

**Section II**  
**A Conceptual Framework for Understanding Development Effectiveness:  
Policy, Capacity and Ownership**

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**Introduction**

As indicated in the Introduction, the principal aim of the *Development Effectiveness Report 2002* (*DER 2002*) is to assess the impact of the UNDP on country-level efforts to achieve sustainable human development, which most recently include the Millennium Development Goals (MDGs). Human development entails a transformation in the capabilities of individual human beings and the societies they live in. Such transformations expand the range of choices available to such agents to pursue lives they value, which necessarily vary between countries and across time. In general terms, two components are crucial to transforming human capabilities and expanding the realm of choice. First, rising levels of income and equitable growth – classic measures of economic development – represent important resources that allow the extension of human choices.<sup>1</sup> Second, however, access to education, healthcare and material welfare comprise the foundations of human capabilities. It would be hard to speak of human development without the ability to lead healthy lives, acquire education and gain a decent standard of living. Such achievements are the core of human development. In turn,

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<sup>1</sup> Whether economic growth is necessary for improvements in human development is the subject of fierce debate. There is growing recognition, however, that such improvements may occur despite conditions of economic stagnation. See, for instance, Amartya Sen, *Development as Freedom* (New York: Anchor Books, 1999), pp. 35-54.

development effectiveness concerns the ability to produce such outcomes and track their progress across countries and over time.

What explains such transformations? The problem of how to achieve the MDGs, or any set of goals deemed appropriate for human development, remains the most pressing issue. It raises the question of processes and strategies that are necessary to attain crucial development goals. Indeed, the study of development and its everyday practices focuses on why some countries achieve progress in these matters while others are unable to. Unsurprisingly, hypotheses abound and explanations clash. Yet the findings of recent scholarship and insights of development practice demonstrate the importance of three ‘drivers’ in particular: capacity, ownership and policy environments.

Accordingly, *DER 2002* seeks to clarify the meaning of each driver and their various dimensions. It also attempts to demonstrate the relevance of the drivers, both independently and in tandem, with respect to development effectiveness. However, it is important briefly to explain at the outset the rationale behind selecting these particular drivers over alternative candidates. There are several compelling reasons for selecting them.

First, notwithstanding completely deterministic accounts, explanations of development accept that **policy** play a major causal role. In general terms, policy refers to a series of decisions in a field of activity. Policy is therefore a realm of purposive action. It is also typically refers to a process with distinct phases. Defining problems amenable to human intervention,<sup>2</sup> setting

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<sup>2</sup> The process whereby difficulties become problems amenable to human response is frequently overlooked in policy analysis. Prior to such a transformation, difficulties remain aspects of nature, accident and fate, which

agendas about possible courses of action, deciding what actions to take amongst a range of options and implementing the decisions taken: all of these are dimensions of policy. Obviously, what policies are most appropriate for the achievement of sustainable human development is a fiercely contested debate. But the importance of policy interventions in achieving development goals is overwhelming. Indeed, even scholars that posit geography, for instance, as the overriding determinant of patterns of underdevelopment would be reckless to dismiss the importance at the margin of implementing policies oriented towards poverty-alleviation.<sup>3</sup> As the UNDP Human Development Reports consistently show, countries with comparable resource endowments and levels of economic development often diverge in terms of human development achievements due to policy differences. In short, the causal role played by human agency in explaining why some countries achieve human development demonstrates the importance of policy intervention.

Second, there is growing evidence that countries require the **capacity** to achieve human development. In general terms, capacity refers to the ability of agents to perform a set of objectives. Who the relevant agents are, and what criteria are appropriate for assessing their performance, are complex issues; so are questions of how to operationalize the concept into

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cannot be controlled by human agency. See Deborah A. Stone, "Causal stories and the formation of policy agendas," *Political Science Quarterly*, Volume 104, Number 2, 1989: 281-301.

<sup>3</sup> According to these theories, geography is the key determinant of climate, natural resource endowment, the burden of disease, and the costs of transportation and diffusion of knowledge and technology from advanced industrial economies to developing countries. See Jared Diamond, *Guns, Germs and Steel* (New York: W.W. Norton and Co., 1997); John Luke Gallup, Jeffrey D. Sachs and Andrew D. Mellinger, "Geography and economic development," NBER Working Paper No W6849, December 1998; and Jeffrey D. Sachs, "Tropical underdevelopment," NBER Working Paper No. W8119, February 2001.

The satisfactoriness of the explanations themselves is a separate matter. For a critique, see Dani Rodrik, Arvind Subramanian and Francesco Trebbi, "Institutions rule: the primacy of institutions over geography and integration in economic development," unpublished paper, October 2002, available at <http://ksghome.harvard.edu/~drodrik.academic.ksg/papers.html>.

its constituent elements and devise strategies of ‘capacity-building’. Yet the importance of the ability to get things done is evident across a diverse range of theories of development. To continue with the preceding example, geographical theories of underdevelopment invoke biophysical endowments and disease burdens to explain why particular countries are unable to escape conditions of poverty. Such factors comprise forms of natural capacity, so to speak. Minimalist policy-oriented theories presume that certain agents – whether public or private – are able to decide on the best course of action, which requires the capacity (not least of the authors of such theories themselves) to acquire relevant data (from prices of goods to norms of behavior), analyze it and so on. The main point in emphasizing capacity, in short, is that it focuses attention on whether the means are available for something to occur, even if we know what is desirable and how, in principle, to realize it.

Third, the significance of **ownership** in securing human development manifests itself in numerous ways. Similar to capacity, ownership is a complex term that connotes various things, referring to the set of relationships that structure development activities. In general terms, it directs attention to relations between donors and recipients, particularly with respect to the effectiveness of official development assistance at the international level; and relations between states and major stakeholders in civil society, which raises issues of participation, responsiveness, and accountability at the domestic level. Its principal intent, however, is clear. Ownership refers to the determination of the intended beneficiaries of development to assume the principal responsibility for development outcomes that, however, presume that opportunities for them to design, execute and implement appropriate policies exist.

Many organizations in the international development community focus on and use these drivers or cognate terms when analyzing case studies, and justifying programs and interventions. The ubiquity of these concepts, however, leads to definitional imprecision and conceptual misunderstanding. Hence the first principal task of *DER 2002* is to clarify the meaning of capacity, ownership and policy environments and demonstrate how these three drivers – independently and in tandem – are critical to human development at the country-level. The second main task is to assess the development effectiveness of the UNDP – the extent to which it strengthens these drivers and the potential synergies between them.

## 1. Capacity

**1.1** Although frequently cited as the ‘missing link’ in development, the **definition of capacity** is elusive and contested. The reasons are twofold. In part, it reflects the fact that capacity refers to and encompasses a range of sites (for example, a government ministry), forms (for example, systems of information-gathering and -analysis) and criteria (for example, an efficient system of information-gathering) of ‘capacity’. In part, though, its varying definitions reflect the concerns and vantage of donor agencies themselves; in particular, the capacities that are necessary for their projects and programs to succeed (for example, the IMF view that economic stabilization enjoins, amongst other things, governments to gather and monitor statistical data about the economy, and assess the outcomes of economic policy interventions). Yet sustainable human development, given its multidimensional nature, inevitably requires a diverse range of capacities. Consequently we need a definition that enables us to map the analytical terrain in a way that practically relates to the issue of development effectiveness.

In general, the notion of capacity refers to the ability of agents to perform a set of objectives. Who the relevant agents are, and what the criteria is for assessing performance, are diverse. The spectrum of agency ranges from individual human beings to social organizations, from public institutions to private markets, and from modern states to international organizations. The criteria employed to evaluate the performance of these various sites of agency include efficiency (where resources are allocated in the most optimal fashion), effectiveness (when interventions achieve desired outcomes, regardless of cost) and sustainability (where interventions are capable of persisting into the future given existing physical, financial and human resources).<sup>4</sup> In short, there is no single definition of capacity that captures every aspect of the concept. As the following discussion illustrates, there are several dimensions to capacity that are relevant to development effectiveness; and each dimension entails a number of determinants, or factors, that constitute the dimensions themselves. These complexities attest to the multidimensionality of development itself, of course. Yet there is growing consensus that strengthening the various dimensions of capacity is critical to achieving sustainable human development.

**1.2 The first dimension of capacity is individual human capabilities.** As stated previously, development involves the transformation of *capabilities* of human beings to pursue lives they find value in and wish to lead. The emphasis on the *agency* of individuals is crucial since the range of material and non-material goods, and the composition of the bundle of these goods, which different human beings prefer and value, is inevitably diverse. Stipulating that individuals ought to enjoy command over a list of entitlements, designated *a priori* by donors,

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<sup>4</sup> Sam Choritz, "Literature review of evaluative evidence on the three drivers of effective development: ownership, policy and capacity development," (Evaluation Office, UNDP), p. 25.

would violate a critical aspect of what development means. It is also fundamental because it highlights a *constitutive* aspect of development: the ability of individuals to be agents of change and direct their own lives, as opposed to being recipients of the benefits of development made on their behalf.<sup>5</sup> *Hence there is a fundamental link between capacity in terms of agency at the level of individuals – and other sites of agency as we shall see – and the notion of ownership over development processes.* The opportunity to exercise choice over what kind of personal life to lead is itself a fundamental aspect of development properly understood. *Moreover, as should be clear, individual capabilities are both drivers of development effectiveness and its primary end.* The appearance of tautology aside, the reason is that sustainable human development involves more than a notion of individual well-being; it implies that individuals themselves will have the ability to define what well-being means to them, both individually and collectively, and secure the conditions necessary for it to flourish.

A useful way to grasp the preceding claim is to distinguish the notion of capabilities from those of *functionings* and *entitlements*.<sup>6</sup> We frequently think of development in terms of substantive outcomes: states of affairs that refer to various things that an individual may value doing or being. These functionings range from elementary forms, such as being adequately nourished in order to survive, to more complex modes, such as enjoying self-respect.<sup>7</sup> In other words, functioning refers to aspects of well-being or its lack. Moreover, it invokes a welfarist approach to development. What is at stake in debates over various achievements is whether

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<sup>5</sup> Sen, *Development as Freedom*, p. 11.

<sup>6</sup> Amartya Sen, “The standard of living: lecture II,” in Geoffrey Hawthorn (ed.), *The Standard of Living* (Cambridge: Cambridge University Press, 1985), p. 36.

<sup>7</sup> Jean Drèze and Amartya Sen, *Hunger and Public Action* in *The Amartya Sen and Jean Drèze Omnibus* (New Delhi: Oxford University Press, 1999), pp. 9-17.

they exist or not. The question of what agency secures these outcomes is of secondary importance.

