



THE ROLE OF DEVELOPMENT CO-OPERATION IN MIDDLE INCOME COUNTRIES: SUPPORTING KEY ENABLERS FOR INCREASED IMPACT

Fueled by its free trade zones, Malaysia enjoyed rapid economic growth and development between the 1970s and the 1990sⁱ. While the country's economy is currently evolving away from dependence on natural resourcesⁱⁱ and toward a service-based growth model, it has had to compete with both lower and higher income countries due to the loss of cheap labour advantage as well as an absence of skill-intensive industriesⁱⁱⁱ. Having successfully overcome the so-called 'middle-income trap'^{iv}, the Southeast Asian country is now attempting to reach high-income status by 2020. The last few decades have seen a considerable number of countries in a similar predicament: reaching middle-income status through rapid economic growth, yet facing difficulties in making further progress and moving into higher levels of income and development.

Today, middle-income countries (MICs) represent 45 per cent of the world's gross product^v, but also are home to 73 per cent of the world's poor^{vi}. To achieve the ambitious post-2015



agenda of *leaving no one behind*, the structural transformation of countries, including MICs, is crucial in supporting the attainment of higher levels of development. While MICs are a diverse group of countries, they share common development challenges such as persistent poverty, widening inequality and vulnerability to macro-economic shocks and climate change. Development co-operation has an important role to play in supporting this transformation, but the question remains: how

Box 1. Key enablers for driving positive change

Cross-cutting enablers:

- Institutionalised social dialogue for co-definition of problems
- Capability for co-decision and collective action
- Public-private collaboration mechanisms for co-designing solutions
- Participatory monitoring & evaluation (PM&E)
- Existence of networked social capital

Public-sector enablers:

- Co-operation between political and administrative leadership
- Removal of obstacles undermining public servants' performance
- Capacity for integral planning/managing complexity
- Capacity to innovate

Private-sector enablers:

- Broad participation in skills development
- Mechanisms to attract private investment in sustainably-oriented development and Corporate Social Responsibility (CSR)
- Broad participation in sustainable urbanization / livelihoods
- Adoption of Green growth and human-centred/ technologically-oriented development and Corporate Social Responsibility (CSR)

can development co-operation better support MICs in addressing both the endemic and specific development challenges they experience?

UNDP, with the support of the Government of Japan through the Japan-UNDP Partnership Fund, undertook a study to better understand the role of development co-operation in supporting MICs. The study included a desk review of relevant literature and insights from development co-operation practice gathered from semi-structured interviews conducted in four MICs (Ghana, Jamaica, Kazakhstan and Vietnam). In doing so, the study looks at key enablers that drive positive change in MICs and subsequently how development co-operation contributed to strengthening these key enablers.

The key enablers (see Box1) were identified by UNDP experts,^{vii} based on long-standing programme support experience, and validated across the four countries. Successful cases of development co-operation as well as challenges encountered in providing development co-operation were identified through stakeholder interviews. Drawing on perception-based insights, the following observations were made with regard to the role of development co-operation in strengthening the key positive drivers for change in MICs.

What are key enablers for driving positive change?

Inclusive development processes are crucial for driving positive change and development co-operation can provide catalytic support to facilitate inclusive approaches to development processes. Regardless of a country's development status, enablers such as institutionalised social dialogue, capacity for co-decision, public-private collaboration mechanisms and other cross-cutting enablers were identified as effectively promoting inclusive and equitable development. However, this is particularly relevant for MICs in transition such as Kazakhstan, where the demand for social transformation is great and the capacity for creating an enabling environment for inclusive, sustainable development remains limited.

A wide array of public sector reforms is critical for strengthening country leadership/ownership to the complex development challenges facing MICs. In particular, the capacity for integrated development planning / budgeting as well as PM&E seems increasingly relevant for all four MICs against the backdrop of diversifying financial streams and actors (see Box 2 for an example).

In particular, the capacity of the public sector to innovate was noted as essential in all four MICs to accelerate robust public sector reforms and build an enabling environment conducive to sustainable development. For instance, MICs undergoing massive population migration (Jamaica and Vietnam) could consider creative measures, such as targeted remittances, designed to thwart potential threats associated with population loss and promote pro-development investment.

