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Book

Supporting economic growth in low- and middle-income countries : identifying low-cost interventions

Report

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Identifying low-cost interventions

Dirk Willem te Velde

October 2024

How to cite: Te Velde, D.W. (2024) *Supporting economic growth in low- and middle-income countries*. ODI Report. London: ODI (https://odi.org/en/publications/supporting-economic-growth-in-low-and-middle-income-countries-identifying-low-cost-interventions)

Acknowledgements

This report has been drafted by Dirk Willem te Velde and is based on written material and ideas from a range of ODI researchers (Phyllis Papadavid, Mark Miller, Derrick Abudu, Yohanes Ayele, Jodie Keane, Sherillyn Raga, Simon Maxwell, Ganesh Wignaraja) and others (from from University of Cape Town (UCT) South Africa, Directorate-General for International Cooperation (DGIS) Netherlands, UK Foreign, Commonwealth & Development Office (FCDO), British International Investment (BII) and others).

Detailed case studies of six low-cost interventions are available from the author upon request. The author would like to thank Sheila Page for her comments and review of the report. We are grateful to the funder of this report, Open Philanthropy, for their comments and questions during a series of meetings and interactions in the lead-up to the publication of this report.

All possible errors or opinions expressed remain the responsibility of the author.

About the author

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Acronyms

ACET	African Center for Economic Transformation
AfCFTA	African Continental Free Trade Area
BII	British International Investment
CIG	Centre for Inclusive Growth
DEGRP	Development and Economic Growth Research Programme
DFI	development finance institution
DFID	Department for International Development
EPI	Economic Policy Incubator
EPC	Export Promotion Council
ESRC	Economic and Social Research Council
ESRF	Economic and Social Research Foundation
FCDO	Foreign & Commonwealth Development Office
FYDP	Five-Year Development Plan
GDP	gross domestic product
ICT	information and communication technology
IDA	International Development Association
KAM	Kenya Association of Manufacturers
LDC	least developed country
MITC	Ministry of Industry, Trade and Cooperatives
NGO	non-governmental organisation
NIC	National Implementation Committee
OSBP	one-stop border post
PIDG	Private Infrastructure Development Group
REPOA	Research on Poverty Alleviation
SET	Supporting Economic Transformation
SEZ	special economic zone
SMEs	small and medium enterprises
TFP	total factor productivity
TMA	TradeMark Africa
UK	United Kingdom
WTO	World Trade Organization

Executive summary

Achieving the ability to grow, transform the economy and create jobs remains a key priority for the poorest countries in advancing towards their development aspirations, such as raising living standards. This report sheds light on potential low-cost interventions that external donors can implement to help countries identify and use processes to promote growth.

To do this, it first discusses conceptual and policy approaches to growth, establishing that targeted actions are a crucial complement to general investment climate rules and regulations, if the market is to function to create jobs and industrialise. It defines the scope for targeted actions that external actors can support in appropriate ways. We then provide evidence of where grant-giving and equity injections have already led to traceable impacts on growth in the past: Aid for Trade interventions such as one-stop border posts; development finance institution (DFI) loans and grants; and growth and economic transformation policy advice.

Based on such experience of past interventions and discussions with growth policy experts, we draw up a range of possible low-cost interventions and highlight a few that have good potential to stimulate growth. These are all targeted interventions but in different areas on the broad spectrum of growth: industrial development; African trade policy; dealing with debt and macro crises; investing in gender empowerment; working with DFIs; and technology transfer for low-carbon development. We also discuss a number of other areas and trade-offs relevant to programmes that support growth interventions, including possible trade-offs between the need to support immediate or longer-term needs; providing support at a global or local level; providing financial or real sector support; basing support on stated needs or on experience and expertise in providing specific types of support; and focusing on high or low risk. We also suggest the use of adaptive management and learning in growth support approaches.

1 Introduction

Economic growth and transformation are critical to sustained increases in living standards in the poorest countries, especially in Africa (Lopes and te Velde, 2021). Several global challenges (e.g. political instability, climate change) and shocks (e.g. Covid-19, increased debt) currently threaten growth. Such challenges naturally influence short- and long-term development strategies in richer countries. For low- and middle-income countries, the ability to grow, transform their economy and create jobs remains the key priority with regard to development and better living standards, and becoming more resilient to such external shocks. Low- and middle-income countries need growth strategies, and external actors should consider supporting these.

Official multilateral and bilateral donors focus on areas such as governance, climate change, health pandemics and social safety nets, while overlooking support for growth and industrialisation, despite some small efforts (e.g. the former UK Department for International Development's (DFID's) Economic Development Strategy in 2017; the emergence of Jobs and Economic Transformation as a core theme in the World Bank's International Development Association (IDA) – Calabrese et al., 2020) that have not grown in importance. Philanthropic support also often focuses on the immediate symptoms of poverty, such as primary education and health, rather than on the long-term causes of poverty reduction, such as growth.

This report argues that it is important for all types of donors to understand, and provide more and better support to, growth in the poorest economies. Such support to economic development as a long-term process involves incentivising private sector firms and households to undertake economic activities and create jobs. This is different from the delivery of social outcomes by the public sector, involving schooling or building health clinics. The immediate causal chain to stimulate growth is longer, and hence more difficult to trace. Cost-benefit analyses that focus on easy-to-measure outcomes (e.g. the Copenhagen Consensus) have an implicit bias towards social outcomes such as children in school rather than long-term economic or climate objectives. Economic benefits could be greater than the immediate benefits usually recorded under cost-benefit analyses, as they depend on factors other than the one intervention being considered (while omitting other indirect and long-term effects).

This report aims to shed light on whether and how low-cost interventions can support governments to promote growth and economic transformation. Section 2 discusses approaches to growth and argues that coordinated approaches around a targeted set of activities are a crucial growth policy complement to putting in place general rules and regulations that help the general investment climate. This provides a conceptual basis for donors to engage in a targeted way. Donors will also need to understand what approaches and interventions have successfully been put in place by governments to promote growth and economic transformation. As such, we examine a selection of successful interventions that illustrate that growth interventions can work (Section 3). Where appropriate, we refer to past work.

With knowledge on how external actors may help governments support growth in general, and specific evidence on how specific interventions have worked in the past, Section 4 puts forward a number of low-cost interventions that could be proposed to philanthropic donors that would like to support governments in promoting growth. Section 5, acknowledging that it is hard to get this right, suggests an approach of learning and adapting growth approaches. Section 6 comments on what a growth strategy could look like, with a focus on the distinctive characteristics of philanthropic donors. Section 7 concludes.

2 Targeted approaches towards supporting growth

While most would measure progress on economic development using data on gross domestic product (GDP),[1] it is actually not straightforward to identify the factors behind GDP growth. The reasonable consensus (Commission on Growth and Development, 2008; Lifn, 2011) is that we know the likely ingredients of growth but not always the recipes (though some advances are being made in this regard), let alone the chefs who bring the ingredients together in appropriate ways.

