The Knowledge-Based Economy

A brief overview with emphasis on the MENA region
Outline

PART 1: THE KBE: A BRIEF OVERVIEW

1. KBE context: an entirely different new world economy
2. KBE definition: not what you think
3. KBE results: how those that carved out a KBE advantage fared
4. KBE lessons: the three things that characterized successful KBEs drives:
   - A special mindset
   - A special content
   - A special process

PART 2: APPLYING THE KBE LESSONS TO MENA: A FIVE-POINT LIST OF TO DO’s

1. Being clear as to why a KBE approach may make sense in the case of your country
2. Surmounting the doubts as to the applicability of the KBE lessons to your country
3. Convincing your country’s leadership that business-as-usual won’t deliver a KBE
4. Designing a KBE campaign
5. Watching out for pitfalls

CONCLUSION
KBE context: an entirely different new world economy

Economic revolution

Technological revolution

New world economy

New rules of the game

Fast
Plugged in
Continuously learning
100% reliable

Slow
Isolated
Static
Less than 100% reliable

Unprecedented opportunities

Unprecedented stress
The countries doing well in the new world economy context are those that have been or will be able to carve out a “KBE advantage” for themselves...

**IMPLICATION:** KBE drive = undertaking reforms that will enable the flow and sophistication of knowledge to increase throughout the economy, not for the sake of knowledge itself, but in order for the country to become more agile, more globally networked, better at constantly learning new things, and more reliable

**AND NOT:** KBE drive = promoting the production, transmission, dissemination and adaptation of knowledge
KBE results: how those that carved out a KBE advantage fared

50 yr perspective:
Korea vs. Ghana

Thousands of 1985 international dollars


Rep. of Korea
Ghana

Difference attributed to knowledge
Difference due to physical and human capital
KBE results: how those that carved out a KBE advantage fared

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1995</th>
<th>2005</th>
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<tbody>
<tr>
<td>France GDP per capita (=100)</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>US GDP per capita</td>
<td>125</td>
<td>130</td>
<td>140</td>
</tr>
<tr>
<td>Difference (%)</td>
<td>25</td>
<td>30</td>
<td>40</td>
</tr>
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</table>

20 yr perspective: France vs. US
KBE results: how those that carved out a KBE advantage fared

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2000</th>
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<tr>
<td>GDP per capita</td>
<td>$12,000</td>
<td>$23,000</td>
</tr>
<tr>
<td>Unemployment</td>
<td>13%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Trade (% of GDP)</td>
<td>100%</td>
<td>170%</td>
</tr>
<tr>
<td>Tertiary Enrollment (% Gross)</td>
<td>30%</td>
<td>50%</td>
</tr>
<tr>
<td>FDI (% of GDP)</td>
<td>2%</td>
<td>25%</td>
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</tbody>
</table>
Innovative nations: a partial list

Chile
Dubai
Ireland
Finland
Sweden
Denmark
Estonia
S. Korea
Malaysia

In fact, over the last two decades, two handfuls of innovative nations have re-cast their future as KBEs in a surprisingly short time:

- Finland, with a comparative advantage in forest products in 1990, had by 2000 become an electronics & software giant, whilst Ireland doubled GDP per capita in 10 yrs
- Malaysia, Korea, Chile leapfrogged ahead and developed many noteworthy KBE features
- Most KBE champions had populations of less than 10 million, but there were exceptions

Their KBE success did not always shelter them from subsequent mistakes (Ireland, Dubai...), but their achievements were awesome: they gave their services sector a real boost, especially sophisticated services, while their industry, agriculture and public sectors also benefited

There were clear lessons from all this, which had to do with the special mindset, content and process that framed these successful countries’ efforts.
Successful KBEs jumped beyond the liberalization and modernization mindsets, with their governments espousing a KBE mindset and adopting a voluntarist stance:

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<td></td>
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<tr>
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<td>• Become a good</td>
<td>• Become a challenger</td>
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<tr>
<td>• Stop being an</td>
<td>regulator</td>
<td>• Become an integrator</td>
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<tr>
<td>operator</td>
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</table>
KBE Lessons: Lesson 2 – a special content

Successful KBEs focused on a few, especially future-shaping pillars and treated them in an integrated manner:

- **Pillar 1:** Education and life-long learning system
- **Pillar 2:** Business environment and entrepreneurship
- **Pillar 3:** Innovation ecology (S&T-led, enterprise-led, creativity-led)
- **Pillar 4:** Telecom and IT infrastructure and usage pattern
- **Pillar 5:** Trust-based society & hi-performance government
### KBE Lessons: Lesson 2 – a special content
Examples of what could be in the pillar agendas (purely illustrative)