Effective mechanisms to engage the private sector are instrumental in attracting capital and enhancing competitive

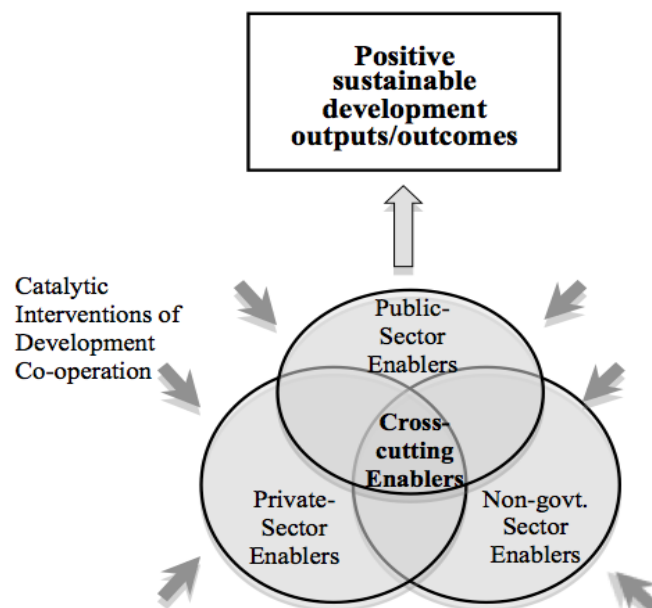
Box 2. JICA support for a Supporting Programme to Respond to Climate Change (SP-RCC)

From 2009-2015, in partnership with five other donors including AFD and the World Bank, the Japan International Co-operation Agency (JICA) implemented its 'Supporting Programme to Respond to Climate Change (SP-RCC)' in Vietnam, with total contributions of USD 896 million.

This project aimed to: 1) mitigate the negative impacts of climate change by curbing greenhouse gas absorption and emissions; 2) strengthen the capacity to adapt to the adverse impacts of climate change; and 3) address cross-sectoral challenges relating to climate change in line with two overarching national climate change strategies, namely, the National Climate Change Strategy (2011) and the National Green Growth Strategy (2012). The project supported the formulation of policies, development of science and technologies and management of various financial flows from the government, development partners, NGOs and the private sector to effectively respond to challenges related to climate change in Vietnam.

The project resulted in the creation of 265 policy actions by 10 Vietnamese line ministries. The Deputy Prime Minister Hoang Trung Hai stated that this project has enabled Vietnam to strengthen the capacity of public management to be more responsive to the possible negative impacts of climate change. He has also highlighted the meaningful partnerships cultivated between the Government of Vietnam and development partners through this project. In Vietnam, a comprehensive and streamlined co-financing approach has contributed to the strengthening of national ownership, alignment to national priorities and harmonisation of stakeholders' efforts.

capacity. While the scope and focus of public-private collaboration may vary, all four MICs noted the importance of co-designing mechanisms among public and private entities (e.g. PPPs) and building the institutional, technical and financial capacities of all actors to strike a balance between private incentives and public goals. Though most of the private sector enablers (see Box 1) were acknowledged as vital in the four MICs surveyed, it appears premature to validate them at the current stage of private sector development. Nevertheless, **technologically-oriented development** is seen as critical for addressing the unique challenges facing MICs such as productivity slowdown due to the lack of value-added



specialisation and technological advancement. This is particularly relevant for MICs aiming to shift from resource-dependent growth towards more sustainable models (Ghana and Vietnam) or MICs dealing with exogenous shocks associated with geographical limitations such as Jamaica (SIDS), Kazakhstan (LLDC) and Vietnam (a country highly vulnerable to the adverse impacts of climate change).

How can development co-operation act as a catalyst for progress in MICs?

The role of development cooperation is changing from that of a gap filler toward a more catalytic nature, in particular in MICs. The following observations on the role of development cooperation as a catalyst were made during the UNDP-Japan study:

Development co-operation can facilitate inclusive approaches for development by supporting an accountability role for national and sub-national actors. The support of development partners ranged from enhancing



regulatory frameworks and building capacity for institutionalising social dialogue processes in Ghana, to providing technical assistance to the augmentation of stakeholders' analytical capacity and bringing more citizens to Participatory Monitoring and Evaluation processes in Vietnam, to helping build networked social capital through knowledge transfer and coalition development for CSOs in Kazakhstan.