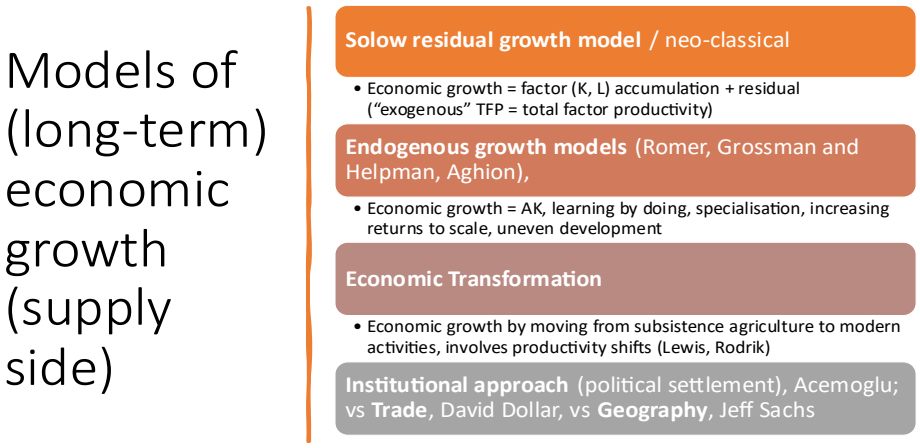
There has been much research on economic growth from different perspectives; Figure 1 covers four of these. Economic growth can occur through more capital or labour (but usually with diminishing returns) or higher total factor productivity (TFP: the efficiency by which factors are employed). Most growth is explained by TFP, also called the Solow residual, but the Solow model does not state how TFP can be enhanced (it is regarded as exogenous). Endogenous growth models suggest that funding capital investment will lead endogenously to further growth through learning by doing, but this means specialising in those (sophisticated/technology-intensive) activities, and again this does not explain how this can be done, and how interventions could support this. In addition, failing to specialise in the appropriate activities may lead to uneven and lagging development. In models of economic transformation covering periods of 20–50 years, for sustained growth, resources (labour, capital, land, etc.) need to move from low- to high-productivity activities; more of the same will be a cul-de-sac. Finally, for explanations of economic growth over the very long run (50+ years), authors such as Sachs, Dollar and Acemoglu have emphasised the importance of quality institutions, geography and openness. These high-level growth models tend to say little about how policy might support the growth process.

Different economic policy approaches have been in fashion at different times (Figure 1). Some approaches have argued for heavy

[1] This is debated by, for example, Morten Jerven (2015), in the context of poor data in Africa. In addition, there are rather important questions around inclusive growth (whom is it for?) and sustainable growth (is it climate-compatible?).

state-led intervention (e.g. import substitution, 1960s–1980s, e.g. by Raul Prebisch); others have emphasised deregulated, liberalising markets (early 2000s), as per John Williamson's Washington Consensus. The growth diagnostic approach (by Hausmann, Rodrik and Velasco) and the Growth Commission have taken a position in between these extremes, arguing that market-friendly policies are important but that a capable state can enhance markets (and solve market and coordination failures) and promote economic growth. According to these accounts, governments can support economic growth and transformation in general and targeted ways (McMillan et al., 2017), though there are also risks. Grant-giving by external actors can support governments in supporting markets successfully and in addressing risks and learning from failures.

Figure 1 Models of economic growth



Source: Te Velde (2022)

Further summary reflections have been provided by Dercon (2022). He suggests there are four traps:

1. Countries are poor because of poor endowments.
2. Market failures trap poor people into poverty.
3. Market failures trap poor countries into poverty.
4. Growth traps stem from failures in states and governance.

In trying to identify ways to support growth and development classics, Sachs (*The End of Poverty*, 2006) suggests aid is a silver bullet, but this approach has been discredited as too simplistic. The randomised control trial revolution (Banerjee and Duflo, *Poor Economics*, 2012) suggests growth can be supported by one small intervention at a time based on evidence; others suggest external aid may only make things worse (Easterly, *The White Man's Burden*, 2007). The international system, according to some (Stiglitz, *Globalization and Its Discontents*, 2003), is stacked up against growth in poor countries. There is a need for aid and trade combinations to escape

from poverty traps (Collier, *The Bottom Billion*, 2008) but history matters (Acemoglu and Robinson, *Why Nations Fail*, 2013).

The Growth Commission report (Commission on Growth and Development, 2008) provides more detailed guidance on how to stimulate growth. Countries need to focus on five key pillars of growth (key ingredients): openness, macro stability, future orientations stimulating high savings, market-based allocations and capable government.

According to the Growth Commission report, growth policy ingredients include:

- high levels of investment (infrastructure, human capital)
- technology transfer
- competition, labour markets
- export promotion/industrial policy
- exchange rates, financial openness
- urbanisation, rural investment
- equity, regional development
- environment and
- quality of debate.

'Bad' (in terms of bad for economic growth) ideas include:

- subsidising (fossil fuel) energy
- the civil service as the employer of last resort, underpaying civil servants
- reducing the fiscal deficit by cutting infrastructure spending
- open-ended protection for specific activities
- price controls to stem inflation
- banning exports (apart from arms and illegal substances)
- resisting urbanisation and ignoring environmental concerns
- weak banking regulation, appreciated exchange rates and
- focusing on only quantity rather than quality of education.

Other authors and reports have put forward other factors behind growth.

Growth is not just about knowing the appropriate factors and ingredients; it is also about knowing how to combine these using *recipes* and *chefs*. Considering how to overcome barriers to growth also leads us to focus on capacities and coordinating functions in four areas (Ansu et al., 2016):

- growth and economic transformation as a shared *nation-building project*
- an effective lead agency with *sufficient autonomy, budgetary control and political authorisation*
- institutional arrangements that *coordinate a set of powerful public and private actors* and
- discovery through *explicit experimentation, good feedback and timely correction.*

These observations on political economy matter. We argue that targeted, sustained, yet opportunistic efforts are likely to pay off most. Our work in the past decades with individual bilateral donors as well as the Donor Committee for Enterprise Development suggests business climate reform is not enough (this was the going growth policy prescription around the publication of the 2005 World Development Report: additional, targeted, support that delves into political economy issues is critical (see McMillan et al., 2017; Ripley and te Velde, 2020). Newman et al. (2015) define this as 'investment climate plus.' These include the interventions in the column on the right of the matrix below.

Table 1 A typology of public actions to promote economic growth and transformation

	General enabling interventions	Targeted interventions
Public actions to support structural change	• Investment climate reforms • Financial sector development • Strengthening state–business relations	• Export push policies • Exchange rate protection • Selective industrial policies • Spatial industrial policies • National development banks
Public actions to support within-sector productivity growth	• Building fundamentals • Investments in basic production knowledge • Managerial good practices as public goods • Agricultural innovations • Promoting competition	• Management training • Attracting foreign direct investment • Export diversification • Developing global value chains • Increasing agricultural productivity

Source McMillan et al. (2017)

3 Successful historic interventions to promote economic growth

The previous section argues that targeted approaches are required to stimulate economic growth, thereby complementing general enabling rules and regulations. Sustained transformation requires many types of intervention, but it is possible that individual actions may help. This section examines whether particular interventions, such as a financial stimulus or support for policy action, have had demonstrable impacts on economic growth in the past. It can be complex to measure the impact of interventions on jobs and economic growth, for which the private sector needs to be encouraged to act, and direct and indirect effects need to be measured. The causal chain tends to be long, complex and less deterministic for interventions aimed at supporting growth.

