



DCED Presentation

How to Build State Capabilities for Economic Transformation?

February 2026

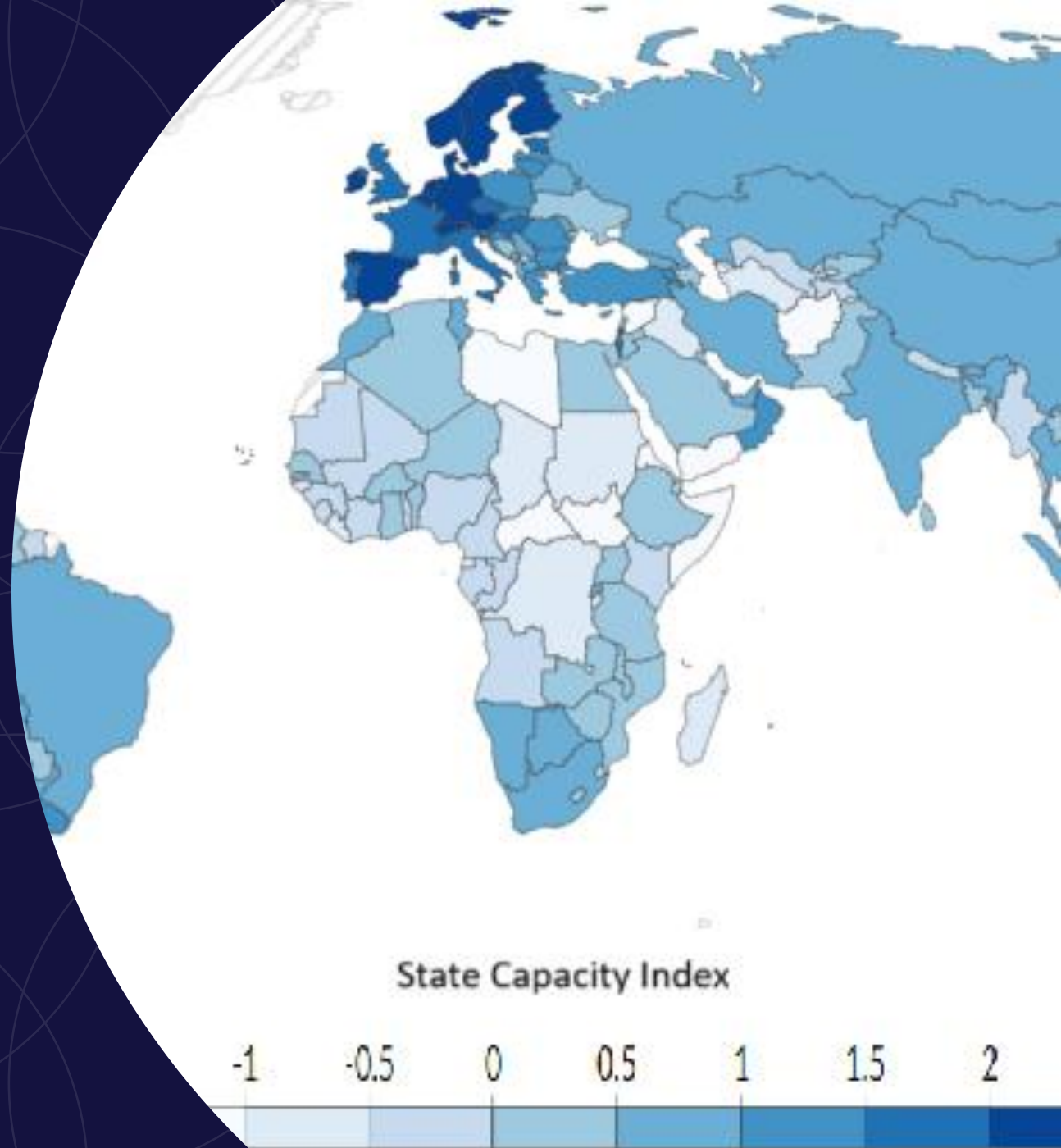


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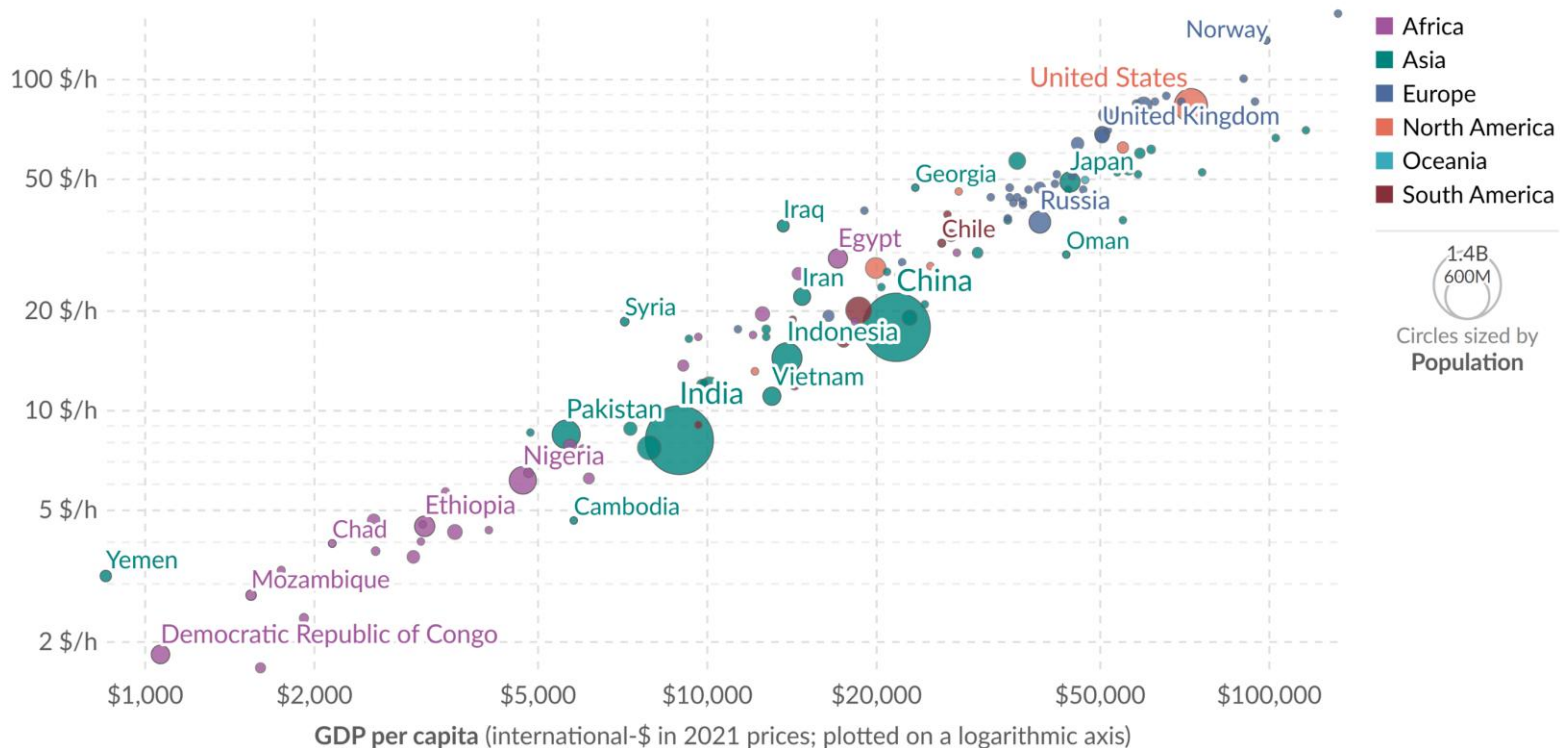
- 1. Productivity and job creation are the two critical factors for economic transformation**
- 2. This usually means moving labour into manufacturing, high-value agriculture or tradable services**

Productivity is a critical link between growth and prosperity

Productivity vs. GDP per capita, 2023

Productivity is measured as gross domestic product (GDP) per hour of work. This data is adjusted for inflation and differences in living costs between countries.

Productivity: output per hour worked (international-\$ in 2021 prices per hour; plotted on a logarithmic axis)



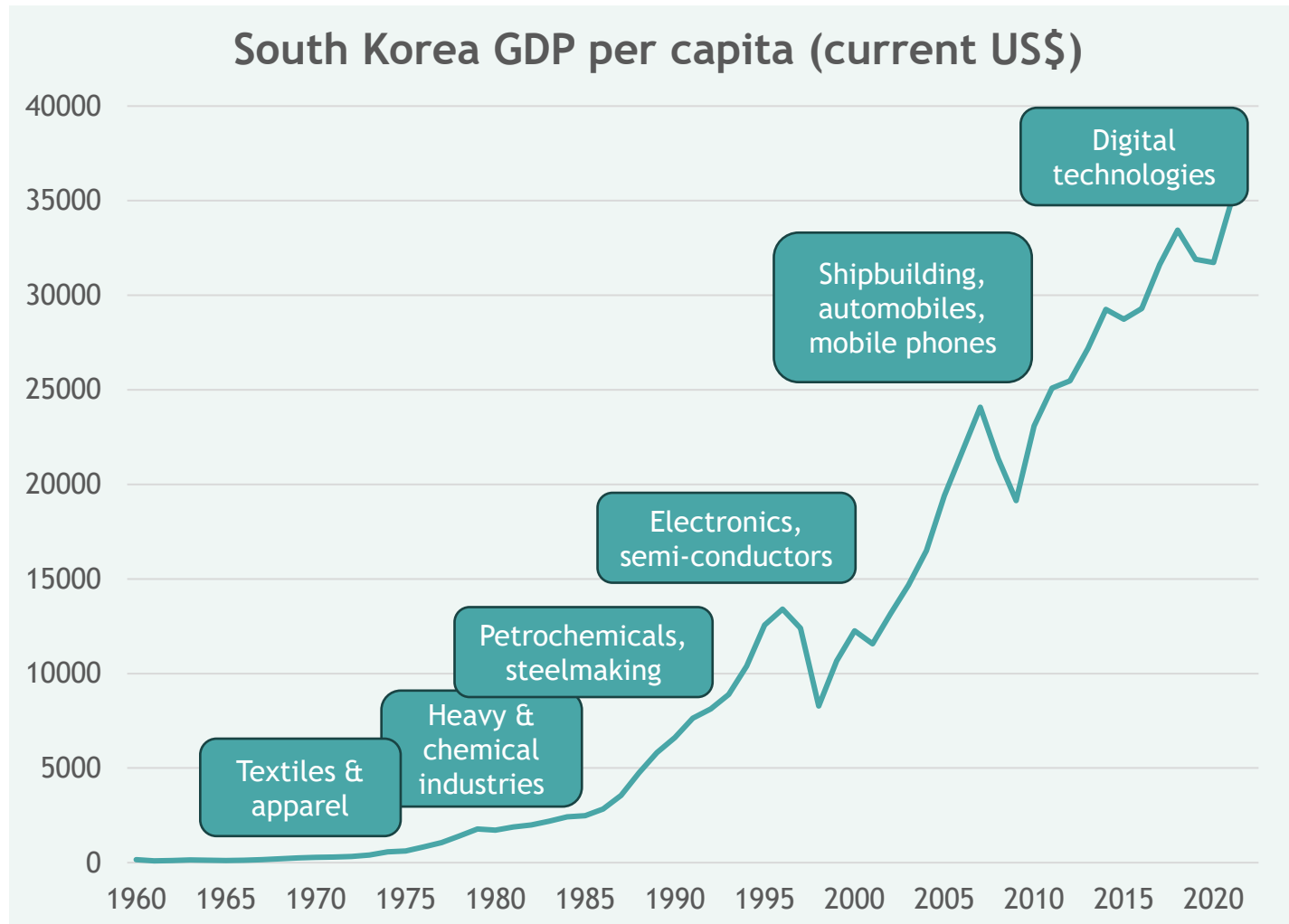
“Productivity isn't everything, but, in the long run, it is almost everything.

A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.”

- *Paul Krugman*

What is economic transformation?

Example of South Korea



Economic Transformation is a long-term process of shifting resources from lower- to higher-productivity activities both within and between sectors.

This enables sustained national scale productivity growth over a long period, enabling ongoing growth in wages and living standards.

It also results in a diversified economy with greater tax revenues & all-round resilience..

