

Reform teams - Alberto Criscuolo and Vincent Palmade

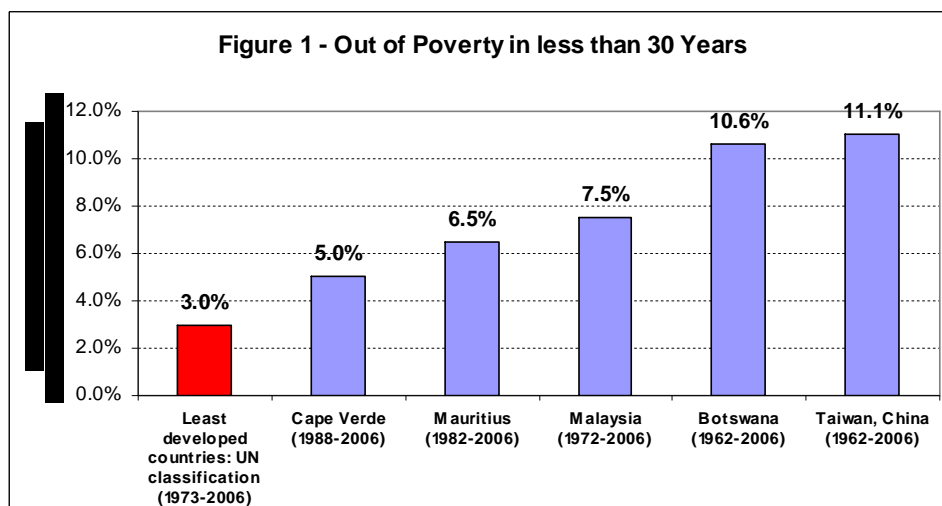
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How did the most successful developing countries organize themselves at the outset?

What do Botswana, Cape Verde, Malaysia, Mauritius, and Taiwan have in common? They belong to a very exclusive group of countries that grew out of poverty in less than 30 years.¹ They also initially relied on a small, dedicated team of experts to get the job done. These teams combined world-class legal, administrative, engineering and economic skills. They enjoyed privileged direct access to the top level of government and were responsible for a large development budget. This combination of skills, access, and resources gave them the necessary clout to steer an ambitious reform agenda through vested interests and layers of government.

Only a limited number of developing countries have managed to grow out of poverty in one generation, achieving and sustaining annual GDP per capita growth rates above 4 percent on average. Such economic performance required broad and deep microeconomic reforms spanning many policy areas and industries.

The government of Senegal asked us to analyze how these countries organized themselves at the beginning of their development journey. We focused on five cases: Botswana, Cape Verde, Malaysia, Mauritius, and Taiwan.² We chose these countries because they had quite varied cultural and administrative heritages (ranging from strong autocratic governments to weak multiparty coalitions). These countries achieved remarkable economic performance despite dire starting conditions (see Figure 1). For example, Botswana was the poorest country in the world in 1966 with 22 university graduates and 12 km of paved roads; Mauritius was almost exclusively dependant on sugar and prone to violence in the decade before independence in 1968; and Cape Verde had a virtually non-existent private sector and one of the world's worst human development indicators in 1975.



Source: WDI (2007)

¹ Less than 15 countries graduated from low-income to middle-income status between 1965 and 2006 (WB Operational Classification, staff calculations).

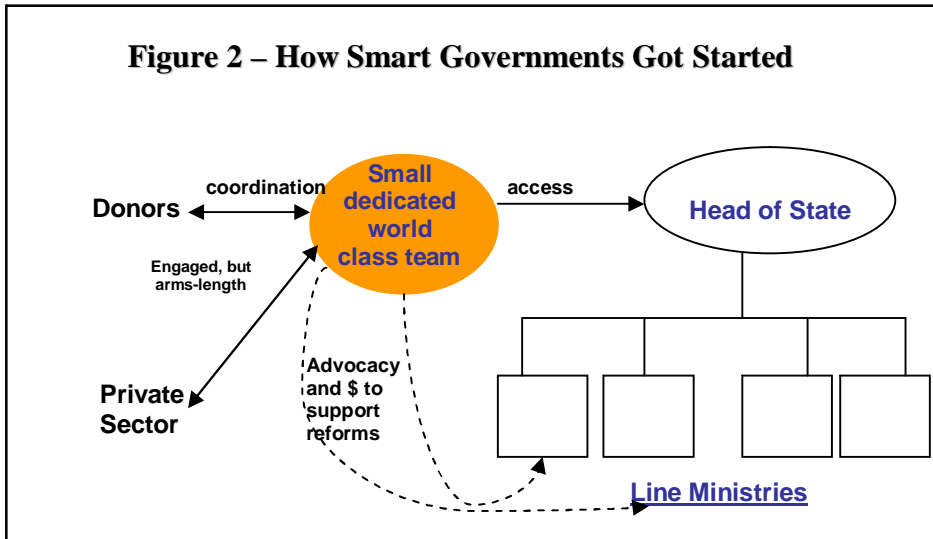
² This note draws in particular on the preliminary findings from the forthcoming "Starting Weak, Growing Strong. Institutions to Drive High Growth" by Alberto Criscuolo.