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Agenda Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education System</strong></td>
<td>• Top quality K-12 with streaming, intl. std. exams, new skills</td>
</tr>
<tr>
<td></td>
<td>• Smart, differentiated higher education set-up</td>
</tr>
<tr>
<td></td>
<td>• Knowledge technologists and integrators</td>
</tr>
<tr>
<td></td>
<td>• Functional literacy and lifelong learning</td>
</tr>
<tr>
<td><strong>Business Environment</strong></td>
<td>• A vibrant home-base for business from all over the world</td>
</tr>
<tr>
<td></td>
<td>• Broadening and deepening the service sector</td>
</tr>
<tr>
<td></td>
<td>• How do you foster entrepreneurship? Innovative SMEs?</td>
</tr>
<tr>
<td></td>
<td>• How do you start clusters? Deep craft cultures?</td>
</tr>
<tr>
<td><strong>Innovation Ecology</strong></td>
<td>• Business – Academia – Research Links</td>
</tr>
<tr>
<td></td>
<td>• KBE-boosting R&amp;D and KBE-boosting FDI</td>
</tr>
<tr>
<td></td>
<td>• 3 innovation strands: S&amp;T-led, enterprise-led, creativity-led</td>
</tr>
<tr>
<td></td>
<td>• How to attract the creative class and start creative industries?</td>
</tr>
<tr>
<td><strong>Information Infrastructure</strong></td>
<td>• Wide-open, competitive telecom sector</td>
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<tr>
<td></td>
<td>• Minimum fixed line, and then broadband penetration</td>
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<td></td>
<td>• ICT literacy and usage, e-government as catalyst</td>
</tr>
<tr>
<td></td>
<td>• IT centers, multi-media corridors</td>
</tr>
<tr>
<td><strong>Fifth Pillar</strong></td>
<td>• High-performance government as role model</td>
</tr>
<tr>
<td></td>
<td>• Creating an exciting vision, national dialogue</td>
</tr>
<tr>
<td></td>
<td>• Do you have a trust-based society?</td>
</tr>
<tr>
<td></td>
<td>• Openness to the world, and change-friendly values</td>
</tr>
</tbody>
</table>
## KBE Lessons: Lesson 2 – a special content
More detailed, made-up illustration of what could be in the pillars

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Examples of radical moves which could be envisaged to elevate the pillar to world class</th>
<th>Desired end-state (no of years)</th>
</tr>
</thead>
</table>
| **1. Education & life-long learning** | • International educational standards, applicable to all students (two nationwide board examinations). Fin, Sing Kor  
• Join the small group of countries that are building in the whole array of advanced skills (creativity, being good at imagining new things, design, teamwork, communications, new media…) into primary and secondary education. US UK  
• Rapid generalization of high-performance, competing contract school operators with better-paid teachers meeting the new standards; and maximizing number and reach of intl. schools with Intl Baccalaureate credentials. Fin, Jord  
• Multi-tier education system that produces people who can adapt quickly to frequent changes in the local and global labor markets; new K-12 architecture with streaming, and with technical schools/polytechnics inserted. Fin, Sing  
• Large-scale effort on pre-school, TEVT and adult education, with personal competitiveness account for each citizen  
• Increased number of local and foreign universities with more tiering (including technical and community colleges). US  
• Attract 3 top MBA programs. US, EU, India  
• Maximize higher schooling abroad through an Erasmus-like program, and full scholarships. EU | • Best education scores in the Gulf (5)  
• Top 20 PISA ranking (10)  
• Have at least one university among the world’s top 100 (10) |
• Dramatically increase the appeal of the country for entrepreneurs and investors from all over the world (making the capital city very attractive and rich in cultural events; and perhaps building several cities-of-the-future). UAE | • Top 10 of WEF competitiveness ratings (5)  
• Top 20 of World Bank’s Doing Business ratings (2) |
| **3. Innovation ecology** | • Accelerate the flow of innovation coming from R&D types by Intensifying existing S &T programs, with more systematic cluster–based framing, also adding sophisticated services (e.g. specialized logistics) to the list of targeted clusters.  
• Use sovereign wealth funds to bring potential cluster-leading enterprises to the country. Can, Swed, Fra  
• Add a second strand of innovation by attracting creative types from all over the world and by seeding and developing sophisticated, innovation-promoting services clusters (e.g. social networking software, sharia finance) UAE, Sing  
• Add a third strand of innovation from entrepreneur types by creating multiple red tape-free, high-support zones able to attract thousands of large and small enterprises, or turn entire country into a free-zone | • Achieve top ranking in OECD or UNESCO S &T assessments (5)  
• Turn the country’s capital city into one of the world’s most sought-after business and creative industry destinations (5)  
• Attract 15,000 enterprises (5) |
| **4. ICT infrastructure and usage** | • Perfect the ICT infrastructure to make it one of the world’s best, most competitive and most advanced, and building the best e-government system in the region Scand, Sing Kor  
• Nation-wide IT literacy and connectivity program Ire, Scand  
• Become a regional leader in media and e-education Isr  
• Extensive IT support program for SMEs Jord, Malay | • Achieve top 5 ranking in various ICT rankings (3)  
• Achieve level 5 in the UN’s e-government classification |
| **5a. Model government** | • Phase down the public sector’s last resort employer role for native labor force entrants; reduce the public/private sector wage differential by 2/3 over 5 years  
• All ministries to face regular efficiency audits and to give their personnel evaluation systems teeth Swi  
• High-potential leaders development program set up in 3 years UAE  
• All top public servants under freedom of-performance system NZ, UK | • Percentage of native workforce in public sector from 95% to 75% (15)  
• All ministries and agencies ISO 9000 certified (3)  
• 90% publ.service client satisfaction rating |
| **5b. Values of openness and trust** | • English for All drive (understanding others, adaptability) Spain  
• World arts and culture programs (understanding others, diversity) UAE  
• Make the country one the world’s most generous donor for global environmental causes (statesmanship, serving higher purposes, giving something back)  
• Higher university grades to give priority access to public jobs, regardless of gender (meritocracy, gender balance) Nor  
• Broad and multi-stakeholder-managed civil society support program (Putnam effect) | Hard to measure, save through surveys |
### KBE Lessons: Lesson 3 – a special process