South Korea GDP per capita

\$280 → \$35,000

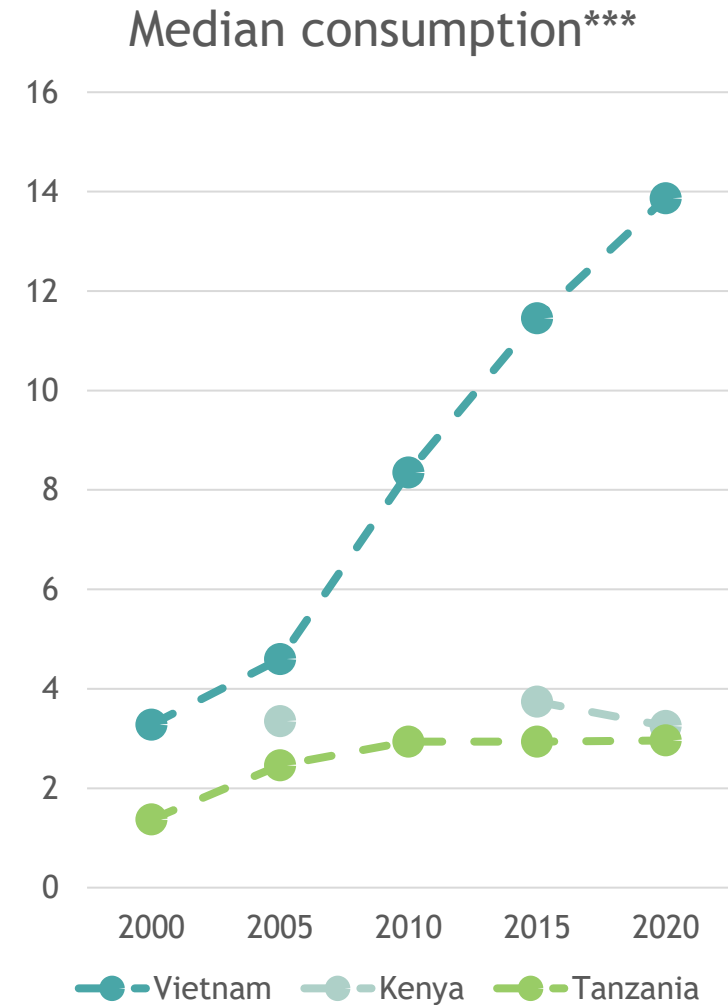
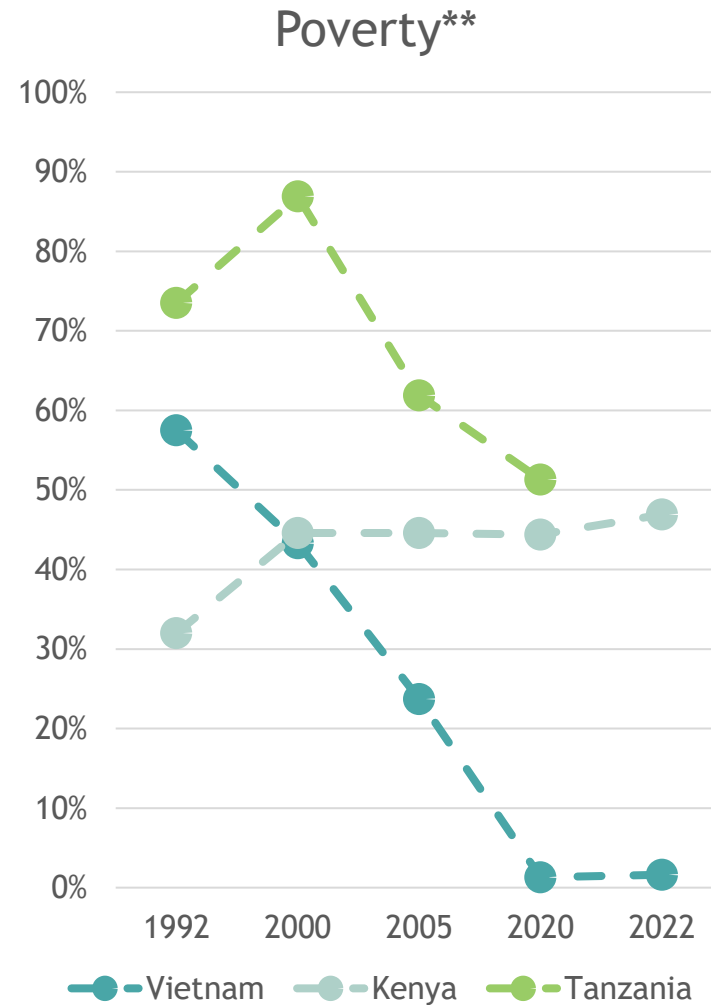
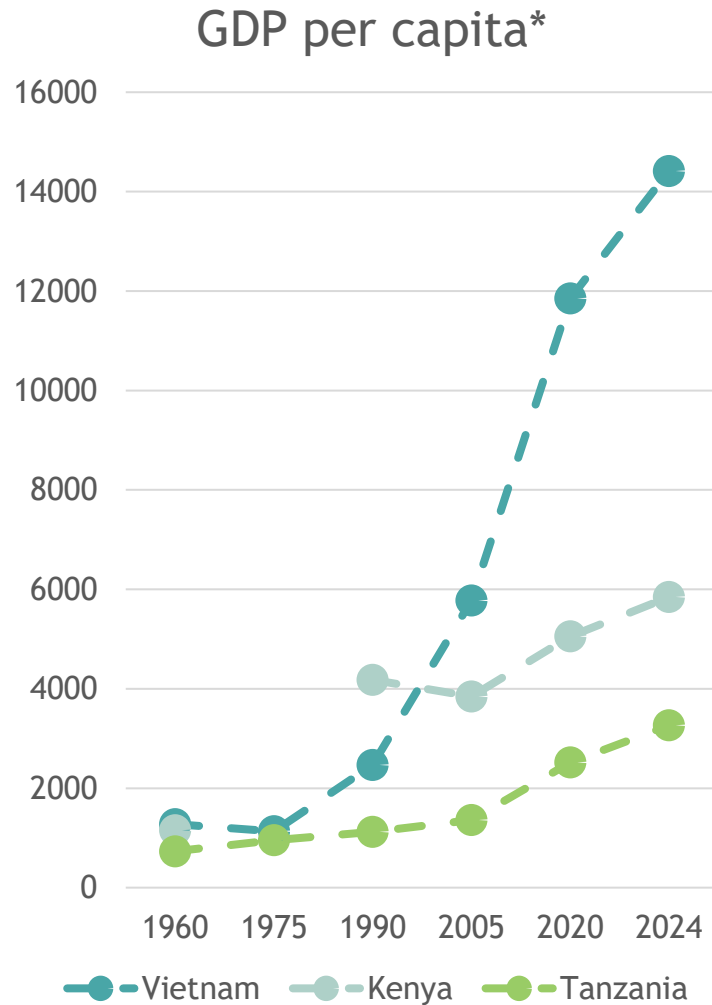
(1970 to 2021)

Sources
GDP data:
World bank

Sector focus:
Republic of
Korea National
Research
Council of
Science &
Technology

Vietnam is the most recent example of a country that is demonstrating sustained economic transformation since 1985

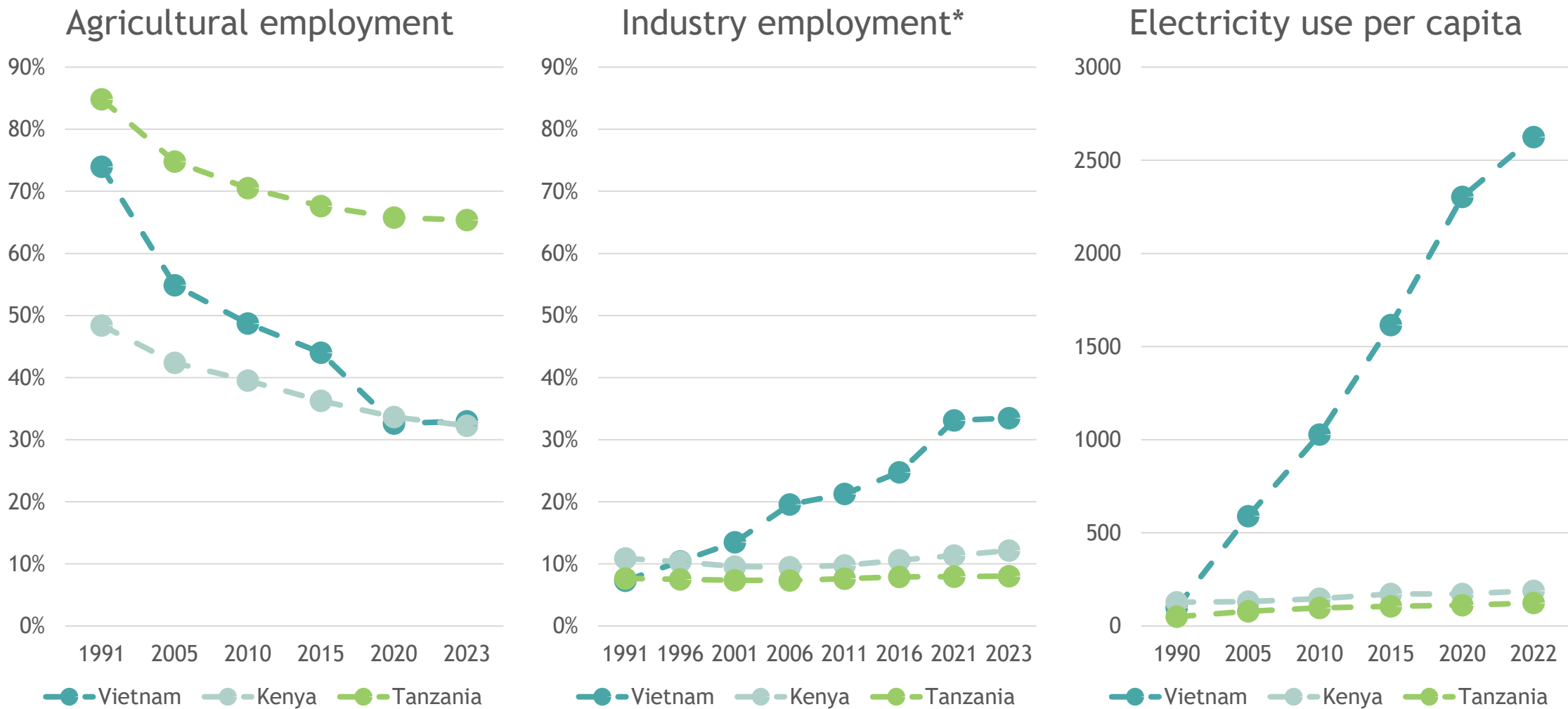
While Kenya & Tanzania have seen reasonable growth, on a per capita level it has been too slow to transform their economies or living standards



*GDP per capita, Maddison Project, World Bank
** Poverty headcount ratio at \$3.00 a day (2021 PPP) (% of population)
*** World Bank, Poverty and Inequality Platform (2025) - international \$PPP at constant 2021 prices

Vietnam has seen a rapid fall in agricultural employment, with >half this labour moving into manufacturing jobs

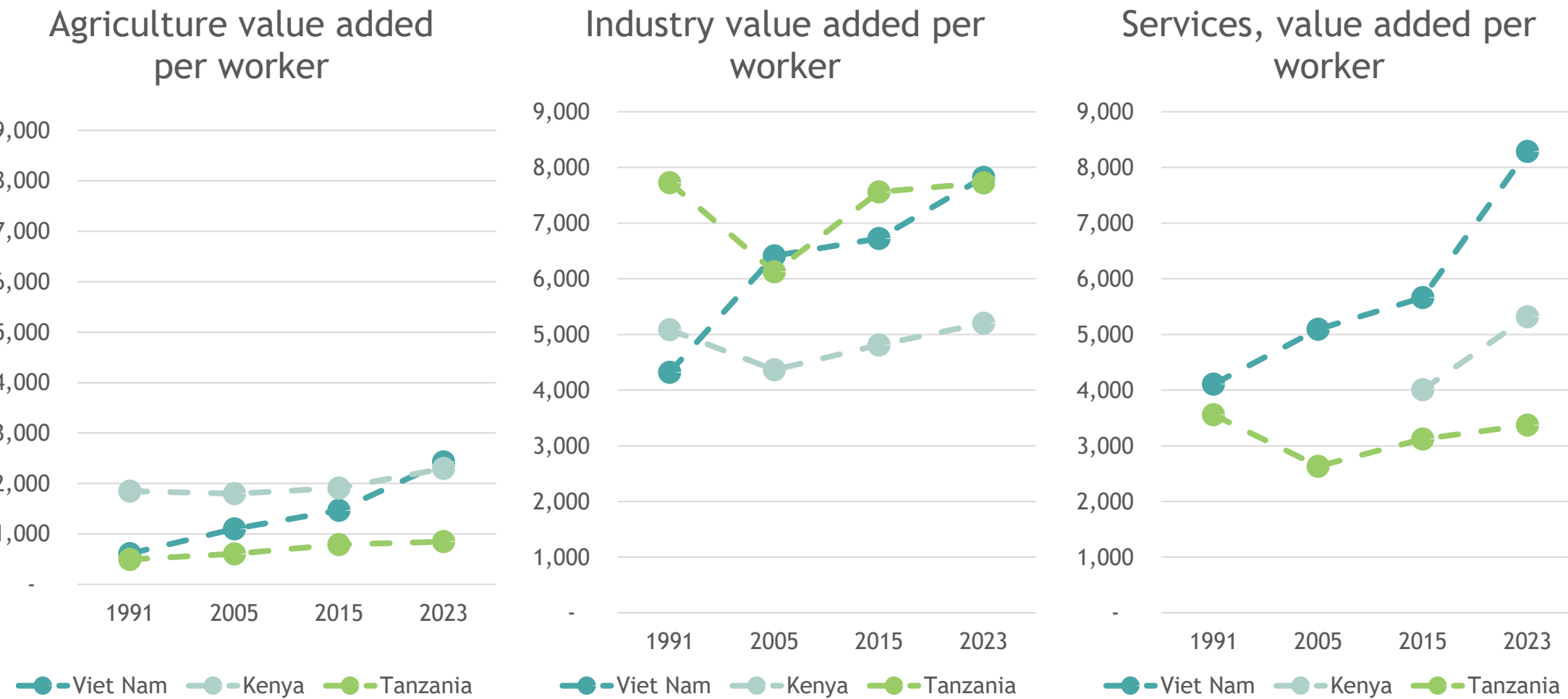
Kenya & Tanzania have seen structural change with movement of labour out of agriculture, but this has been more into informal services and construction than manufacturing