Whether individuals are *able* to secure a range of outcomes they hold desirable, however, and whether they wish to, depend on their capabilities – the alternative combinations of functionings that are feasible for persons to achieve.<sup>8</sup> Capabilities reflect the ability of individuals to choose which set of functionings they wish to achieve. Related to, but distinct from, the issue of capabilities is the question of *entitlements*: whether individuals enjoy *command over commodities* that may be necessary for certain functionings.<sup>9</sup> Similar to capabilities, entitlements refers to the issue of what individuals are able to do; in contrast to capabilities, however, the latter focuses on commodities as the means to achieve certain functionings. But the complexity of the phenomena of poverty entails deprivations of various kinds – beyond the lack of command over commodities. Consequently, poverty signifies the deprivation of capabilities.

The question of what functionings are necessary for human development is the subject of considerable debate; as is the question of what policies are required to achieve these states of affairs. However, there is greater consensus on the minimal *determinants* of human capabilities that would allow individuals to escape poverty. The following three are commonly invoked: education, health and a decent standard of living. *Significantly, each merits special attention on its own. However, apart from possessing independent value in determining human capabilities and, in turn, development effectiveness, each determinant enjoys synergistic relations with the others.*

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<sup>8</sup> Sen, *Development as Freedom*, p. 76.

<sup>9</sup> Drèze and Sen, *Hunger and Public Action*, pp. 9-17.



**1.2.1 A decent standard of living is the first<sup>10</sup> important determinant of individual human capability.** Conventional definitions of poverty, which underscore economic aspects of development, focus on its components: the availability of opportunities for employment and the personal income such employment generates and disposes to individuals. Hence standard of living normally refers to waged labor, which provides earnings for individuals and enables them to exercise demand in commodity markets.<sup>11</sup> Ideally, such labor helps to ensure that individuals consume the minimal level of consumption – including food, clothing and shelter – necessary for a decent standard of living.

Hence personal income is an important determinant of individual capability: inadequate earnings expose human beings to aspects of deprivation, such as the lack of adequate nutrition, remedies for illness and disease, clean water and sanitary facilities.<sup>12</sup> Individual command over such essential commodities and resources, in turn, frequently depends on their access to decent employment opportunities. Thus measures that expand individuals' access to labor markets – the denial of which in extreme cases amounts to bondage and captivity<sup>13</sup> – in order to generate adequate personal incomes, and simultaneously protect individuals from the dangers of unrestricted labor markets, comprise important determinants of human capability. Furthermore, cross-country evidence suggests that aggregate economic growth frequently helps to lower income poverty and provide opportunities for better public services.<sup>14</sup>

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<sup>10</sup> I do not mean 'first' in terms of ranking; simply in terms of ordering the discussion.

<sup>11</sup> Sen, "The standard of living: lecture I," pp. 14-17.

<sup>12</sup> Sen, *Development as Freedom*, p. 4.

<sup>13</sup> Sen, *Development as Freedom*, pp. 28-31.

<sup>14</sup> Sudhir Anand and Martin Ravallion, "Human development in poor countries: on the role of private incomes and public sources," *Journal of Economic Perspectives* 7 (1) 1993; reported in Santosh Mehrotra, "Social

However, it is important to recognize that personal income level is an *indirect means* to expanding individual capabilities. It is not, in itself, an end of development. Its chief value lies in expanding the command of individuals over goods and resources, which we have reason to value in order to pursue certain lives. It is also essential to note that personal income level is not the *sole* determinant of poverty. Indeed, individuals may suffer from poverty despite what appear to be adequate income levels due to the contingent and conditional impact of income on capabilities.<sup>15</sup> Intervening factors include the impact of age, gender and location on real disposable income in terms of capabilities; the way in which certain handicaps make it difficult to convert income into functionings; and the distributional effects of household dynamics along gender lines on consumption and production. Put differently, waged labor cannot guarantee or secure the ends of development.

### **1.2.2 Education is the second crucial determinant of individual human capability.**

Although its necessity appeals to common sense today, the provision of education was not always considered paramount. This is clear in narrow models of development that focus on economic growth and suggest that physical capital accumulation is the best means to secure high rates of growth. Yet even specifically growth-oriented paradigms now recognized the importance of education in expanding human capital, for instance.

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development in high-achieving countries: common elements and diversities,” in Santosh Mehrotra and Richard Jolly (eds.), *Development with a Human Face: experiences in social development and economic growth* (Oxford: Clarendon Press, 1997), p. 23.

<sup>15</sup> Sen, *Development as Freedom*, pp. 88-89; see the list of primary sources on p. 314.

Education is fundamental in at least three distinct ways.<sup>16</sup> First, it is valuable for intrinsic reasons. The acquisition of knowledge enriches individuals' personal lives and expands their horizons of possibility and awareness. As such, it is a prerequisite of individual agency, which is constitutive of development. Second, education plays a critical role in determining the kind of employment and lifestyle that individuals are able to secure. Different economic activities require varying degrees of cognitive skill and learning abilities. Higher levels of educational attainment enlarge the options available to individuals, which frequently translate into rewarding employment both in monetary and non-monetary terms, and enhance the prospects of social mobility. The clearest example of such rewards is how process and expansion of schooling reduces the incidence of child labor, which in turn increases the chances of individuals to escape impoverished lives in the long run.<sup>17</sup> Third, education increases the range of private non-economic activities individuals may wish to engage in. Such activities are deemed important in their own right. The value of education, in other words, should not be seen in solely instrumental terms of human capital expansion and economic productivity.

Beyond its role in determining individual capability, however, education provides important public goods associated with development effectiveness. The level of education in a society at large has a collective impact of the quality of public discourse. It enables individuals to read newspapers and communicate in writing – skills essential for learning about and contributing to debates on various civic issues such as social inequality, environmental degradation, political

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<sup>16</sup> See Amartya Sen and Jean Drèze, *India: development and participation* (Delhi: Oxford University Press, 2002), pp. 38-9.

<sup>17</sup> For a valuable discussion of these issues, see the *Public Report on Basic Education in India* (New Delhi: Oxford University Press, 1999).

accountability, to name only a few. *In turn, these capabilities are necessary for ownership of development processes. Hence there are important positive externalities of education at the social level.*

**1.2.3 Health** is the **third vital determinant of individual human capability**. It is important in two obvious ways. First, the possibility of living a long life free of illness or disease is an end in itself. It would be strange to speak of human development without incorporating the physical condition of individual human beings – whether they suffer from undernourishment, debility or fatigue – and the longevity of their lives. Second, enjoying good health is important for instrumental reasons, both private and public. The capacity of individuals to work, the range of work available to them and the level of income derived from such work, depend to a large extent on their quality of health. A similar logic applies to the ability of individuals to learn; the impact of health on children is particularly significant. In sum, aggregate levels of factor productivity, economic growth and collective learning in society turn on the physical well-being of the population at large. And such considerations apply for both present *and* future generations.

**1.2.4** *The synergies between the three preceding determinants of individual capability, and between private benefits and public goods, are most clearly demonstrated in the realm of women's agency.* There are several positive linkages that relate to indicators of development effectiveness. First, there is strong evidence that access to education and opportunities of waged labor outside of the household significantly improve the private lives of women by strengthening their voice in intra-household decision-making and community affairs. In doing so, both factors empower women as agents of their own development. A particularly significant realm of such empowerment concerns family planning. Evidence shows that educating women leads to

better choices regarding birth control, sequencing and care. Second, the enhanced individual capabilities of women improve the lives of others, particularly children. The scholarly literature largely supports the claim that women tend to invest greater proportions of their earnings in the care of children – primary goods such as better nutritional choices, clothing and shelter, and medical attention. Hence their access to education and waged employment lowers overall fertility rates, reduces the general mortality rate of children and discourages son-preference in child survival rates. Furthermore, there is some evidence to suggest that active participation of poor women in local government administration tends to promote policies that address basic development services, such as sanitation, water and primary health care.

*In sum, access to decent education, health and employment are fundamental determinants of individual human capability, which constitutes a principal dimension of both ownership and capacity, two key drivers of effective human development. The synergies between these determinants exist for both men and women. Moreover, improvements in individual capabilities also generate synergies with other dimensions of capacity and ownership. Lastly, there are good reasons to believe that targeting women multiplies the positive externalities.*

**1.3** The **second level of capacity** relates to **social groups** of various kinds. In particular, social capacity refers to the ability of such groups to engage in collective action, which varies in orders of magnitude, in order to secure important development goals. These capabilities are related to, but distinct from, human capabilities and other forms of capacity (see 1.4). Examples include trade unions bargaining over wages and benefits, farmers movements seeking remunerative prices for agricultural outputs, women's organizations fighting for

gender parity in the public sector, neighborhood associations campaigning to improve police services, to name only a few.

In recent years, considerable attention has focused on the concept of *social capital* as the principal determinant of social capacity. Analogous to notions of physical and human capital, which respectively refer to material objects and practical training and the ways in which these increase productivity, the core idea of social capital is that social networks have value.<sup>18</sup> In particular, social networks generate information flows, engender a sense of trust and strengthen norms of reciprocity between – and sometimes beyond – their constituents. Apart from helping individuals gain private advantages through ‘making contacts’, such networks generate externalities of two kinds: obligations of giving back and returning favors vis-à-vis specific actions, and generalized manifestations of reciprocity that relate to a sense of shared identity. Generalized manifestations of trust and reciprocity lead to greater efficiency and lower transaction costs (by reducing the need to enforce agreements through contractual relations) and higher levels of cooperation for mutual benefit.

**1.3.1** The **benefits of social capital** are clearest in moments of crisis where such organizations step in to provide basic amenities due to government and market failures. In such circumstances, social networks are necessary for basic needs, even survival. But there are also instances where high stocks of social capital generate larger positive outcomes over longer time horizons. The *esprit de corps* that united political elites, which resulted from intense periods

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<sup>18</sup> The following paragraph draws heavily on perhaps the most famous exponent of social capital, Robert D. Putnam. See his *Bowling Alone: the collapse and revival of American community* (New York: Simon & Schuster, 2000), Chapter 1.

of common education and political training, of developmental state regimes allowed them to commit political and economic resources towards poverty alleviation and economic growth.<sup>19</sup> Greater levels of civic engagement led to improvements in regional government performance because its citizens demanded responsive administration and facilitated it through dense networks of social interaction.<sup>20</sup> Pre-existing relations amongst individuals frequently serves as collateral, which enables such groups to circumvent problems of informational uncertainty and risk of default, and make rotating credit associations and mutual aid societies work.<sup>21</sup> Inter-communal forms of civic engagement, which impede attempts by politicians with incentives to polarize societies along ethnic lines, are highly correlated with communal peace.<sup>22</sup> *Indeed, what these examples demonstrate is positive synergy – how dense levels of social capital heighten the individual capabilities of human beings as political agents, and the institutional capacities of market and state (see 1.4).*

**1.3.2** Nevertheless, three important **caveats** are in order. First, there is skepticism towards the utility of the concept of social capital, which to some extent belies technical problems of measurement. Since issues such as inter-personal trust and norms of reciprocity are hard to quantify empirically without resort to general correlations of subjective indicators, some economists question the possibility of conceptualizing social capital other than in residual

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<sup>19</sup> See Adrian Leftwich, “Governance, the state and the politics of development,” *Development and Change* Vol. 25 (1994): 363-386.