We discuss four different types of grants to support growth. Across these cases, the causal chain is operated in different ways, illustrating different pathways between intervention and growth:

1. a grant for trade-related infrastructure – that is, a one-stop border post (OSBP) in East Africa (TradeMark Africa, TMA)
2. a grant to support analysis and policy engagement around policy for economic transformation in Africa and South Asia (Supporting Economic Transformation, SET)
3. a grant to support technical advisors aiming to offer high-quality, practical approaches towards investment promotion in Nepal (Economic Policy Incubator, EPI/Centre for Inclusive Growth, CIG)
4. equity and loans: equity to support companies (M-Pesa), a financial injection into a tea factory (Gatsby/Wood Foundation) and development finance institutions (DFIs) loans, guarantees and equity more generally.

3.1 One-stop border posts

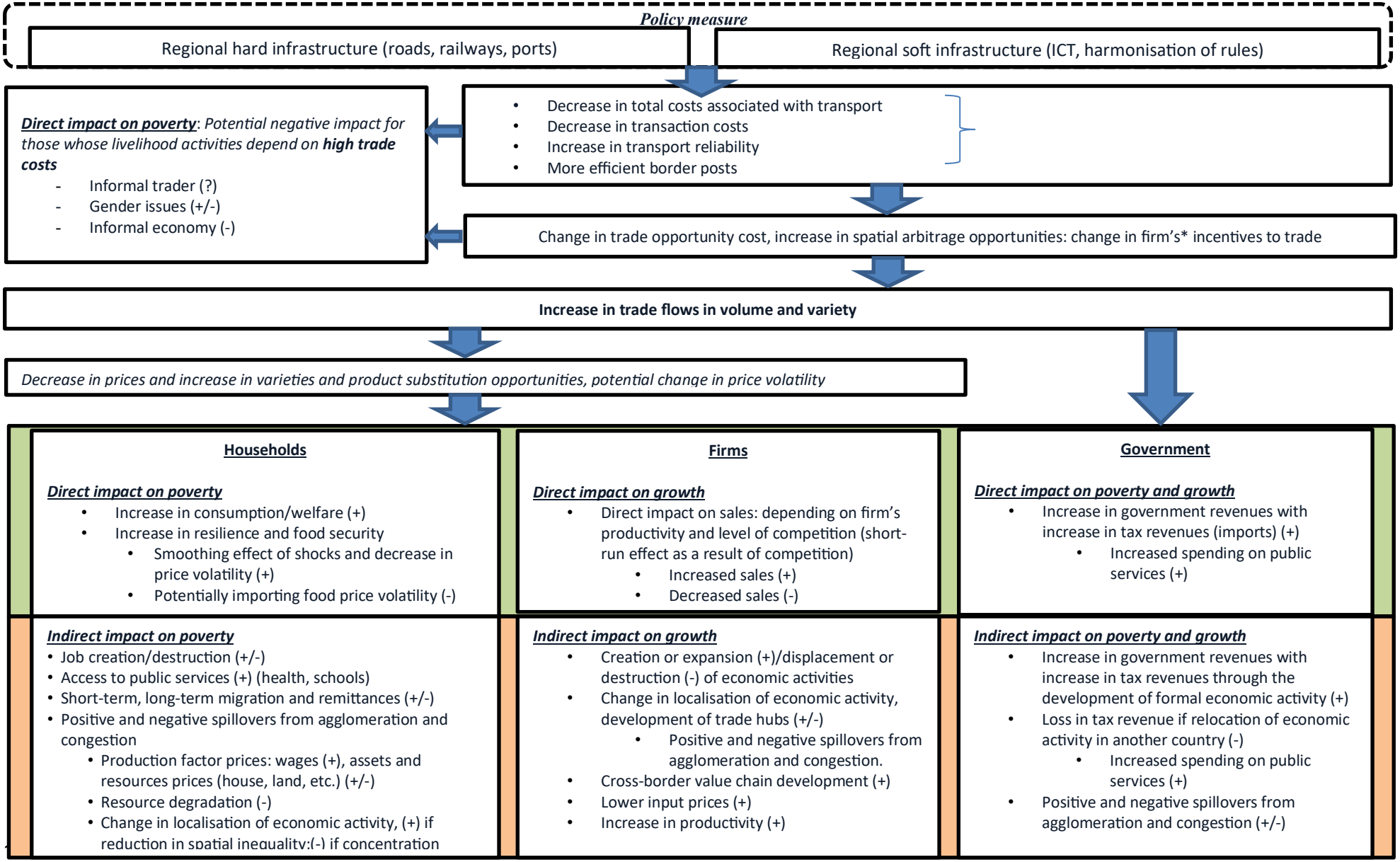
An OSBP consists of hard (a serviced building, a road) and soft infrastructure (e.g. harmonised regulations, procedures) that reduce the time it takes to trade, which reduces the cost of trading. This in turn can lead to increased trade volumes and lower trade and consumer prices, which helps consumers, firms/processors and governments, depending on price pass-through.

Jouanjean et al. (2016) examined empirical evidence for the pathways expressed in Figure 2 as one example on how to trace effects. Evidence for indirect effects of regional infrastructure include (ibid.):

- stimulating economic activity around the border, including for most informal traders
- helping firms in African countries connect to modern value chains and in particular global value chains
- facilitating long-lasting effects through the productivity of firms.

Recently, Mendez-Parra and Calabrese (2023) and Ayele et al. (2023) assessed the impact of OSBPs on trade costs (Box 1). Operational costs are estimated to have been reduced by around 10% for a range of OSBPs. The costs of maize imports reduced by 5%. Such reductions in trade costs feed through the rest of the economy.

Figure 2 Pathways of impact of regional infrastructure (e.g. OSBPs) on growth and poverty reduction



Source: Jouanjean et al. (2016)

Box 1 One-stop border posts in East Africa: impact on transport costs

Based on the assessment of the effects of OSBPs in Busia (between Kenya and Uganda), Taveta–Holili (Kenya and Tanzania), Mirama–Kagitumba (Uganda and Rwanda) and Mutukula (Uganda and Tanzania), Mendez-Parra and Calabrese (2023) find the following:

- Reductions in the total dwelling time owing to the OSBPs are between 62% (Busia, Kenya) and 87% (Holili).
- The impact is larger in absolute terms for those borders that had long crossing times to start with.
- The reduction in dwelling times is owed, in general, to significant reductions in the time it takes for customs procedures. This leads also to a reduction in queuing times.
- Reductions in dwelling times have been greater at the border posts located in Uganda (Busia and Mutukula) and Tanzania (Holili and Mutukula).
- The consequent reduction in operational transport costs is higher for traffic entering Uganda and Tanzania.
- The operational costs for transporters are calculated to have fallen as a result on routes such as Nairobi–Kampala (by 14%), Mombasa–Mwanza (by 12%) and Dar es Salaam–Kampala (10%).
- In the case of the transport flows going into Kenya, the fall in transport costs has been small (around 1%).

