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Building development governance capacity; policy learning

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1 The evidence of good governance institutional reform agenda on the development outcomes of LDCs

It was expected that good governance institutional reform agenda concerned with the promotion of liberal democracy, will lead to substantive progress in development and improvements in living standards[1]. The essence of the agenda was that countries need to improve their governance and build the capacity of public sector and quality institutions based on the principles: participation, fairness, decency, accountability, transparency and efficiency. The policy mantra became "getting institutions right" which was regarded to be as important as "getting prices right." Economic reforms recommended were liberalization of trade, competitive labour and capital markets, privatization, and government intervention only to correct market failures, improving the efficiency of public administration and reducing corruption. For example, the WB policy conditionality[2] for adjustment programs lending from mid- 1980 till mid-1990s was increasingly on the quality of government, from mid-1990s till mid-2000s on governance as a key pillar of poverty reduction, and since 2007, anticorruption has been recognized as an overarching corporate strategy (de Janvry and Dethier, 2012, 19).

Although good governance institutional reform agenda and related structural adjustment programs led to some positive results, notably in the area of macroeconomic policies, business environment, and democracy, little progress has been made in governance[3], controlling corruption[4] and quality of institutions worldwide, with almost no positive effect on economic growth and little on living standards (de Janvry and Dethier, 2012, p. 13, UN, 2009). The reality shows that implementation of good governance reform agenda is too ambitious and very costly for an average under-performing LDC that conditions for development are country specific, historical-time specific, geographic specific and level of development specific. Therefore, transfer of institutions of governance from advanced countries to very poor countries is problematic. There is also another disappointing outcome, i.e., that private sector in most LDCs remains very weak, although past policies have been seemingly focused on private sector development.

While in most cases these policy recommendations failed, countries such as Japan, Korea, Taiwan, Singapore, Hong Kong, and notably China, have been successfully following their own policies, and taking ownership of the process of development in their own hands. This is equivalent to historical development of today's developed countries which achieved present state of development each of them in their own way. In the countries which developed in the past – old industrial countries, the set of specific institutional arrangements has been the result of development not the cause of development.

Due to recognizably weak results on the ground of governance institutional reform agenda with a package of measures aimed largely at getting the government out of the economy, and due to positive results of countries listed above, the development community has reached a consensus that markets and states are complementary and not contradictory to economic

1 Good governance is also an important strategic element of the Poverty Reduction Strategy.

2 This policy conditionality was attached to aid inflows to LDCs in general.

3 Good governance implementation demands a complex set of reforms touching basically all aspects of the public sectors that in many LDCs has led to reform overload at given countries' capacities.

4 For example, a 2002 global pool of opinion leaders across regions – in particular in Africa – declared that WB support for civil service reforms and anti corruption efforts did not produce the desired results (de Janvry and Dethier, 2012p. 23); the effectiveness of the Governance and Anti-corruption strategy during FY08-10 was evaluated by IEG finding that overall the implementation of the strategy has been a relative failure (de Janvry and Dethier, 2012, p. 27).

development. Moreover, the observable positive outcomes speak for proactive role of LDCs governments in achieving sustainable development goals. Successful building of development governance capacity in LDCs that effectively delivers developmental outcomes requires proactive and effective developmental state.

2 Building development governance capacity in LDC for achieving sustainable development goals

The three common features of successful past experiences from East Asian newly industrialized countries (Japan, Korea, Taiwan, Singapore, Hong Kong, China) in the period from 1960s to the 1990s are political, organizational, and human resource conditions that have built developmental state promoting economic and social change.

The first feature is existence of government/political leadership committed to development that designed policies and organizations/institutions aiming to achieve development outcomes, supported by meritocratic bureaucracy, country business elite and citizens, acting under stable political conditions that enabled long run development orientation.

The second feature is organizational set up for achieving national development goals such as Economic Planning Board in Korea and in Singapore, MITI in Japan, Council on Economic Planning and Development in Taiwan and the State Planning Commission and State Development Planning Commission in China (today The National Development and Reform Commission of the People's Republic of China). These institutions controlled the budget or had control over financial resources, a bank-based financial system to ensure that long term finance was available for productive investment by the private sector (through state-owned bank and other key financial institutions or development banks) and through a combination of public and private enterprises. Structural transformation was promoted through the interaction between the formal state institutions – government, legislature, bureaucracy and society, by a mix of macroeconomic and sector-specific productive development policies dedicated to both agricultural and non-agricultural sectors, supporting capital accumulation and technical progress as the basis for dynamic structural change.

