

Final Draft

How LDCs Could Conduct Industrial Policy by Investing in Quality Infrastructure: Policy Note

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Does one size fits all?

Why demand must drive LDC quality infrastructure investment

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Least Developed Countries (LDCs) face a quality challenge. To exploit economic opportunities arising from growing global trade and to safeguard the safety of their own citizens, LDC governments shall become better at managing quality and safety issues. Quality infrastructure is an answer to the quality challenge. Quality infrastructure consists of services – standards, testing, certification, inspection, accreditation and metrology – that help business and government regulators establish confidence in the products produced and traded. A standard clearly defines what is wanted and through, for example, testing and certification, the buyer or the regulator can rest assured that what a producer claims to be up to standard actually is.

But quality infrastructure capacity can be established in different ways. This policy brief recommends that governments and the donors that support them abandon the current technocratic approach to quality infrastructure investment and adopt a demand driven model responding to specific quality problems. The brief is based on a policy study commissioned by the Ministry of Foreign Affairs of Denmark that analyses the experiences of Bangladesh and Mozambique – two LDCs that are currently building up capacity in quality infrastructure with substantial donor assistance (Jensen 2015).

The technocratic model

Today's capacity-building efforts are inspired not by a desire to provide public goods tailor-made to LDCs' needs but by attempts to replicate a model of quality infrastructure development originating in high income countries. This replication establishes a technocratic one-size-fits-all model for future quality infrastructure that is in fact a poor fit for LDC countries.

Policy makers and the people implementing capacity building projects are overwhelmingly technical people. Governments identify a need to build capacity without linking this need clearly with business or regulator demand. Instead of demand assessment, project designers apply 'gap analysis' to identify needs of support. The project designers apply gap analysis by assessing the status of quality infrastructure, like the capacity of laboratories or the ability of the local standardization system and subsequently comparing what they find with an ideal one-size-fits-all model of quality infrastructure derived from the quality infrastructures of high income countries.

But LDCs are different from high income countries and this difference calls into question the one-size-fits-all model and accentuates the need for a more demand-driven model. Bangladesh

Box 1. Bangladeshi garment exports: where business avoid government quality infrastructure

In an influential guide to quality infrastructure capacity building, Kellermann (2011) states that developing countries “*need to have access to a supportive but internationally recognized quality infrastructure that can provide the independent attestation of product or service quality, without which access to developed markets is well-nigh impossible*” (Kellerman 2011:5)

But who shall provide this quality infrastructure? In Bangladeshi garments the answer is the private sector despite efforts by the Bangladeshi government and some donors to focus on government capacity. Bangladesh has the second-largest garment export industry in the world and produces for all the major global brands and for lower quality segments of the garment trade too. The brands require tight quality management that generates demand for a multitude of testing, inspection, certification, accreditation and metrology services to comply with stringent demands for garment style and durability, product safety, and increasingly also environmental and worker conditions.

This demand is entirely being met by private service providers. Typically, a garment exporter produces to the brand’s specifications often based on international standards. The exporter buys testing services from one of the many private laboratories and is inspected by a private inspection firm appointed by the buyer. These private service providers are accredited to international standards by a foreign accreditation body. The exporter uses measurement equipment supplied by a foreign producer that also calibrates the equipment regularly with traceability established to leading European laboratories.

and Mozambique are radically different countries than the typical country targeted by the one-size-fits all model. The economies of Bangladesh and Mozambique are not much sophisticated. The business demand for quality infrastructure services in both countries is very specific. The low incomes of Bangladesh and Mozambique imply that domestic demand for quality is basic and requiring few quality infrastructure services. The regulatory demand – that is the services that Bangladeshi and Mozambican regulatory authorities would need to fulfil their mandates – is potentially huge, but the authorities are however in a severe financial situation and can hardly pay for food safety and product safety protection.

In an evaluation of quality infrastructure projects, UNDIO (2010) found that demand assessment was often shallow, and that projects tended to assume rather than properly analyse the need for quality infrastructure services. The evaluation recommended that new projects assess the demand and supply of services and clearly identify the needs of service users. Strong technical capacity of the donor becomes a weakness if it leads to the reliance of technical expertise over institutional and policy development. The evaluation also recommended stronger involvement of the private sector. These two recommendations are linked because the private sector both demands quality infrastructure services and supplies them. Strong private sector involvement would make assessing demand easier in capacity building projects.