These estimates can be used at the start of a more comprehensive impact assessment. The impact on producer and consumer prices can be assessed once information on the market structure of the transport sector and the respective products has been evaluated. Assuming a full transmission of the reduction of the operational transport costs, we can obtain for some key products an upper bound on the price effects generated by OSBPs. The reduction in transport costs for imports of maize will be around 5% (between Mombasa and Mwanza) of the price of the product.

Source: Ayele et al. (2023); Mendez-Parra and Calabrese (2023)

There are challenges in assessing indirect effects. Ayele et al. (2023) try to address some of these. The report examines whether reduced trade costs are transmitted to consumers in the form of lower consumer prices and lower household expenditure. The hypothesis is that, under competitive market conditions, a reduction of transport costs is expected to result in lower consumer prices and lower consumer expenditure. The report estimates gains for consumers in terms of lower prices are between 9% and 12.3% for maize crossing

the border in Busia and between 4.5% and 6.8% for that crossing the border at Taveta–Holili. Rural households saved KES 68–76 (Busia) and KES 34–68 (Taveta–Holili) for maize. Core urban households saved KES 64–87 per month. The household gains from rice are lower than the gains from maize. Such impacts are 'traceable,' through careful estimations and causal chain analysis.

3.2 Aid grants to support analysis and engagement around economic transformation (SET)

A different causal chain and impact pathway relates to analysis and research; here we discuss impacts on uptake and policy formulation as a first step (a second step would be to measure the impact of that policy change on growth and economic transformation). The impact of research is not easy to assess and usually involves several long pathways. One successful grant in the DFID–Economic and Social Research Council (ESRC) Growth Research Programme (2012–2020) was awarded to Maggie McMillan, Dani Rodrik and others (around £800,000 in a portfolio of $25 million of projects). Box 2 discusses how this grant has had impacts. Evidence suggests it is useful to complement such research with more practically oriented engagement programmes.

The Development and Economic Growth Research Programme (DEGRP) has stimulated further Foreign & Commonwealth Development Office (FCDO) grants and practically oriented analysis and policy advice, such as ODI's SET programme (2014–2019).[2] One core objective of SET was to establish it as a 'centre for global knowledge' on economic transformation and make a significant contribution to academic and policy debates on the best ways to achieve growth and economic transformation in practice. This has been achieved through, for example:

- producing comparative and thematic analyses on topics related to economic transformation, including on gender, digitalisation, manufacturing, services, trade and macroeconomics, which has generated uptake by key audiences
- forging sustainable partnerships with in-country organisations, such as the African Center for Economic Transformation (ACET), the Kenya Association of Manufacturers (KAM), Peking University, the Economic and Social Research Foundation (ESRF) and Research on Poverty Alleviation (REPOA) in Tanzania, with a focus on growth and economic transformation
- convening globally known economists and policy experts such as Dani Rodrik, Helen Hai, Louise Fox, John Page and Adair Turner

[2] See https://set.odi.org/impact/

at public events and targeted workshops in London and low-and middle-income countries

- engaging ministers from Ethiopia, Ghana, Kenya, Liberia, Mozambique, Nepal, Nigeria, Rwanda and Tanzania with SET analysis and policy advice
- disseminating research findings and policy recommendations, achieving over 200 mentions in national and international media outlets (TV, print and online), including *The Financial Times*, *The Economist*, *Africa Business* and local media
- influencing the analysis of international organisations (e.g. the African Development Bank, the World Bank, the United Nations Economic Commission for Africa, the United Nations Industrial Development Organization, the International Growth Centre), other research outlets and prominent economists, evidenced by direct citations of SET data, findings and recommendations
- inspiring donors to take up and use the findings for their own programmes of analysis (e.g. DFID's Invest Africa programme, Mastercard, the Swedish International Development Cooperation Agency)
- growing the SET programme's website into a centre for data and other information on economic transformation, evidenced by the figure of just under 150,000 tracked downloads over 3 years.

Box 2 Impact of the DEGRP grant to Macmillan, Rodrik and the University of Groningen

The period 2010–2015 saw the development of new narratives on structural transformation and industrialisation on the African continent, something that did not exist in quite the same way before that period. During that time, key African and global institutions, donors and decision-makers all set out a much clearer vision of the value and role of economic transformation in reducing poverty and improving lives. The DEGRP work on structural change was a key part of this narrative, even if it was only a small piece of the puzzle. This was a project that was in the right place at the right time to provide metrics and evidence of how structural transformation looks in 11 African countries. The project (a £800,000 grant of a portfolio of $25 million of grants) therefore plugged an important data gap, and has allowed other researchers and decision-makers to use the data to help unpick and advance the Africa growth story (which may then have led to growth outcomes).

The strongest impact that can be determined from the case study is its **conceptual contribution**. The project may well have contributed to **instrumental impacts**, but it is too early to understand exactly what governments are doing differently. Of course, what

governments ultimately do will be influenced by a range of factors, but there has been a clear conceptual shift at a global, regional and national level. This has been accompanied by a great deal of interest in the type of data that has been collected by the project and its framework for analysis. A better awareness of growth and economic transformation is an important step in the formulation of policies for growth and transformation.

The project team focused closely on prioritising partnerships and consolidating and building new networks, particularly thanks to ACET's role in the project.

It is clear that achieving impact is not a straightforward, linear process, and certainly, one small project is unlikely to create major change by itself. However, this DEGRP work has had some very impressive impacts. It has provided new and robust data and a strong analytical framework to help people think differently about an important economic and development issue.

Source: Cassidy (2017)

The DEGRP has also generated uptake and impacts at the country level. The SET programme has worked in Kenya since 2016. SET work in Kenya has spanned government departments and agencies, DFID Kenya and other donors, private sector actors and civil society, and contributed successfully to the promotion of the manufacturing agenda both ahead of and after the 2017 Kenyan presidential elections. SET has additionally succeeded in influencing the plans and priorities of both government and the private sector. The programme's key activities and contributions are summarised as follows:

- convening over 30 senior figures from the Ministry of Industry, Trade and Cooperatives (MITC), DFID Kenya, and private associations including KAM, TMA and others, to discuss constraints to and opportunities for manufacturing in Kenya and build a consensus on the role of the sector in the country's industrialisation plans
- partnering with KAM to develop a comprehensive 10-point policy plan to promote manufacturing and create jobs during the election period, influencing the manifesto development process within political parties and, at the high-profile launch event, securing a ceremonial commitment from politicians to implement the plan if elected as well as significant media coverage
- supporting the Export Promotion Council (EPC) during the review of Kenya's export strategy with analysis of Kenya–UK trade and investment trends and offering recommendations to reverse the decline and increase Kenya's share of the UK market. A high-profile launch hosted by the EPC resulted in widespread media coverage and pick-up of the key messages at the highest levels

- working closely with MITC to facilitate discussion and relationship-building between small garment, leather and textile firms and Kenyan banks, to ease financing constraints on growth of the manufacturing sector
- supporting MITC and the Executive Office of the Presidency with the implementation of the manufacturing 'pillar' of President Kenyatta's flagship Big Four agenda by analysing the role of micro, small and medium enterprises in value chains, helping build a credible framework for reform.