World Bank data - from national data sources
* Industry employment includes construction and mining jobs

Vietnam has seen rapid growth in productivity in industry and services while moving labour at scale into these sectors

While services and industry productivity is much higher than agriculture, labour in Kenya and Tanzania has shifted largely into less formal and less productive jobs within services



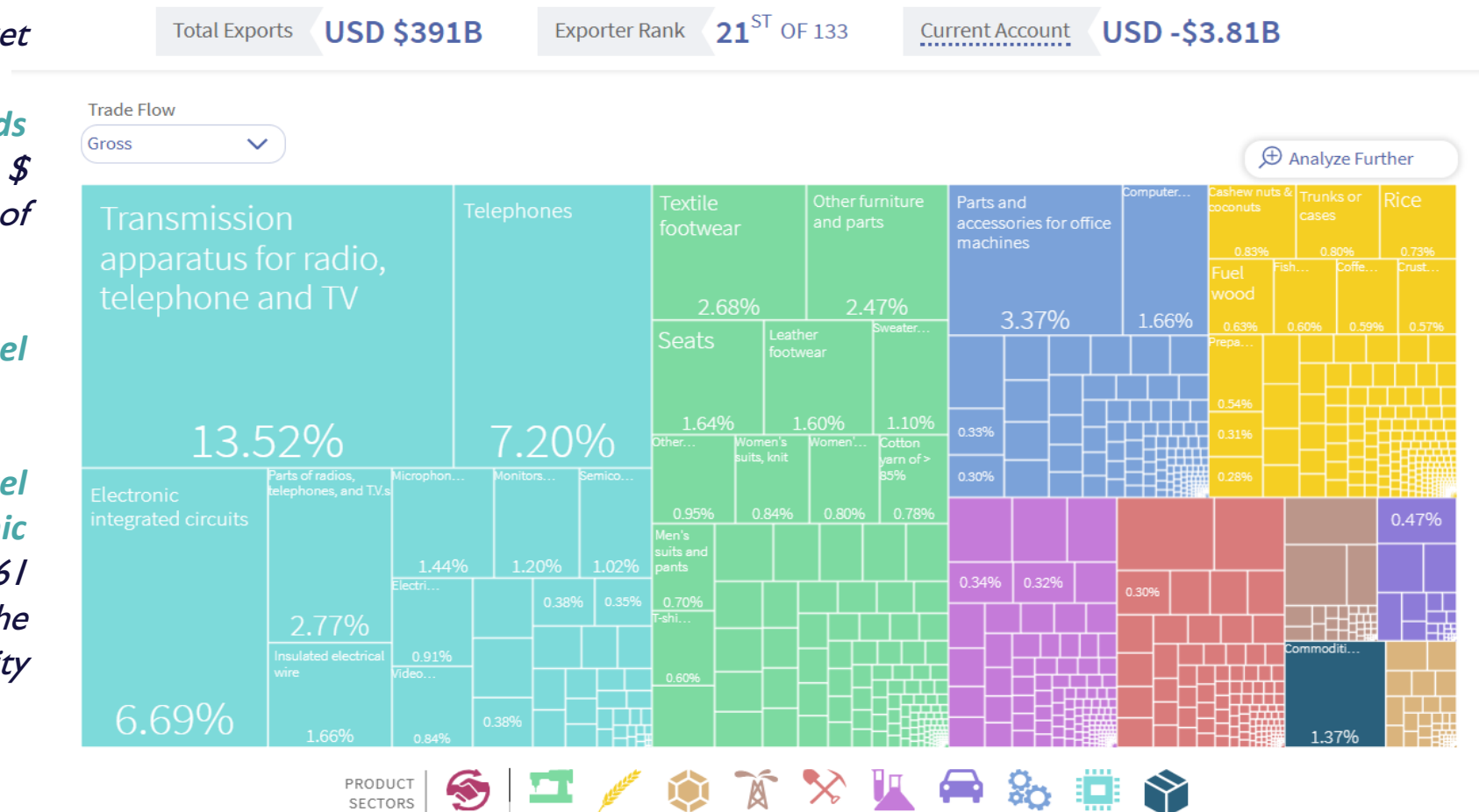
World Bank data (constant 2015 US\$). Industry value added calculated by Total net output of mining, manufacturing construction, and utilities by the number of employees in that sector - using ILO data.

NB. Results are probably indicative rather than precise

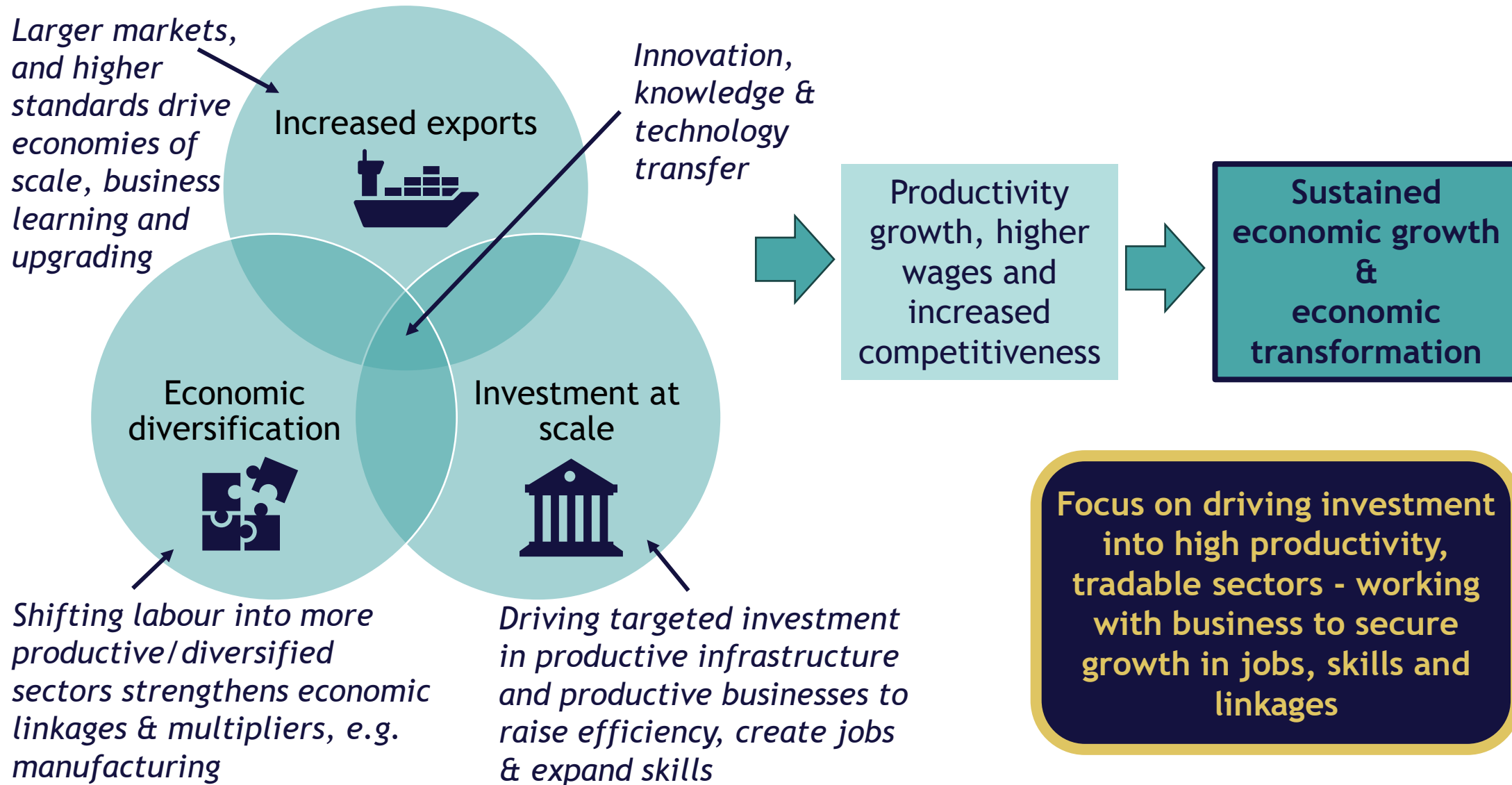
Vietnam witnessed remarkable economic development by embracing the potential of export-oriented industries...

Vietnam's export basket (2022):

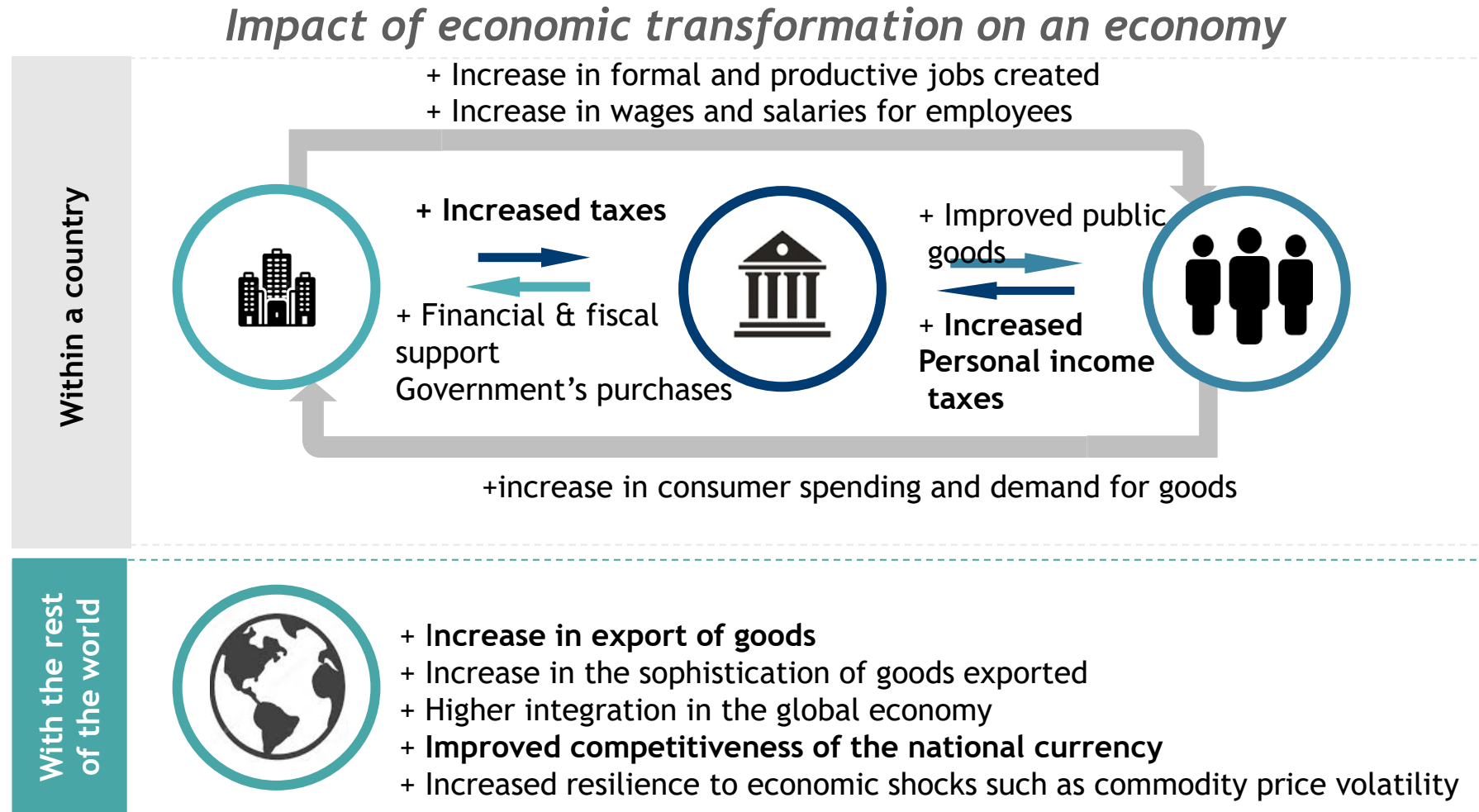
1. **High levels of goods exports** (391 Billion \$ - representing 93% of GDP)
2. **Relatively high level of diversification**
3. **With an average level of economic complexity** (Rank 61 of 133 on the Economic Complexity Index)