#### Examples of processes used

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>Largest business newspaper (Maeil) started the effort. Then government-led 3 year action plan, with 5 working groups and 19 ministries involved. Top education. Broadband density.</td>
</tr>
<tr>
<td>Chile</td>
<td>Government outfits kick-starting new winning sectors, for example salmon, viticulture. Fundacion Chile.</td>
</tr>
</tbody>
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KBE Lessons: Lesson 3 – a special process
Examples of processes used

**Tunisia**
Coordinated effort to create competitiveness and jobs, fully integrated in the national development plan. Consultation process. Many KBE components, e.g. incubators.

**Jordan**
National strategy for an ICT-based economy. Major education reforms related to KBE. Entrepreneurship development initiatives.

**Dubai**
Vision, and KBE attractors: Media Free Zone (Internet City, Media City, Knowledge Village), in 3 years’ time 19 free zones, 17000 firms.

**El Salvador**
Valiant effort at creating a “winning Salvador” and a “competitive Salvador”. Study tours. National campaign. TV debriefings. President and 3 ministers lead the effort.
As a rule, successful KBEs departed from business-as-usual approaches. Instead, they typically launched multi-year KBE drives bent on three things – speed, ambition and mobilization:
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   - A special mindset
   - A special content
   - A special process

PART 2: APPLYING THE KBE LESSONS TO MENA: A STEP-BY-STEP LIST

1. Being clear as to why a KBE approach may make sense in the case of your country
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3. Convincing your country’s leadership that business-as-usual won’t deliver a KBE
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5. Watching out for pitfalls
Applying the KBE lessons to MENA – Step 1: being clear as to why a KBE approach may make sense for your country

- **Unemployment time-bomb**: MENA’s youthful demographic profile calls for the creation of 5 million jobs a year in the region over the next twenty years, lest unemployment explode, with potentially dire consequences.

- **Excessive isolation**: with few exceptions, MENA countries have remained isolated from the new global economy, and must develop more modern economies that are better at the key success factors of agility, international networking, constant learning, and reliability.

- **End of petroleum**: those among the MENA countries that are oil and gas producers must start preparing for the post-petroleum and post-carbon future.

- **Insufficiently diversified economies**: most MENA countries must diversify their economies anyhow – for reasons ranging from over-dependency on petroleum revenues or remittances for some to excessive GDP volatility from the large share of rain-fed agriculture for others.

- **Environmental deadlines**: more generally, most MENA countries must prepare already now for major water, energy, food, climate change and other issues in the decades to come.

- **Spectator society risk**: a small group of MENA countries – those with a large expatriate labor force juxtaposed to a native population almost entirely occupied in the public sector – have a long-term stake in the emergence of a more private sector-savvy, sophisticated, and engaged native population.

