THE INSTITUTIONAL MIDDLE-INCOME TRAP

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Most students of international development are familiar with the term "middle-income trap," which refers to the penchant for countries to reach middle-income status and then stagnate[1]. In this short note I am proposing a similar and related phenomenon: the "institutional middle-income trap" or "institutional reform trap" whereby institutional development in middle-income developing countries starts out well but then stagnates, or does not reach its goal – which is usually to develop a world class institution. Universities are a particular example of this phenomenon. These observations are based on extensive institution building experience in 10 developing countries, more than half of which are classified as middle-income. They are also initial thoughts on which I plan to build in the future.

One way of the thinking about the middle-income trap is that countries start aggressive reform programs but at some point a fear of losing their national identity by becoming too globalized – i.e. too Western – takes over. At this point a combination of nationalism and vested interests bring institutional reforms to a standstill. This explanation has at its base the cultural nature of development and globalization. It is also a phenomenon found in high income developed countries – as both the Brexit vote and Trump's election and the political turmoil in Europe demonstrate: a fear of globalization and of losing national identities extends well beyond middle-income countries.

Universities are among the most culturally based institutions a country tries to develop. Below I discuss briefly some of the cultural and other barriers to developing world class universities which are, I believe, at the base of the institutional middle-income trap. The last section considers ways of avoiding this trap.

To build a global class university in a non-western culture requires a combination of imported external expertise and local expertise working together to figuring out how to make international good practice work in a non-western context and culture. This can be a difficult relationship to build since at its foundation is a strong sense of shared vision, a lot of trust, and a healthy dose of shared responsibility. The difficulty in developing this relationship is exacerbated by language and cultural differences and by the fact that many of the imported experts often do not have a deep understanding of the country in which they are working, and often do not have the necessary long term perspective.

One area of great challenge in combining Western goals with non-western cultures is that of governance – a university's structure of management and control, which includes its Board of Trustees, its senior management and in most top universities some form of shared governance in which faculty play an important role in the decision making process. In many countries, a university's governance structure also includes the government. This is true at all levels of development as state universities in the US demonstrate.

University Boards of Trustees can be seen by supporting governments as vehicles for controlling a university. This often means that Boards have heavy government presence; while this is reasonable given the investment countries are making in developing a new

1 For a history of the concept see Gill and Kharas "The Middle-Income trap turns ten," World Bank, August 2015.

university, it can lead to dysfunctional Boards that are reluctant to take on difficult policy or personnel issues and are not interested in any form of "share governance."

Modern universities are in effect collectives in which the members – faculty and researchers - share in governance, but many developed countries are more comfortable with a top-down command and control style of management.

Virtually all great teaching and research universities have some form of shared governance where all stakeholders of a university, especially faculty, participate in the decision making process; but shared governance is a concept that traditional emerging market countries do not always understand and are often uncomfortable with.

To add to the governance/management problem, modern universities tend to rely on delegated authority to offset their reach and complexity – top-down management systems obviously makes this difficult, which exacerbates the conflict between emerging market management styles and the needs of a modern teaching and research university.

In addition to these governance challenges, there is often a disconnect between the workings of a modern teaching and research university and many developing countries' bureaucracy and bureaucratic mindset. Most emerging market universities are heavily dependent on the state for funding which means they are subject to the government's oversight mechanisms.

What this adherence to the government's oversight requirements can mean is that efforts to bring modern systems – HR, procurement, financial management – to a new university do not develop as they need to because new systems would violate the status quo and are not consistent with the oversight authority of the government. In other words, a new university's administrative system has to be consistent with the systems in place at large in the country, making changing them problematic.

Nowhere is this more evident than in the sphere of research and innovation– in the compliance mentality of many governments' oversight, giving money for things for which you cannot specify specific outcomes is a no-no, but research outcomes are by definition unknown. And entrepreneurial activity is inherently risky. This compliance mentality stifles individual initiative, common sense, and risk taking; this mentality is built on a foundation of distrust, which means that it often very difficult to give discretion over budgets to senior researchers or managers. This leads to large inefficiencies, frustration, and micromanagement – not what a world class institution needs to flourish.

On the other side of this ledger, there is often a lack of understanding among faculty over the value for money equation: the fact that a university especially in its developmental stage is using up significant amounts of a country's fiscal resources means it will be under constant pressure to show it is delivering value for money.

