institutions of reform
- **Under what conditions? In what contexts? Good questions for the discussion**

PDIA, recursive and linear models

(based on Manning & Watkins (2013))



Applicability?

- The scientific view
 - N is 1
 - But even if n were greater, social science is notoriously bad at determining the possibility conditions for developments of this type
 - And recent research strongly suggests that project design matters more than context
- Assuming the science is ambiguous, there is room for optimism here because
- The recursive model depends on thin preconditions
 - Elites must in fact be committed to improvement, not predation
 - Civil service, or some positive variants within it, must respond to penalty defaults—reform won't work if the civil service is uniformly hostile
 - Some firms, farms must be inclined to acquire the (recursive) capacity for continuous improvement
- If those are met the model “creates” or re-enforces its own preconditions, with the capacity to improve and re-specify goals and solve implementation problems
- So hardly a panacea, but a hope and perhaps a shared promise in a sometimes bleak landscape of designs for the renewal of developed countries and the growth of developing ones