Lessons from economic transformation successes



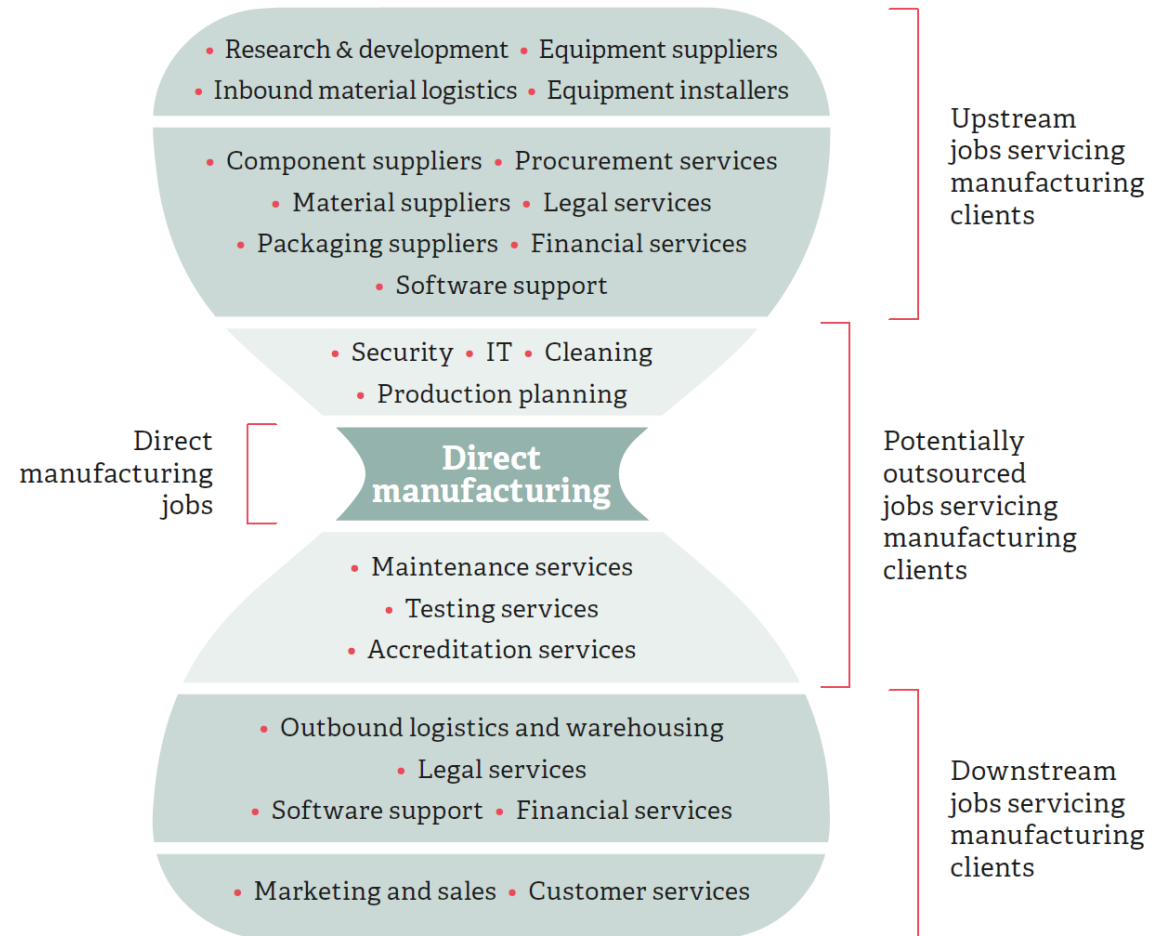
Economic transformation plays a central role in the growth cycle



A benefit of manufacturing is the indirect jobs multiplier

- Worldwide, service sectors lead in job growth, followed by manufacturing, with the share of employment in agriculture declining.
- However, aggregate numbers tend to undercount the full effects of economic activity on employment, in particular for manufacturing, where employment occurs beyond a particular factory to its suppliers and distributors, which can be in both manufacturing as well as services.
- For every direct manufacturing job, on average 2.2 jobs are created in other sectors - a multiplier effect that is three times higher than the average multiplier for modern services.
- The share of manufacturing-related indirect jobs is increasing further as manufacturing firms increasingly outsource non-core functions, such as warehousing, transport, and corporate functions such as human resources and technology.
- In addition, the “servicification” of manufacturing, whereby manufactured products are bundled with services (e.g. help-lines, repair services), the share of services that are tied to manufacturing is rising, blurring the distinction between the two.

Sources of indirect manufacturing jobs

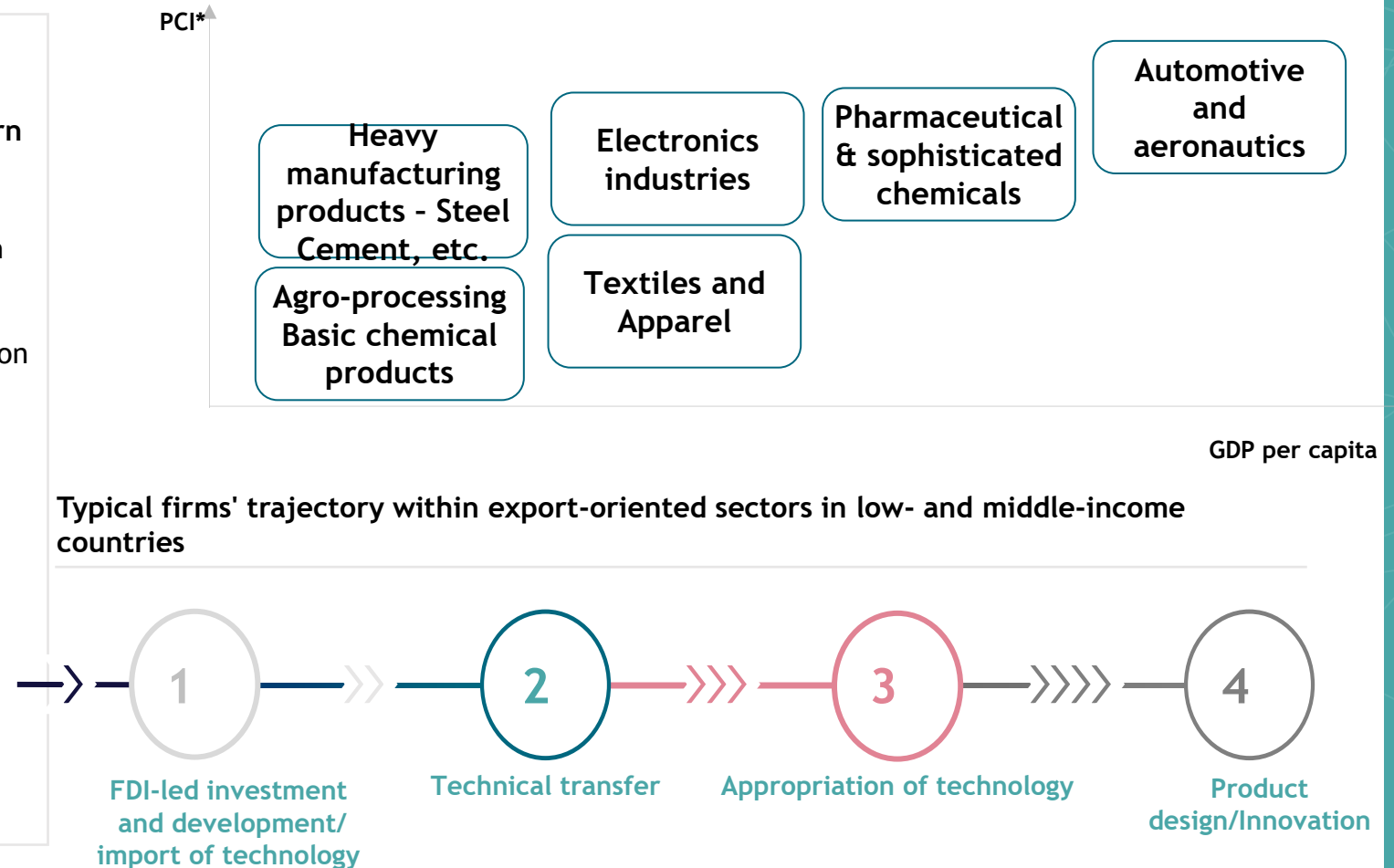


Sources:
UNIDO. 2013. Industrial Development Report 2013. IFC. 2013. IFC jobs study. UNIDO Mar 2025. 'Insights on industrial development: The multiplier effect of industrial jobs'. CDC. Sector strategy: Manufacturing.

Economic transformation journeys generally follow a sequence of increasing economic complexity and firm capabilities

Increasing complexity of sectors drives greater productivity and hence GDP per capita

- Low-and middle-income countries (LMICs) learn to **compete in increasingly sophisticated products and sectors over time.**
- The development of a sector often starts with **FDI or import of technology**, before **establishing domestic linkages that enable technology transfer** and, in time, appropriation of technology.
- As countries learn to compete in more sophisticated products and sectors, **the value that they are able to capture increases**, which:
 - Widens their tax base;
 - Increases their forex earnings;
 - Reduces lending risk; and
 - Mitigates the importation of inflation.

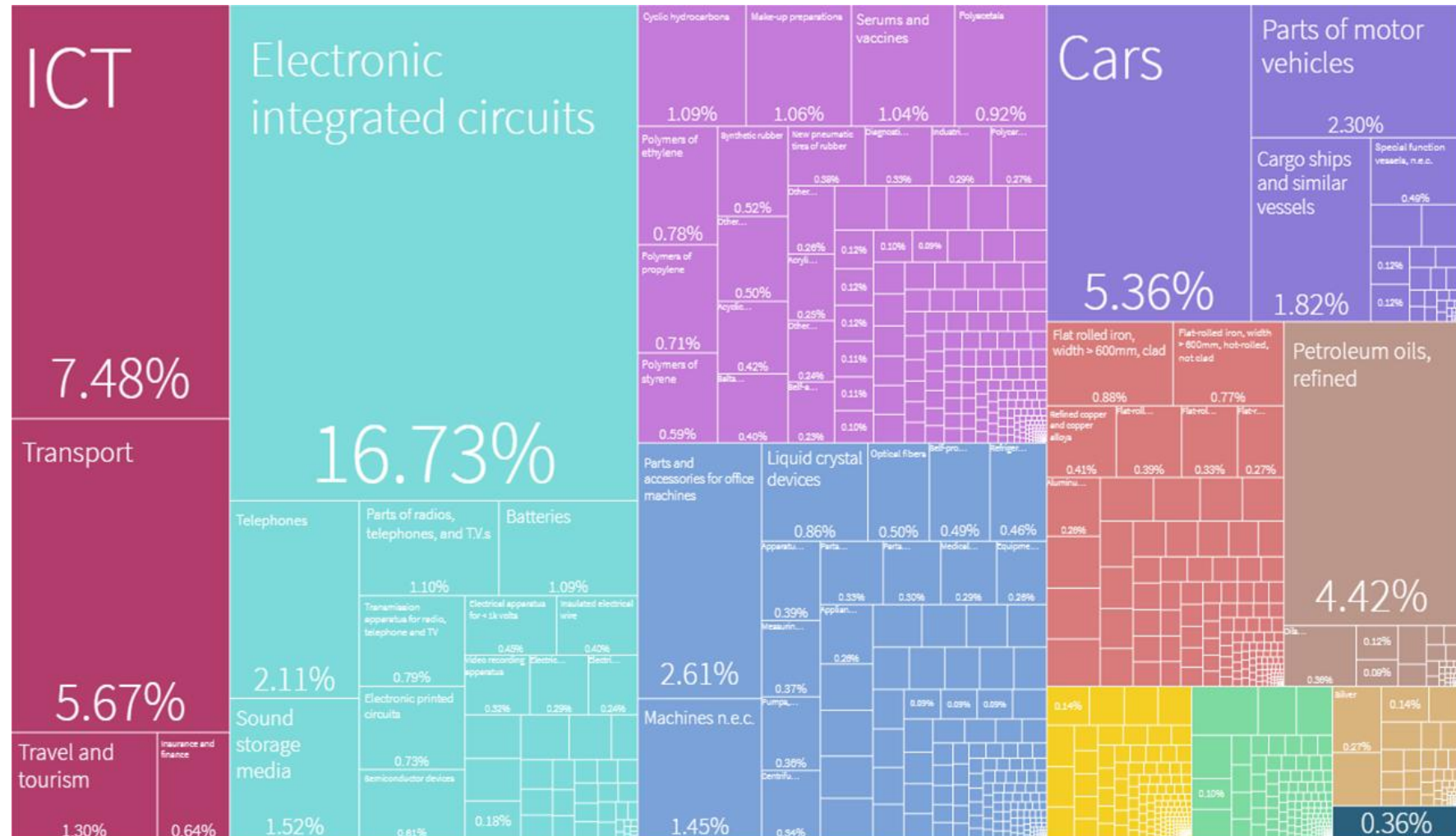


Economic transformation: What does success look like?

Example of South Korea

South Korea's export basket (2021):

1. **High levels of goods exports** (644 Billion \$ - representing 40% of GDP)
2. **High level of diversification**
3. **High level of economic complexity** (Rank 8th of 133 on the Economic Complexity Index)



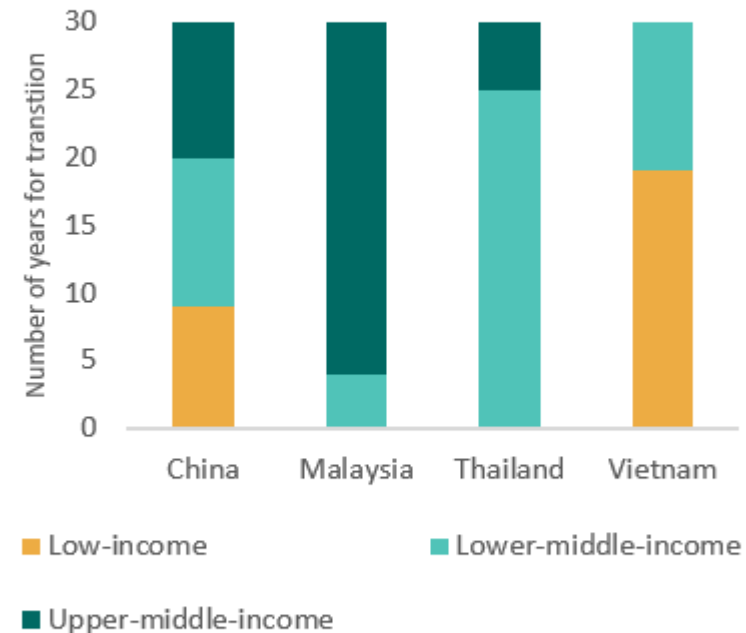
Economic transformation is a long-term process...