<sup>20</sup> See Robert D. Putnam, *Making Democracy Work: civic traditions in modern Italy* (Princeton: Princeton University Press, 1993), Chapter 6.

<sup>21</sup> See, for instance, Carlos G. Vélez-Ibañez, *Bonds of Mutual Trust: the cultural systems of rotating credit associations among urban Mexicans and Chicanos* (New Brunswick, NJ: Rutgers University Press, 1983); and Timothy Besley, Stephen Coate and Glenn Loury, “The economics of rotating savings and credit associations,” *American Economic Review*, September 1993.

<sup>22</sup> See Ashutosh Varshney, *Ethnic Conflict and Civic Life: Hindus and Muslims in India* (Delhi: Oxford University Press, 2002).

terms in aggregate production functions.<sup>23</sup> Such criticisms matter for purposes of econometric measurement. However, given the multidimensionality of human development, a genuinely multidisciplinary approach to inquiry is more useful. Moreover, given the conceptual incoherence of atomistic conceptions of human agents,<sup>24</sup> it is necessary to explore the social foundations of individual action; trust and reciprocity are two important concepts and norms for explaining human action in this regard.

Second, social capital is not inevitably associated with egalitarian and inclusive practices. Many social networks, termed *bonding* social capital, are inward-looking and exclusive.<sup>25</sup> They consist of in-group loyalties that facilitate cooperation amongst their members – as displayed in caste-based associations – but frequently create negative externalities for non-members. In contrast, *bridging* social networks, such as large-scale anti-poverty movements, cut across social cleavages and encourage the development of larger political identities. Suffice to say, social networks in the real world are often hard to categorize in such dichotomies; actual networks may simultaneously bridge across communities and bond certain groups. Moreover, there may be good reasons for some networks, such as low caste-based organizations in India, to restrict membership during the early stages of development.<sup>26</sup> Such decisions allow their members to acquire a prior sense of empowerment, which is necessary for them to interact with other

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<sup>23</sup> For example, Robert M. Solow, “Notes of social capital and economic performance,” in Partha Dasgupta and Ismail Seragelin (eds.), *Social Capital: a multifaceted perspective* (Washington, D.C.: World Bank, 1999).

<sup>24</sup> See, for instance, Charles Taylor, *Philosophy and the Human Sciences* (New York: Cambridge University Press, 1985).

<sup>25</sup> Putnam, *Bowling Alone*, Chapter 1.

<sup>26</sup> Initially restricting membership in such groups, which represent the most dispossessed orders of Indian society, is arguably necessary to allow the development of autonomy and voice within such communities. Immediately opening membership to higher caste groups would threaten to reinforce the subordination of *dalits* rather than empower them. See Christophe Jaffrelot, *The Silent Revolution* (New York: Columbia University Press, 2003).



groups on a more equal footing thereafter. Nevertheless, from the point of view of development policy, the bridging-bonding distinction – which forms of continuum – provides a yardstick to assess whether or not social networks expand the capabilities of marginalized and disadvantaged groups, and the capacities of institutional regimes.

Third, what causes social networks to form in ways that generate relations of solidarity, reciprocity and trust is subject to debate. In particular, the relations between social networks, on the one hand, and political society and the State, on the other, are crucial to explore. At the most basic level, civil society associations tend to respond to the logic of political arenas – to incentives for political action created by regimes.<sup>27</sup> For instance, credible guarantees of the rule of law, universally applied, are necessary for pro-poor social networks to organize well. Without the freedom of association and assembly, their mobilizational capacities are limited.<sup>28</sup> Such functions usually require a legal-rational State, which provides for meritocratic recruitment, good salaries and sufficient career rewards for their staff; and enforces sanctions against violations of norms and rules of conduct.<sup>29</sup> More directly, state agencies frequently stimulate the growth of social capital by forging direct ties with constituencies that are the intended beneficiaries of public interventions: examples include health care reform in Brazil,<sup>30</sup>

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<sup>27</sup> Mick Moore and James Putzel, “Politics and poverty: a background paper for the World Development Report 2000/1,” September, 1999.

<sup>28</sup> See Jonathan Fox, “How does civil society thicken? the political construction of social capital in rural Mexico,” *World Development* Vol. 24, No. 6, June 1996: 1089-1103.

<sup>29</sup> Peter Evans, “Government action, social capital and development: reviewing the evidence on synergy,” *World Development* Vol. 24, No. 6, June 1996, p. 1126.

<sup>30</sup> Judith Tendler, *Good Government in the Tropics* (Baltimore: Johns Hopkins University Press, 1997).

irrigation canal development in Taiwan<sup>31</sup> and micro-credit in Vietnam.<sup>32</sup> Needless to say, such synergies benefit government-business relations and aggregate growth trajectories too, as the experience of Japan, South Korea and Taiwan attest to.<sup>33</sup> More directly still, many argue that left-of-center parties are crucial in mobilizing pro-poor social networks in the first place,<sup>34</sup> and aggregating the multiplicity of claims of social movements into a larger pro-poor agenda. Since public action groups are typically local in their demands and strategies; larger political organizations are necessary to scale their demands up.<sup>35</sup> Hence it is important not to view social capacity in isolation from, or as an alternative to, political society and the State.

**1.3.3** In general, there is strong evidence that **external actors** *play a marginal role* in the creation of social capital: durable social networks typically reflect autonomous processes of self-organization. In a very limited and indirect way, the SRF addresses the self-organization and development of alliances by the poor by promoting civic education and access to information<sup>36</sup> (G1-SG3-SAS4) – through legislative and programmatic interventions that expand the scope

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<sup>31</sup> Wai Fung Lam, “Institutional design of public agencies and coproduction: A study of irrigation associations in Taiwan,” *World Development* Vol. 24, No. 6, June 1996: 1039-1054.

<sup>32</sup> Bala Shanmugam, “Socio-economic development through the informal credit market,” *Modern Asian Studies* Vol. 25, Part 2 (May 1991): 209-225.

<sup>33</sup> See Alice Amsden, *Asia's Next Giant: South Korea and late industrialization* (New York: Oxford University Press, 1991); Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford: Stanford University Press, 1982); and Robert Wade, *Governing the Market: economic theory and the role of government in East Asian industrialization* (Princeton: Princeton University Press, 1990).

<sup>34</sup> John Harriss, “Do political regimes matter?” in Mick Moore and Peter P. Houtzager (eds.), *Changing Paths: international development and the new politics of inclusion* (Ann Arbor: University of Michigan Press, forthcoming), Chapter 8.

<sup>35</sup> James Putzel, “Accounting for the dark side of social capital,” *Journal of International Development*, Vol. 9, No. 7, pp. 939-49.

<sup>36</sup> The SRF indicators, which include estimates of the number of community-based organizations of the poor, and the level of their involvement in the formulation and implementation of district- and municipal-level AIDS plans and initiatives on SHD, do not track the possible impact of external interventions.

of participation (see 2). But there are several ways for external actors to buttress the social capacity of poor organizations:

- providing funding (for staff, offices, equipment, communications, campaign material, advocacy and educational work), technical advice and training;<sup>37</sup>
- identifying complementarities between local government and CSOs in various policy realms;
- promoting information-sharing strategies with such groups regarding the structure and functioning of government, their rights and avenues of access
- investing in appropriate ICTs and training.<sup>38</sup>

It is crucial to ensure that such efforts do not undermine the autonomy of such groups, however. Their participation in the design and implementation of such programs is significant.

#### **1.4 The third level of capacity** that shapes development effectiveness concerns **institutions**.

On the one hand, such concerns have a long and complex history. For many countries in the South post-1945, there was widespread belief in the centrality of the State apparatus as the main agent in the project of development. Since the late 1980s, following the relative failure of structural adjustment policies to inaugurate a period of economic growth and human development, the focus on market-supporting institutions as key prerequisites for ‘getting prices right’ increased. ‘Getting institutions right’ for markets to function well was equally

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<sup>37</sup> Jude Howell, “Manufacturing civil society from the outside: some dilemmas and challenges,” unpublished paper (Institute of Development Studies, Sussex), p. 9.

<sup>38</sup> “Civic engagement,” *Essentials* (UNDP Evaluations Office, October 2002).

important. And by the mid-1990s, there was increasing recognition, in light of revisionist explanations of the development ‘miracle’ in East and South East Asia, which neoclassical economists attributed solely to the reign of markets, that ‘getting institutions right’ extended beyond markets to include development interventions by the public sector.

Today, from both country and donor-oriented perspectives, the principal imperative is to explain why certain development interventions succeed while others fail. The most common view revolves around the idea that countries lack the capacity to implement the right policies, where capacity typically refers to political will, determination or commitment; factors that are also signs of ownership (see 2). Yet institutional effectiveness, a prerequisite for development effectiveness, is the result of several determinants.

**1.4.1 The first<sup>39</sup> determinant of institutional capacity involves market-supporting arrangements.** Since the 1980s, the role of the private sector in economic production, distribution and exchange in the South has grown tremendously. Early advocates of economic liberalization, deregulation and privatization argued that markets were superior to governments at allocating resources efficiently; market-oriented reforms by themselves would thereby produce superior development outcomes for disadvantaged groups. Notwithstanding the validity of neo-liberal policy arguments (see 3), the volatile experience of market transitions in the East and South in the 1990s led to the recognition that well-functioning markets require elaborate institutional scaffolding to work.<sup>40</sup> These include legal, regulatory and political

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<sup>39</sup> Again, ‘first’ refers to the ordering of these determinants, not their ranking.

<sup>40</sup> Their delayed acknowledgement was strange. Many of the great political economists of the twentieth century – Karl Polyani, John Maynard Keynes, Joseph Schumpeter – recognized the importance played by non-

institutions that safeguard property rights and enforce contracts, regulate competition (through competition, bankruptcy and commercial law), stabilize macroeconomic fundamentals, provide social insurance (through safety nets), and ensure stable financial systems.<sup>41</sup> ‘Governance’ officially arrived on the development agenda.<sup>42</sup> Its appearance signaled the realization that well-functioning markets are complex institutional arrangements. The absence of these institutions heightens the propensity of ‘market failures’, whose negative effects are greatest on the poor.

**1.4.2 The second determinant of institutional capacity** involves the **public sector**. Indeed, as the preceding list of market-supporting institutions suggests, legal, political and regulatory institutions do more than simply regulate the functioning of economic markets. They also include rules, procedures and mechanisms of State that serve ulterior ends of social and political life. *A well-organized public sector enables the delivery of basic services such as health, education and employment safeguards; important determinants of individual capabilities and social capital, and in turn, development effectiveness.*

To achieve such goals requires, in part, a public sector with *administrative* capacity.<sup>43</sup> It calls for reliable and adequate stocks of information necessary for development analysis and planning,

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market institutions in market economies. It testified to the ideological and ahistorical character of neo-liberal arguments.

<sup>41</sup> Dani Rodrik, “Development strategies for the next century,” unpublished paper, February 2000.

