CAPACITY FOR DEVELOPMENT
CAPACITY FOR DEVELOPMENT
NEW SOLUTIONS TO OLD PROBLEMS

Edited by: Sakiko Fukuda-Parr • Carlos Lopes • Khalid Malik
process of developing the knowledge, the institutions, and mobilization of society for development.

The knowledge society of the 21st century challenges the international community to do more to help the developing countries, especially the least developed among them, to join the global knowledge revolution of the last decade.

This book proposes that institutional innovations are the way to develop new approaches for capacity development. It has to start with rethinking the underlying assumptions about:

- the nature of development as a process of societal transformation, and the fundamental importance of indigenous capacity for this transformation;
- the nature of capacity and capacity development, including individual skills, institutions and societal capacities;
- the nature of knowledge, where it is located and how it can or cannot be transferred and shared; and
- the nature of the aid-recipient relationship, which has profound consequences for success and failure in developing lasting capacities.

In short, at a time when successful economies are increasingly built around knowledge and information, the challenge now is to map out how to rethink technical cooperation and build real, sustainable capacity where it matters most: in developing countries themselves.

These are questions that have preoccupied UNDP since its formation. The United Nations system was a pioneer in the field of technical cooperation, and capacity development is its central mandate. UNDP has long played an important leadership role, both as a source of technical cooperation funds and advisory services, and as the home of innovative intellectual research and analysis on how to make them more efficient and effective. This book, which is part of a broader research effort on Reforming Technical Cooperation for Capacity Development that UNDP is carrying out with the support of the Government of the Netherlands, represents a constructive contribution building on this experience.

The book contains a range of views from practitioners, academics and policy-makers about what has gone right with technical cooperation in recent years, what has gone wrong, and how to do it better and perhaps very differently. In so doing, it focuses on the questions of indigenous capacity, ownership, civic engagement and knowledge. The book draws from the operational experience, policy analysis and intellectual work of UNDP, brought to bear through the three lead authors from the Evaluation Office, the Bureau for Development Policy and the Human Development Report Office. This book – as is the broader initiative – is an independent analysis which we hope and expect will start to inform our own activities at UNDP as well as the work of others in this important field.
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Developing capacity has been a fundamental component of international development assistance since the Marshall Plan. The huge success of that far-sighted programme, however, inadvertently generated an overly simplistic and optimistic view of what worked: Simply transfer capital and know-how to other countries, the thinking went, and swift economic growth will follow. This rationale may have maintained validity for a good number of countries, many in South-East Asia and Latin America and more recently Eastern Europe and Central Asia.

As we have learned over the past few decades, however, this view ignored—or at least underestimated—the importance of local knowledge, institutions, and social capital in the process of economic and social development. And for most of the Cold War, the problem was exacerbated by the phenomenon of aid driven by politics rather than results. Despite significant successes of technical cooperation in ‘getting the job done’, capacity development has remained an elusive goal in particular in many least developed countries most in need of it.

Over the past decade, there have been several attempts to tackle these problems directly, most notably in the Conference on Technical Cooperation co-sponsored by the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC), the United Nations Development Programme (UNDP) and the World Bank in June 1994. That has in turn generated a welcome new emphasis on the need for development to be “locally owned”: to ensure that development cooperation does not seek to do things for developing countries and their people, but with them.

There has been some progress in trying to make these principles work in practice. Yet technical cooperation does not seem to be triggering this kind of transformative
Not everything in the book is new. Taken together, however, its conclusions may help point the way to a genuinely new vision of technical cooperation for capacity development. A vision that builds on new possibilities for knowledge-sharing, for which the revolution in information and communications technologies offers ample opportunities. And, most important, a vision that is firmly founded on genuine ownership by the ultimate beneficiaries of development efforts: the governments and citizens of developing countries.

MARK MALLOCH BROWN
Administrator
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This volume has a long history. As practitioners of technical cooperation for many years, each of the three coeditors has been confronted almost daily with the successes, the obstacles and the failures of technical cooperation. But in the mid-1980s, working in the policy unit of the Regional Bureau for Africa at the United Nations Development Programme (UNDP), we went on to reflect more systematically on why it sometimes succeeds and sometimes—or too often—does not. And we went further, to developing programmes that systematically improved the policy environment for more effective technical cooperation. The policy analysis and initiatives that were taken at this time are documented in an earlier publication, Rethinking Technical Cooperation: Reforms for Capacity-Building in Africa, coauthored by a UNDP team and Elliot Berg in 1993.

Ten years on, has the situation changed? Do we know more about making technical cooperation work better for capacity development? Our own thinking on the subject has evolved as we proceeded to other responsibilities—at UNDP country offices in Uzbekistan and Zimbabwe, to the Evaluation Office, the Human Development Report Directorate and the Development Policy Bureau at UNDP Headquarters. In these different capacities, the fundamental question of how to promote capacity development was never far from our minds.

In these ten years of momentous change in the world, with the end of the Cold War and the onset of globalization, development challenges have assumed a new topography. Yet the challenge of capacity development persists, as do constraints on the effectiveness of technical cooperation. It is time for looking at “old problems” in search of “new solutions.” And new solutions are achieved only by challenging basic assumptions that underlie the practice of technical cooperation. This is why this volume is organized in three parts. Part 1 focuses on defining development as a transformative
process, and the importance of capacity in this transformation. Part 2 examines the ownership that is critical to real progress in capacity development. Part 3 looks at dramatic changes in the way in which knowledge is being developed, accessed, used and rewarded.

We are grateful to all those who contributed to the report, starting with the contributing authors. Many thanks go to our Peer Reviewers: Marc Destanne de Bernis, Stephen Browne, Ryokichi Hirono, Bruce Jenks and Michael Sarris. This volume would not have been possible without the dedicated work of Marixie Mercado, who managed all aspects of production; Arleen Verendia, who provided logistical support; and the skillful editing and copyediting of Peter Stalker and Gretchen Sidhu.

This volume is part of the larger initiative on Reforming Technical Cooperation for Capacity Development at UNDP, and benefited from the results of its research, electronic discussions, roundtables and country-level discussions. We are grateful for these opportunities to glean data, analyses and insights. The process has involved many individuals, including colleagues in the initiative’s Advisory and Facilitation Group, the World Bank, UNDP, the European Center for Development Policy Management, Harvard University and the African Capacity Building Foundation. Many thanks in particular are due to: Pierre Baris, Heather Baser, Pim de Keizer, Gus Edgren, John Ennis, Sevil Etili, Ava-Gail Gardiner, Lina Hamadeh-Banerjee, Moira Hart-Poliquin, Volker Hauck, John Hendra, Mary Hilderbrand, Leonard Joy, Tony Land, Mahmoud Mamdani, Nick Manning, Jyoti Mathur-Filipp, Paul Matthews, Peter Morgan, Huub Muddde, Christopher Ronald, Soumana Sako, Helen Sutch, Mark Suzman, Reynout van Dijk and Jean Zaslavsky. We’re also thankful for the research support provided by Dalita Balassanian, Ghada Jiha, Daniela Mitrovich, Nadia Rasheed, Elizabeth Satow, Maki Suzuki and Teem-Wing Yip; and the administrative assistance offered by Lara Abrajano, Bibi Amina Khan and Zaida Omar.