Between 1994 and 2009, China's GDP grew at a double-digit level for fifteen years.

This is an extraordinary achievement, and few countries can claim to attain high-level growth at a consistent rate for a lengthy period.

And yet, in 2009, China was still a lower-middle-income economy, although it has reached the upper-middle-income level since. The Chinese experience illustrates the immense challenges facing countries that are aspiring to transition into high-income status. It also suggests that even to reach the upper middle-income level, countries currently at the lower-middle-income level would need to accomplish a growth miracle similar to China's since 1994.

Escaping the middle-income trap: How long does it to transition from one income group to another? (The case of selected Asian countries:1987 to 2017)



Source: UNCTAD

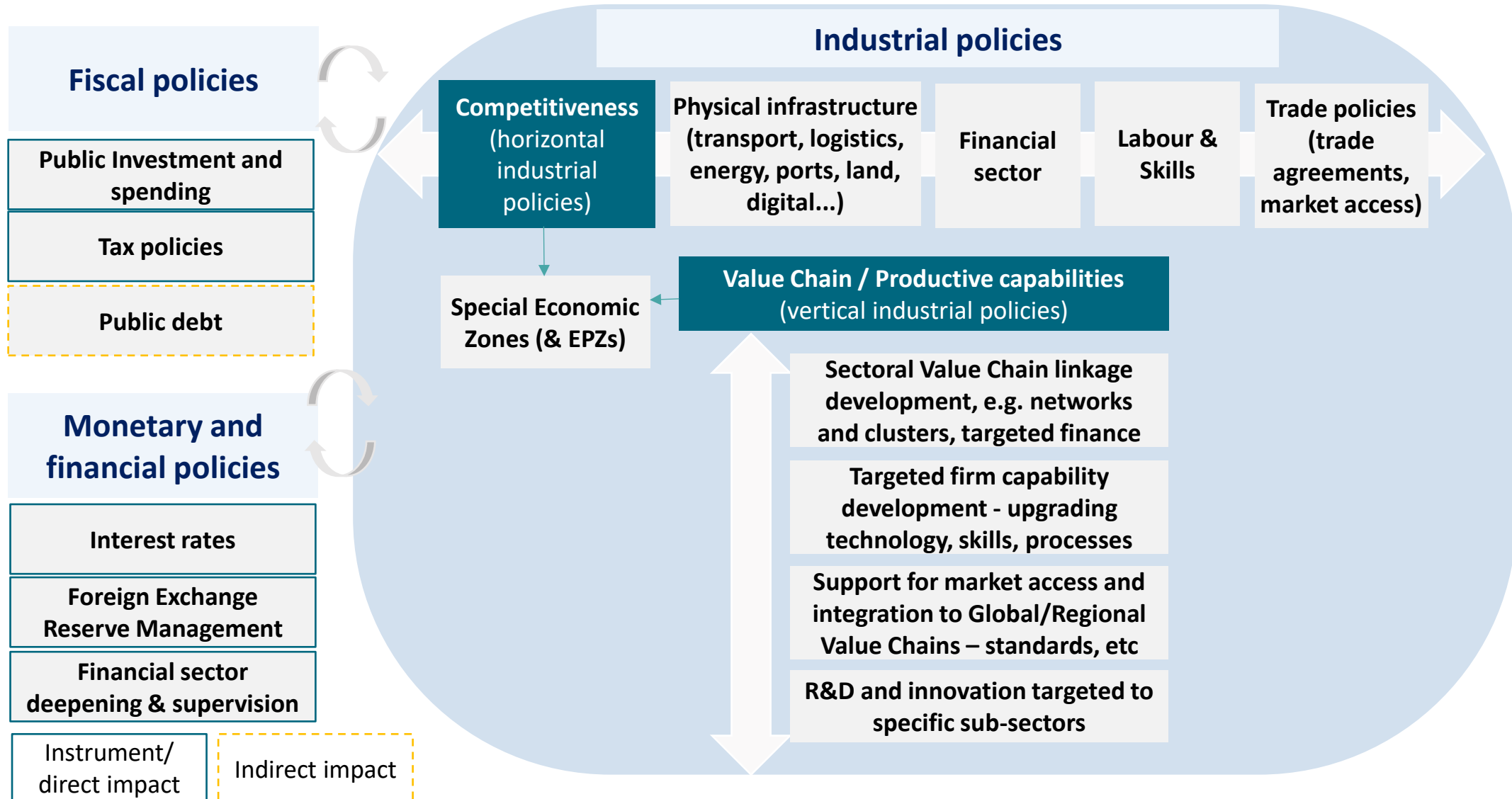
3. Evidence suggests that effective industrial policy is needed to transform economies, but that it is hard to execute

4. But few, if any, development programmes have sought to actively build this capacity to deliver effective industrial policy

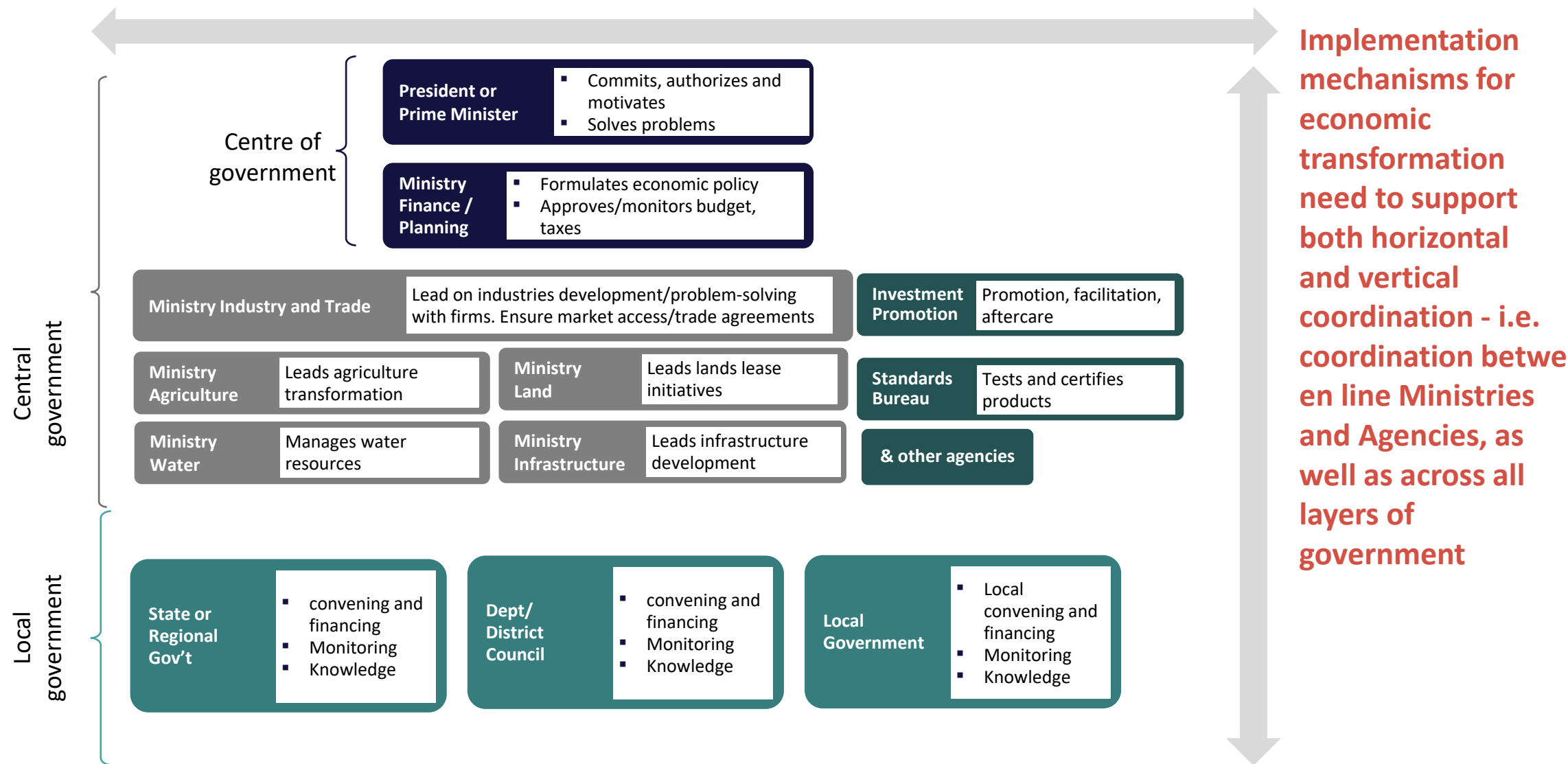
States, particularly in developing countries, can play a significant role in directing the productive factors of the economy to high-productive sectors

1. Countries that have developed successfully have had active states directing productive factors toward higher-productivity sectors through coordinated industrial policy (e.g., Japan, South Korea, Taiwan, Singapore, China...).
2. The state - particularly in early stages of development - needs to play a market-shaping role, beyond just a regulatory role (a coach rather than the referee), pioneering innovation and investing in critical infrastructure for emerging industries, particularly in manufacturing.
3. Strategic state interventions - when effectively designed and implemented - crowd-in private investment aligned with public goals and focus, support the emergence of pioneer firms that enable industrial and technological upgrading and foster inclusive economic transformation.

Economic transformation needs effective industrial policy - coherent interventions to tackle cross-cutting & sector issues



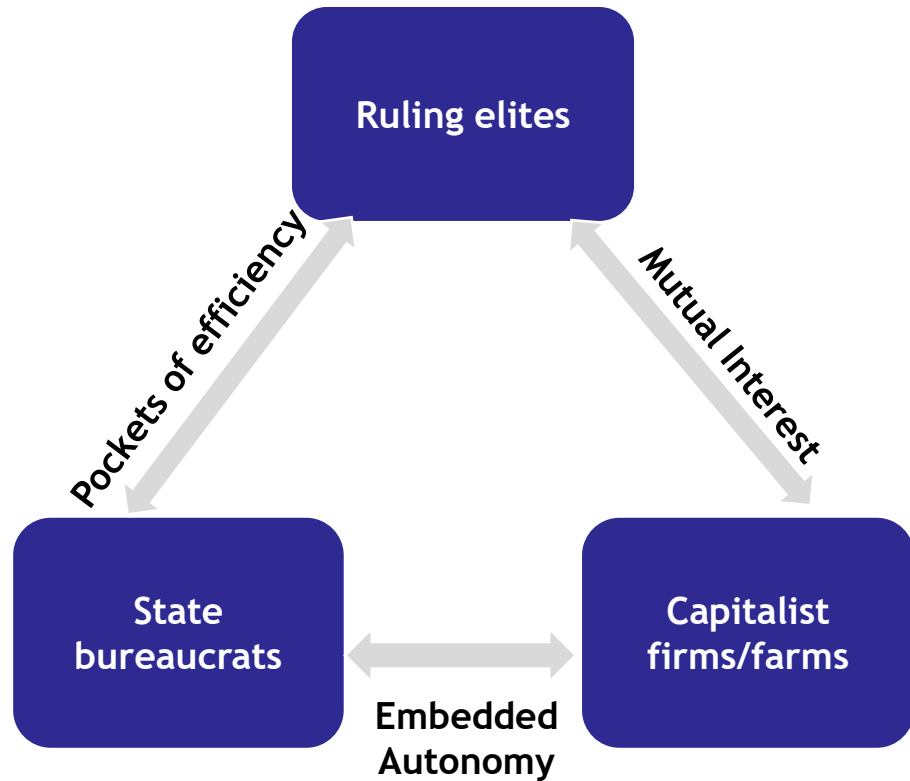
... and a well-orchestrated government with strong coordination between its different layers



N.B.: Effective implementation mechanisms must support vertical coordination across all layers of government, including between central and devolved authorities.

Economic transformation requires a symbiotic relationship between political/elite incentives, state capacity, & businesses

Conditions for Economic Transformation



Required relationships between these actors

- **Pockets of efficiency:** Emerge when selected bureaucratic units or agencies **receive authorising political support and agency**, and have “**good-enough**” capabilities, allowing them to design and deliver effective industrial policies - often with transparent publishing of goals and achievements
- **Mutual interest:** Industrial policy is effective when the interests of ruling elites and capitalist actors (i.e. firms) converge.
- **Embedded autonomy:** Refers to close collaboration between bureaucrats and firms, facilitating real-time problem solving and policy adaptation to market needs, while avoiding capture and rent seeking behaviours - the capacity to enforce conditional incentives for market success and performance is key to dynamic industrial upgrading.

Source: Whitfield, Lindsay; Therkildsen, Ole; Buur, Lars; Kjær, Anne Mette. 2015. The Politics of African Industrial Policy: A Comparative Perspective.