Then, there is the obsession with emulating the world's best established universities – What I have come to call the "curse of the League Tables." New universities are under great pressure to distinguish themselves internationally which generally means being on the rankings of one of the global university ranking organizations.

When a developing country sets out to build a global quality university it is seeking to build a university that meets global standards but remains inherently a national university. Emerging market economies do not need clones of Harvard, Princeton, Oxford or Cambridge;

at their stage in development these counties need to be in the business of adapting new knowledge to the specific challenges their country faces rather than creating new knowledge.

A final challenge is the inherent political nature of good universities – great universities have at their foundation a strong commitment to academic freedom, almost a requirement to question/challenge the status quo. This often puts them at loggerheads with the political systems on which they depend for support. Again this is a phenomenon found in high as well as middle-income countries.

These are all challenges that many middle-income (and other) countries face when they launch an effort to develop a world-class university. The following section looks at what countries can do to alleviate these barriers.

What can countries do?

The starting point for avoiding the institutional middle-income trap has to be with the highest levels of leadership in the government – what do they really want and do they understand the consequences of developing a world class university? This is a difficult conversation, but if it does not take place a new university is more than likely to fall victim to the trap.

Institutional culture starts with leadership – so an important step in reducing the risks set out above, is to get the university management group to work as a team – at the core of this effort needs to be developing a sense of shared vision for the university. This shared vision needs to be agreed on with the political enabling environment to avoid future conflicts. When this is in place it is on to building trust and communications within the team, and clarifying roles and responsibilities. Of course this advice is not restricted either to university management or to middle-income countries, but applies generally to good institutional management.

As a part of agreeing on a vision for a university, management needs to redefine the notion of deliverables – What can universities offer the government auditors in lieu of input-based “performance,” criteria alternatives that shift the conversation from inputs to outcomes?

How can university management, its Board of Trustees and the government know when the institution is headed in the right direction and when it is not? In other words, rather than hoping to change government systems, how can new universities adapt to those systems without putting the core values and objectives of the university at risk.

Answering this question is made more difficult by the fact that creating a teaching and research university is inherently a long term institution building process, yet the government and other stakeholders have the right to and need for short and medium term milestones against which university management can be held accountable.

These output measures must balance off two competing broad objectives – to create an institution which measures up well against the world’s best, and yet delivers on the specific needs of an emerging market economy.

The first goal requires cutting edge research and publications in top international journals; the second a more practical applied approach to research and innovation that aims at applying the world’s knowledge to a specific country’s needs.

Getting this balance right is made more difficult when a new university has a heavy component of expatriate faculty most of whom will inevitably want to stay mobile which means playing by the league-table rules. But incentive structures can be developed that encourage both cutting edge research and the application of that research to national issues.

Then there is the issue of the need to develop a sensible level of risk tolerance. Emerging market universities need to be engaged in the full spectrum of intellectual development from identifying important problems to research on solutions to development of applications to solve specific problems to patents to establishment of startups to industrial development.

While many aspects of this developmental value chain will be done in partnership with non-university players – governments, industries, financial intermediaries among others, a top emerging market university will be the catalyst that gets the process started and sees that it is completed.

This innovation and entrepreneurship role is inherently risky – emerging market universities must foster an environment of smart risk taking, one that rewards those who have the courage to explore new areas of economic activity. As the track record of Silicon Valley and other centers of innovation attest, innovation success often has at its foundation unsuccessful previous efforts. What great universities do is ensure that the lessons from past failures are captured and serve as the starting point for the next round of projects.

Many of the issues outlined in the previous section have at their core the financial dependence of new universities on the state. It follows that the sooner a new university can reduce its dependence on state financing the sooner it is in at least partial command of its own fate. However, in the politically charged environments of many emerging markets, a new university can never ignore the political environment in which it resides – which is also true for state run universities in the USA. Reducing dependence on the state means building endowments, having appropriate tuition levels, tapping alumnae, and benefiting from innovation and fees for service.

The bottom line is that university managers must constantly distinguish between ends and means – to attain global status, an emerging market university must for the most part adhere to the global rules of the game, that is, the globally set goals. The challenge is to achieve these goals with instruments that are consistent with the countries cultural and bureaucratic settings.