<sup>42</sup> See the World Bank’s 1997 *World Development Report: The State in a Changing World*.

<sup>43</sup> For instance, see Alice Amsden, *Asia’s Next Giant: South Korea and late industrialization* (New York: Oxford University Press, 1991); Fredric C. Deyo, (ed.), *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987); Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford: Stanford University Press, 1982); and Robert Wade, *Governing the Market: economic theory and the role of government in East Asian industrialization* (Princeton: Princeton University Press, 1990).

and information-gathering and -evaluating systems in order to assess, in particular, the social and distributional impacts of policies. As the SRF notes, a principal challenge facing all countries today concerns the capacity to evaluate the social impact of economic liberalization, whether it concern trade liberalization, foreign direct investment or negotiations in multilateral trade negotiations (G1-SG1-SAS1).<sup>44</sup> Negotiations over debt reduction policies must also address poverty reduction by ensuring national participation in poverty-oriented debt reduction programmes, and incorporating direct targets in national debt reduction programmes (G1-SG1-SAS1).

Administrative capacity also entails internal structures that enable recruitment and training of personnel on meritocratic grounds; provide incentives against corruption and for promotion; and facilitate coordination and cooperation within bureaucracy – the exchange of information and assets – to achieve projects and programs. Indeed, recent evidence suggests that these bureaucratic features correlate strongly with strong economic performance.<sup>45</sup> Hence the SRF is correct to push the importance of promoting greater efficiency, accountability and transparency in the civil service, and improved efficiency and equity in public service delivery (G1-SG4-SAS1).<sup>46</sup>

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<sup>44</sup> The SRF indicators for these include whether a formal pre-conference technical position paper, which serves as the basis for government strategy in trade negotiations, exists; explicit analyses of the social impact of liberalization are integrated into key national plans and policies.

<sup>45</sup> The results control for initial levels of GDP per capita and human capital. See Peter Evans and James Rauch, “Bureaucracy and growth: a cross-national analysis of the effects of ‘Weberian’ state structures on economic growth,” unpublished paper, available at <http://sociology.berkeley.edu/faculty/evans/>.

<sup>46</sup> SRF indicators assess independent anti-corruption units, and civil service code that ensure equal pay along gender lines, exist; the average time it takes to obtain a business license; the proportion of wages and salaries in recurrent expenditure; and the number of e-government interventions and services available.

Ultimately, the impact of administrative capacity on development effectiveness partly depends on the preceding items. But it also turns on the ‘embedded autonomy’<sup>47</sup> of such capacity or lack thereof: whether public bureaucracies are adequately protected against capture by dominant rent-seeking interests yet sufficiently responsive and accountable to the needs of private entrepreneurs and disadvantaged groups. It requires the commitment of parties to design processes that protect administrative structures from elite capture and, simultaneously, the active presence of pro-poor social networks, and channels between them and state officials, to monitor and pressure public agencies to deliver the goods. In short, institutional capacity goes beyond issues of formal design: whether countries enjoy favorable political conditions to execute and sustain policy decisions, and possess the necessary administrative systems to handle such processes, are tremendously significant factors.<sup>48</sup> Such issues fall under the rubric of ownership.

**1.4.3 The third determinant of institutional capacity** involves the **judiciary**. (Since mechanisms for transparency and accountability are also germane to questions of ownership, the next section discusses them more directly.) *Without a proficient and functioning legal system to protect the rule of law and enforce the recognition of contracts, many of the benefits of social capital and administrative capacity would not be possible, or at least prove difficult to sustain.* The SRF (G1-SG2-SAS3) illustrates several ways to improve access to and administration of justice by:

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<sup>47</sup> See Peter Evans, *Embedded Autonomy: states and industrial transformation* (Princeton: Princeton University Press, 1995).

<sup>48</sup> Gerald M. Meier, “Introduction: ideas for development,” in Gerald M. Meier and Joseph E. Stiglitz (eds.), *Frontiers of Development Economics: the future in perspective* (New York and Washington: The World bank and Oxford University press, 2001), p. 5.

- ensuring formal independence of judiciary;<sup>49</sup>
- simplifying and streamlining legal systems;<sup>50</sup>
- strengthening national public defense systems and improving legal aid to the poor;<sup>51</sup>
- and promoting human rights awareness and legislation<sup>52</sup>.

## 2. Ownership

2.1 Many quarters of the international community invoke ownership as the *modus operandi* of future development practice. Yet the **meaning of ownership** varies. There are two broad reasons. First, the definition of ownership is somewhat unstable since it is associated with various cognate terms – partnership, responsibility, opportunity – which make it hard to delineate with precision.<sup>53</sup> These differences reflect the range of concerns and interests that exist in the international development community and within developing countries. Second, the concept of ownership applies to two levels of interaction: relations between donors and recipients, particularly with respect to the effectiveness of official development assistance at the international level; and relations between states and major stakeholders in civil society, which raises issues of participation, responsiveness, and accountability at the domestic level.

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<sup>49</sup> Indicators include survey data on public confidence levels in judicial system and clear separation of powers between judiciary and executive in the Constitution.

<sup>50</sup> Indicators include the ratio of judges to population, a transparent and constitutional process of appointing and removing judges and the number of civil and criminal cases pending before the courts for more than a year.

<sup>51</sup> Indicators include better trained and more efficient national public defenders; increase in the number of women, prison inmates and children accessing judicial services; greater use of alternative conciliation, arbitration and mediation mechanisms; and establishment of functioning and accessible human rights bodies to investigate and redress violations of citizens' human rights.

<sup>52</sup> Indicators include the presence of government and civil society human rights education programs that reach a large proportion of the population; enactment of national human rights legislation in accordance with the Universal Declaration of Human Rights; an increase of law reform initiatives from NGOs, the media and the private sector; presence of an ombudsman or human rights office that is fully staffed and funded; measure of number of cases of human rights violations brought before a national human rights oversight body during the reporting period.

<sup>53</sup> See Choritz, "Literature review of evaluative evidence on the three drivers of effective development."



Its principal meaning, however, is clear. Ownership refers to the *determination* of the intended beneficiaries of development to assume the principal *responsibility* for development outcomes, which, most importantly, presumes that *opportunities* for them to design, execute and implement appropriate policies exist. Hence a useful way to conceptualize ownership is to view it as an overarching concept with subsidiary components; these are explored in the following sections.

**2.2** However, it is important to note that ownership directly raises the **issue of politics**. By definition, development involves struggles over interests, resources and power. Hence a sophisticated understanding of political action is necessary in order to achieve development effectiveness. All too often commentators and practitioners cite a lack of ‘political will’ as the reason for the failure to implement necessary policy reforms. Sometimes decision-makers fail to possess sufficient nerve or to exercise practical imagination in their decision-making. Yet very often other factors determine political outcomes. Whether decision-makers possess the political resources – such as state legitimacy, government autonomy and (elite) potential support for reforms – and room for maneuver – defined by social interests, institutional configurations and historical circumstances – necessary to secure desired objectives is a large part of the story.<sup>54</sup> These points are elementary. Nonetheless, much of the literature on ‘governance’ succumbs to the naïve technocratic fallacy that reforming the state involves formal blueprints, managerial skills and procedural interventions. Nothing could be further from the truth.

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<sup>54</sup> Merilee S. Grindle and John W. Thomas, *Public Choices and Policy Change: the political economy of reform in developing countries* (Baltimore: Johns Hopkins University Press, 1991), Chapter 6.

There are several determinants of ownership that relate to development effectiveness. They include commitment of state, opportunities for stakeholder participation, and mechanisms of transparency and accountability. Each of these in turn involves specific issues.

**2.3 The first determinant of ownership** relates to whether countries demonstrate a **vision of, and commitment to, societal transformation**. Displaying commitment to development outcomes involves two elements: whether public officials issue proclamations of support for human development and whether they allocate sufficient resources to key initiatives towards achieving human development. Clearly, it is necessary to monitor resource allocations in order to gauge whether proclamations of support are genuine commitments or rhetorical postures. Yet it is important not to dismiss the significance of official public discourse. The concepts, theories and beliefs we use in everyday discourse partly *constitute* the social world and shape our political actions within it.<sup>55</sup> As the SRF notes, promoting the public awareness of human development concepts – and their role in policy dialogue, formulation and implementation – comprise significant efforts to alter the foundations of public debate and policy discourse (G1-SG1-SAS3).<sup>56</sup>

Put differently, a vision is akin to a living document, created by the participation of key stakeholders and responsive to establishing and modifying development priorities over

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<sup>55</sup> See Terence Ball, James Farr and Russell Hanson (eds.), *Political Innovation and Conceptual Change* (Cambridge: Cambridge University Press, 1989).

<sup>56</sup> SRF indicators for increased public debate include: media coverage of the SHD concept during the reporting period, effective use of the National Human Development Reports (NHDRs), and adoption of curricula and courses on SHD in institutions of higher learning; for increased use in policy processes include prominence of SHD concepts and issues in government policies and statements.

different time horizons, including questions of sequencing.<sup>57</sup> It contrasts sharply with blueprints, which suggest plans that are authoritative and static. To assist public dialogue, it is necessary, as the SRF observes, to introduce and reinforce legal and regulatory measures that guarantee the availability of independent information and buttress the professional standards of the media.<sup>58</sup>

**2.4 The second determinant of ownership concerns opportunities for stakeholder participation** in agenda-setting, decision-making and policy implementation. Participation is the *leitmotif* of current development discourse, and with good reason. The failure of many top-down interventions, either by state bureaucracies or donor agencies, is unfortunately all too common. Indeed, many of these debacles are caused by development practitioners whose interventions obey the logic of blueprints.<sup>59</sup> Consequently, many argue for expanding the range of participants in all stages of decision-making regarding development processes. In terms of development effectiveness, two forms of such participation are relevant.

**2.4.1** The first concerns **participatory development** methods vis-à-vis specific projects at the local level. According to its advocates, participatory development increases the possibility that projects and programmes will be relevant to their targeted recipients and sensitive to

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<sup>57</sup> Stiglitz, “Towards a new paradigm of development: strategies, policies and processes,” Prebisch Lecture, UNCTAD (October 1999), pp. 16-17.

<sup>58</sup> SRF indicators to improve the environment include legislation to strengthen freedom of the media; indicators to measure professional standards include trends in the quality of media coverage in terms of professional standards, independence and coverage of women and disadvantaged groups (such as increases in the number of independent media organizations and of articles on disadvantaged groups).