Similar inputs were made in Tanzania and Rwanda. SET helped inform and design Tanzania's Second Five-Year Development Plan (FYDP II) 2016/17–2020/21 and continues to guide prioritisation and strategic thinking around the country's economic transformation. The programme also directly supported the preparation of an Implementation Strategy for the FYDP II, ensuring it was underpinned by relevant principles and factors to achieve successful implementation. SET was also influential in motivating the formation of a monitoring and evaluation framework to track progress and demonstrate results. SET helped Tanzania's Planning Commission to prioritise the sectors most relevant for economic transformation, identify policy options and ways of working to address binding constraints to transformation, and devise ways to mobilise finance and engage development partners and enlist their support for interventions, as witnessed in the FYDP II. SET also supported the Government of Tanzania to adopt a more inclusive and consultative approach to the preparation of the FYDP II and its implementation. To help speed up implementation of the FYDP II, the SET programme supported Tanzania's Ministry of Finance and Planning to prioritise key projects and identify financing mechanisms and appropriate ways to involve the private sector and other financing actors in implementation. SET helped build networks spanning government, businesses and donors in Tanzania. This included direct support for better engagement between the government and the private sector and the facilitation of dialogue between the government and Tanzania's development partners.

In conclusion, research complemented with analysis and engagement can help convene partners that can collectively implement policies and stimulate economic transformation. DFID evaluated the programme as a top A+. Of course, it is also important to show that policies that have been signed or influenced with the knowledge of SET activities have actually promoted growth and transformation.

3.3 Aid grants for investment promotion in Nepal

Support for embedded advisors or local policy experts can be effective in stimulating growth when combined with problem-solving approaches. We have provided evidence for the achievements of ODI fellows elsewhere.[3] Here we discuss an example of incubating policy for economic transformation in Nepal.

David Booth authored 'Incubating Policy for Economic Transformation: Lessons from Nepal' in 2018. In the piece, he argued that there were successes from a DFID programme in Nepal, the Economic Policy Incubator (EPI). EPI contributed to a significant breakthrough in fast-tracking and improving the legislation on special economic zones (SEZs). It facilitated important amendments to other Acts that are critical to the investment climate in Nepal. These results were the product of a learning process that led the team first to abandon an initial 'bet' on improving the bureaucratic procedures for the entry of new businesses and then to discover ways of addressing the political concerns that were holding up the passage of key laws in parliament. A change in law has helped improve the climate for investment.

The distinctive features of EPI's approach included:

- focusing on problems that stakeholders are motivated to solve
- maintaining a range of tactical options, with respect to entry points (e.g. regulations versus laws) and coalitions (e.g. bureaucrats versus politicians) and
- combining high-grade technical advice with formal and informal brokering, convening and persuasion.

There are two other related case studies (Nepal and Nigeria) funded by DFID (see Booth, 2016, 'Politically Smart Support to Economic Development') which have led to new investment. In Nepal, the DFID-funded Centre for Inclusive Growth (CIG) (2010–2015) focused on the country's untapped hydropower potential. Developing this required significant foreign investment but political instability and other governance challenges made attracting investors difficult. Vital potential deals stalled, and investors walked away. CIG helped create a new Investment Board of Nepal to help it broker and negotiate hydro deals. In late 2014, this approach helped in obtaining an agreement on over $2 billion of new foreign direct investment in hydropower. Two major investments were agreed that would more

[3] An ODI Fellow in Rwanda led a team that developed a revised five-year Energy Strategy, which cut in half the target for building power station capacity, and saved the country a great deal of money in infrastructure expenditure. An ODI Fellow in the Ugandan Debt Management Department built a database of domestic debt and supported capacity-building of the department by handing work over to colleagues and supervising and training staff who were newly recruited to the domestic debt team. The Fellow was able to create the processes and primary database for staff to use, and then provided adequate training and supervision to enable staff members to be fully equipped to work within the team and train new recruits themselves.

than double Nepal's electricity production and generate large export revenues. The programme resources were responsive to emerging opportunities as the political winds changed. A balanced combination of trust and active oversight can make this model work, with high development payoffs, including contributions to institutional improvement that may not be achievable by more conventional means.

Traceable, headline results of the project include (Booth, 2016): agreements on over $2 billion in foreign direct investment in hydropower finalised in September–November 2014; the India–Nepal Power Trade Agreement, signed in September 2014; deals for two 900 MW hydro-electric power plants to double Nepal's current electricity production capacity, generating major export revenues as well as boosting investor confidence; and a rare example of cross-party and cross-institutional agreement on a politically sensitive economic development priority

3.4 (DFI) Equity to support companies, or a financial injection into a company (Gatsby)

The fourth way in which donors can stimulate growth is by investing in equity funds or by taking equity stakes and providing loans to individual companies and start-ups, or by supporting specific projects of companies. There is a lack of capital at affordable cost in low- and middle-income countries, and Section 2 has shown that capital investment is a major driver of economic growth. Financial markets in those economies are underdeveloped and fail to allocate savings and deposits towards productive uses efficiently. There are micro-, meso- and macro-level studies suggesting that investments by DFIs have had impacts.

One example of grant support for a company is the M-Pesa grant. This grant of $1 million in 2007 was used by Vodafone to develop new business models specifically for Kenyan users, which attracted many new users in a short period of time. M-Pesa generated $534 million in revenues for Safaricom alone (2017) (Highline Beta, nd). There were also significant growth and development outcomes: 2% of households were lifted out of poverty, with the impact more pronounced on women-headed households (Suri and Jack, 2016). M-Pesa also helped increase Kenya's financial inclusion from 26% in 2006 to 84% in 2021.

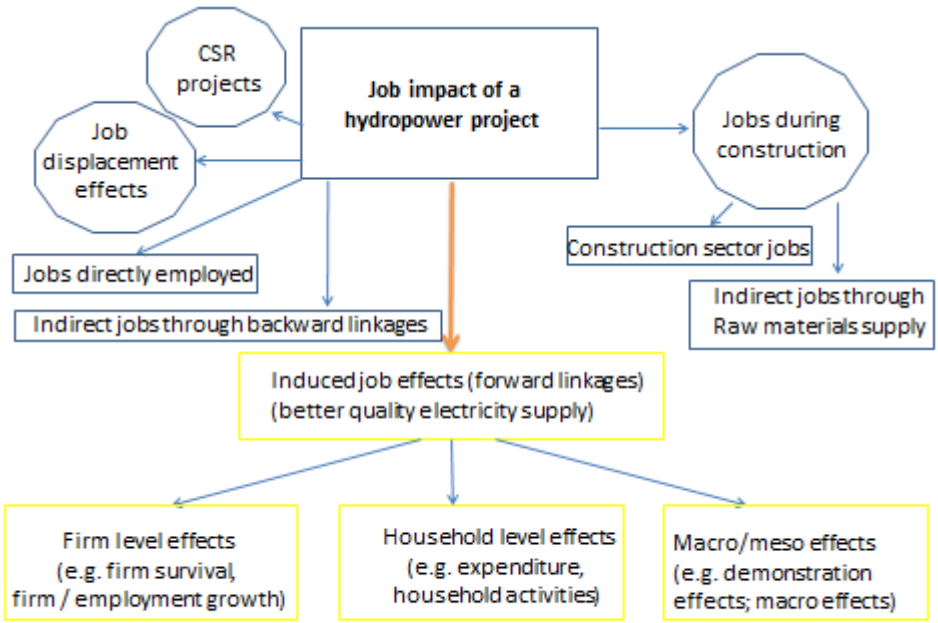
Meanwhile, charitable organisations/philanthropies such as Gatsby and the Wood Foundation have taken an equity stake in tea plants. For example, Gatsby Africa and the Wood Foundation changed from facilitator to investor by acquiring two tea factories in Rwanda in 2011. It could show the commercial viability of smallholder-owned factories as part of a wider programme of sector transformation. The work has resulted in direct benefits to 14,000 farmers; follow-on