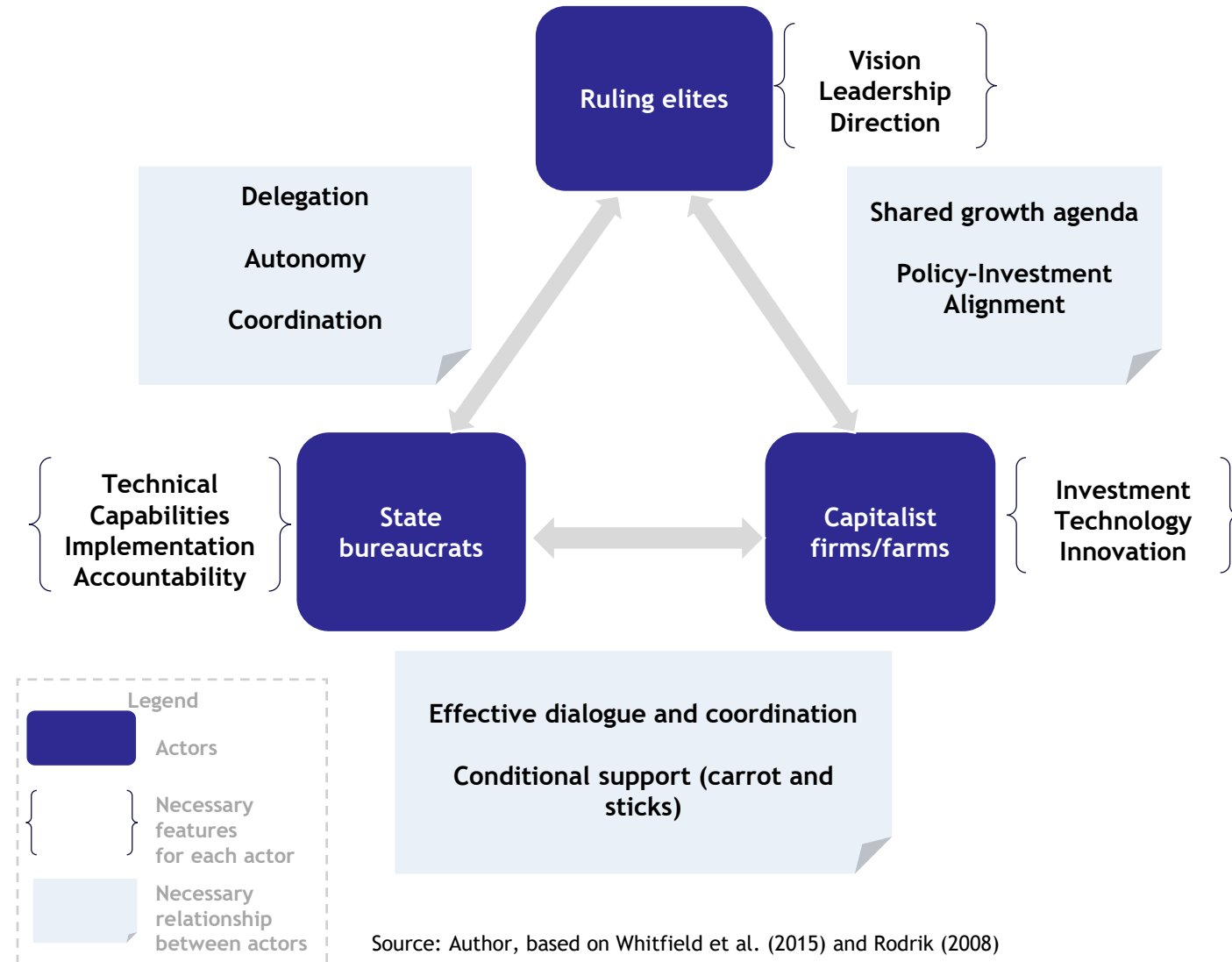
Rodrik, 2008, “Industrial Policy: Don’t Ask Why, Ask How”.



**Gatsby
Africa**

- 5. Industrial policy capacity building requires experimentation, learning and adaptation by state bureaucrats in pursuit of clear goals from leaders/elites**
- 6. Targeting support to government agencies with the mandate, but also the autonomy to deliver on this is critical and requires an understanding of their ideal capabilities**

Each set of actors needs different capabilities to drive long-term economic transformation and effective industrial policy



Source: Author, based on Whitfield et al. (2015) and Rodrik (2008)

1. **Ruling elites** - Leadership needs technical inputs on key economic issues, experiences of other countries
2. **Between ruling elites and state bureaucrats:** delivery and coordination mechanism between state agencies, budgeting process, planning and public investment process
3. **State bureaucrat/organisations:** capacity to design policies aligned with the direction provided by ruling elites, and capacity to implement these policies
4. **Between state Bureaucrats and firms:** Capacity for coordination and maintaining effective public private dialogue
5. **Capitalist firms/farms:** capacity to be growth-oriented, seizing market opportunities, adopting new/frontier technologies

How do countries develop industrial policy capacity?

“Learning by doing” at both business & state/policy levels

Evidence on process of learning-by-doing at the Firm level

- Learning at firms occurs through **repeated practical engagement with production processes**, enabling **incremental improvements** in efficiency, quality, and technological know-how over time.
- Firm-level capabilities develop through **hands-on problem-solving, trial and error, and adaptation to evolving market and technological conditions**, rather than from formal technical training alone.
- Interactions with global value chains and lead firms are crucial, providing **technology transfer, and market knowledge that enables technology upgrading**.

Evidence on process of learning-by-doing at the State/Policy level

The work of Amsden, Khan, Ohno, Oqubay, Ang, and others shows that **state capabilities are also built through this very same process**:

- Amsden showed that East Asia’s late industrialisers advanced through **collective learning**, with governments and firms working side by side, solving problems in practice, absorbing technology, and steadily improving efficiency through **“micro-efficiency”** process leading to a **“social construction of competitive assets”**.
- Ohno’s work shows countries build state capabilities through **policy learning & hands-on experimentation emulating, adapting, and improving via trial and error**, rather than importing ready-made blueprints.
- Yuen Yuen Ang highlights that China’s success comes from **learning by doing, adaptation, and step-by-step institutional change**, with policy experimentation and feedback driving continuous progress
- Mushtaq Khan concludes that **doing** is key for both state agencies and firms; policy must create **incentives and organisational environments** that sustain **collective practical learning and problem-solving**.

Whitfield, Lindsay. 2015. *The Politics of African Industrial Policy: A Comparative Perspective*. : Amsden, Alice H. 1989. *Asia's Next Giant: South Korea and Late Industrialization*.

Amsden, Alice H. 2001. *The Rise of “The Rest”: Challenges to the West from Late-Industrializing Economies*.

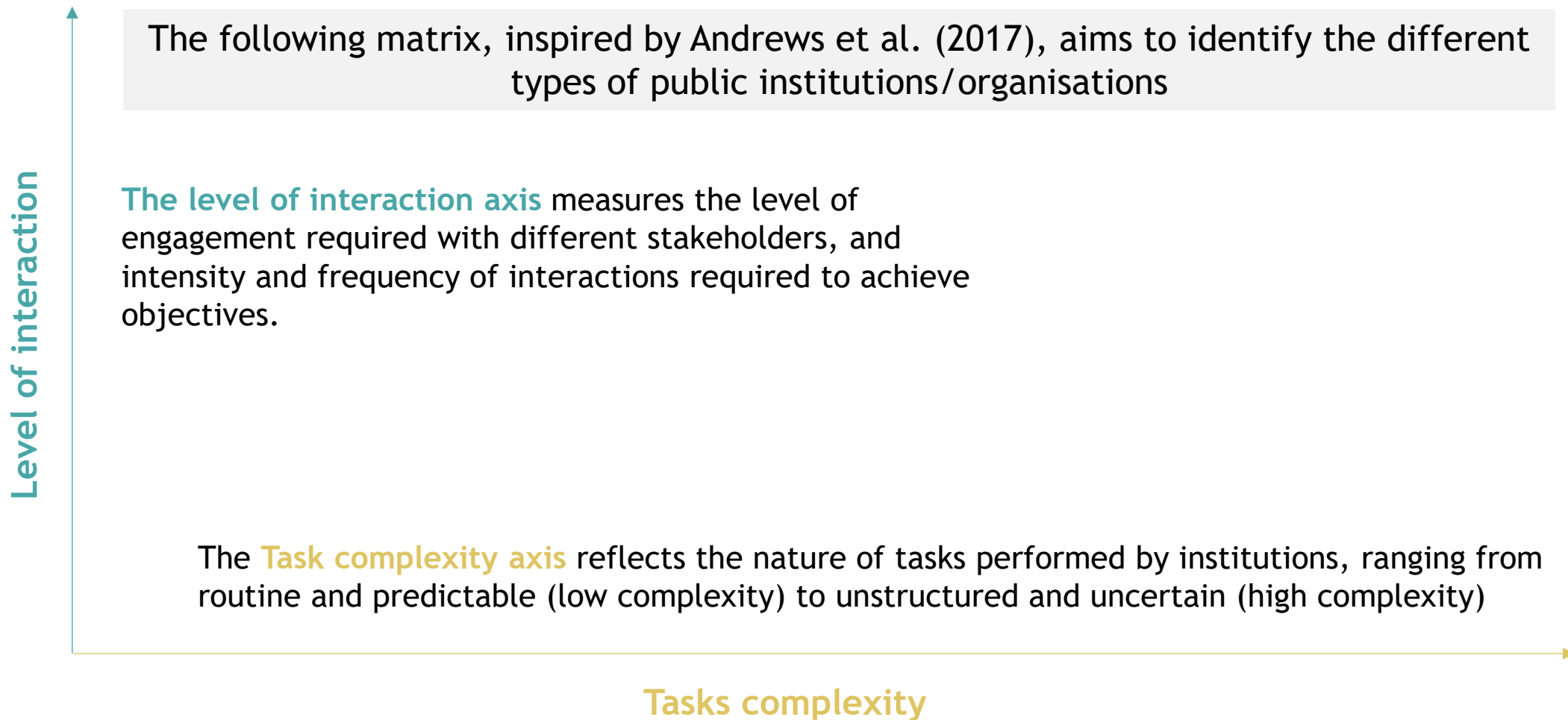
Oqubay, Arkebe. 2020. *How Nations Learn: Technological Learning, Industrial Policy, and Catch-Up*. Ang, Yuen Yuen. 2016. *How China Escaped the Poverty Trap*.

Khan, Mushtaq H. 2018. *Knowledge, skills and organisational capabilities for structural transformation*. Chang, Ha-Joon. 2002. *Kicking Away the Ladder: Development Strategy in Historical Perspective*. Ohno, Kenichi. 2012. *Learning to Industrialize: From Given Growth to Policy-Aided Value Creation*.

There are at least three layers through which “learning by doing” takes place, each contributing to state capability development

Capabilities building process	Main lessons from key countries	Key authors
Collective hands-on learning policy	In South Korea - Government and private firms coordinated “learning by doing” in sectors like steel and electronics, building competitiveness via joint problem-solving.	Alice Amsden
	In Taiwan - State-led technology consultancy services helped producers absorb foreign technologies, reach higher standards, and drive cumulative industry learning.	
Adaptative Institutional change	In China - Local governments tested policies on the ground with firms , learned from feedback, and used those lessons to adapt institutions and scale up what worked	Yuen Yuen Ang
Local experimentation and emulation while adapting to context	In Japan - State capabilities were built through pragmatic policy experimentation: The Meiji Restoration and postwar development involved domestic adaptation and policy experimentation, building capabilities through trial and error after studying Western industrial models. MITI also played an important role in ensuring collective learning with the private sector through its deliberation councils.	Yuen Yuen Ang
	In China - Major reforms—including special economic zones—were piloted locally before national scaling, enabling learning and innovation	Arkebe Oqubay
	In Ethiopia - Policy implementation in manufacturing and industrial parks relied on local experimentation and emulation, adapting Asian models to fit domestic needs.	Kenichi and Izumi Ohno

Focusing on state organisations, the understanding of necessary institutional capabilities requires understanding the different types of public organisations typically part of the government



Using these two axis, there are 5 main types of public institutions that are identified



Within each type of institution, there are two levels of capabilities that can be built - Expertise/technical and organisational/managerial

- Identifying the types of institutions involved in economic transformation is essential for determining the core “expertise” capabilities required for them to develop “good enough” capacity and fulfil their roles.
- Each type of institution requires specialised skill sets and systems. To address these needs, we distinguish between two layers of capabilities:

1

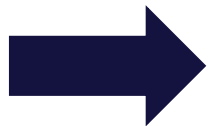
Expertise and technical capabilities: These are specific to the institution's functional role and directly aligned with its operational objectives.

2

Organisational and managerial capabilities: Cross-cutting capabilities are essential for ensuring institutions function efficiently and maintain internal coherence.

What's often overlooked is the importance of organisational and managerial capabilities within the public sector

- An organisation's effectiveness is **not merely the sum of the technical skills and capabilities its workforce possesses.**
- The interplay between **technical individual capabilities** - what individuals are capable of - and **organisational capabilities** - how institutions enable or hinder those individuals to perform - is critical.
 - **Organisations matter as much as people.** Technical skills alone don't guarantee effectiveness; it depends on whether the institution enables or blocks people from performing.
 - **Some organisations multiply talent, others waste it.** Value-adding organisations boost productivity through collaboration and accountability, while value-subtracting ones drag even skilled professionals down.
- A revolving door of top leaders is often a serious constraint. An organisation needs to build systems and practices that allow knowledge and skills to outlast individuals.