<sup>59</sup> The travails of ‘shock therapy’ in the former Soviet bloc following its collapse are frequently cited. See Adam Przeworski, *Sustainable Democracy* (Cambridge: Cambridge University Press, 1995), pp. 1-10. For a wide-ranging explanation of why such blueprints cause social disasters, see James C. Scott, *Seeing like a State: how certain schemes to improve the human condition have failed* (New Haven: Yale University Press, 1998).

modification if necessary;<sup>60</sup> generates consensus over the goals and strategies of human development;<sup>61</sup> enables disadvantaged groups to monitor interventions made in their name; and gives key stakeholders an incentive to contribute to the success and sustainability of such initiatives.<sup>62</sup> Perhaps most importantly, such participatory forms allow the ‘objects’ of development to become agents of development.<sup>63</sup>

*Interestingly, the SRF links efforts to increase participatory development with social and institutional capacity-building, and societal cohesion (G1-SG3-SAS1), including the:*

- adoption of legislation to enable the participation of CSOs in the social and economic program formulation and implementation at the sub-national level;<sup>64</sup>
- reform of planning and budgetary processes at the sub-national level to incorporate community level perspectives, participation and needs.<sup>65</sup>

Within the ambit of participation, it also maps out efforts to enhance the capacity of, and partnerships between, local authorities and CSOs. However, categorizing these measures under the rubric of decentralization (see 3) makes greater sense analytically.

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<sup>60</sup> See Ravi Kanbur and Lyn Squire, “The evolution of thinking about poverty: exploring the interactions,” in Meier and Stiglitz, *Frontiers of Development Economics*, pp. 183-226; and J. Isham, D. Narayan and L. Pritchett, “Does participation improve performance? establishing causality with subjective data,” *World Bank Economic Review* 9 (2) 1995.

<sup>61</sup> For instance, see Robert Chambers, *Whose Reality Counts: putting the last first* (Rugby: Intermediate Technology Development Group, 1997); and Norman Uphoff, *Local Institutional Development: an analytical sourcebook with cases* (West Hartford, CT: Kumarian Press, 1986).

<sup>62</sup> Stiglitz, “Participation and development,” p. 10.

<sup>63</sup> See Jean Drèze and Amartya Sen, *India: development and participation* (Delhi: Oxford University Press, 2002).

<sup>64</sup> The SRF indicator measures whether institutionalized mechanisms for regular consultation between local governments and CSOs exists.

<sup>65</sup> The SRF indicator measures whether local development plans incorporate positions and policies advocated by CSOs, and if public input into government decision-making plans is sought through ICT tools.

**2.4.2** The second form of participation in decision-making that matters for development effectiveness is the **electoral process**. Elections are the most obvious mechanism of participation in modern representative democracies. Whether democratic regimes are better than authoritarian political systems at securing human development remains a debated issue. Much depends on the definitions of development, time frames of inquiry, and so on. According to some, development effectiveness requires a form of politics that sponsors a development-oriented bureaucracy insulated from capture by elite groups, concentrates sufficient power, authority and resources within it, and provides horizontal and vertical linkages to key stakeholders in the development process. The claim that such capacities only arise in political systems characterized by dominant party-states, fragmented civil societies and collectivist political cultures, such as the rapid developers of South-East Asia from the 1950s until the 1980s,<sup>66</sup> is open to challenge, however. There is no reason to believe that these characteristics are *necessary* conditions of development effectiveness. The most comprehensive recent scholarship demonstrates that, on average, democracies fare as well as authoritarian regimes in improving the material prospects of their countries.<sup>67</sup> Moreover, democratic regimes are far better than non-democratic systems at avoiding large-scale disasters. The sanction of the ballot and presence of independent media disciplines governments from committing ruinous development outcomes, such as famines, or allowing them to transpire.<sup>68</sup>

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<sup>66</sup> See Leftwich, "Governance, the state and the politics of development."

<sup>67</sup> See Adam Przeworski, Michael E. Alvarez, Jose Antonio Cheibub and Fernando Limongi, *Democracy and Development: political institutions and well-being in the world, 1950-1990* (Cambridge: Cambridge University Press, 2000).

<sup>68</sup> See Amartya Sen, "Freedom favors development," *New Perspectives Quarterly* (Fall 1996).

Hence universal electoral franchise, and the civil (such as freedom of thought, of speech and from bodily harm) and political rights (such as freedom of assembly, of association and to vote) that allow its exercise, is a valuable form of participation. As the preceding section on individual capabilities and *HDR 2002* argues, civil and political rights are substantive components of human development since they create a space for human agency. They are also important for development effectiveness.

The SRF illustrates several ways to strengthen important governance institutions at the domestic level:

- legislative: develop lawmaking capacity by improving the internal organization of legislatures; and training parliamentary members and staff to better the functioning of committees, legislative drafting and oversight<sup>69</sup> (G1-SG2-SAS1);
- electoral: ensure fair and inclusive participation of marginalized and disadvantaged groups through professional development and public outreach of permanent and independent electoral management bodies; election planning, monitoring and budgeting; and civic voter registration programs<sup>70</sup> (G1-SG2-SAS2).

As the preceding discussion on political capacity highlighted, fair and inclusive democratic participation entails strengthening electoral institutions. Whether it implies encouraging the prevalence of elections for local officials and referenda (G1-SG3-SAS1) is more debatable.

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<sup>69</sup> Indicators include measures of average time taken for passage of legislation in parliament during current year, and proportion of parliamentarians who are women.

<sup>70</sup> Indicators include the presence of an independent electoral management body with the capacity to conduct free and fair elections, and a voter registration system in place that is universally accessible; and data on voter turnout (disaggregated by gender) and proportion of women candidates nominated by parties during the most recent national and local elections.

Such proposals are context-dependent: although political decentralization is desirable, the risk of voter apathy and diminishing returns rises if elections occur too frequently. However, many of the prerequisites discussed with regard to electoral reform – an independent electoral management body with the capacity to conduct free and fair elections, and a voter registration system that is universally accessible – are crucial for participation. *Hence a number of complementarities and synergies arise: fostering participation presumes adequate institutional capacity of electoral bodies; the exercise of civil and political rights also develops individual capabilities and energizes social capital.*

**2.4.3** Nevertheless, there are **limits to participatory development and electoral participation** vis-à-vis development effectiveness. Apart from the lack of clarity over the substance of participatory development, there is a very real danger of tokenism in consulting the ‘voices of the poor’.<sup>71</sup> In practice, such exercises are frequently one-sided and temporary affairs. The timing and duration of such consultations are mostly at the discretion of traditional decision-makers, not poor groups. Consequently, associations of the latter tend to form in an *ad hoc* manner when required – there is little opportunity to develop strong networks capable of generating social capital. Most importantly, there are no mechanisms to ensure that government bureaucrats and external actors will respond to,<sup>72</sup> let alone comply with, the expressed wishes of participants. Simply put, participatory exercises fail to hold decision-

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<sup>71</sup> The following set of criticisms are made by Anne Marie Goetz and Rob Jenkins, “Held to account: governance and human development,” Background Paper for HDR 2002 (November 2001).

<sup>72</sup> Responsiveness refers to whether decision-makers react to signals of preferences, which can take the form of opinion polls or active protests of various kinds. It thereby is distinct from accountability, which involves answerability and enforceability, and representation, which reflects the satisfaction of interests. See Jose Antonio Cheibub and Adam Przeworski, “Democracy, elections and accountability in election outcomes,” and Susan C. Stokes, “What do policy switches tell us about democracy?” in *Democracy, Accountability and Representation*, Chapters 7 and 3, respectively.

makers to account because they lack any threat or reality of sanction (beyond moral reproach). Only access to information can transform participation into an examination of government activity.

Similarly, electoral participation is not sufficient to ensure development effectiveness. Elections provide an opportunity for citizens to authorize collective rule<sup>73</sup> and select future governments.<sup>74</sup> In theory, the sanction of the ballot creates incentives for governments in poor democratic countries to pursue human development; the logic of numbers sways in their favor. In practice, however, it is clear that elections, by themselves, fail to guarantee the interests of the poor, or their representation. The problems are well known. Elections, which constitute a form of retrospective sanction, are very blunt instruments of development effectiveness. They provide an opportunity to assess governments during their tenure in office. Yet due to the astonishing range of actions taken by governments and spectrum of issues that shape political debate, and given the relative power of dominant social groups to form electoral agendas and mobilize political support, the odds that elections become referenda on human development achievements are indeterminate at best.

**2.4.4** Given the tenuous links between electoral participation at the national level, and participatory development at the local level, with development effectiveness, many have argued for greater **decentralization**. Indeed, decentralization initiatives are commonly associated with other desirable goods such as program relevance, local autonomy, institutional

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<sup>73</sup> John Dunn, "Situating democratic political accountability," in *Democracy, Accountability and Representation*, Chapter 11.

<sup>74</sup> James D. Fearon, "Electoral accountability and the control of politicians," in Adam Przeworski, Susan C. Stokes and Bernard Manin (eds.), *Democracy, Accountability and Representation* (CUP, 1999), Chapter 2.



experimentation, proximity to the poor, greater accountability, democratic participation and so on. Transferring authority and responsibility to lower territorial and/or functional units, proponents claim, enables decision-makers to overcome the physical distance and social gap between over-centralized states and marginalized and disadvantaged groups.<sup>75</sup>

These sanguine expectations mask complex realities, however. First, there are various reasons why politicians at the national level may decide to decentralize political authority. Some of these relate to genuine attempts at empowerment: to expand the opportunities of participation for local groups, incorporate local preferences about development goals and strategies, instill a sense of ownership over projects and thereby increase their chances of sustainability, increase the accountability of bureaucrats and elected representatives, and so on. In contrast, others concern efforts to gain partisan advantage: to incorporate local elites into formal structures of political authority, rid the central government of onerous or difficult tasks, marshal local resources for national political ends, and please donor agencies who favor decentralization.<sup>76</sup>

Whether the motives for decentralization shape its outcomes is unclear: the gap between intentions and consequences is frequently great in the realm of politics. Nevertheless, there are good reasons to keep an eye on the political motivations underlying decentralization initiatives since they may provide clues as to what form of decentralization will emerge.

Second, and related to the last point, decentralization may take several forms. These include:

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<sup>75</sup> Mark Turner and David Hulme, *Governance, Administration and Development: making the state work* (West Hartford: Kumarian Press, 1997), pp. 151-2.

<sup>76</sup> James Manor, *The Political Economy of Democratic Decentralization* (Washington, D.C.: The World Bank, 1999), pp. 37-9.

- devolution/democratic decentralization: the transfer of authority and resources to lower territorial units within the formal political structure;
- deconcentration/administrative decentralization: the relocation of public officials/duties – which remain accountable to the Center – to lower territorial levels within public administrative structures *without* a concomitant transfer of authority or resources;
- fiscal decentralization: the decision of the Center to cede influence and command over financial decisions and resources to lower territorial levels.<sup>77</sup>

For the most part, what observers have in mind when they extol the virtues of decentralization is the first: genuine political devolution combined with fiscal decentralization. When it works, decentralization increases the scope (range of social and economic issues) and depth (number of marginalized and disadvantaged groups) of citizen participation.<sup>78</sup>

Third, and related to the second point, there are several prerequisites for such forms of decentralization to work effectively. These minimally include:

- presence of coherent political authority at the Center;<sup>79</sup>
- sufficient powers to exercise influence within the political system and over development initiatives:
- adequate financial resources to accomplish principal tasks;
- requisite administrative capacity to do the above;

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<sup>77</sup> Manor, *The Political Economy of Democratic Decentralization*, pp. 4-6.