Development co-operation can incentivise structural transformation and innovation: stakeholders recognized that development co-operation can provide MICs with much needed 'stimulus' to shift from labour-intensive specialisation towards innovation and technological solutions to sustain productivity growth and avoid the middle-income trap. Successful co-operation efforts utilised policy advice, institutional and HR capacity support and transfer of knowledge and technologies, including through South-South and Triangular Co-operation (SSC / TrC) whose benefits go well beyond funding.

More tailored development co-operation interventions are in great demand as MICs navigate through different development stages with evolving priorities and vulnerabilities^{viii}. Examples of customised efforts with successful results include: technical co-operation to social dialogue processes in identifying locally-relevant solutions for energy efficiency in Ghana; culturally-relevant capacity-building support for social dialogue processes with trade unions in Vietnam; and the provision of context-specific policy advice for skills development strategies in Kazakhstan. It is vital for development providers to base support on the recipient country's changing needs and choose modalities that are flexible and responsive to country context.

Targeted support, focusing on policy advice and institutional capacity development, contributed to governments laying out important frameworks and mechanisms to bring key development actors under common goals, as shown in the process of developing a PPP framework in Jamaica. As targeted co-operation modalities could also result in the creation of mechanisms that attract long-term private investments

suitable for sustainable infrastructure development, partners should target more support toward small and medium enterprise (SME) development. More targeted co-operation is also needed to strengthen government capacity to mobilise domestic resources in MICs (e.g. reform of national and regional taxation schemes).

Relevant to all key enablers examined, **there is a pressing need for development partners to align co-operation activities with national priorities and use country systems**, including M&E mechanisms, and to harmonise efforts with other partners. This concern is especially high in MICs, which face the problems of prolific and fragmented co-operation activities. To this end, the aid effectiveness agenda and effective development co-operation principles remain particularly relevant, calling for greater efforts for compliance.

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i P. Athukorala, "Production Networks and Trade Patterns in East Asia: Regionalization or Globalization?", *Asian Economic Papers*. Winter/Spring 2011, Vol. 10: 65–95. Free trade zone was mainly for the electronics industry.

ii For more information, see: <http://www.ibtimes.com/malaysia-set-become-high-income-nation-2020-1583566>

iii World Bank, *Malaysia Economic Monitor: Brain Drain*, (Washington, D.C., 2011). Available at: <http://documents.worldbank.org/curated/en/2011/04/14134061/malaysia-economic-monitor-brain-drain>

iv While its actual existence still remains a topic of ongoing debate among scholars and policy-makers, the concept of a *middle-income trap* is based on the observation that middle-income countries often stall on the development ladder after attaining a certain level of income, due to loss of competitive edge. This notion was first coined in 2007 in the study: Tian, Major. "Chinese Social Structure Holds the Key to a Richer Nation". CKGSB Knowledge.

v United Nations, *Development co-operation with middle-income countries: the Report of the Secretary-General (A/68/2650)*, New York, August, 2013.

vi The World Bank. "Middle Income Countries Overview," World Bank, Available at: <http://www.worldbank.org/en/country/mic/overview>.

vii Representing UNDP Global Centre for Public Service Excellence (GCPSE); UNDP Istanbul International Centre for Private Sector in Development (IICPSD); and UNDP Bureau for Policy and Programme Support (BPPS).

viii In relation to the diverse profiles of countries including MICs, there is growing consensus within the international community that allocation of international public finance in the post-2015 era should take into account a more comprehensive assessment approach beyond GNI per capita criterion, reflecting the integral needs and realities of countries, such as their capacities to mobilise domestic and external resources, social indicators (e.g. UNDP's Human Development Index that includes a multi-dimensional poverty indicator), etc. For more information, see: Glennie, Jonathan and Gail Hurley. June 2014. *Where Next for Aid? The Post-2015 Opportunity*. Discussion Paper. New York: UNDP and ODI.