investments of $50 million, including greenfield projects by Unilever and Luxmi; and tea exports on track to reach $209 million by 2024 (up from 93 million in 2019/20). The approach is long-term and high-risk, with £20 million+ committed over a time horizon of 15+ years (BII and Gatsby Africa, 2022).

Making direct investments has built greater credibility with industry and government, and resulted in more tangible, on-the-ground impact. In 2022, the factory was handed over to Rwandan smallholders. Since privatisation in 2012, a total of $15 million in financial and operational support has been invested in the factory, while farmer incomes have doubled in the same period. The factory has improved the lives and livelihoods of those living in the Mulindi region, Rwanda, through the following achievements: factory capacity has doubled; average farmer annual gross income doubled between 2013 and 2021; green leaf production has increased from 13.5 million kg in 2013 to 18 million kg; more than 5,000 farmers have been trained on best practice tea management skills; Mulindi was recognised as the best taxpayer by the Rwanda Revenue Authority in 2015, 2017 and 2019.

There are several examples of the impact of investments supported by DFIs. Te Velde (2011) discusses how to trace job impacts of a Bugoye small hydropower project, supported by the DFI Private Infrastructure Development Group (PIDG) (see Figure 3).

Figure 3 Conceptualising job impacts of a hydropower project



Source: Te Velde (2011)

Following these pathways, Scott et al. (2013) examined the impact of the Bugoye hydropower plant in Uganda relating to the construction and installation of a generation plant, which sells all of its electricity to the transmission company and the grid, and which was supported by PIDG. The study was used by the official UK National Audit Office to explore the impacts of PIDG. The study used a production function estimated from the most recent World Bank Enterprise Survey data and, in the absence of suitable input–output tables, estimated a multiplier using expenditure and employment data. Induced and second-order effects were found to be more significant than direct and indirect effects. The study found that the power plant had contributed to the creation of 1,079 direct jobs, 191–199 indirect jobs and between 8,434 and 10,256 induced jobs through the wider effect of supplying approximately 2.9% of Ugandan energy between 2009 and 2012.

In a series of studies on the macroeconomic impacts of DFIs, te Velde (2011) and te Velde et al. (2016) find evidence of the positive direct and indirect economic impacts of DFIs, for example on growth, productivity and employment. Te Velde et al. (2016) show that a 1% increase in the DFI-to-GDP ratio increases average per capita incomes by 0.24% in Africa. There is also evidence that DFI investments can increase labour productivity (Jouanjean and te Velde, 2013; te Velde et al., 2016) through investments in higher-productivity sectors such as manufacturing or in infrastructure that enhances productivity, such as transport infrastructure or energy. There is also evidence that DFI investments have a positive impact on employment (Jouanjean and te Velde, 2013), both directly and indirectly. These macro-level studies corroborate the micro-level findings above.

3.5 Summary of the impacts of the four types of grants

Table 2 provides a summary of the impacts of these interventions.

Table 2 Summary impacts of four different types of grants

	What is grant used for?	How are direct/ indirect effects estimated?	Headline results
Trade-related infrastructure (TMA)	Hard and soft infrastructure (OSBP), estimated at $25 million per OSBP depending on size	• Direct transport time and costs • Indirect impact on trade, consumer prices, jobs	• 10% reduction in trade costs • Lower prices by 9–12.3% for maize originating from Busia and 4.5–6.8% for that from Taveta–Holili
Analysis and research (DEGRP and SET)	• Analysis, engagement, convening, public affairs. • Research grant often $1 million • Analysis and engagement around $5 million	• Impact on narrative using citations and feedback • Types of meetings convened	• Engaged with ministers and country plans in Kenya, Tanzania, etc. on industrial policy formulation

			• Significant citations and uptake, which has helped formation of growth policies
Investment promotion (EPI, CIG)	• Formation and operation of investment promotion agency (through CIG) • EPI received around $20 million	Institutional capacity and related activities	• Passing SEZ and related legislation with support from EPI • India–Nepal Power Trade Agreement signed September 2014 • Agreements on over $2 billion in foreign direct investment in hydropower finalised September–November 2014
• M-Pesa/ Vodafone • Equity investment in a tea factory in Rwanda (Gatsby/ Wood Foundation)	• M-Pesa grant was $1 million to Vodafone, equity investment varies • $15 million investment in the tea factory, which has since been handed over to Rwandan smallholders	• New business models, rapid increase in users • A well-established tea factory	• M-Pesa generated $534 million in revenues for Safaricom alone (2017) • M-Pesa lifted 2% of households out of poverty, with impact greater on women-headed households • M-Pesa helped increase Kenya's financial inclusion from 26% in 2006 to 84% in 2021 • 25% of gross national product flows through the M-Pesa system • The tea factory has improved the lives and livelihoods of those living in the Mulindi region, Rwanda

4 Promising ways forward to support growth

4.1 Long list of low-cost interventions to support growth

Based on the experience of past interventions (Section 3), discussions with growth policy experts and a survey of relevant materials, we have drawn up a range of possible low-cost interventions. These are all targeted interventions but in different areas on the broad spectrum of growth. For each of these interventions, Table 3 presents the basic idea, the structure of the support, the rationale and possible traceability (or tractability), and finally the funding environment for the idea, or 'neglectedness.'