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With much gratitude for all the support they received, the editors and contributing authors assume full responsibility for the opinions expressed in this study.

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overview

INSTITUTIONAL INNOVATIONS FOR CAPACITY DEVELOPMENT

SAKIKO FUKUDA-PARR, CARLOS LOPES, KHALID MALIK

The world at the beginning of the 21st century offers sights, sounds and experiences that continue to astonish anyone born even a few decades ago. Space and time have been shrunk by a multitude of communications devices. Geneticists decode and tinker with the alphabet of life. And millions of people each year casually soar across continents in search of work, pleasure and new experiences. Billions of people have the capacity to know and do things of which their parents or grandparents could scarcely dream.

Even more surprising—and disturbing—are the enduring scenes of poverty. Billions more people have far narrower horizons. They may see jetliners arcing across the sky, but they themselves scratch a living with simple tools from hard and unyielding land, or scavenge in city streets for the empty bottles or plastic bags that might be sold to buy the next meal. Certainly they have many of the universal human joys and excitements, and they often enjoy a rich cultural inheritance that many modern communities have allowed to slip away, but their capacities to know, explore and enjoy fully their own potential, let alone the wider world, are severely constrained.

Most shocking of all perhaps, these scenes, both of possessing every opportunity and confronting absolute exclusion, are frequently juxtaposed and intermingled. Even the world’s richest cities have dark corners of deprivation, while enclaves in the

1 This paper is written by the authors in their personal capacities. It does not reflect the views of the United Nations Development Programme, of which they are staff members.
poorest countries house some of the world's wealthiest people. And running through all these scenes are threads of resentment and violence that can ignite at any time—around the next corner, or across the country, or across the world.

The world as a whole has made considerable progress over the past 50 years. Average life expectancy, for example, has increased by 10 to 20 years except where HIV/AIDS has made inroads. And the proportion of the world’s people living in income poverty has fallen. But progress is not inevitable or universal. While some regions, countries and continents have propelled themselves in new directions, others languish at low-level equilibriums not far above the margins of survival. Since 1990, the number of income-poor people has increased every year in sub-Saharan Africa, South Asia, and Latin America and the Caribbean.

The complexities and frustrations of development have generated a voluminous literature, along with numerous institutions and organizations suggesting change and new directions. Many of these insights were embodied from the beginning of the 1990s in the concept of human development, which looked beyond a simple fixation on economic growth. Instead, it presented a broader and more inclusive view of people's capacities—not merely to gain a higher income, but to enlarge their choices, to know more and do more, and to have the health, the skills and the vigour to lead full and satisfying lives.

Though the objectives of development have been articulated more clearly than in the past, the mechanisms for achieving them have become more elusive. When the idea of “development” took hold in the middle of the last century, it seemed possible that all the poor countries had to do was to emulate the rich—following roughly the same development path towards a similar destination. Indeed, it was thought that the poorer countries should be able to do this even more rapidly. First, they could take advantage of the experience of their predecessors—by adopting the same proven measures and technologies. Second, they could also benefit from aid flowing from rich to poor countries—not just in the form of grants and loans to help build infrastructure (the roads, the factories, the schools and the hospitals) but also in the form of expertise, acquiring the information, skills and knowledge needed to run a modern industrial society.

As a result, thousands of experts and consultants fanned out around the world, taking up residence in ministries and project offices, partly to supervise aid projects, but also to plant their skills and expertise in this fertile new environment by working alongside local counterparts. Some of these expatriates arrived as part of “free-standing” programmes—aiming to develop capacities in communities and societies, in health, say, or education. Others arrived as parts of larger programmes—travelling along with capital investments to ensure that new installations ran as smoothly as possible and trying to transfer the skills needed to operate and maintain them.

The underlying assumption was that developing countries lacked important skills and abilities—and that outsiders could fill these gaps with quick injections of know-how. The vocabulary for this activity changed over the years. For the first few decades,
aid as a whole was termed “development assistance,” and that part of it concerned with the transfer of skills and systems was called “technical assistance.” But development practitioners worried that “assistance” implied—and indeed reflected—inequality and dependency rather than a positive spirit of partnership. After a couple of decades, therefore, they started to refer to international aid as “development cooperation,” and many correspondingly referred to knowledge transfer as “technical cooperation,” although others, including the World Bank, still refer to this as “technical assistance” when it accompanies capital investment. It would also have been useful to find a substitute for the word “technical,” which suggests an emphasis on science and technology—wrongly, for most cooperation has been, and is increasingly, in non-technological areas such as education, governance and judicial reform.

Much of this development cooperation and technical cooperation seemed likely to succeed. First, there had been the spectacular success of the Marshall Plan, without which European countries would have had much greater difficulty in revitalizing their economies and rebuilding their nations after the devastation of World War II. Second, a number of poorer countries, particularly the East Asian Tigers, made selective use of development cooperation to help launch themselves on decades of export-led growth. But elsewhere, and especially in recent years, the uneven record of countries in achieving economic and social transformation has left many questioning how effective development cooperation has been and can be.

Of all the elements of the development cooperation package, developing national capacity has emerged as the one particularly elusive goal. Thousands of people have been trained and thousands of “experts” fielded. Educational attainments have increased dramatically, to the point where unemployed graduates resort to driving taxis while others join the “brain drain.” Yet development undertakings have constantly faced a lack of necessary skills and weak institutions. Donors can ship out four-wheel-drive vehicles, or textbooks, or computers; they can dispatch expatriate experts, whether on long-term secondment or on short-term consultancies. But they have not really appeared to transfer knowledge—or at least not in the catalytic way that might ignite a positive chain reaction throughout developing societies. Foreign experts certainly have proved that they can get the job done—helping to build dams or install irrigation systems. And they can run multiple seminars and courses that improve the individual skills of thousands of people. However, the capacity of local institutions and of countries as a whole has still not appeared adequate to meet the challenges of development. There have been positive micro-improvements, but not the kind of macro-impacts that build and sustain national capacity for development.

Donors have tried to address this issue, but mainly through drawing up cooperation programmes emphasizing the need for more technical cooperation, and new rounds of experts and training (Berg and UNDP, 1993; OECD, 1987). Technical cooperation expenditures totalled US $14.3 billion in 1999, according to the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). This is a large amount, almost double the sum in 1969. If personnel
and training in investment and other projects are included, the figure would be even larger, $24.6 billion (Baris et al., 2002).