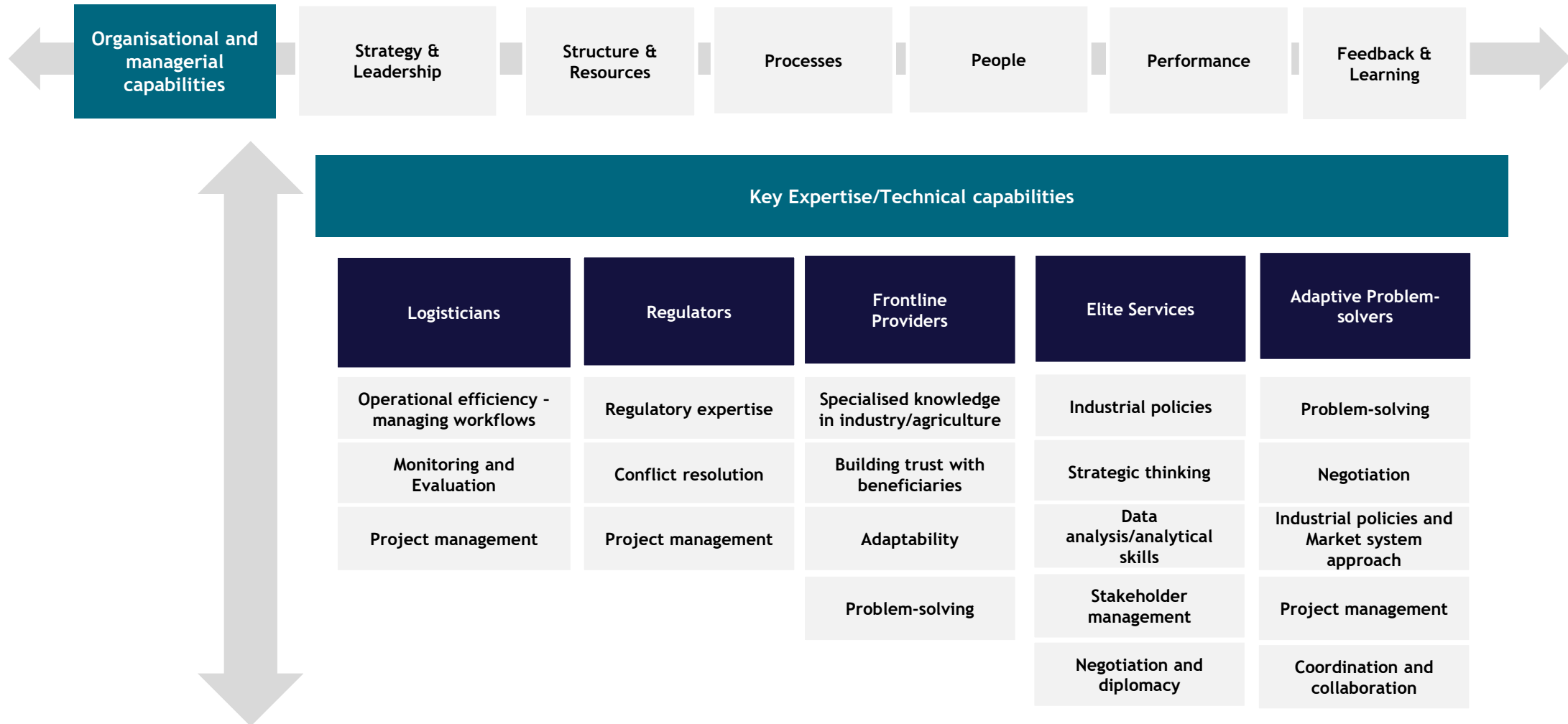


The main difference lies in management - and within the context of public sector, management is complex as incentives are unclear (as opposite to private sector), and performance can be “mimicked” with agencies showing outputs (reports, activities) without achieving real outcomes.

A potential framework for public organisations focused on economic transformation could be the following

Pillar	Details
Strategy & Leadership	• The institution's mission, goals, and objectives, and its alignment with national priorities, including economic transformation. • The institution's capacity to set ambitious, transformative goals • Leadership style to diffuse and implement the strategy
Structure & Resources	• The organisational hierarchy, reporting lines, and mechanisms for cross-sectoral coordination, and alignment of the structure with the strategy and objectives of the institution. • The organisation's capacity to leverage financial and technological resources to achieve its mission.
Processes	• Workflows, procedures, and systems used to execute tasks and ensure efficiency and accountability.
People	• The organisation's workforce, including technical and problem-solving skills and their alignment with institutional goals.
Performance	• How the organisation motivates and incentivizes staff, including compensation, recognition, and accountability.
Feedback & Learning	• Capacity to drive iterative learning and experimentation to explore solutions, rather than relying on fixed, one-size-fits-all approaches. • Capacity to establish systems to gather data, monitor progress, and refine actions/policies in real-time based on evidence and outcomes

Combining these two layers together, this is a potential holistic framework to look at state organisations' capabilities



- 7. The best recent examples of industrial policy learning by doing by LDCs have been to a certain extent supported by external actors**
- 8. However, most of the donor-funded support needs to be shaped differently to enable the learning-by-doing process**



Learning from successful cases of learning by doing in LDCs - Ethiopia - External support driven by government demand and agenda

Context and Approach

- Industrialisation central to Ethiopia's development strategy
- Focus on **priority sectors** and **FDI attraction**
- Industrial parks used to build domestic linkages

- Strong political sponsorship from the centre of government
- Dedicated institutional architecture created
- Investment promotion + industrial policy closely coordinated
- External actors support driven by government's agenda

Success factors & learning

- **Strong political elite commitment**
- **Coordination within public institutions:** Key economic institutions were well coordinated, a function done by Dr. Arkebe who played the role of a "Super Minister of Economy and Industrialisation"
- **Leadership capabilities:** Strong leadership capabilities within PMO and EIC level between 2013 and 2020
- **Ownership of the agenda:** Strong and clear government vision and leadership in Ethiopia
- **Technical capabilities:** Donors' capacity building programmes contributed to building strong technical capabilities within EIC and key institutions.
- **Incremental learning-by-doing:** EIC and IPDC's capacity to engage with investors and problem-solve with them, as well as understanding the opportunities in key sectors built over time

Limitations

- **Over-dependence on strong leadership:** Ethiopia's industrialisation episode, is closely associated with key figures such as Arkebe and Fitsum Arega.
- **Embedded support being more oriented towards "gap-filling":** Most of the embedded support was functioning as a gap-filling process, rather than working closely with public officials to build their capabilities.
- **High turnover among EIC graduates who benefitted from the Graduate Programme** training, mostly due to lack of clear career paths within the civil service, and more attractive opportunities in donor organisations.

Rwanda and the development of BPO industry - A government-driven agenda combined with external support focused on enabling learning-by-doing



Context & Challenge



- Strong performance-oriented public sector culture
- Strategic push to diversify into services exports
- For many years, the Government of Rwanda, notably through the **Rwanda Development Board (RDB)** wanted to develop its **business process outsourcing (BPO) sector** due to its potential for good job creation
- Despite multiple existing reports on paper, little action was being taken to attract potential investors and develop the sector

Approach

Growth Teams formed joint team with key RDB staff, providing management support and scaffolding for them to take effective action and learn by doing:

- **Articulated the investment case** for the BPO sector-why investors should choose Rwanda
- **Built a pipeline** of 80+ prospective investors in the BPO sector
- **Facilitated visits and market information** for the 10 most interested companies
- **Identified key barriers** that constrain sector growth and coordinated with other agencies to address these

Impact

- RDB attracted 3 new global firms to set up operations in Rwanda (with several more expected soon)
- Two of these firms employ 2,000+ Rwandans, and are the largest formal employers in the country

2,000+ formal jobs created
And on good track to **6,000+ good jobs** in this sector by end of 2027

Learning from successful cases of learning by doing - Peru: learning by doing through engagement with the private sector



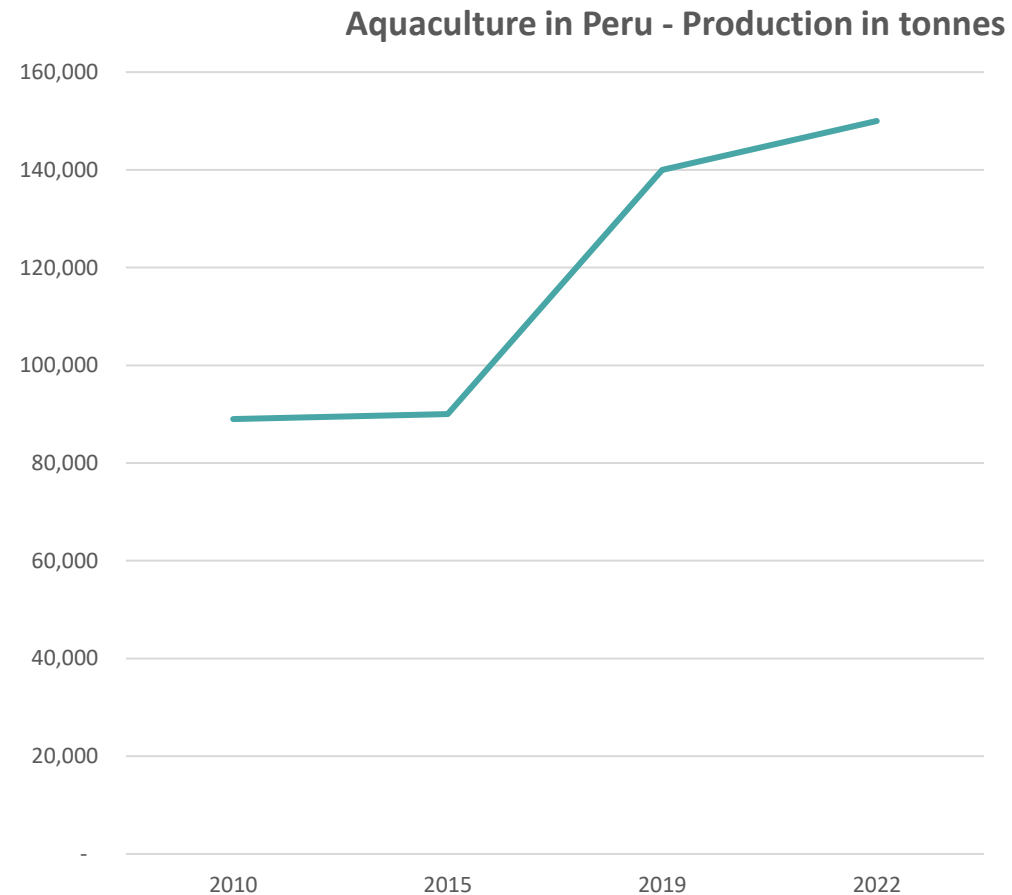
Context	Approach	External support	Success factors & learning	Limitations
- Launched in 2014-2015 under Ministry of Production - Executive coordination platform to unblock sector constraints - Focus on high-potential sectors (e.g., aquaculture, forestry, textiles, tourism, logistics) - Created to address cross-government coordination failures	- Formal public-private problem-solving working groups - Sector-specific Mesas established - Dedicated secretariats to facilitate delivery - High-level political convening power - Private sector engaged on solutions (not incentives) - Focus on implementation bottlenecks	IDB – Financing + programme design support Supported coordination mechanisms and sector mesas Technical support to innovation & technology centres Analytical & knowledge partners: UNCTAD – Policy diagnostics & frameworks Harvard CID – Adaptive governance & coordination design	- Strong political mandate & convening authority - Continuous public-private dialogue - Problem-Driven Iterative Adaptation (PDIA) in practice - Real-time bottleneck resolution - Clear accountability tracking - Tangible sector outputs (e.g., licensing reform, permit acceleration)	- Leadership dependence slowed momentum shifts - Variable private-sector engagement - Coordination intensity hard to sustain - Institutionalisation uneven across sectors

Sources:
Direct conversations with Piero Ghezzi - Ex Minister of Production in Peru and Ministerio de la Producción (2016)

Example of results for the Aquaculture sector



- **Starting point:** Aquaculture was identified as a high-potential sector for the country. In 2015, its exports grew annually by almost 25 per cent for 3 years, though starting from an extremely low base. However, Peru was lagging far behind its more successful neighbours, with its exports = 1/10 exports of Ecuador.
- **Reforms introduced** - The ME allowed for the following reforms in the sector:
 - An Aquaculture Register was set up in the Public Registries so aquafarmers can use their registered title as loan collateral.
 - Reduction of time required to obtain a concession (previously it could take up to two years, after ME, it takes six months and efforts are under way to bring the waiting time down to 90 days). Moreover, the cost of franchising is now 70 percent lower.
 - Unnecessary investment requirements were removed, such as wastewater discharge permits to be obtained from the National Water Authority.
 - To encourage innovation, three new public aquaculture innovation and technology transfer centers -or CITEs
 - Simplification of a number of procedures: authorizations that previously took 45 days now take 12 days





Learning from successful cases of learning by doing in LDCs - Ethiopia - External support driven by government demand and agenda

Context	Approach	External support	Success factors & learning	Limitations
Industrialisation central to Ethiopia's development strategy	Strong political sponsorship from the centre of government	- Multi-partner support (DFIs + bilateral donors) - Embedded technical assistance in key institutions	Political elite commitment Coordination within public institutions: Key economic institutions were well coordinated, a function done by Dr. Arkebe who played the role of a "Super Minister of Economy and Industrialisation"	Over-dependence on strong leadership: Ethiopia's industrialisation episode, is closely associated with key figures such as Arkebe and Fitsum Arega.
Focus on priority sectors and FDI attraction	Dedicated institutional architecture created	- Capacity building + policy design support - Support to industrial parks and priority value chains	Leadership capabilities: Strong leadership capabilities within PMO and EIC level between 2013 and 2020	Embedded support being more oriented towards "gap-filling": Most of the embedded support was functioning as a gap-filling process, rather than working closely with public officials to build their capabilities.
Industrial parks used to build domestic linkages	- Investment promotion + industrial policy closely coordinated - Targeted support to strategic sectors (e.g., textiles)	World Bank / IFC – Industrial park financing + investment climate reforms DFID (FCDO) & other bilaterals – Policy advisory + institutional capacity building UNIDO – Industrial policy and sector development support Embedded advisors (TBI) – Technical assistance within key ministries and agencies	Ownership of the agenda: Strong and clear government vision and leadership in Ethiopia Technical capabilities: Donors' capacity building programmes contributed to building strong technical capabilities within EIC and key institutions. Incremental learning-by-doing: EIC and IPDC's capacity to engage with investors and problem-solve with them.	High turnover among EIC graduates who benefitted from the Graduate Programme training, mostly due to lack of clear career paths within the civil service, and more attractive opportunities in donor organisations.