Dedicated reform teams at the top

Remarkably, we found that all these countries initially relied on a small, dedicated reform team connected to the top of government, in charge of formulating and updating the reform strategy, building consensus, coordinating and mobilizing resources for implementation³ as well as, crucially, nurturing the reformist political leadership over time (see Figure 2 below).

Malaysia’s Economic Planning Unit (EPU) reported directly to the Prime Minister and started in the early 60s with 15 staff, including half as embedded expatriates. Cape Verde relied on three returnee advisors around the Prime Minister (who was also the Minister of Planning and Development Assistance) in 1975. Botswana also had its EPU, which started in 1965 with two economists and soon became the “core” unit of the powerful Ministry of Finance and Development Planning (MFDP). Taiwan had the Council for U.S. Aid (CUSA, created in 1948), which reported directly to the President and combined some of Taiwan’s best engineering minds with top-notch U.S. economists.

Other star performers followed a similar approach, for example, Singapore’s Economic Development Board, Chile’s “Chicago Boys,” Korea’s Economic Planning Board, Japan’s Ministry of Trade and Industry, and more recently Dubai’s Executive Office, and Georgia’s Ministry of Reform. Georgia was the top reformer in *Doing Business 2007* and among the top 10 reformers in 2008. According to Simeon Djankov (lead author of the *Doing Business* report): “The Ministry of Reform, is responsible for all reforms. It has a small cabinet—20 people or so—all former bankers, consultants, and lawyers. If I had to identify one organizational feature of Georgia’s success (9.4 percent GDP growth in 2006), this will be it.”



The six key functions performed by reform teams

Such teams were embedded in the process of policy formulation and at the same time relieved from daily administrative matters, as well as one step removed from the political frontline. This was the best way to leverage scarce technocratic expertise, maximize impact on policy formulation, and perform the following six key functions:

³ These reform teams also led deliberate efforts to create capable public institutions for effectively managing economic policies

1. **Developing and updating the economic development strategy.** These reform teams were charged with designing comprehensive, yet focused, strategies either in preparation for or soon after independence [for example, Taiwan's Nineteen Points Program of Economic and Financial Reform of 1960 (Haggard, 2006); Botswana's Transitional Plan for Development of 1965; Mauritius' Meade Report of 1961; Malaysia's New Economic Policy (NEP) of 1971; or Cape Verde's Emergency Recovery Plan of 1975]. Focus was indeed essential since they did not have the capacity to fix all problems at once.

Following initial attempts at import-substitution leading to mixed growth outcomes, they all settled on export-driven strategies focusing on the industries with the strongest export potential, such as mining and food processing in Botswana, tourism and fishing in Cape Verde, apparel, sugar exports, and tourism in Mauritius, and light manufacturing and then ICT in Malaysia and Taiwan.

The reform teams identified key constraints and success factors by industry, such as developing best-practice export processing zones for light manufacturing and ICT or ensuring good governance in mining. They also adapted the strategy to changing conditions (such as increasing labor costs) and terminated bad experiments (for example, Taiwan is one of the very few countries in the world to forgo its ailing automotive assembly industry).

Finally, the development strategy always included a fundamental "social contract" with citizens on better education, health, and infrastructure. This not only ensured social cohesion, but also benefited the competitiveness of industries.