Yet behind the rising figures lies the fact that over the past three decades, priorities have changed. Technical cooperation resources have actually declined for low-income countries, for the Least-Developed Countries (LDCs) and for sub-Saharan Africa—as reflected in total disbursements, per capita disbursements and as a proportion of overall official development assistance (see Figures 0.1-0.4)—even as these resources increased for the high-income countries, and for Asia and Eastern Europe. This is a disturbing trend. Countries most in need of capacity development are receiving less and less help. Even worse, as the world becomes increasingly dominated by a “knowledge economy,” and globally integrated into a single market, developing countries need even more capacity to compete. Poor countries need more, not less technical cooperation, and they need forms of cooperation that are most effective in developing capacity. These technological, economic and social changes in the world offer new opportunities for capacity development that warrant a new look at technical cooperation—its past problems and future solutions.

Over the last two decades, concerns over the effectiveness of technical cooperation have provoked an almost constant process of reassessment. A number of donor evaluations in the 1980s led to debates in the donor community, most notably in the DAC, which held a series of seminars on this subject. In 1991, the committee issued a document entitled *Principles for New Orientations in Technical Co-operation*, which called for changes in existing practices. A high-level seminar was organized in 1996.

At the same time, the United Nations Development Programme (UNDP) launched a programme with over 30 governments in Africa to review the effectiveness of technical cooperation, and establish national policies and priorities. The originality of this process was that it was a national programme of reflection leading to adoption of a coherent national policy and priorities. Called the National Technical Cooperation Assessment and Programmes (NaTCAP), the process also provided unique insights, analyses and data on the successes and failures of technical cooperation, as seen from the recipients’ points of view. The results of these experiences were published in the 1993 book *Rethinking Technical Cooperation: Reforms for Capacity-Building in Africa* (Berg and UNDP, 1993). Most of the country reviews reached similar conclusions: that technical cooperation had proven effective in getting the job done, but less effective at developing local institutions or strengthening local capacities; and that it was expensive, donor-driven, often served to heighten dependence on foreign experts, and distorted national priorities. As a result of these and other criticisms, donors worked with recipients to redesign many of the aid programmes—shifting away from the massive presence of expatriate teachers, engineers and other personnel, for example, and relying more on nurturing national professionals.

Through the 1990s, there was another stream of dialogue on developing better relationships between donors and recipients, and a growing concern with lack of “ownership” as an important element that undermined the effectiveness, not only of
technical cooperation, but also of other forms of aid, especially structural adjustment lending (World Bank, 1998a). The donor community tried to build more balanced relationships with recipients—putting the emphasis on “partnership” and “policy dialogue.” Through the 1990s, donors also gave a higher priority to “participation”—working not just with government agencies but also with nongovernmental organizations (NGOs) and other parts of civil society, as well as helping to create the conditions under which the private sector might flourish.

In 1994, for example, the OECD/DAC agreed on “new orientations for development assistance,” emphasizing the need for local control and long-term capacity development, followed by a call for a new partnership to reshape the 21st century. More recently, the World Bank and the International Monetary Fund (IMF) have moved from top-down structural adjustment programmes to a more participative process that brings local stakeholders together to help define national social and economic policies for poverty reduction. The resulting Poverty Reduction Strategy Papers (PRSPs) are then used as the basis for decisions on aid and debt relief.

During the 1990s, many aid agencies also introduced results-based management (RBM). Recent comparative evaluation studies suggest that aid agencies have been successful in achieving better results over time. UNDP’s 2001 Development Effectiveness Report shows that the percentage of projects considered effective increased from 35 per cent in 1992-1998 to 60 per cent in 1999-2000. Similarly, the Department of International Development (DFID) of the United Kingdom also showed an upward trend from 66 per cent in the 1980s to 75 per cent in the 1990s of projects rated as satisfactory or better in terms of achieving their immediate objectives. At the World Bank, the percentage rated satisfactory or better with respect to outcomes increased from 72 per cent in the early 1990s to 81 per cent by the end of the decade (UNDP, 2001a).

Even so, the overall macro-impact of technical cooperation on developing national capacities remains worrisome. Research and country studies carried out for the project Reforming Technical Cooperation for Capacity Development confirm that many of the recommendations in the 1991 DAC Principles and Rethinking Technical Cooperation have not been implemented, and that many of the problems remain (UNDP/Reforming Technical Cooperation papers). Technical cooperation is still frequently criticized for:

- **Undermining local capacity:** Rather than helping to build sustainable institutions and other capabilities, technical cooperation tends to displace or inhibit local alternatives.

- **Distorting priorities:** The funding for technical cooperation generally bypasses normal budgetary processes, escaping the priority-setting disciplines of formal reviews.

- **Choosing high-profile activities:** Donors frequently cherry-pick the more visible activities that appeal to their home constituencies, leaving recipient governments to finance the other routine but necessary functions as best they can.
FIGURE O.1: TOTAL TECHNICAL COOPERATION BY REGION (1998 US $ MILLIONS)

FIGURE O.2: TECHNICAL COOPERATION AS A PER CENT OF OFFICIAL DEVELOPMENT ASSISTANCE BY INCOME CATEGORY
FIGURE 0.3: PER CAPITA TECHNICAL COOPERATION BY INCOME CATEGORY (1998 US $)

FIGURE 0.4: PER CAPITA TECHNICAL COOPERATION BY REGION (1998 US $)
- **Fragmenting management:** Each donor sends its own package of funds and other resources for individual programmes, and demands that recipients follow distinctive procedures, formats and standards for reporting, all of which absorb scarce time and resources.

- **Using expensive methods:** Donors often require that projects purchase goods and hire experts from the donor country, although it would be far cheaper to source them elsewhere.

- **Ignoring local wishes:** The donors pay too little attention either to the communities who are supposed to benefit from development activities, to the local authorities, or to NGOs, all of whom should comprise the foundation on which to develop stronger local capacity.

- **Fixating on targets:** Donors prefer activities that display clear profiles and tangible outputs. Successful capacity development, on the other hand, is only intrinsically included.

Why do these old problems persist? We need to examine further the basic assumptions that underlie the old model of technical cooperation, which has remained unchanged to this day—including assumptions about the nature of development, the role of capacity within development, the aid-donor-recipient relationship, and knowledge and capacity.

The old model has been based on two mistaken assumptions in particular. The first is that it is possible simply to ignore existing capacities in developing countries and replace them with knowledge and systems produced elsewhere—a form of development as displacement, rather than development as transformation. The second assumption concerns the asymmetric donor-recipient relationship—the belief that it is possible for donors ultimately to control the process and yet consider the recipients to be equal partners.

**Development As Transformation: The Central Role of Local Capacity**

For all the universal theories about development, and the upheavals caused by wars and revolutions, most countries and societies have evolved organically, following their own logic and building on their own resources and strengths. So the assumption that developing countries with weak capacities should simply be able to start again from someone else's blueprint flies in the face of history. For these countries too, the most natural process is development as transformation. This means fostering home-grown processes, building on the wealth of local knowledge and capacities, and expanding these to achieve whatever goals and aspirations the country sets itself (see Part 3, Chapters 2 and 5).