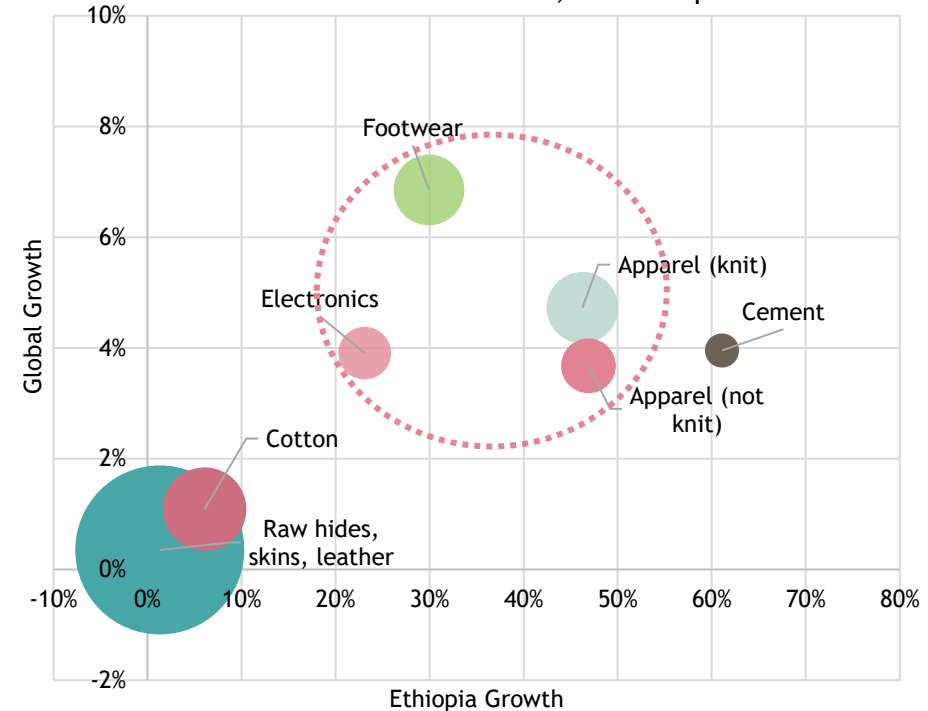
Sources:
Sutton
(2019); direct
experience
within TBI
Ethiopia

Ethiopia shows what can be done focusing on manufacturing and driving anchor investments

- Ethiopia stands out in the region as a country that has put particular emphasis on manufacturing-led growth, anchored in its 2002 special economic zone strategy.
- Ethiopia had an explicit focus on learning from China, seeking key investors in priority sectors and working through targeted problem solving with the private sector in pursuit of longer-term transformation
- In a comparatively short timeframe, it developed 13 public and 5 private industrial parks. A combination of tax holidays, preferential utility tariffs, cost sharing on training programs, and bringing anchor firms into the design of sector specific parks, led to capacity levels of up to 80% in its flagship parks.
- Aviation, garments, footwear and electronics have grown particularly fast.
- A number of donors supported this process with funds and technical advice, but it was the strong leadership of a couple of senior officials that drove the success.
- A series of shocks has set back this performance e.g.: COVID, internal conflict and the loss of preferential US market access through the African Growth and Opportunity Act.

Ethiopia vs. global growth

2006-15 ave. values & CAGR; select exports



“Ethiopia’s skills gap... [has] hindered the acceleration of structural transformation, unlike in East Asia, where foreign direct investment was able to capitalize on a large pool of trainable labor, enabling investors to improve productivity while benefitting from low production costs.”

- Country Economist, World Bank

Sources:
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Learning from successful cases of learning by doing - Rwanda and the development of GBS industry



Context	Approach	External support	Success factors & learning	Limitations
• Strong performance-oriented public sector culture • Central role of Rwanda Development Board (RDB) in investment promotion • Strategic push to diversify into services exports • Global Business Services (GBS) identified as a priority sector	• Partnership with Growth Teams to translate GBS strategy into implementation • Dedicated delivery team established within RDB • Investment case developed (value proposition, data, benchmarks) • Investor pipeline built through targeted outreach • Active facilitation support to early investors • Policy and regulatory bottlenecks addressed in real time	• Growth Teams – Embedded delivery support within RDB • Investment pipeline design • Investor targeting & outreach • Hands-on capability building through joint delivery • Complementary partner support: • GIZ / GFA / GBS Africa partners – Technical assistance on GBS ecosystem development • Workforce development partners (e.g., skills & training programmes) – Talent pipeline readiness	• Anchor investor attraction: 3 global firms secured/engaged • Iterative delivery model: Strategy refined through investor feedback • Institutional capability building: Skills transferred to RDB teams • Whole-of-government coordination: Bottlenecks solved across agencies • Demonstration effects: Early wins strengthened sector credibility	• Staff turnover: Rotations disrupted continuity • Institutional memory gaps from delivery team transitions • Capability sustainability still dependent on external support • Talent pipeline constraints (technical & language skills) • Ongoing reform needs to maintain investor confidence

Sources:
Growth Teams
<https://www.growth-teams.org/bl-og/rwanda-gbs>

Approaches to capacity building support (1/2)

- Relevant lessons from: law, governance reform, civil service reform and economic \development planning and policy.
- Targets: individuals, organisations, networks, systems.
- Objectives: Acquisition of capabilities, subsequent application and outcomes.

Method	Examples of external support	Category of intervention (according to the framework provided in slide 14)	Pros	Cons
Embedded adviser	• ODI Fellowship Scheme • TBI	• Support Pockets of Effectiveness • Bureaucratic technical capabilities	• Can respond to specific Government requests e.g. technical expertise • Help set up monitoring systems	• If there isn't a clear intention/focus to support the learning-by-doing process, it can turn into a gap-filling approach rather than building capabilities • Highly dependent on the quality of the specific adviser matters
Education, training, workshops	• Harvard Growth Lab Research Fellowship • UNIDO's EQUIP • AERC postgraduate training	• Bureaucratic technical capabilities	• Can target specific individuals and specific problems • Necessary for some technical skills	• Often isolated, no guarantee of changing behaviour/application of learning
Learning visits and exchanges	• African Development Bank (AfDB) • International Trade Centre (ITC) • World Bank Donor-Funded Staffing Program - public officials serve at World Bank and return with policy skills (e.g. Cote d'Ivoire)	• Bureaucratic technical capabilities	• "Seeing is believing" (especially with South-South Knowledge Exchange) • Opportunities to hear directly from practitioners/implementers	• Does not address implementation obstacles in home country • Lessons still need adaptation to home country
Communities of practice and peer exchange	• AERC • Rockefeller's Bellagio • SOAS Leadership Development Programme	• Support Pockets of Effectiveness • Bureaucratic technical capabilities	• Exchange of experiences, future network, ownership	• May lack sufficient focus or relevance

Approaches to capacity building support (2/2)

- Relevant lessons from: law, governance reform, civil service reform and economic development planning and policy.
- Targets: individuals, organisations, networks, systems.
- Objectives: Acquisition of capabilities, subsequent application and outcomes.

Method	Examples of external support	Category of intervention (according to the framework provided in slide 14)	Pros	Cons
Technical assistance e.g. expert support with delivery of outputs	• Oxford Policy Fellowship • World Bank via country/regional office trust fund mechanisms.	• Bureaucratic technical capabilities	• Can fill highly technical skills gaps e.g. investment, engineering, legal	• Gap filling approach (doing instead of the government) • Lack of ownership & full understanding
Information and resources e.g. research	• International Growth Centre (IGC) • UNCTAD • UN Economic Commission for Africa (UN ECA)	• Bureaucratic technical capabilities	• May raise awareness, understanding, opportunities and policy levers to enable evidence-based decisions	• Research and evidence not always tailored to key policy questions nor grounded in political economy • Tackling only the knowledge constraint
Leadership development (may include mentorship/coaching)	• Instiglio Government Partnerships • Rockefeller Foundation's Big Bets Fellowship • Big Win Philanthropy Leadership Development Programs • AGRA CALA Programme	• Elite quality	• Target (often self-selecting) influential individual champions with critical tools and strategy	• Single point risk if over-reliant on individual champion • Limited longevity of political appointees, general staff turnover
Learning by doing	• Harvard Kennedy School Building State Capability - Action learning Problem Driven Iterative Adaptation (PDIA))	• Bureaucratic technical capabilities • Embeddedness with Private Sector	• More effective learning, greater ownership	• Feasibility - requires minimum capabilities • Requires long-term partnership to be effective - PDIA cannot deliver lasting results through 'quick fix' or one-off interventions
Provision of equipment e.g. IT	• GIZ (Germany), JICA (Japan), KOICA (Korea) e.g. specialised training equipment for TVET colleges, labs for testing.		• Can be an important enabler to accompany skills training etc.	• Requires careful tailoring to the needs and suitability of local market • Maintenance and upgrading can be problematic

Key lessons and considerations for state capabilities building

Institutional learning matters more than one-off success

- Across contexts, from Ethiopia's EIC to Rwanda's RDB, progress stemmed from **organisations learning to solve problems iteratively**, not from single reforms, one-off studies or projects.
- The most successful models embedded **continuous feedback loops** between government, firms, and development partners.

Countries' ownership of the agenda is an essential ingredient

- Successful cases began with a **locally owned reform agenda** and political buy-in at the highest level—whether Ethiopia's industrialisation drive under Hailemariam, Rwanda's state-led push for service exports.
- External actors amplified rather than defined these priorities, aligning with national goals rather than donor frameworks.

Leadership and action-oriented champions are pivotal, if institutions are built around them

- Reform leaders such as Dr. Arkebe in Ethiopia were critical to driving coordination and implementation.
- However, **dependence on individual champions led to volatility**, momentum often slowed when leadership changed.
- Sustained impact required **institutionalising delivery routines** (e.g. Rwanda's investor facilitation process) so reforms outlived political cycles.

External actors can facilitate the learning-by-doing process not substitute

- Effective external actor support focuses on **building capacity through hands-on collaboration**, rather than outsourcing delivery, ownership and substituting for government.
- Where partners acted as embedded problem-solvers and coaches, governments gained lasting capability; where they acted as gap-fillers, learning was limited.

While external actors have a role to play in state capabilities building, some have played a supply-driven and counter-productive role

Typical donor-funded TA projects have mostly taken two forms:

1. **Reports-driven TA:** focused primarily on generating strategic insights and producing short-term analytical reports.
2. **Implementation-focused TA:** centred on implementing programmes.

Challenges with Reports-driven TAs

1. **Lack of adaptation to local context.** Focus on providing technical knowledge and **typically relies on blueprints and best practices. Often fails to adapt to the local political, social, and institutional context.**
2. **Lack of knowledge transfer and ownership:** **Knowledge transfer is typically absent** in these TAs, leaving institutions dependent on external expertise, lacking ownership in policies they need to implement, and in many cases, incapable of translating the learnings of these reports into actionable solutions.
3. **Assumes knowledge is the binding constraint** The reality is that while knowledge is important, it is only 20% of the solution, particularly for long-term sustainable change. The real challenge lies in translating reports and ideas into a reality on the ground, and this is a step in the policy cycle that has been typically overlooked by donors.

Challenges with Implementation-focused TAs

- They typically **substitute for government capabilities** by creating parallel systems (e.g., project implementation units established in many African governments) and by prioritising speed and short-term and “beans-counting” outputs over long-term outcomes.
- While this approach might seem appealing to respond to donors' pressure to “get things done” and show short-term results, substituting government capabilities **undermines the ownership from government staff and institutions, as well as possibilities of learning by doing and undermines long-term institutional strengthening.**

Lessons from learning-by-doing case studies and role of external actors

1. There is a need to shift to **context-driven, problem-driven, adaptive, iterative** and hands-on technical support for governments in developing countries. Context-driven support needs to be aligned with governments' own priorities and needs, rather than externally supply-driven.
2. This technical support **should not be driven by short-term outputs but instead by outcomes**. This could be through integrated support within institutions, working closely alongside government staff to transfer knowledge, provide coaching and guidance, and facilitate a hands-on and **learning-by-doing approach**, rather than doing instead of government staff.
3. This hands-on support could build on **existing pockets of effectiveness or focus on building ones**- high-performing units or individuals within organisations demonstrating the potential to drive significant change.
4. Furthermore, **an iterative and adaptive approach allows activities to be continuously refined based on implementation challenges and results**. This adaptive management approach ensure external actors' support remains responsive to changing conditions and emerging challenges, increasing the probability of lasting impact.