All these reasons militate for a vigorous KBE-style effort throughout MENA – especially given the narrow chances of success of late-in-the-game industrialization moves in many countries in the region.
Applying the KBE lessons to MENA – Step 1: being clear as to why a KBE approach may make sense for your country

But the precise KBE approach will depend on both these compelling reasons and the circumstances of your country...

Compelling reasons
- creating jobs to absorb the new labor force entrants
- becoming more integrated into the new world economy
- preparing for the post-petroleum economy
- diversifying the economy
- environmental challenges deadlines and to come
- developing a more sophisticated, engaged, and modern population

Favorable circumstances
- large means in the case of oil and gas exporters
- Potential small country fast-mover advantage for some
- young populations and a large pool of educated youth
- political will
- fewer legacy systems
- more leeway for using creative KBE campaign processes?

It is important to be clear as to both the specific reasons and favorable circumstances that apply to your country, as each country will have a different KBE approach depending on what those reasons and circumstances are.
 Applying the KBE lessons to MENA – Step 2: surmounting the doubts as to their applicability to your country

Lessons from successful KBEs
Lesson 1: special mindset
Successful KBEs jumped beyond the liberalization and modernization mindsets with their governments espousing a KBE mindset and adopting a voluntarist stance:

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Voluntarism

Doubt regarding the “special mindset” of Lesson 1:
In your country like in many MENA countries, the government would have to develop and project the KBE mindset while still being in the process of wrestling with liberalization and modernization backlogs. Is that an obstacle?

Response
That was the case in some of the other KBEs too; a few even had serious macro crises or imbalances on their hands when they started their KBE drives. The three columns on the left are not rigidly sequential.
Applying the KBE lessons to MENA – Step 2: surmounting the doubts as to their applicability to your country

Lessons from successful KBEs
Lesson 2: special content

Successful KBEs focused on a few, especially future-shaping pillars and treated them in an integrated manner:

- **Pillar 1**: Education and life-long learning system
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- **Pillar 5**: Trust-based society, high-performance government

National Development Plan with 2030 themes

KBE sub-set with just the main KBE pillars

Doubt regarding the “special content” of Lesson 2:

Many MENA countries, including yours, are far behind in terms of Pillars 1 (education) and 3 (innovation). Is that an obstacle?

Response

That is a concern. But Qatar, Tunisia and others have shown that one can have quite a bit of motion in Pillar 1 (education)

Regarding Pillar 3 (innovation), countries that make rapid progress on Pillars 2 (business environment) and 4 (ICT) can unleash the second and third strands of Pillar 3, pending the slower motion on the 1st strand.
Applying the KBE lessons to MENA – Step 2: surmounting the doubts as to their applicability to your country

Lessons from successful KBEs
Lesson 2: special content

Successful KBEs focused on a few, especially future-shaping pillars and treated them in an integrated manner:

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National Development Plan with 2030 themes

KBE sub-set with just the main KBE pillars

Future-shaping potency

Doubt regarding the “special content” of Lesson 2:
Many MENA countries may not have a strong Pillar 5 foundation to start with. Is that a worry?

Response

That is a big worry. But let’s distinguish the two Pillar 5 aspects.

Raising government performance should be in the early part of the KBE agenda itself: government must be a role model.

Achieving a trust-based society is harder and may take long. At a minimum, some practical measures going into that direction should be part of the KBE agenda if not from the start, then at least mid-course during the multi-year KBE effort.
Applying the KBE lessons to MENA – Step 2: surmounting the doubts as to their applicability to your country

Lessons from successful KBEs
Lesson 3: special process

Successful KBEs then departed from business-as-usual approaches and replaced them by a way of doing things bent on speed, ambition and mobilization:

- Process tilted towards multi-stakeholder engagement and nation-wide mobilization
- Process tilted towards higher, world class-inspired ambitions
- Process tilted towards faster decision-making and execution

Doubt regarding the “special process” of Lesson 3:

In many MENA countries, even though it may be possible to tilt the KBE process towards faster speed, higher ambition, and broader mobilization, the scope for doing each of the three things is likely to be more limited than in the case of successful KBEs.