What is capacity? In this book, it is defined simply as the ability to perform functions, solve problems, and set and achieve objectives. Each society has the capacities...
that correspond to its own functions and objectives. Non-industrial societies, for example, have few formal institutions, but they do have highly developed skills and complex webs of social and cultural relationships that are often difficult for outsiders to comprehend. Most important of all, by a process of cooperative and cumulative learning, typically passed on orally, they have worked out how to survive in often difficult and harsh conditions. Modern post-industrial societies have their own set of capacities, although they seem very different. They too have complex social structures, but tend to have more diverse and specialist activities, and rely on extensively codified knowledge bases, myriad organizations and a plethora of specialist skills, many of which can only be acquired over years of education and training.

As countries transform themselves, they have to develop different capacities. But it is important to recognize that they do not do so merely as an aggregate of individuals. National capacity is not just the sum total of individual capacities. It is a much richer and more complex concept that weaves individual strengths into a stronger and more resilient fabric. If countries and societies want to develop capacities, they must do more than expand individual human skills. They also have to create the opportunities and the incentives for people to use and extend those skills. Capacity development thus takes place not just in individuals, but also between them, in the institutions and the networks they create—through what has been termed the "social capital" that holds societies together and sets the terms of these relationships (see Part 1, Chapters 1 and 5). Most technical cooperation projects, however, stop at individual skills and institution-building; they do not consider the societal level.

Three Levels of Capacity Development

Capacity development needs to be addressed at three levels: individual, institutional and societal.

- **Individual**: This involves enabling individuals to embark on a continuous process of learning—building on existing knowledge and skills, and extending these in new directions as fresh opportunities appear.

- **Institutional**: This too involves building on existing capacities. Rather than trying to construct new institutions, such as agricultural research centres or legal aid centres, on the basis of foreign blueprints, governments and donors instead need to seek out existing initiatives, however nascent, and encourage these to grow.

- **Societal**: This involves capacities in the society as a whole, or a transformation for development. An example is creating the kinds of opportunities, whether in the public or private sector, that enable people to use and expand their capacities to the fullest. Without such opportunities, people will find that their skills rapidly erode, or become obsolete. And if they find no opportunities locally, trained people will join the brain drain and take their skills overseas.
All of these layers of capacity are mutually interdependent. If one or the other is pursued on its own, development becomes skewed and inefficient.

One source of confusion here is that capacity development is typically also understood as human resource development. This is unfortunate. Capacity development is a larger concept. It refers not merely to the acquisition of skills, but also to the capability to use them. This in turn is not only about employment structures, but also about social capital and the different reasons why people start engaging in civic action.

This more rounded view of capacity development contrasts with previous convictions that all that was required for the poorest countries to move forward was to slim down their public administrations and to reduce market distortions—to “get the prices right.” This may have balanced national budgets, but it also tended to erode local capacity. There is an advantage to getting prices right, but it is even more important to get the capacities right (see Part 1, Chapter 1).

**Capacity and Productive Processes**

Capacity—including knowledge and technology—in getting things done also needs to be integrated into the knowledge systems and productive activities and structures that exist in any society. In developing countries, there are often two systems of knowledge and production operating in parallel: indigenous and modern. When new knowledge is not integrated into indigenous knowledge or production systems, it fails to be useful, despite its potential (see Part 1, Chapter 5; and Part 3, Chapters 2 and 5).

Of course, not all capacity development takes place through the public sector or technical cooperation. All countries are constantly engaged in multiple processes of capacity development, in the public sector, civil society and the private sector. Private enterprises, for example, are constantly transferring and modifying systems and technologies, and developing the capacities of different departments and subsidiaries. This often involves exchanging people and resources between affiliates in industrial and developing countries. But the private sector develops capacity according to the dictates of need and performance. The dynamics of this are complex and often a matter of trial and error, but the ultimate rewards and disciplines are clear. If capacity development works at both the individual and the corporate levels, this creates the prospect of higher productivity and higher profit. If it fails, there is the risk of takeover or bankruptcy.

**The Asymmetric Relationship**

The dynamics of capacity development through technical cooperation are very different. And this leads to the second mistaken assumption that has underlined technical cooperation in the past—that it is based on an equal partnership between donor and recipient. Instead, the relationships have tended to be more asymmetric, discontinuous and distorted. In reality, development institutions operate as bureaucracies of different size and complexity that exert power and domination (see Part 2, Chapter 3). The development industry creates objects out of development initiatives rather than
partners. This is exemplified by the language of development, which is filled with terms of hierarchy and inequality: aid, developed and developing, donors and recipients, etc. (ibid.). The shift of control and power from the intended beneficiaries of development interventions to the providers of aid has naturally resulted from the fact that the financing of development interventions comes inevitably from the supplier and not the receiver. All parties are, of course, fully aware of the necessarily asymmetric relationship, but the old model of technical cooperation conveniently wishes this away and ignores the fact that this can be an obstacle to building partnerships. Although at the highest level, those involved may feel they are driven by shared development objectives, for most practical purposes the incentives and interests of the stakeholders—donors, consultants, governments and local communities—often diverge widely (see Part 2, Chapter 2).

Donor Priorities

Donors will have a long-term vision of what they want to contribute to—a better health system, perhaps, or an efficient judiciary, or a more skilled civil service. At the same time, however, they remain accountable to their constituencies at home. They feel more comfortable, therefore, if they can point to visible activities—courses, training manuals, computer systems—which encourages a bias towards self-contained and pre-ordained packages. This may make the process more “manageable,” but it also closes off options for creative learning or incremental discovery.

Donors also want to retain as much control as possible and avoid accusations that hard-earned taxpayer funds are being squandered through inefficiency, incompetence or corruption. One way of achieving this kind of assurance has been to send expatriates as gatekeepers. In the past, donors have ensured that almost every development cooperation programme or project was escorted by a technical cooperation component. This seemed reasonable. There was little point in attempting to create a new infrastructure for a national vaccination programme, say, without ensuring that the necessary skills were in place to manage both the equipment and staff. But a strong technical cooperation component also offers crucial levers for control. When donors have consultants in place, even for a short term, they also have eyes and ears in situ—keeping them abreast of developments, and generating numerous reports and statistics. Donors have thus used technical cooperation to lubricate the cogs of a self-perpetuating engine that pumps large volumes of money to developing countries.

Donors have certainly addressed some of these problems. Nevertheless, many of the fundamental issues remain, and technical cooperation is driven more by donor supply than recipient demand (see Part 3, Chapter 3).

Nor are consultants likely to rock the boat. They have a strong interest in the status quo. Although they may vociferously lament the inadequacies of both donor and government paymasters, they are usually content to accept highly paid assignments in congenial locations. Consultants can justify their fees by doing their job well within its own limited terms, but they have little incentive to criticize the basic system. If they do, they will soon be replaced by more compliant staff (ibid.).
The Recipient Governments

The recipient governments too find themselves locked into a cycle of dependency and conformity. Ministries of finance, for example, will be reluctant to reject billions of dollars worth of support and foreign exchange, even as their budgets are under attack from every direction—including from international financial agencies convinced that the best form of government is small government. In 1989, for example, for the countries of sub-Saharan Africa, excluding Nigeria, technical cooperation was equivalent to 14 per cent of government revenues. For ten countries, it was equivalent to at least 30 per cent.