<sup>78</sup> Patrick Heller, "Moving the state: the politics of democratic decentralization in Kerala, South Africa and Porto Alegre," *Politics & Society* Vol. 29, No. 1 (March 2001): 131-163.

<sup>79</sup> Patrick Heller, "Moving the state," p. 139.

- and implementation of strong accountability mechanisms – of politicians to citizens, and bureaucrats to politicians.<sup>80</sup>

Disputes exist over other factors. The most notable concern the questions of civil society and left-of-center parties. Some argue that strong forms of both are necessary for decentralization to achieve its full promise. *Amongst other things, they argue that vibrant social movements bridge knowledge and authority gaps between technocratic expertise and local involvement, and buttress the activities of devolved authorities; left-of-center parties aggregate political support and overcome the mobilizational fatigue that besets social movements.*<sup>81</sup> Others, however, disagree, saying that neither civil society nor left-of-center parties are necessary for improvements in governance to occur (conceding that they may enhance the functioning of decentralized authorities).<sup>82</sup>

Although it fails to specify and advocate devolution, the SRF appears to imply the most genuine form of decentralization. It points to the importance of an effective legal and policy framework for decentralized authority, and the mobilization and allocation of sufficient human and financial resources to support such moves (G1-SG3-SAS2).<sup>83</sup> Although it classifies the following measures separately, the SRF also seeks to increase the involvement of local authorities and communities in urban and rural planning and management, including the provision of public services; participation of women in local decision-making processes; and transparent and equitable mobilization and management of resources by local government

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<sup>80</sup> Manor, *The Political Economy of Democratic Decentralization*, p. 55.

<sup>81</sup> Heller, “Moving the state”.

<sup>82</sup> Manor, *The Political Economy of Democratic Decentralization*.

<sup>83</sup> The SRF indicators include seek to track the adoption and implementation of a legislative framework for decentralization, and the proportion of total public revenues allocation and managed at sub-national levels.

(G1-SG3-SAS3).<sup>84</sup> Hence the SRF envisions complementarities emerging through such initiatives, which fit with analyses that emphasize the importance of vibrant social movements for the functioning of decentralized authorities.

**2.5** Despite the promise of decentralization, however, it is critical to pay attention to the **third determinant of ownership: mechanisms of transparency and accountability**. Although frequently invoked in development circles, the phenomenon of accountability is extremely complex. It encompasses several important distinctions, such as:

- forms of accountability: whether it involves the giving of reasons for specific actions (answerability) versus the enforcement of sanctions for such actions (enforceability);
- sources of accountability (whether it is justified in *de jure* terms or through *de facto* mechanisms);
- lines of accountability (whether it involves vertical relationships between principals and agents, such as voting and lobbying, or horizontal relations, such as the separation of powers and checks and balances within the state apparatus);
- and time horizons of accountability (whether it comprises *ex post* sanctions or *ex ante* processes of scrutiny).<sup>85</sup>

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<sup>84</sup> The SRF indicators for the first tracks whether a legislative framework for local government public service provision exists, and the share of local authorities in total public expenditure on services; for the second measures the proportion of women occupying chief executive positions in local authorities; for the third gauges whether a transparent and effective process governs local tax revenue collection.

<sup>85</sup> Anne Marie Goetz and Rob Jenkins, "Held to account: governance and human development," Background Paper for HDR 2002 (November 2001).

Traditionally, proponents of accountability champion horizontal and vertical lines of accountability – the separation of formal powers of State (when the executive, legislative and executive functions are divided amongst distinct organs of government) and checks and balances between them (when these organs partly intervene in the functions of others), and the sanction of the ballot, respectively. The desire to strengthen these classic formal mechanisms of state accountability at the national level has led to a variety of proposals of reform, some of which the SRF includes:

- introduction of variants of proportional representation and ‘reserved constituencies’ for disadvantaged or minority groups in the electoral system: at present the SRF lacks such proposals (G1-SG2-SAS1);<sup>86</sup>
- creation and reform of investigative commissions and judicial bodies of various kinds: at present the SRF subsumes measures along these lines with judicial capacity (see 1);
- introduction of results-based schemes and market-based approaches to bolster performance in the civil service, *which also reinforces institutional capacity and, at times, social capital*;
- establishment of anti-corruption commissions, ombudspersons, auditors-general and parliamentary public accounts committees, alongside programs to increase technical capacity of these, to improve public sector oversight: at present the SRF contains some proposals along these lines (G1-SG2-SAS1/G1-SG4-SAS1),<sup>87</sup> *which buttresses institutional capacity*.

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<sup>86</sup> There are no provisions for compensatory discrimination along gender lines in G4 (Gender). G1-SG2-SAS1 includes an indicator to assess the proportion of women in parliament without, however, recommending any measures to increase representation. Similarly, there are no measures to increase legislative representation of disadvantaged groups in G2 (Poverty Reduction).

<sup>87</sup> SRF indicators regarding parliamentary oversight (G1-SG2-SAS1) include the existence of Public Accounts Committees, open parliamentary debates, and public availability of uncensored parliamentary debates. The SRF also seeks to strengthen public sector accountability and transparency through anti-corruption legislation and policies, and independent oversight and monitoring mechanisms (G1-SG4-SAS1) but uses the following indicators to track progress: the incidence of regular and independent financial audits of government and

Clearly, such reforms are necessary. Yet they are insufficient in themselves. As mentioned previously, elections are too blunt a form of retrospective sanction for specific actions of human development. Similarly, the impact of the division of powers, and checks and balances, on securing human development outcomes is hard to trace systematically. In short, the chief problem is that all formal accountability mechanisms are prone to two basic forms of failure: capture (when public office is used for either private gain or undue influence) and bias (when institutions either lack the remit to hold principals to account or suffer from built-in mechanisms that prejudice outcomes).

### **3. Policies and policy environments**

**3.1** Traditionally, the focus of debate in development theory and practice has revolved around questions of causation and policy. What factors account for economic growth? Does economic growth automatically lead to greater social equality and poverty alleviation? What policy framework is necessary for such policies to succeed? Historically, scholars and practitioners of development frequently posed questions in similar terms. In particular, they endorsed the premise that a single policy dispensation, which targeted the importance of factor ‘X’ in particular, was necessary and sufficient for development to occur.<sup>88</sup> Debates have raged since the 1940s within mainstream economics over what constituted X: physical capital,<sup>89</sup>

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parastatal bodies, and the existence of institutionalized mechanisms for consultation between national government, CSOs and the private sector on national development plans/budgets.

<sup>88</sup> Unless otherwise noted, the following discussion closely draws on Irma Adelman, “Fallacies in development theory and their implications for policy,” in Gerald M. Meier and Joseph E. Stiglitz (eds.), *Frontiers of Development Economics: the future in perspective* (New York and Washington: World Bank and Oxford University Press, 2001), pp. 103-149.

<sup>89</sup> The principal exponents of the view that capital deficiency was the primary cause of underdevelopment – whose arguments, however, differed from each other and later neoclassical economists in significant ways – included Paul N. Rosenstein-Rodan, “Problems of industrialization of Eastern and South-Eastern Europe,” *Economic Journal* 53 (1943): 202-211; Raúl Prebisch, *The Economic Development of Latin America and its Principal Problems* (New York: United Nations Economic Commission for Latin America, 1950); Ragnar Nurske, *Problems*

entrepreneurship,<sup>90</sup> incorrect relative prices,<sup>91</sup> international trade,<sup>92</sup> excessive government intervention,<sup>93</sup> human capital,<sup>94</sup> and ineffective government intervention.<sup>95</sup> Yet the belief that a single factor impeded development was frequently accepted. What varied was the appropriate role of government in economic activity.

As critical surveys make clear, however, the focus on identifying X, and implementing the ‘right’ policies to address it, is problematic for several reasons. First, such inquiries occur within paradigms of development, which function in several ways. Paradigms structure

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*of Capital Formation in Underdeveloped Countries and Patterns of Trade and Development* (New York: Oxford University Press, 1953); Arthur W. Lewis, “Economic development with unlimited supplies of labor,” *Manchester School of Economic and Social Studies* 22 (1954): 139-191; Harvey Leibenstein, *Economic Backwardness and Economic Growth* (New York: Wiley, 1957); and Albert Hirschman, *The Strategy of Economic Development* (New Haven, CT: Yale University Press, 1958).

<sup>90</sup> Influenced by the theory of ‘creative destruction’ in Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York, London: Harper & Brothers, 1942), a school of economists stressed the lack of, and need for, entrepreneurs to take advantage of infusions of capital, including Everett E. Hagen, *On the Theory of Social Change* (Homewood, Ill.: Dorsey Press, 1962) and David C. McClelland, *The Achieving Society* (New York: Free Press, 1961).

<sup>91</sup> Although their arguments over causes differed, several economists held government subsidization of, and bias for, capital-intensive technology responsible for price distortions in factor and product markets. See Paul P. Streeten, “Basic needs: the lessons,” in Irma Adelman and Edward J. Taylor (eds.), *The Design of Development Strategies* (Rohtak, India: Jan Tinbergen Institute of Development Planning, 1986), and John R. Harris and Michael P. Todaro, “Migration, unemployment and development: a two-sector analysis,” *American Economic Review* 60 (March 1970): 126-42. However, neither group advocated scaling government intervention back, as later neoclassical economists would.

<sup>92</sup> Proponents of external liberalization contended that free trade would substitute for low aggregate demand at the domestic level and lead to growth. See Anne O. Krueger, *Trade and Employment in Developing Countries: synthesis and conclusions* (Chicago: University of Chicago Press, 1983); and Jagdish Bhagwati, *Essays in Development Economics*, Vol. 1 (Cambridge, MA: MIT Press, 1985).

<sup>93</sup> Critics of government intervention, which allegedly failed ‘to get prices right’, included many that joined the ‘Washington Consensus’. An early advocate of the view was Anne O. Krueger, “The political economy of the rent-seeking society,” *American Economic Review* 64 (3) June 1974: 291-303.

<sup>94</sup> See Robert E. Lucas, “On the mechanics of economic development,” *Journal of Monetary Economics* 22 (1) July 1988: 3-42; Paul M. Romer, “Increasing returns and long-term growth,” *Journal of Political Economy* 94 (5) October 1986: 1002-37.

<sup>95</sup> Many works contributed to the realization that development required effective government intervention. However, the acknowledgment of the World Bank, notwithstanding criticisms of its notion of governance, was perhaps the most telling. See *The East Asian Miracle: economic growth and public policy* (New York: Oxford University Press, 1993) and *World Development Report 1997: the state in a changing world* (New York: Oxford University Press, 1997).

arguments over which policies to pursue; the ways in which development problems and questions are respectively framed and posed; and the types of explanations that are invoked to justify development policies.<sup>96</sup> What the main explanations of, and ‘right’ policies for, development are, in other words, is a function of paradigms. Development paradigms, similar to ‘cycles of conventional wisdom’, shift over time: for instance, from a belief in the role of the state, import-substitution-industrialization and public sector dominance in the 1940s through 1960s, to the rise of neoclassical arguments on the supremacy of markets as mechanisms of resource allocation, export-oriented industrialization and a rolling back of the state from the late 1970s until the mid-1990s. Yet rival conceptual frameworks often persist.