Table 3 Selected growth interventions

	Idea (examples)	**Basic idea**	**Structure of support**	**Rationale (and traceability)**	**Funding; neglectedness**
1	ODI-like Fellowship Scheme on industrial policy	To strengthen the capability of African governments to undertake more effective industrial policy interventions	Seeking to promote more effective industrial policy making through partnerships with African governments	ODI Fellows and similar programmes have been associated with impact and uptake, including policy change	Funders cut back on funding owing to overall funding cuts
2	African university: African Continental Trade Area (AfCFTA) trade academy	To train negotiators around AfCFTA trade issues	Grant to an African university and network	Increased trade expertise could build on political momentum around AfCFTA and make a step change in trade policy-making and public–private interaction	Lack of donor funding to support this initiative
3	TMA: OSBP in an appropriate location	To fund hard and soft infrastructure of an OSBP in a neglected area	An OSBP costs around $10–15 million over 3 years	OSBPs reduce trade time and costs, and raise exports	Some are funded, especially in East Africa, but other parts of Africa still need funding
4	Finance, gender and unlocking female entrepreneurship in selected locations	Knowledge-building and venture capital fund to tackle funding gap for missing middle – for mid-sized	Accelerating and scaling finance through knowledge-building and investment in mid-sized	Lack of affordable finance and access to resources for mid-sized companies that	Women own or run around one-third of small and medium-size businesses in emerging markets; one of

		female-led companies in developing economies Increasing competitiveness and access to finance is essential at a time when shocks (cost of living, rising rates and impacts of Covid-19) threaten to take millions back into poverty and disproportionately impact women	female-led companies for improved health, productivity and education outcomes	are looking to scale, digitise and train and hire further employees – a particular challenge at a time of higher borrowing costs	the most significant barriers to their expansion is a lack of finance (International Finance Corporation estimates a $1.48 trillion funding gap)
5	Work with DFIs to enhance growth and transformation impacts (e.g. blended finance)	To attract more DFI finance in difficult countries and sectors	Coordinate a grant with DFI finance to enhance credible pipelines	(Some) DFIs find it hard to cover small investments in fragile contests and grant finance is needed to complement	Few incentives for DFIs to seek to fund small activities in fragile contexts
6	Targeted skills development	To train company managers and exporters in selected countries and sectors	Find appropriate ways to work with companies	Quality of firm management and exporting requirements matter for productivity	Training whose benefits firms cannot appropriate is undersupplied
7	Migration policies, skills partnerships	To develop skill partnerships between countries (e.g. within the Commonwealth)	Develop skills and legal pathways for migration	Lack of movement is often seen to be a major growth impediment	There is little funding for this politically sensitive area
8	Low carbon energy/ value chains/ critical minerals	To operationalise clean/green value chain development objectives	Advisory and implementation? with World Trade Organization (WTO) (Trade & Environment Division) and Enhanced Integrated Framework (Aid for Trade), and leverage our existing network with least developed country (LDC) trade negotiators	Technology transfer, carbon standards identified as critical trade–climate nexus issues by LDC trade and climate negotiators; need to reconcile Nationally Determined Contributions with trade strategies	The issue is at the nexus of trade–climate technology transfer under Art. 66.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (WTO) is neglected, failure to operationalise
9	Building an effective SEZ	A clustered and targeted approach towards (industrial) development in a country	Financing an effective SEZ usually requires $25–100 million over 1–4 years	SEZs are effective mechanisms around industrial policy within coordinated with other industrial policy activities	Underfunded activity
10	Working with AfCFTA on National	In coordination with AfCFTA Secretariat	AfCFTA Secretariat could develop a central	The success of AfCFTA hinges	Initial pilot could be replicated and attract

	Implementation Committees (NICs)	support to set up of NICs in-country to ensure implementation of trade commitments	support mechanism that engages with countries, including small and latecomer countries	on effective implementation	funding by other donors later
11	Digital solutions in African manufacturing	Digital solutions are crucial for African countries to avoid a digital divide	A package of policy advice, analysis and convening could enhance adoption of digital solutions by manufacturing companies	Accelerated adoption of digital technologies leads to competitiveness, productivity and exports	Firms are often hampered by lack of incentives in their value chains
12	A China strategy – making governments ready to work with China	Support countries in maximising benefits from their economic engagement with China	Threefold: research, technical assistance and capacity-building strategy	Limited understanding of China in many low- to middle-income countries may lead to missed opportunities	No similar programme out there, to our knowledge
13	Operationalising a developed country import strategy (e.g. UK)	Develop a strategy to ensure good-quality, just-in-time access to critical goods and services	Working with a few lead firms in targeted value chains in targeted locations	Imports are good for consumers, importers, national security and exporters in low-income settings	Few countries want to develop an import strategy as they are obsessed (incorrectly) with only exporting
14	Coalescing northern and southern non-governmental organisations (NGOs) and think-tanks around growth objectives (e.g. international financial institutions, International Monetary Fund)	NGOs can be powerful actors behind change but often focus on social sectors	Grants for policy engagement on growth issues	NGOs have influence and uptake, including on fundraising for health and education, but they could be using their skills to support economic growth	NGOs throughout the world are facing increasingly difficult funding environments
15	A new Growth Commission report, possibly especially at country level	The previous Growth Commission report (of 2008) needs to be followed up 15 years later to account for new growth issues	A $4 million grant includes central support as well country work	The previous report led to country-based approaches towards growth	No funding made available

4.2 Six potential low-cost growth interventions

Further discussions with experts and funders, and grouping and combining them into more coherent packages, narrowed the interventions down to these interventions (in addition to one that would support southern think-tanks to work on growth):

1 enabling effective industrial policies in Africa

2 building targeted expertise and capacity to implement the AfCFTA

3 engaging with macro finance through a debt advisory centre

4 working with DFIs for growth and sector transformation

5 scaling women-led and women-owned small and medium enterprises (SMEs) to support growth

6 low-carbon value chains.

We developed detailed examples for these interventions; they are available from the author. All interventions are assessed around neglectedness and traceability – that is, ability to obtain relevant evidence on impact. These interventions were also selected because they link up well with the evidence of impact presented in Section 3.

- *Enabling effective industrial policies in Africa:* The combination of EPI and SET/DEGRP uptake evidence shows how locally embedded advisors, targeted analysis and generic research can inform and inspire policy action for investment, growth and economic transformation.
- *Building targeted expertise and capacity to implement the AfCFTA:* The combination of EPI, SET/DEGRP and OSBP examples suggests how embedded advisors, targeted analysis, and soft and hard infrastructure approaches can reduce trade costs, which is important to trade more.
- *Engaging with macro finance through a debt and investment advisory centre:* The combination of EPI and SET/DEGRP shows how locally embedded advisors, targeted analysis and generic research can inform and inspire policy action, here around emerging for debt with a credible country-specific and implementable growth plan.
- *Sector transformation through DFIs*: There is evidence of how DFI finance supports growth and how additional effects can be achieved through adding sector growth expertise (e.g. in the case of the Gatsby/Wood Foundation tea sector intervention).
- *Scaling women-led and women-owned SMEs to support growth:* The example of previous impact from equity shows how investing in companies can yield important development results.
- *Low-carbon value chains:* Supporting green and resilient value chain development through technology transfer – the combination of EPI, SET/DEGRP and OSBP historic impact examples – suggests how embedded advisors, targeted analysis, and soft and hard infrastructure approaches can make a difference.

Each of the interventions combines a global advisory (which includes learning and sharing best practices) management function, with the real substance at the country level, given the targeted nature of the barriers to growth.