Meanwhile, government departments that spend money on development are also enmeshed in ongoing relationships with donors. They may or may not agree with donors about priorities, but they will have a strong incentive to conform—or to promise to conform—to what donors propose. And the civil servants who work in these departments may also be wary of fully taking ownership if they believe this will create more work and possibly deprive them of some of the perks they use to supplement their often meagre salaries (see Part 2, Chapter 2).

These factors have two damaging impacts. The main one is that technical cooperation is ultimately not driven by demand, but by supply. This might succeed, but the odds are against it. The only people who will guarantee that resources are used well are those who are hungry for them. Thus, unless government officials really feel they need to know what is being said to them in one training course after another, they may do little more than transfer information from blackboards to notebooks.

But the donor-recipient relationship has a further and more insidious impact. Even when donors are offering something useful and the recipients have helped shape the decisions on how it might be delivered, the donor-recipient relationship too often leads to a lack of commitment by the recipient, and even to resentment, both of which are demotivating.

The healthiest relationship is where the country concerned has set its own priorities and has established its own momentum for societal transformation. At that point, it can seek external assistance and draw upon the resources it needs to meet those objectives, whether the resources come from the World Bank, Grameen Bank, UNDP, McKinseys, Transparency International or local NGOs.

Where such a relationship does not exist, donors will tend to fill the vacuum.

Turning the Process Inside Out: From Knowledge Transfer to Acquisition

The issue of effective demand is also closely linked with what generations of teachers know about the basic mechanisms of learning. Teachers and trainers can offer information and ideas and different forms of knowledge codified in textbooks or handbooks. Technical cooperation has long been predicated on this kind of transfer, with the adviser analysing the knowledge gap and prescribing solutions that might
enable counterparts to improve their performance. The underlying premise is that poorer countries can simply adopt a template that has been refined over time in the richer countries. No need to reinvent the wheel.

To be sure, most people have acknowledged that this is at least partly wrong—that there have been inevitable misalignments and poor fits, and that there is a need for some local adaptations. What has not been appreciated, however, is just how catastrophically wrong the entire approach has been. The process really needs to be turned inside out, with the first priority being encouragement for recipients to initiate the process. This starts from a deep understanding of local knowledge and practice—assessing the capabilities and potential of individuals, institutions and the society as a whole, and working out ways to build on these incrementally. The process is also likely to be, in the broadest sense, a political one—appreciating the different interests involved and anticipating how conflicts might be resolved (see Part 1, Chapter 2; and Part 3, Chapters 2, 3 and 5).

This approach also resonates with a more realistic view of learning. Most teachers at any level will say that learning only takes place effectively when students have motivation and appetite. Indeed, some teachers would argue that they cannot transfer knowledge at all. The most they can do is create the conditions under which people can learn. They can certainly offer information. But knowledge is more than information; knowledge is something that learners have to acquire for themselves.

This may seem like a subtle distinction. And when it comes to some facts about the world this may be true. Take the information that malaria is transmitted by a mosquito, or that certain pesticides are appropriate for particular crops. In this case, a trainer or a book can state the fact, and the reader or the learner can immediately absorb it. But knowledge in its fullest sense involves more than the transmission of facts. Most useful knowledge is tacit—and at a deeper level (see Part 3, Chapter 3). This kind of knowledge, which enables people to size up new situations and take the appropriate action, cannot be delivered as a simple package. Rather, it has to be steadily absorbed, tested and modified. And this requires a constant process of willing acquisition. So unless the individual genuinely wants to learn, he or she will not be able to expand their capacities. Many education systems do still rely on teaching by rote and attempt to transfer knowledge by dint of forceful repetition. Some information thrown at pupils or trainees in this way will stick; many students will feel that what they are being offered is just what they need. But for most learners most of the time, such methods are irrelevant and wasteful.

This lesson has not been lost in the commercial world. Businesses that consider themselves to be information-based “learning organizations” now rely less on routine training courses and more on on-the-job learning, or mentoring, or having people with different levels of skills work in teams with a constant process of interaction and learning.

A more home-grown process also addresses the problem of a disconnect between technological development and production systems. If indigenous knowledge and production systems (organizations and other indigenous entities) cannot easily make use
of foreign technology, then they are likely to reject it and continue much as before (see Part 3, Chapter 2).

Rather than starting from a mail-order catalogue of standard parts to be forced into likely looking slots, the challenge instead should be fully to understand the local situation and move forward from there—step by step. The major implication of this proposal is that it puts a high premium on local rather than international expertise.

**From Partnership to Ownership and Beyond**

These two core concerns—the need to appreciate development as transformation and to recognize the asymmetry of the donor-recipient relationship—have profound implications for technical cooperation. And to some degree, both are already being addressed. As ever, the first thing to change is the jargon. A few years back, attempts to equalize the relationship resulted in the promotion of the term “partnership,” coupled with efforts to achieve local participation or empowerment. Now the clarion call is for “ownership.”

Ownership is also about self-confidence, without which there can be no leadership, commitment and self-determination. An indispensable part of ownership, empowerment in the development context is about expansion of recipients' capabilities, involving enhancement of choices and freedoms, and as such is not only a means but also an end in itself. The problem of initiating and fostering local ownership in the context of the asymmetry of power relationships, as discussed above, requires the consideration of three key issues: What exactly are national and indigenous approaches? What is the role of the development “industry”? What is the time-span for development interventions? (See Part 2, Chapter 1.)

As a result of political, financial and planning imperatives, there has been an urge for achieving results quickly. Transformation, however, is a slow and ongoing process, and development aid practices should adjust to reflect that tendency by using a long-term time-frame. Furthermore, local ownership necessitates a clear accountability structure and processes embedded in the local value system. In order to enhance access to external support while preserving local ownership, national agents need not only actively participate, but must also have full control over the initial idea as well as the execution of the project and its integration in national processes (ibid.).

The role of the state in this context needs further consideration. While the state is no longer the only interlocutor for development initiatives, the lack of recognition of its role has produced tension, confusion and a leadership crisis (see Part 2, Chapters 1 and 2). Unless developing country governments fully “own” technical cooperation programmes, having already agreed on their objectives and shaped their content, they will never have the commitment needed to make such programmes work. There is evidence to support this claim. Research and evaluation findings reveal that programmes commanding a sense of ownership by target beneficiaries and stakeholders have clearly performed better than those than did not (UNDP, 2001a; World Bank, 1998a).
Among the most successful technical cooperation programmes in recent years have been those in several of the former communist countries of Eastern Europe. But in many respects, these were special circumstances, not unlike those of the Marshall Plan 50 years earlier. Here much of the social capital, including a highly literate population and a highly developed public sector, was already in place. So, although the flows of assistance were one-way, and to some extent donor-driven and conditional on policy reform and the promotion of market economies, the policies and interests of donors and recipient governments were already reasonably well aligned.