Present arguments over physical capital illustrate the point well. Beginning in the 1940s, many economists believed that physical capital accumulation was the main source of economic growth. Fixed capital investment, backed either by sufficient domestic savings or external aid, determined the rate of growth. The inadequacies of ‘capital fundamentalism’ were pointed out early on: it neither made theoretical sense nor accounted for the empirical record.<sup>97</sup> Countering the premise that capital would flow from advanced industrial economies, where it was abundant, to poor developing economies, where it was scarce, was the fact that it disproportionately tended to flow between advanced economies. Despite these criticisms of capital-oriented theories, prominent economists continue to hold such views.<sup>98</sup> Yet at best

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<sup>96</sup> Charles Gore, “The rise and fall of the Washington Consensus as a paradigm for developing countries,” *World Development* Vol. 28, No. 5 (2000), p. 789.

<sup>97</sup> See Robert M. Solow, “Technical change and the aggregate production function,” *Review of Economics and Statistics* 39 (1957): 312-20.

<sup>98</sup> See Bradford DeLong and Lawrence Summers, “Equipment investment and economic growth,” *Quarterly Journal of Economics* 106 (2) May 1993: 445-502; J. Kim and L. Lau, “The role of human capital in the economic growth of the East Asian newly industrialized countries,” *Asian Pacific Economic Review* (1) 1995: 259-292.



capital remains a necessary but insufficient factor in determining long-run growth rates;<sup>99</sup> or more ambiguously, it represents an effect of other drivers of development.<sup>100</sup>

**3.2** The last two decades of the twentieth century saw many countries implement a range of economic measures dubbed the **‘Washington Consensus’**.<sup>101</sup> Neoliberal in design, these measures were introduced in response to the debt crisis in the form of conditional policy-based loans from the international financial community.<sup>102</sup> Convinced that a *dirigiste* policy framework led to a sub-optimal allocation of scarce resources, relatively uncompetitive industries and public sectors engaged in ‘directly unproductive rent-seeking activities’, the principal aim of these reforms was to reduce the role of the state vis-à-vis the market in the production and distribution of goods and services. According to its advocates, development requires countries to pursue macroeconomic stability by controlling inflation and reducing fiscal deficits, open their economies through trade and capital account liberalization, and liberalize their domestic factor and product markets through privatization and deregulation.<sup>103</sup> Indeed, the neoliberal orthodoxy purported to explain the record of development across the world, and to prescribe a policy dispensation that put countries undergoing reform back on the road to growth.

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<sup>99</sup> William Easterly, *The Elusive Quest for Growth: economists’ adventures and misadventures in the tropics* (Cambridge, MA: MIT Press, 2001), p. 40.

<sup>100</sup> See Robert J. Barro, “Economic growth in a cross-section of countries,” *Quarterly Journal of Economics* 106 (May 1991): 407-444; Karla Hoff and Joseph Stiglitz, “Modern economic theory and development,” in Gerald M. Meier and Joseph E. Stiglitz (eds.), *Frontiers of Development Economics: the future in perspective* (New York and Washington: World Bank and Oxford University Press, 2001), pp. 389-460.

<sup>101</sup> The term was coined by John Williamson, “Democracy and the ‘Washington consensus’,” *World Development* Volume 21, Issue 8, August 1993: 1329-1336.

<sup>102</sup> Paul Mosley, Jane Harrigan and John Toye, *Aid and Power: the World Bank and policy-based lending* (New York: Routledge, 1991).

<sup>103</sup> Gore, “The rise and fall of the Washington Consensus as a paradigm for developing countries,” pp. 789-80.

However, by the mid-1990s, the Washington Consensus confronted a number of problems. First, several of macroeconomic prescriptions were either ambiguous or contestable in terms of generating long-term development.<sup>104</sup> While high inflation (greater than forty percent) clearly damages economic growth, relatively low inflation does not.<sup>105</sup> Although large budget deficits also create macroeconomic problems, it is hard to determine what is the most optimal and sustainable level; these assessments significantly turn on how deficits are composed and financed. Second, the package of reforms prescribed by the Consensus omitted important complementary policies and ‘microeconomic underpinnings’ necessary for its prescriptions to work. For instance, it overlooked the importance of financial markets in diminishing risk, increasing liquidity and conveying information.<sup>106</sup> More generally, many of the postulates of market efficiency in neoclassical economic theory – such as smoothly mobile factors, complete and well-functioning markets, comprehensive information and perfect foresight – were absent in countries undergoing structural adjustment and hard to construct in the short-term. Third, it was open to question whether these mechanisms would lead to growth and development.<sup>107</sup> Many countries that adopted its policies failed to achieve the expected results in the 1990s. And several countries managed to further human development despite low rates of growth.

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<sup>104</sup> See Joseph Stiglitz, “More instruments and broader goals: moving toward the post-Washington consensus,” The 1998 Wider Annual Lecture, pp. 6-12.

<sup>105</sup> See, for instance, Stanley Fischer, “The role of macroeconomic factors in economic growth,” *Journal of Monetary Economics* 32 (1993): 485-512; and George Akerlof, William Dickens and George Perry, “The macroeconomics of low inflation,” *Brookings Papers on Economic Activity* 1 (1996): 1-76, which indicates that low inflation may improve economic growth prospects.

<sup>106</sup> For more detail, see Stiglitz, “More instruments and broader goals,” pp. 12-16. For a similar conclusion on the importance of domestic financial institutions that, however, differs on other questions, notably the importance of external liberalization in raising the prospects of growth, see Lawrence H. Summers, “Reflections on managing global integration,” *Journal of Economic Perspectives* Volume 13, Number 2 (Spring 1999), pp. 12-17.

<sup>107</sup> Adelman, “Fallacies of development theory,” pp. 114-115.

Amongst the most notable high achieving countries/regions since the 1980s in terms of advancements in primary education and basic health care were Costa Rica, Sri Lanka and pre-1978 China.<sup>108</sup> Finally, countries that had accomplished rapid gains, both in terms of economic growth and human development, diverged in important respects from its policy prescriptions. Particular attention was paid to the rapidly industrializing countries of East and South East Asia, which pursued:

- strategic integration in the global economy, rather than complete de-linking or rapid opening, through gradual and selective trade and capital account liberalization;
- macroeconomic stabilization alongside targeted interventions in the domestic economy to promote a dynamic shift in comparative advantage;
- expansion of productive employment and redistribution of assets to spur the process of economic growth<sup>109</sup> and handle its distributional consequences;
- regional integration and cooperation in order to reduce demand-side constraints and enhance international competitiveness.<sup>110</sup>

The experience of these countries was significant in at least three ways. First, the East Asian developmentalist strategy diverged from the exact policies of neoliberal orthodoxy. Some of

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<sup>108</sup> Sen, *Development as Freedom*, p. 45.

<sup>109</sup> A range of empirical analyses point out that countries with more equal income distributions enjoy higher rates of growth. High levels of education, health and nutrition would augment such effects. See, for example, Frances Stewart, "Income distribution and development," unpublished paper (Queen Elizabeth House, Oxford) available at [http://www2.qeh.ox.ac.uk/research/wpaction.html?jor\\_id=43](http://www2.qeh.ox.ac.uk/research/wpaction.html?jor_id=43). Moreover, a more equal distribution of economic assets would help to level political equality as well since economic power frequently translates into political influence through multiple channels. Certain redistributive policies are beneficial in this regard: inheritance taxation, anti-trust laws. See Joseph Stiglitz, "Participation and development: perspectives from the comprehensive development framework," speech given to the International Conference on Democracy, Market Economy and Development (Seoul, Korea, February 27, 1999), p. 7.

<sup>110</sup> Gore, "The rise and fall of the Washington Consensus as a paradigm for developing countries."

their policies were within the Consensus (for example, macroeconomic stability); others represented interventions not advocated by it (for instance, egalitarian distribution of assets); yet others contravened it (for example, state-led industrialization).<sup>111</sup> Second, the manner in which these countries pursued these goals, and the instruments employed to do so, varied as well. For instance, governments in both South Korea and Taiwan extended subsidies to targeted sectors and firms to promote competitive exports. However, the former made direct loans while the latter used tax credits.<sup>112</sup> *Put differently, the policy convergence between them concealed important differences, which reflected national ownership.* Third, the role of the state was crucial in every case, far beyond the minimal functions – which revolved around allowing markets to work – expected in the neoliberal orthodoxy. Regulatory, legal and political institutions were crucial in launching innovative practices early on, absorbing social unrest during periods of crisis and responding to shifting circumstances. In short, there were strong institutional prerequisites for the development trajectory pursued in East Asia.

**3.3** The East Asian record crystallizes several important **general lessons**. First, it is increasingly difficult to sustain the view that a single path to development exists for every country. Debates in certain policy arenas persist: trade integration, foreign direct investment, privatization. But discovering the right set of policies is context-specific. Indeed, this was evident in comparisons between the development trajectories of countries that first emerged from the Industrial Revolution (United States and Great Britain), whose industrialization was largely autonomous; came later (France, Germany, Italy, Russia and Japan), whose

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<sup>111</sup> Joseph Stiglitz, “More instruments and broader goals: moving toward the post-Washington consensus,” The 1998 Wider Annual Lecture, p. 2.

<sup>112</sup> Dani Rodrik, *The New Global Economy and Developing Countries: making openness work* (Washington, D.C.: Overseas Development Council, 1999), Chapter 4.

governments led the process of industrialization; and emerged later still, such as small countries with high levels of social capital (Denmark, Sweden and the Netherlands), whose governments assisted a process of balanced development through external liberalization. Comparisons of developing country trajectories post-1945 reveal similar heterogeneities.<sup>113</sup> Second, there is no single development strategy appropriate for any country across time. Put differently, development processes are extremely non-linear. The ways in which key factors interact with each other changes over time; what is most important in earlier stages of development is frequently different at later stages. For instance, historical analyses show how the main functions of government and characteristics of agriculture shift, along with changes in trade policy, as development occurs.<sup>114</sup> Third, given these realizations, the policies that countries adopt, and the manner in which they sequence and implement them, should not be pre-determined. Even if agreement exists over the importance of certain goals, questions of policy content, timing and sequence arise. Moreover, for such policy interventions to be successful presume that sufficient capacity (see 1) exists to devise, execute and monitor them, and requires that key stakeholders have a degree of ownership over the process (see 2).

Recent discussions over the ‘new growth theory’<sup>115</sup> illustrate the point. According to it, technological change accounts for growth; such innovation is endogenous to the growth process; what makes it possible is the emergence of economically productive ideas that depend on economic incentives to encourage innovation, which in turn are determined by institutional

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<sup>113</sup> See Adelman, “Fallacies of development theory,” pp. 121-126.