5 The role of learning and adaptive management in growth support

Ansu et al. (2016) review the crucial role of experimentation, feedback and correction in industrial and economic transformation policy. Effective public–private collaboration for transformation involves experimental learning and a willingness to solicit and respond promptly to feedback. Altenburg and Lütkenhorst (2015: 61) summarise views of industrial policy for transformation as needing to be designed as 'a systematic process of experimental learning.' Experience suggests countries arrive at solutions to the challenges of effective industrial policy through multi-level joint learning processes based on strong formal or informal relations between key officials and actual or potential investors, backed by the necessary political support and an element of independent monitoring and evaluation (likely to remain important as a guarantee against political capture). A minimum requirement would seem to be that the relationship between government and private investors is structured in a way that enables and encourages rapid feedback on policies that are not working or need to be adjusted.

There is much to be done to make this a reality in African countries that are trying to implement policymaking for transformation. For example, presidential investors' advisory councils have been adopted widely in Africa to enable national political leaders to relate constructively to domestic private business. However, the central finding of a study by Page (2013) is that the performance of these bodies, as judged by external evaluators, has been quite varied. In general, such councils have been better at focusing attention and provoking action on the reform agenda already identified by the World Bank and donors, while not having a track record of experimentation or feedback around policy implementation. In short, governments should embed a process of feedback and learning into the public-private collaboration.

There is literature on adaptive management. One example often cited is the politically smart and locally led adaptive approach in the Philippines (Booth, 2014): 'donor staff were successful because they adopted politically smart, locally led approaches, adapting the way they worked in order to support iterative problem solving and

brokering of interests by politically astute local actors.' A related video in the link to the paper above highlights five steps on a developmental entrepreneurship model that could be supported locally: start with who you know and what you have; make small bets; harness the power of networks; expect surprises; be a pilot on a he plane: don't assume the future as given as you can shape and influence it. This requires technical skills for analysis, political skills and access to networks, and skills working with an insider to unlock options.

Another paper argues that, although the DFID-funded EPI in Nepal was at a relatively early stage, it had some highly transferable features and had already generated valuable lessons (Booth, 2018). As we have seen, EPI contributed quickly to a significant breakthrough in fast-tracking and improving the legislation on SEZs. It went on to facilitate important amendments to other Acts critical to the investment climate in Nepal. These results were the product of a learning process that led the team first to abandon an initial 'bet' on improving the bureaucratic procedures for the entry of new businesses and then to discover ways of addressing the political concerns that were holding up the passage of key laws in parliament.

6 Designing projects to support a growth strategy

This section provides brief comments on the design of projects to support growth strategies in low- and middle-income countries as part of a funder's overall approach. A funder needs to make many choices, and here we examine a few examples, including by identifying the role of philanthropic donors.

Growth vs non-growth support: A funder often faces multiple challenges and objectives, but it is safe to say that having no consideration for a programme to support growth in low- and middle-income countries at all is unlikely to be an effective or efficient strategy to achieve development objectives, which depend on some attention to growth. This does not mean that all development challenges can immediately be addressed by more growth. It is not clear what an appropriate mix is, as the actual and appropriate division is likely to vary by country and donor. As one example, DFID (now included in UK FCDO) used 10% as a guide (in 2017) for the share of the development budget devoted to growth approaches (although much of this has been used for financial transfers to British International Investment (BII)).

Global programmes vs national programmes: Many growth problems can be best addressed at the country/sector/local level, but some need to be addressed at a global level (e.g. international trade policy). Moreover, there are also global elements, such as knowledge-creating, learning, management, etc., that can be very helpful as part of local programmes. It is therefore important to have both global and national elements in place, and interactions among them, in approaches to support growth. This is also the approach underpinning the low-cost interventions available from the author.

Return vs risks: Some traditional activities will be low risk and low return; venturing and betting on new growth sectors can be risky but, when successful, may lead to a high return. Given that we do not think that countries can forecast with precision what growth approaches will yield results, it is important to have a portfolio of growth projects, some of which are more innovative than others. Donors take bets with varying degrees of risk. Philanthropic donors can focus on activities where failure can happen and payoffs are uncertain but rewards could be high. This includes support for economic growth as part of a wider portfolio approach of support.

Traceability: Many growth interventions are indirect or require the private sector to do things. This often means additional actions and activities and long causal chains. A growth programme needs to make sure that all nodes of the chain receive support or are addressed, if not by the programme then by some other organisation in a coordinated way. Growth is difficult, and a hard-to-work area. A philanthropic donor would be well-placed to provide additional support to traditional investors.

Neglectedness: Traditional donors and many philanthropic donors neglect a focus on growth because they focus on areas that are easier to measure and control or because there is a taxpayer base that is interested in direct social results rather than understanding the longer-term processes. Aid is also increasingly subjected to geopolitical concerns. Philanthropic donors can step in and address projects that are good for growth and are not dominated by (geo) political concerns, and activities that are risky but with a potentially high return.

Financial vs real sector interventions: Some identifiable and likely profitable projects face a lack of (seed) capital; for other projects, defining and creating projects with a return and high profitability is the key concern. Enabling the private sector to create jobs takes time and requires patient capital which philanthropic donors could provide. Moreover, finance alone is often not enough and, as far as possible, growth policy interventions need to be combined with financial support. The proposed interventions focus mostly on growth policy interventions, as the capital budget for financial injections is often large, in the billions of dollars rather than a few million.

Comparative advantage vs need: A donor needs to consider whether and how much to support areas in which it is good and has a track record, or to move into support areas where there are large needs. Ideally, there is an overlapping circle between donor interests and capabilities and partner interests and needs. Bilateral donors are smaller and sometimes faster than multilaterals, but multilaterals can bring scale in finance and expertise.

Philanthropic donors can be *more flexible and able to shift strategy* more easily than traditional players. Philanthropies are not completely flexible, but they will be more so than investment funds set up with a specific prospectus or a donor needing lots of approvals to change strategy. They can adapt and change more easily in response to evidence (Te Velde, 2024).

When donors consider supporting countries to define and achieve a growth strategy, they will need to decide on:

- what share to spend on growth policy activities
- using global and local programme approaches

- considering the need for projects and the comparative advantage and expertise in delivering projects
- how much risk to take in the interventions
- how much attention to focus on financial interventions and real sector (e.g. growth policy advice) interventions
- enhancing traceability
- the importance of overcoming the neglectedness of the area
- be willing to be flexible and adjust

7 Conclusions

This report has suggested a number of low-cost interventions to stimulate growth, on industrial development; African trade policy; dealing with debt and macro crises; investing in gender empowerment; working with DFIs; and technology transfer for low-carbon development.

It is not easy to prove direct impact of growth interventions because of the complex causal chain, but donors need to include growth as part of their overall development strategies because of the potential payoffs. We have identified areas of successful grant-giving in the past and highlighted some choices donors need to make, for example local vs global, or real vs financial interventions.

Because of the complexities involved in growth support, we suggest ensuring a trial-and-error approach combined with rigorous learning and feedback. Not all interventions work (immediately), and course correction may be needed after some time, for example a year. Project management should allow for such adaptive management.

Philanthropic donors are ideally suited to support growth because they can provide neutral support for a sustained period of time while taking risks (more so than traditional donors) in neglected areas. This paper suggests there is likely to be a range of low-cost interventions that will yield traceable impacts later.

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