The situation for the poorest countries is very different; there is a much greater gulf between donor and recipient. And this creates something of a catch-22 scenario. The LDCs are said to require technical cooperation precisely because their social and institutional infrastructures are weak. But this weakness also inhibits their ability and confidence to get into the driving seat, choose the direction in which to travel, and acquire and absorb appropriate resources that will be needed on the journey.

Worse still, technical cooperation can undermine local capacity. First, there are opportunity costs. Even “free” outside assistance takes up local resources, demanding counterpart budgets and mechanisms as well as the time to meet donor needs. Second, technical cooperation can open channels through which existing capacity can drain out as the best officials are tempted away to work on donor projects or for NGOs—leaving their remaining colleagues demoralized, overworked and susceptible to corruption.

Addressing Asymmetry

The asymmetry issue is inevitable. Donors will always ultimately control the funds and where they are disbursed. The recipient’s final recourse is the exit option—simply to reject any assistance with which it is dissatisfied. Nevertheless, it is possible to level the playing field, or at least reduce the gradient. But the first step is to recognize that this is a fundamental issue—not merely that donor control and the lack of local autonomy are unfortunate defects or brakes on otherwise worthwhile activities, but that for some countries they can throw development into reverse.

Exactly how this asymmetry can be tackled will depend on local circumstances. Many countries have been able to pursue autonomous development strategies by making some or little use of aid funds and going their own way—Brazil, Botswana, Cape Verde, China, Costa Rica, Malaysia, Mauritius and Singapore, for example. Eastern and Central European countries too have been pretty successful in utilizing technical cooperation funds. But what about the poorest and politically weakest countries, who now find themselves in a dependent position? Alarmingly, countries with the least capacity have been the ones whose technical cooperation flows have decreased—by one quarter since 1994 (see Figure 0.3).

One of the most deliberate attempts to address this issue has been a pioneering effort in Tanzania (Helleiner, forthcoming 2002). In 1997, the Government of Tanzania, following an earlier initiative from the Nordic countries, agreed with the donors as a
group on a radical change of rules and roles between the partners in development, which included what subsequently became 18 specific steps on which progress in the aid relationship could be monitored by an independent assessor. While the assessor's 1999 report did note considerable progress on both the donor and recipient side in many aspects of development cooperation, the least progress seemed to have been in technical cooperation, which continued to serve donor interests and which the Government regarded as wasteful.

Another way to help level the playing field is to strengthen the voice of recipient countries in debates about aid policy. On the international level, the donors already have the OECD/DAC. No such forum exists for developing countries to share their experiences, find common positions and develop aid guidelines with a southern perspective. Southern forums on development cooperation could be an important platform for balancing the donor-recipient relationship. A good entry point for such cooperation might be existing regional or subregional mechanisms.

Innovative Funding Channels

The most direct solution to the asymmetry problem in technical cooperation would be for the donors simply to support the national budgets of the recipients. This would mean an integration of external support into national planning processes and accountability systems. It would allow governments to exercise ownership over those funds and determine what inputs, advice, training, etc. is suitable to national capacity-development needs. It would contribute to aligning incentives and allow an improvement of overall civil service conditions. One may thus argue that budget support should be the starting proposition—the rule to which exceptions need to be negotiated.

A more targeted version of this would allow donors to retain a degree of control by channelling resources through specific technical cooperation funds with a clear general purpose. As long as the recipients deployed the funds to achieve agreed overall objectives, they could use them as they saw fit. As an extension of this, a group of donors could come together and pool funds that could be used in a similar way. A part of the Tanzanian experiment, for example, has been for donors to contribute to “baskets” of funds. There are variants of this type of mechanism, such as establishing autonomous development funds—public but politically independent institutions that can cater to both government and civil society. A technical cooperation window accessible to civil society may in any case be a useful complement to pure budget transfers.

The precise mechanism can be chosen according to local circumstances, but the central principle would be that of modifying the link between donors and programmes so as to achieve real national ownership. Most importantly perhaps, the pooling of resources, ideally as budget transfers, would dramatically simplify the aid relationship and would help resolve many other issues, including the obstacles created by vested interests.

If the development partners were prepared to explore other funding mechanisms, then many of the problems of ownership would start to recede and recipient governments would have much stronger incentives to get value for money. Some donors have
indeed moved in this direction. The Netherlands has sharply reduced its use of long-
term expatriate experts. And Norway and Sweden have done away with technical
cooperation altogether to concentrate on local capacity development. The United
Kingdom is actively exploring the implications of budget support.

The Accountability Challenge

Without strong accountability systems, support for pooled funds would not be feasi-
ble. What sanctions are available to enforce accountability? The two common
responses are conditionality and selectivity. The weaker national accountability sys-
tems are, the more donors are tempted to subject disbursements to prior conditions,
and tighten requirements and control mechanisms, which are difficult to comply with
precisely because of weak institutions. The logical consequence is that donors disen-
gage from countries where conditions are deemed insufficient. Both parties actually
aggravate the situation for the poorest people.

Accountability should also be viewed in a wider context. Donors are accountable to
their home constituencies, and they in turn set certain performance criteria for recipient
governments. Missing from this perspective is accountability—on performance, on impact,
and on finance—to the intended beneficiaries, the people of the developing countries.

Civil society, in the form of NGOs and the media, is stepping in to monitor what is
happening. Why is the health service using an expensive western information tech-
nology consultant when similar expertise is available for a fraction of the price locally
or from another developing country in the region? Wasting someone else’s resources
is one thing; wasting one’s own is quite another. This kind of transformation would of
course also be a huge breakthrough for the donors, who could demonstrate far more
convincingly to their constituencies that their funds are being used wisely.

As a way of strengthening local accountability, recipient countries could also
establish a national forum for all the stakeholders—including government, civil society,
the private sector, the development industry and donors—to set priorities and moni-
tor progress in a transparent way. Such a forum could help bridge a leadership gap and
get reforms underway, particularly in countries where governance structures are weak.

Capacity Development in the Network Age

Regardless of whether donors or recipients are prepared to take such steps, the old-
style linear forms of technical cooperation will to some extent be overtaken by events.
Globalization—and the counter-reactions to it—is creating multiple new links, net-
works and alliances that change the topography of knowledge. In this globalized
environment, the idea of being propelled along a linear development path by knowl-
edge emanating from a single distant country will increasingly be seen as antiquated
and irrelevant. New institutional forms of global support to capacity development are
becoming possible. This will bypass the constraints of asymmetry and knowledge
transfer (see Part 3, Chapter 1).
New technology is creating myriad alternative tools for capacity development. Information on agricultural technology, for example, that might previously have remained lodged in the minds of overseas experts or expensive foreign manuals or textbooks can be summoned from wherever it is, through an Internet connection and the click of a mouse. Information and communication technologies can also create networks and communities of practice. People in governmental and nongovernmental institutions across the world can now engage with each other horizontally and directly without passing through formal channels. Many NGOs have already discovered the potential for exchanging information internationally and for planning joint activities and campaigns. Governments or other institutions are now in a better position to locate expertise independently and assess its worth, just as the private sector does in garnering the best skills and abilities from wherever they are worldwide (see Part 3, Chapter 4).