Response

So be it: the importance of the KBE approach lies more in the dynamics and motion it unleashes than in the speed, ambition and mobilization parameters themselves.
### Applying the KBE lessons to MENA – Step 3: Convincing your country’s leadership that business-as-usual won’t deliver a KBE

<table>
<thead>
<tr>
<th>Mindset</th>
<th>Content</th>
<th>Voluntarism</th>
<th>Focus</th>
<th>Integration</th>
<th>Speed</th>
<th>Ambition</th>
<th>Mobilization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Usual government approaches to change</strong></td>
<td><strong>With a special, future-bent KBE drive</strong></td>
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</tr>
<tr>
<td>National Development Plans (NDPs) and National Visions alone aren’t the best platforms for a voluntarist approach to transformative change</td>
<td>A KBE campaign, with its intense re-shaping of future possibilities, more readily projects the required yes-we-can, game-changing mindset</td>
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<tr>
<td>Individual KBE-style measures dispersed through the NDP won’t create the critical mass and clarity needed for transformative change</td>
<td>The KBE approach’s intense focus on 5-6 pillars offers critical mass and a simple and powerful way to articulate a redefined future</td>
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<tr>
<td>KBE-style measures taken in isolation by various ministries often fail to form a cohesive whole, and miss out on key synergies</td>
<td>Under the KBE approach, inter-pillar prerequisites and synergies will be explicitly activated and built upon</td>
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<tr>
<td>Normal government processes are slow and offer all kinds of opportunities for stalling and backtracking on challenging reforms</td>
<td>A KBE process, with publicized stretch goals and a speed-bestowing status for KBE projects, can dramatically speed up execution</td>
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<tr>
<td>Traditional processes are incremental, and spend political capital on undersized changes that hold out for very distant end-points</td>
<td>A KBE process can use taskforces to define world class pillar targets and the radical moves needed to get there in a decade or so</td>
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<tr>
<td>NDPs and National Visions alone offer only limited scope for mobilizing society, and often don’t speak to non-government stakeholders</td>
<td>A fast-results KBE process will provide for exciting, sustained communication and mobilization, with many active stakeholders</td>
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Applying the KBE lessons to MENA – Step 4: Designing a KBE campaign

Based on the six principles, each MENA country can design a KBE process that fits its own context:

- Top leadership fully engaged
- All ministers mobilized
- KBE Council or Steering Group chaired by PM
- 5-6 KBE pillars selected, each with a pillar task force
- Self-standing KBE campaign
- Pillar task forces dovetail their pillar strategies into a cohesive whole
- 90% implementation, 10% strategizing
- Some kind of speed-bestowing KBE status or procedure
- Perhaps one can even apply rapid results projects techniques
- Pillar task forces undertake study tours in KBE best-of-class countries
- Publicly announced stretch goals that lock leadership in
- Head of State or PM presides over KBE campaign
- Multi-year communications effort
- Multi-stakeholder consultation processes

Some common-sense examples of design features a country might adopt...
Applying the KBE lessons to MENA – Step 4: Designing a KBE campaign

A purely illustrative example of a KBE campaign set-up and process…

- PM
- KBE Steering Group
- Secretariat
- Pillar Task Forces
- Breakthrough Teams implementing waves of pilot and scaled-up KBE projects
- Inter-ministerial KBE Oversight Group
- KBE Advisory Group (optional)
- Communications program

Special KBE budget | Special KBE procedures | RRP training program
Applying the KBE lessons to MENA – Step 5: Watching out for pitfalls

Possible impediments to a KBE campaign mode
1. Slow and opaque decision-making habits are in the way and won’t change
2. The trust-based society situation needs to improve and could be improved upon but the topic is considered un-discussable
3. The fast KBE train ends up being held back by the normal trains of the old-style 5 year plan process...

Possible misunderstandings
1. Falling for an imported, heavily subsidized KBE model, with little involvement by the native population
2. Equating the KBE paradigm solely with technology (R&D, S&T-led innovations etc.) and/or failing to see the two other strands of contemporary innovation
3. Getting tripped by the knowledge narrative, and missing out on the agility, networking, constant learning, reliability narrative...

Possible navigational errors
1. Studies, reports, buzz and official speeches on the KBE, and then…nothing
2. KBE campaign overly associated with a single agency not close to the PM
3. Lukewarm involvement of ministers, esp. KBE pillar ministers, who after a while revert to their solo flying ways
4. Under-doing the communication and mobilization aspects
5. Launching a true KBE campaign, but then not drafting the nation’s best people into it...
Conclusion

- There is no *a priori* reason why many of the lessons (mindset, content, process) from the successful KBEs would not apply to MENA countries, even if transformative change takes longer there than in some of the other countries mentioned.
- These lessons would obviously apply in different ways depending on which category each MENA country is in, and on the local context. Adaptation will be crucial.
- But on the whole, the KBE approach may represent a major opening for many MENA countries, in ways that may not have yet been sufficiently intuited by the leadership.
- In fact, there are two key messages for MENA leaders:

  - A vigorous KBE approach, inspired by successful KBEs but adapted to the local context, can produce breakthrough results, and produce them fast
  - But for this to happen, major departures from the business-as-usual approach will be a must. This introduces a risk, but the risk of not trying is much bigger.