The demand driven model

Replacing gap analysis with demand assessment will create a demand driven investment model that will replace the global one-size-fits-all model with a stepwise model in which the quality infrastructure of a country is carefully calibrated to its development level.

Box 2. Running before you can walk? Establishing a Mozambican quality infrastructure

A few years ago, the Mozambican government agency for quality infrastructure, the 'Instituto Nacional de Normalização e Qualidade' (INNOQ) was located in a handful of offices on top of a theatre in downtown Maputo. Today, INNOQ works from an expansive compound in the outskirts of Maputo. These new premises include a brand new metrology laboratory funded by a EU-funded and UNIDO implemented project. But overall capacity remains very weak. INNOQ attempts to develop laboratories, certification capacity and national standardization all at the same time.

Few attempts have been made to assess the Mozambican demand for INNOQ's services. The government appears convinced that a government-run quality infrastructure is a 'must-have'. But quality infrastructure may be configured in many different ways. It would make sense for an LDC like Mozambique only to develop services where they are needed and where the private sector will not go. Mozambique could consider importing services. South African Johannesburg is only a day's drive or one hour's flight from Maputo. South Africa has the best quality infrastructure on the Africa continent.

The project designer should assess the demand for each of the components of quality infrastructure and evaluate alternative modes of supply. Standards are crucial to both firms and regulators, but the country may need mostly international standards and not nationally developed ones. Operating a standardization system as in high income countries is difficult in LDCs. High income countries form technical committees in which stakeholders participate to develop standards. LDCs have very few firms with the capacity to participate in such committees. Testing services are often demanded by a few LDC firms in specific export industries. Regulators also need testing, but this demand is often basic because regulators are only beginning to develop for example food safety systems. Often tests can be supplied by private laboratories or imported. Government laboratories should be targeted to clearly defined business or regulator demand. As for testing services, the demand for certification and inspection services is often very specific and may be supplied by multiple sources.

Accreditation is particularly troublesome. Many foreign buyers would require that laboratories, certification and inspection bodies are accredited, but it is difficult and expensive to establish a national accreditation body in LDCs. Donors and technical agencies have begun to realize this and some regional organisations like SADC now develop regional accreditation bodies.

A fully equipped metrology laboratory is very expensive and requires a high skill level to operate. An LDC may join hands with foreign entities to guarantee the availability of metrology services. The foreign entity will provide the more advanced services for which demand is low, while the LDC shall focus on developing only capacities in areas for which there is sufficient national demand. Developing support schemes that subsidize access to metrology services is a viable alternative to domestic investment in expensive metrology capacity.

The tools to assess demand are readily available and range from firm surveys to in-depth value chain studies that identify the quality challenges and how to meet them at each step in the value chain. The demand of regulators shall be based on available evidence on the most prevalent threats to for example food safety and product safety.

The road ahead

When considering how to invest, the following questions should be asked:

- What is the problem that the investment is expected to solve? That problem should be specific as opposed to a generic desire to upgrade quality infrastructure.
- Is the absence of quality infrastructure a constraining factor for quality production or does other factors, like poor equipment, play a role too?
- Does investing in quality infrastructure carry a risk to promote rent seeking? How efficient is the government bureaucracy? Does the legal framework follow international best practice? Does conflict of interest exist within the existing quality infrastructure?
- May capacity building take place relatively easily or is absorption capacity a constraint?
- Does capacity building follow a step-wise approach or attempt to jump to too advanced methods and technologies too soon?
- What is the level of quality management demanded? Assess demand for specific services. Is capacity-building commercially viable? Does quality infrastructure capacity satisfy a need for government regulation?
- How to configure the future quality infrastructure? Which services should the government provide? What is the rationale for government intervention? Which services should be provided by the private sector? Which services should be produced domestically? Which services may be supplied most efficiently through imports?

Through carefully answering these questions, the policy maker will be led to abandon the current supply-driven investment model and put in its place a more demand-driven one. The policy maker would want to supplement the current gap assessment methodology to assess support needs with true demand assessment. The new model should aim to abandon the one-size-fits-all model to quality infrastructure and replace it with a stepwise model calibrating the supply of quality infrastructure to the demand at different levels of development.

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