All known successes in the catch-up process had powerful planning institutions. The key was a successful implementation of plans. This required both public and private partnership, appropriate allocation of tasks between public and private sector. In LDCs the initial plans must focus on increasing productivity of existing resources, which means mostly manpower and land - agriculture. Increased productivity in agriculture leads to market surplus which requires building of logistic infrastructure to bring products to the market and investing in those manufacturing areas which produce agricultural technology suitable for the level of development. With rising productivity the demand for investment and consumption goods raises the demand for industrial investment in the production of goods suitable for the level of per capita income. A basic capability required for agricultural surplus, is to develop basic education which in addition to literacy means technical training appropriate for raising agricultural productivity including modern communication technologies like phones and internet. With growth, in the next planning phases, the complexity of activities increases, and a new set of capacity building goals - technological upgrading and simultaneous improvements in education - must be introduced. With growth new profitable business opportunities develop which become attractive for both domestic and private investment.

The third feature is that these countries started the process of structural transformation with rather poor human capital base and consequently with rather low quality of their bureaucracies. The type of human capabilities needed at low level of development is quite different from capabilities in advanced countries with complex technological, social and legal environments. The skills needed are people of general high calibre rather than specialists in economics and other related subjects. Developmental state agents must have as broad as possible education, both in social and technical fields with pragmatic knowledge of organizing systems to implement goals set in national development plans. Development of competent governance capabilities and meritocratic bureaucracy is evolutionary process, build upon a continuous learning process, and refinement of ideas on what worked and what does not. This usually starts in a few key strategic agencies. Likewise the policies and institutions corresponded to the level of development of both productive and governance capabilities.

These are the lessons learned from the actual knowledge of what was going on at the initial stages of development in countries which succeed in development. For example, the newest Chinese national plan calls for bringing out of extreme poverty the remaining 70 million people in rural areas in five years. When looking at concrete activities planned by the state to achieve this goal we see that they follow exactly the same approach as presented here: stimulating creation of agricultural surpluses, investing in vocational education, enabling the development of modern internet base marketing channels and building logistic infrastructure and investment in health. Poverty in these areas is to a great extent caused by poor health and nutrition in these areas. For people who cannot become productive, a scheme for providing for basic needs will be established.

Building development governance state capabilities by LDCs means to study the relevant experiences of successful countries when they were at the same level of development and then using pilot programs during which they adjust these experiences to local conditions. This approach makes it possible that in different regions and different industries a country can experiment with capacity building at quite different levels of technological sophistication. While, for example, in advances regions experiments go in the direction how to build world class innovation environment in the poorest regions experiments go into the direction of how to use simple improvements for increasing agricultural productivity.

Successful building of development governance capacity can also be found in some LDCs. Here we draw attention to two examples from Africa, i.e. Ethiopia and Uganda. Ethiopia[5], is one of African's most populous nations and best developmental performer. Both countries are land-locked agricultural economies with gradual increasing share of manufacturing. Whereas Ethiopia has been following the process outlined above already for more than a decade, Uganda is at initial stage of this process.

In Ethiopia, the government commitment to economic development has been the key to economic success. Ethiopia achieved 10% rate of growth of GDP in the last decade, and investment rate of about 40% of GDP in 2014. The key development institutions at the initial stage were the government, public enterprises, the banking sector (government borrowing from the domestic banks) and their relationship. In 1991 the government formulated a long-term economic development strategy focused on the promotion of agricultural-led industrialization, export development, and expansion of labour intensive industries. The strategy clearly stated the leadership role of the government, the integrated and coordinated participation of the public at large in nurturing the strategy and the pivotal contribution of the private sector.

To accelerate structural transformation in the second phase the government rolled out five-year Growth and Transformation Plan in 2010 with ambitious goal to attain a lower-middle-income status by 2020. The plan foresees massive industrial and infrastructure projects, improvements in social and human development, governance and democracy. So far remarkable improvements[6] were achieved in four broadly defined areas: physical and telecommunication infrastructure (roads railways, airports, telecommunication networks), in power generation and power transmission lines, necessary to fuel industrialization and attracting foreign investors, in education measured by

5 The share of people living on more than $10 a day has increased more than 10 times in the decade to 2014 to 2% of the population, but that still left close to 98% of Ethiopians living below this threshold.