These changes in technology are also taking place at a time when development expertise itself has become more widely dispersed. At the beginning of the 21st century, some of the most relevant and useful knowledge on how to achieve rapid human development now resides in the countries that have the most recent records of success. The notion that the only ideas for development that are worth trying are those that derive from the North looks less and less plausible (see Part 3, Chapter 3).

It can still be argued that circumstances in Bangladesh, China, Costa Rica or Mali are unique and distinct, and that the experience in one country will not necessarily translate to another. But once it is accepted that there is very little generic development knowledge—that all knowledge has to be gathered and then analysed, modified, disassembled and recombined to fit local needs—the source is immaterial. The new motto is: “Scan globally, reinvent locally.”

This philosophy can turn networks into an empowering tool of capacity development. An extraordinary sociological transformation over the last decade has been the rise of networks—formal and informal, in almost all areas of life. Information networks are proliferating, as corporations, governments, research institutions, NGOs and millions of individuals collaborate to share ideas, information and knowledge. They can share information nationally, as with the South Africa Health Network, for example, which enables health practitioners to swap experience on topics ranging from malaria to traditional medicine. Or they can share regionally, as with Electronic Networking for Rural Asia Pacific, supported by the International Development Research Centre (IDRC) and the International Fund for Agricultural Development (IFAD). Or they can share internationally, as with the OneWorld global network for NGOs. These networks and many others offer a striking alternative to the old model of one-way North-South information flows. Now, the flows can be in every direction—within and between countries of both South and North.

The network approach to capacity development can truly be demand-driven. For example, the International Budget Project, supported by the Ford Foundation, is a network of NGOs across the world involved in social audits of budgets. The project develops the capacity of network members by providing a forum for exchanging
information and ideas, tools and methodologies, training, and moral support. The success of a project with such a design will depend on effective demand, and therefore cannot be simply supply-driven.

UNDP and the World Bank are actively promoting the development of networks, starting within their own organizations. But as some of these experiences show, networks can also fall into the same problems experienced with donor-driven agendas, particularly the trap of asymmetry. If they are hierarchically organized and tightly controlled, they can once again be constrained by a supply-driven agenda. To avoid this outcome, networks have to be managed so as to be truly open, participatory and demand-driven. When they are, they open up exciting new possibilities for empowering people to scan globally and reinvent locally (see Part 3, Chapter 1).

At the same time, however, while there are now greater rewards for exploiting these opportunities in a knowledge-based market environment, there are also greater penalties for being left behind (see Part 3, Chapter 1). As knowledge becomes the foundation for more and more economic activity, it also becomes the basis for a competitive edge. India’s rapid emergence as a world leader in information and communication technology skills is but one example. Brazil’s success in building on local and international knowledge for its pharmaceuticals industry is another. However, many other countries and industries have not been able to develop their capacities in this fashion, and risk being marginalized from the global economy.

Conclusions: A New Paradigm for Capacity Development and Institutional Innovations to Solve Old Problems

If technical cooperation is to work for capacity development, only institutional innovations—new models—most appropriate to today’s social and economic environment will overcome the well-known constraints. This means:

- starting with the motto “scan globally, reinvent locally”;
- trying out new methods—such as networks that make the best use of new types of learning; and
- trying out innovations that address asymmetry in donor-recipient relationships, such as pooling technical cooperation funds and developing forums for discussion among southern nations.

Perhaps the biggest obstacle in developing such innovations lies in the human mind itself, which can remain imprisoned in old assumptions and practices. Institutional innovations will have to be built on new assumptions about the nature of development, effective development cooperation, the aid relationship, capacity development and knowledge. These assumptions have to shift to new assumptions in order to build a new paradigm. The key elements are listed in Table 0.1.
Capacity development is arguably one of the central development challenges of the day, as much of the rest of social and economic progress will depend on it. To begin with, it is an imperative for economic survival in today’s knowledge-based market environment. But if the purpose of human development is to extend human capabilities, then capacity development is not merely a stepping stone towards higher levels of human development; it is an end in itself. For individuals, for institutions and for societies, this demands a continuous process of learning and relearning—from each other and from the world around them.

If all the stakeholders are to make fundamental progress, they will need to experiment with new approaches and seize fresh opportunities presented in the network age. Jointly, through this new paradigm, they will need to design institutional innovations to support capacity development.

References

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Introduction

In understanding technical cooperation¹ (TC) and capacity development² and their contribution to development, it is necessary to examine the notion of development itself.

¹ Technical cooperation comprises the provision on concessionary terms of resources aimed at the transfer of skills and know-how and at capacity-building within national institutions to undertake development activities. It includes resources in the form of personnel (international, national, and long- and short-term). TC is broadly divided into two categories: i) investment related, and ii) “free-standing” general institutional support (UNDP, 1989).

² Capacity development is defined in this paper as the ability of actors (individuals, groups, organizations, institutions, countries) to perform specified functions or specified objectives effectively, efficiently and sustainably.
and consider how different capacities contribute to development. An exclusive focus on either TC or capacity-building is unlikely to draw out the essential synergy they bring (or could bring) to accelerating progress in developing countries.

Development is fundamentally about transformation of the production system and of society. It is rarely a linear process, and in that sense, it differs substantially from the current process of growth in developed countries. Development strategies, of which TC is a part, must aim to facilitate the transformation of society by identifying barriers and catalysts for change. If technical cooperation is to serve as a useful catalyst for national and international development strategies, a better understanding of its relationship to efforts to overcome these barriers is at least as necessary as analysing the forms in which TC is delivered.

This paper addresses these relationships in three parts. First, there is a review of the issues connected to the concept of development as transformation and what this implies for development policies and practices. This emphasis on development as transformation produces in turn a related paradigm shift based on the proposition that “getting capacities right” may be at least as important as “getting prices right” for the sustainable progress of developing countries. Second, there is an attempt to identify the critical capacities required in development transformation and what these imply for the role of government and civil society in such development change. Finally, the paper analyses current TC and aid practices in relation to their development effectiveness and assesses how the framework outlined in the following pages may influence the way TC and aid are provided in the future.

**From Growth to Transformation**

Traditional explanations of growth and development draw upon the neoclassical production function, which highlights the roles played by capital, labour and land. The failure of these approaches to explain differences in growth across countries and in the process of development has meant a search for explanations that lie behind the production function.

An important addition to this search was the concept of human capital, an idea put forward in the 1960s by economists such as T. W. Schultz and Gary Becker. Trained, skilled labour clearly influences the prospects of a nation; much of the success of the East Asian model has been attributed to this factor of production. Radelet and Sachs (1998a), for example, posit that quality institutions, schooling and an overall stock of human capital, together with outward-oriented trade policies, placed the region very favorably to kick-start a trend of high growth rates that were sustained for over a generation. Literacy rates in East and South East Asia were 73 per cent in 1970, compared with 30 per cent in sub-Saharan Africa, and had reached 87 per cent by 1990.