<sup>114</sup> Adelman, “Fallacies of development theory,” p. 120.

<sup>115</sup> See the work of Paul M. Romer: “Increasing returns and long run growth,” *Journal of Political Economy* 94 (October 1986): 1002-1037; and “The origins of endogenous growth,” *Journal of Economic Perspectives* 8 (1) 1994: 3-22.

contexts.<sup>116</sup> In principle, the new growth theory suggests that reliance on savings to boost investment becomes unnecessary; exporting or transferring ideas that promote technological change from the North to the South can put countries of the latter on the path to growth. Yet recent history attests to the shortcomings of such optimism. Using new technologies requires complementary inputs, such as physical capital and skilled labor as well as complementary ideas; these goods tend to gravitate to where their stocks are already high.<sup>117</sup> Moreover, given the increasing returns that accrue to technological innovation, the disparities between North and South are likely to persist, even widen. *Put differently, the low equilibrium traps that characterize poor developing economies are difficult to escape from without creating sufficient incentives and embedding robust norms to lure technological ideas and their purveyors in. Institutional reform, consequently, becomes paramount.*

Revisionist analyses of countries that successfully adjust to exogenous shocks reach a similar analytical conclusion. As recent scholarship demonstrates, successful macroeconomic stabilization calls for prior institutional capacity. *Amongst other things, it requires democratic institutions of conflict management that permit social groups to voice their concerns regarding the impact of liberalization, creates incentives for labor and business to negotiate with government through institutional channels, and offer mechanisms of political change. Without such capacity, the disruptions caused by economic reforms frequently overwhelm governments and delay necessary macroeconomic adjustments.*<sup>118</sup>

**3.4** In general, it is mistaken to assume that **policies to promote economic growth**, on the one hand, and **expand fundamental human capabilities**, on the other, are necessarily at

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<sup>116</sup> Peter Evans, “The challenges of the ‘institutional turn’: new interdisciplinary opportunities in development theory,” unpublished paper (University of California at Berkeley), p. 5.

<sup>117</sup> Evans, “The challenges of the ‘institutional turn,’” p. 6.

<sup>118</sup> See Rodrik, *The New Global Economy and Developing Countries*, Chapter 4.

cross-purposes. It is wrong to assume that a simple trade-off exists.<sup>119</sup> Indeed, three interesting findings emerge from the recent literature on economic growth, income poverty and social development in this regard. First, slow rates of economic growth have constrained the ability of many countries (Sri Lanka, Kerala, Cuba and Zimbabwe) that have achieved high rates of social development in terms of the *quality* of health and education (without diminishing the coverage of these services). Second, however, the economies of these countries tend to grow faster than average developing economies in terms of per capita GDP. Moreover, their high levels of social development at the initial stage have maintained high rates of economic growth over successive decades. Third, countries that achieved high social development without rapid economic growth performed less well in terms of income poverty reduction. Only East Asian countries, which achieved rapid economic growth, high domestic savings, constant social expenditures, relatively low inflation and significant asset redistribution, were able to secure all three objectives. *In other words, these findings point to the simultaneous importance of social development and economic growth in lowering income poverty and sustaining development effectiveness over the long run.* They also raise two qualifiers. Aggregate growth in personal income only leads to greater social development if the fruits of growth are directed towards poverty reduction;<sup>120</sup> incentive structures and complementary investments are necessary to ensure that employment generated by growth is productive, which raises

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<sup>119</sup> The following draws on Santosh Mehrotra, "Social development in high-achieving countries: common elements and diversities," in Santosh Mehrotra and Richard Jolly (eds.), *Development with a Human Face: experiences in social development and economic growth* (Oxford: Clarendon Press, 1997), pp. 22, 51-6.

<sup>120</sup> See Sudhir Anand and Martin Ravallion, "Human development in poor countries: on the role of private incomes and public sources," *Journal of Economic Perspectives* 7 (1) 1993.

As with other development objectives, initial conditions and external setting matter in determining the timing, speed and sequence of policy interventions considered appropriate.<sup>121</sup> Moreover, the criterion of ‘appropriateness’ changes over time as development occurs. Nevertheless, several policy lessons emerge from these analyses. As the following discussion shows, the synergy between certain policy interventions in education and health is generally positive. Moreover, it frequently leads to positive spillover effects in terms of economic productivity. *But it presumes capacities of various kinds – social capital and administrative capacity – as well as mechanisms of ownership – participation, decentralization and accountability – at the domestic level in order to fully realize such potential.*

**3.4.1** The following **mix of policy interventions** demonstrate a strong positive correlation with longevity and quality of **health**.<sup>122</sup> Significantly, these include non-health factors that directly and indirectly relate to good health outcomes:

- up-front investment in primary education, which reduces family size and enhances nutrition status of mothers and children;<sup>123</sup>
- simple provision of primary health care, in terms of geographical proximity and financial affordability, in both urban and rural areas;
- focus on maternal and child health – particularly immunization coverage – through elementary health care worker delivery systems;

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<sup>121</sup> Ajit Singh, “Openness and the market-friendly approach to development: learning the right lessons from development experience,” *World Development* 22 (12) December 1994: 1811-1823.

<sup>122</sup> See Mehrotra, “Social development in high-achieving countries,” pp. 100-105.

<sup>123</sup> See, for instance, Duncan Thomas, John Strauss and Maria Helena Enriques, “How does mother’s education affect child height,” *Journal of Human Resources* 26 (2) Spring 1991: 183-211.



- dominance of State provision of health care with the private sector playing a supportive and complementary role, but without the imposition of user fees;
- supplementary use of traditional medical practitioners;
- system of food subsidies to establish minimum nutritional floor;
- provision of water and sanitation, which reduces morbidity in the short-run and mortality in the long run;
- and female gender focus in provision of primary education, which creates effective demand for mother-and-child health services.

**3.4.2** The following set of interventions, working in conjunction, explain which countries have achieved **universal primary education**:

- State responsibility for the provision of primary education;
- relatively high allocation of government expenditure on primary education;
- devices to ensure cost-effective expenditure of resources, such as double shifts for teachers to keep cost per pupil low;
- automatic promotion of children to ensure lower drop-out rates;
- use of mother tongue for instruction;
- school feeding programmes to provide incentives for parents to keep children in school, and to improve learning productivity through greater nutritional intake;<sup>124</sup>
- programs to raise percentage of female high school teachers, which improves chances of girls' attendance at the secondary level.

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<sup>124</sup> See, for instance, Harold Alderman, Jere H. Behrman, Victor Lavy and Rekha Menon, "Child nutrition, child health and school enrollment: a longitudinal analysis," Policy Research Working Paper 1700 (Washington, D.C.:Policy Research Department, World Bank).

**3.4.3** As mentioned above (see 3.2), the Washington Consensus’ ostensibly **growth-oriented policies** failed to deliver the goods in many countries. At one level, the failure to put countries on the path to growth was due to erroneous theoretical underpinnings: neoclassical development economics concerns static, as opposed to dynamic, resource allocation efficiency. There is little in these models that concerns accumulation.<sup>125</sup> At another level, however, bias towards reducing government intervention and expanding market forces in economic decision-making manifested itself in distinct policy recommendations that frequently led to greater inequality and poverty. Hence the need today for policies that selectively marry the desirable aspects of orthodoxy with successful heterodox approaches, as the following list of policy prescriptions attempt to do:<sup>126</sup>

- fiscal policies that reduce unproductive subsidies; permit counter-cyclical spending on social insurance and safety-nets to mitigate the impact of stabilization; and mobilize tax revenues, *which not least demands greater efforts to buttress administrative capacity to broaden the tax base and enforce compliance*,<sup>127</sup>
- monetary policies that keep interest rates positive without increasing them to levels that inordinately raise the cost of budget deficits or investment opportunities; make access to credit available to all, especially small and medium enterprises, which tend to absorb surplus labor; emphasize very gradual capital account liberalization with a focus on building necessary regulatory and supervisory frameworks first;

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<sup>125</sup> Adelman, “Fallacies in development theory and their implications for policy,” p. 114.

<sup>126</sup> Unless otherwise indicated, much of the following discussion draws from Santosh Mehrotra and Enrique Delamonica, *Public Spending for the Poor: basic services to enhance capabilities and promote growth* (Oxford: Oxford University Press, forthcoming), pp. 17-28.

<sup>127</sup> Adam Przeworski et al, *Sustainable Democracy* (Cambridge: Cambridge University Press, 1995), p. 88.

- external liberalization policies that improve trade access of developing country products to industrialized country markets in areas where they have comparative advantage; pay attention to multilateral norms but recognize the dynamic nature of comparative advantage, which involves the promotion of exports, and the gradual and selective reduction in import barriers; liberalize capital accounts gradually and in a manner that supports investment rather than consumption in domestic markets;<sup>128</sup>
- industrial policies that accelerate the rate of capital accumulation and technological learning using various policy instruments (such as technology policy, financial policy, human resource policy) – particularly for large-scale infrastructural projects that suffer from high costs to entry, substantial economies of scale or steep learning curves, or for projects that potentially create positive externalities across firms because of informational asymmetries between suppliers and buyers<sup>129</sup> – to improve productivity and competitiveness<sup>130</sup>
- domestic liberalization policies that privatize selectively non-essential state-owned enterprises only under conditions, which promote fair competition, reduce opportunities for corruption and earn the State a fair price; introduce heterodox reforms to overcome various inefficiencies that beset many SOEs, thereby improving their productivity, and capacity to generate employment and revenue for the State;<sup>131</sup>
- production-oriented redistributive policies that seek to reduce the future prospects of rising income inequality by spearheading land reform (which increases output and raises the incomes of landless laborers and small peasants) and investing in basic capability-enhancing services for all (see 3.4.1 and 3.4.2);

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<sup>128</sup> Gore, “The rise and fall of the Washington Consensus as a paradigm for developing countries,” p. 797.

<sup>129</sup> See Przeworski at al, *Sustainable Democracy*, pp. 95-106.

<sup>130</sup> Gore, “The rise and fall of the Washington Consensus as a paradigm for developing countries,” p. 797.

<sup>131</sup> Przeworski at al, *Sustainable Democracy*, p. 89.

- and agricultural policies that promote small landowner agriculture – which better income distribution, non-farm employment and economic growth – leading to improvements in the labor-to-capital ratio and reduces the incremental capital to output ratio.

## **Conclusion**

In short, *DER 2002* seeks to explain varying patterns of development effectiveness in the world today. What explains differences in development performance across countries? In response, it identifies three key drivers – policy, capacity and ownership – of such effectiveness. It attempts to elucidate the critical relations between and among the various components of these three drivers – relations that are often not considered as integral dimensions of a single evaluative framework. In doing so, it provides a comprehensive framework that enables us to apply the same evaluative prism to both recipients and donors in order to ensure a greater harmony of interests between the policies and practices of developing and donor countries. Indeed, the extent to which individual development partners catalyze positive changes in each of these drivers becomes a measure of their contribution to development effectiveness.