6 For more detailed information see: Shiferaw, A. (2015), and "The young continent", The Economist, December 12, 2015, p. 21-23.

attained enrolment in primary education and in higher education and health by establishing a nationwide network of 38,000 "health-extension workers"[7] that provide coaching on public health, from immunisations to hygiene. To give a greater role to the private sector in driving growth, some privatization of old "Soviet style" state companies in non-infrastructural areas was carried out. The government stimulates public-private partnership in attracting foreign investment by building industrial zones (flow of FDI from Taiwan, China, Turkey) upgrading industrial capacities, in industries such as agro-processing, food, beverage, pharmaceutical products, and shoe production, indicating a shift to the production of light consumer goods. This will increase the demand for better-educated workforce[8], with positive effect on well being of population. To improve governance, the government is encouraging public-private partnership through government-private sector forum, cooperation between peasants and industrialists, and employer-employee relationship. This case clearly shows the positive role of the developmental state in building development governance capacity.

In Uganda, the government in 2007 set the vision of transforming the Uganda society from a peasant to a modern and prosperous country within 30 years, what is spelled out in "Uganda Vision 2040", a modification of the failed Vision 2025 as well as a review of visions as of Kenya and Malaysia. To achieve this transformation the average real GDP growth rate will have to be consistent at about 8.2 per cent per annum translating into per capita income of $9,500 by 2040 from the current $506 with a projected population of 61.3 million in 2040. It is foreseen that the Vision will be implemented in line with the comprehensive National Development Planning Framework[9]. Interventions will be sequenced and detailed in the 5-year national development plans and annual budgets. The document identifies key bottlenecks to Uganda's development, key core projects and specifies some key strategies and policy reforms .The financing of this Vision is foreseen to be mainly by the government, development partners and the private sector.

This is an ambitious goal taking into account that the country's economic performance since independence has been characterized by relatively slow growth compared to some countries that were at the same level of development like South Korea and Malaysia and that industrialization is yet to take place. Manufacturing at present contributes only 10% to GDP, the country has high rate of poorly educated and skilled youth unemployment, high population growth, exports consisting mainly of low-value raw materials and unprocessed agricultural products whereas imports consists of high-value manufactured products. More than a third of the total population is living below $1.25 a day and the country is trapped into high income inequality.

The success of Uganda in achieving the set vision, taking into account the lessons learned from historic experience as discussed, will among other things depend on the ability of government/policy makers to support industrial up-grading and diversification process by supporting the development of sectors/ industries that are compatible to nation's level of development and endowment structure, consistent with a country's latent comparative advantage. This is compatible with the principle embedded in the growth identification and facilitation framework[10], i.e. that countries should not focus on what they do not have

7 Fertility rate has fallen by about 0.15 a year for the past decade mostly due to the effectiveness of "health-extension workers." One of the 16 subjects in which they drill every Ethiopian is family planning. The government is the main force behind this family-planning drive.

8 Due to expected increase of urban population, the government is targeted the construction of more than two million new apartments.

9 In 1999, government developed a long term plan called Vision 2025 which was not operationalised due to lack of a well -defined implementation framework.

10 The growth identification and facilitation framework, based on the New structural economics, is a new, effective way for targeting latent comparative-advantage industries and supporting their growth, developed by Lin, J.Y. and C. Monga (2011). It provides practical 6-step plan for governments to facilitate growth.

but what they do have in an effort to unleash their latent comparative advantages[11]. It underscores the advantage of evolutionary approach to building development governance capacity for achieving sustainable development goals. After all, governance is endogenous to economic growth, therefore the expectations that developing countries can solve their institutional problems first were largely proven as unrealistic.

To reiterate, the lessons learned from these examples, cannot simply be transmitted to other LDCs, but should be seen as practical policy lessons. The countries should choose those practices which inspire them to take concrete actions best suited to their endowments and local conditions.

11 How GIFF could be applied for structural transformation of LDCs is exemplified in the paper by Lin, J.Y. and J., Xu (2015) using Uganda as an illustrative case study.

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