2. **Leading the dialogue with the private sector.** Economic policymaking required the reform teams to lead an intense but arm's length relationship with the private sector. Mauritius, for example, strategically engaged the sugar industry in the pursuit of access to international markets at favorable terms, while Botswana initially relied on the cattle-ranchers entrepreneurial class (so-called *beefocracy*) to advocate for an export-oriented, private sector-led strategy of modernization.

This required the reform teams to mix top-notch knowledge on industries with rigorous economics—a mix leading to creative and sometimes explosive tensions, such as the legendary "show-downs" between the Economic Research Unit and the Sectoral Planning Department of CEPD (formerly CUSA) in Taiwan (Wade, 1990).

In all cases, the autonomy and apolitical nature of the teams enabled them to engage with the business community while avoiding the risks of capture from dominant interest groups—what Peter Evans would call "Embedded Autonomy."

3. **Leveraging, sustaining and grooming political leadership.** A sound development strategy is not worth much if it is not backed by the outstanding political leadership required to make tough decisions and discipline often reluctant administrations. Our reform teams benefited from plenty of outstanding political leadership. For example, Botswana's first President laid the groundwork for sound mining policies when he gave up the mining rights of his own tribe to the benefit of the national government with the historic Mines and Mineral Act of 1967.

At the same time, the almost symbiotic and continuous engagement of such reform teams with top political figures helped groom several generations of political leaders. CUSA's second Chairman, C.Y. Yen, later became President of Taiwan (Wade, 1990); Pedro Pires, Cape Verde's team leader in 1975, is the current President of the Republic; and Botswana's second and third Presidents, Quett Masire and Festus Mogae, had been in charge of the EPU and of MFDP for 14 and 5 years, respectively.

4. **Leading critical policy negotiations.** These reform teams brought their unique skills and expertise to bear in key negotiations [for example, mining concessions with foreign companies (Botswana), more flexible labor rules for exporting companies (Mauritius), the acquisition of technological licenses with large U.S. electronic companies (Taiwan), and access to the European market (Mauritius)].
5. **Mobilizing and allocating resources for strategy implementation.** The teams played a key role in mobilizing resources for implementation, in particular by coordinating donor support. As was mentioned, CUSA managed U.S. aid flows to Taiwan. Malaysia's EPU was in charge of the development budget, which amounted to one third of the national budget. Cape Verde's Ministry of Planning was in charge of mobilizing donor support; one trick it used was to set out competition between donors by assigning an island to each of them! Similarly, Botswana's MFDP put donors in charge of the performance of different industries, for example, CIDA for mining or the United Kingdom for agriculture.
6. **Compelling the rest of the administration to act.** These central, dedicated reform teams were also in an ideal position to monitor progress and suggest corrective actions to national leadership. It is that unique combination of monitoring capacity and access to the top (the stick) with financial and technical resources (the carrot) that enabled them to compel line administrations to act. They also experimented with different organizational drivers such as embedding expatriates in line positions on-the-ground (Botswana), cross-departmental task forces (Taiwan), staff exchanges (Mauritius), or tight-knit networks of policy officials with a strong *esprit des corps* (Cape Verde). Implementing agencies had little choice but to come to specific agreements with the reform teams with respect to implementation targets, budgets, and responsibilities.

"We had created our own procedures for planning, making choices among priorities, and implementing projects and policies, before diamonds became a significant factor." (Masire, 2006:146)

*Quett Masire,
Minister of Finance and Development Planning (1966-1980)
President of Botswana (1980-1998)*

Conclusions

Such dedicated, multi-skilled, change management teams are quite common in the private sector. They are relied upon to provoke radical change, such as turning around a loss-making operation or launching a new product. They are also typically used by governments in times of crisis (such as wars or earthquakes). Although most low-income countries are *de facto* in a state of war against poverty—and need to radically change their *modus operandi*—they rarely rely on such teams. Limited technical and financial resources are typically scattered thin around the government with no strategic focus and little coordination. In the absence of strong government leadership, donor support typically follows the same patterns.

Understanding how such reform teams operate, what drives them to perform when others have failed (such as in the case of Kenya's "dream team" of 1999), and how donors can work with them is critical, yet largely overlooked by the current development discourse. We see this note as a first step to tackle these issues, including whether the model would apply to very large countries such as Brazil, China, or India. Reform teams of this kind are obviously not the answer to all problems, but they are a good start showing positive early results.

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