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3 Growth rates in a select group of East Asian countries between 1965 and 1990 stood on average at 5.5 per cent per annum, implying that national incomes were doubling every 13 years or so. A comparable rate in South Asia was 1.7 per cent (Radelet and Sachs, 1998b).

4 Econometric results, however, show that the relationship between growth and education is weaker than other variables, which is attributable to measurement problems and differences in the quality of education (Radelet and Sachs, 1998b).
There exist other explanations. Some economists have picked up on a theme identified by Alfred Marshall—the importance of external economies of scale. While external economies concepts, together with the general process of growing division of labour and specialization as markets widen, have been helpful in explaining how growth and innovation get started and how they might be maintained, they still do not provide a complete understanding of development as such. Similarly, studies linking growth with differences in knowledge cite asymmetries in access to knowledge that draw on differences in initial income conditions and even geographic specificity. Hausmann (2001) argues, for instance, that development outcomes may be shaped by geography, as most poor countries happen to be either landlocked, or located in the tropics, or both, a conclusion that does not fully explain historic shifts in the development ranking of countries.

While strides have been made in attempts to identify sources of growth beyond asset accumulation, such as a recent focus on institutions and economic geography, the overarching message in all these avenues of inquiry is that we still do not know too much about the variables that trigger and sustain development.

Despite their well-documented limitations, the neoclassical approaches have had a strong influence on development policies. Further, they have contributed to a premise that development is intrinsically a technical problem requiring technical solutions—such as increasing the capital stock, better resource allocation and preventing market failures (Stiglitz, 1998). One particular challenge is to take a broader view of development, by beginning to understand better how societies work, how societal forces interact with each other, and how they help or hinder development progress.

Adding Social Capital

The term “social capital” can be of some value in the analysis of development. It seeks to respond to the challenge of integrating the social and historical context in which the different factors of production are brought together. Though it is widely accepted that the relationships between society and development are important, there has been, until recently, surprisingly little interest by mainstream economists in societal forces.

Classical economists, notably Karl Marx, were of course deeply concerned with understanding the relationships between society and production systems. But it was the sociologists and political scientists who coined terms like social capital, defined broadly as “the norms and networks facilitating collective action for mutual benefit” (Woolcock, 2000).

Communities with high levels of trust and strong networks are seen to be better off than those without. Social capital is reflected in better jobs, in fewer disputes and in a more prompt response to citizen concerns (Putnam, 1993b and 1995). The policy conclusion becomes an obvious one: Nurture and strengthen social capital, which requires understanding how social relations are structured and how they can be leveraged for the purposes of development. Woolcock (1998) refers to a four-hour journey from Madras to Singapore in bringing out the sharp differences in social capital as
expressed in levels of organization related to matters such as forming queues, the order in boarding, procedures for deplaning, etc. Like the Italy Putnam (1993a) studied, some societies may be better endowed with a package of civic virtues that not only help them function better, but also cope with crises and manage transformations well. There can, of course, be “bad” social capital, such as criminal gangs who meet the criteria of trust and collective action, and there can be “dysfunctional” social capital, when different social groups are unable to function in harmony.

Putnam (1993b) argues that in the same way that money is more efficient than barter, “a society that relies on generalized reciprocity is more efficient than a distrustful society,” implying that avoidable transaction costs impede economic progress. When networks of civic engagement are dense, reciprocity and trust are fostered, “lubricating social life.” Further, coordination and communication among agents “amplify information about the trustworthiness, or the general reputation of other individuals, reducing incentives for opportunism and malfeasance.”

The association between social networks and growth has also been extensively explored. Fukuyama (1995) elaborates on the virtue of trust in spurring economic growth by drawing a distinction between “low trust” and “high trust” societies, with particular reference to the East Asian model of “network capitalism.” Coleman (1990) points out that social capital facilitates access to high-quality, relevant and timely information at lower cost. Adler and Kwon (1999) point out that, like trust, solidarity is also a product of social capital, which, they argue, “encourages compliance with local rules and customs, and reduces the need for formal controls.”

The concept of social capital has its detractors. The term is considered too broad. There is a view that it lends itself to being interpreted in contradictory ways when being used to justify specific public policy prescriptions (Woolcock, 2000). Solow (1997) goes further and questions whether social capital can even be compared to capital (as a product of past investments), and the feasibility or usefulness of measuring such “capital.” In some ways, social capital (and more broadly the notion of capacities) may be usefully viewed as influencing the nature of the production function itself, rather than being treated on par with other factors of production such as capital or labour. Dasgupta (2000) refers to it as a shift in the production function, affecting (positively or negatively) the outcome of the mixing of different factors of production. Further, it could be argued that a positive, durable form of social capital may even determine the sustainability of the production function. If trust breaks down, groups may find it difficult to interact efficiently in the production process, an extreme example of which is civil strife.

Without adding to the controversy—the debate has often been both strident and confusing—the interest here is to use terms like social capital to understand better how society organizes itself, how development takes place, and what critical capacities are required to make transformation work.

The term social capital may help in understanding more fully the interplay between markets, social groups and networks, and the development process. Markets
can empower individuals, but groups may not be strengthened, which may carry a specific downside for development change. In certain situations where market relations are not well developed, networks may complement markets, but equally they may compete with them if they substitute for or hinder market development (Dasgupta 2000). Public policy can have a large influence on the form and content of social capital. Equally, a robust engagement of civic society may have profound consequences on development outcomes, as argued by Sen (1984) in his seminal work on poverty and famine in India.

Social capital complements traditional economic theory, which starts with the individual and aggregates up to the economy. Traditional public policy prescriptions are based on how individuals behave, how they save or invest. When the individual's behaviour is a function of change, i.e., when it becomes an endogenous variable, the analysis forces us to look at broader societal issues. In particular, this requires us to examine the notion of social norms and how change influences behaviour—such as how people save and invest, for instance. Individual behaviour is the product of social interaction and the point in history at which different societies find themselves. Without this broader approach, analysis can be limited and may produce insufficient understanding.

Critical Capacities, Production Processes and Development Change

The literature on capacity development (CD) is vast. Much of it is focused on the needs and purposes of organizations—the ability of institutions to identify and solve development problems over time (UNDP, 1995). It is task-driven and mission-oriented, referring to the capacity to perform certain functions. For some, CD serves both as an objective and an approach, with an accent on participatory processes that are particularly valuable for their attention to the capacity of individuals to play more active and productive roles in development. Others take a broad view, a “systems” perspective, and by extension examine societal and organizational contexts. In this broader view, CD incorporates social-capital concerns. CD becomes “an effort to change a society's rules, situations and standards of behaviour. Capacity in this sense is about the self-organization of a society and the will, the vision, cohesion and values to make progress over time” (Morgan and Qualman, 1996). Whatever the definition, the concept of capacity development has clearly emerged as an organizing principle for development efforts and by extension TC.

Finding the Right Balance

Yet the value of capacities can be most usefully assessed in relation to their development purpose. In understanding the contribution of capacity-building, a development effectiveness filter therefore has to be applied, although even this approach is not entirely straightforward. A key question is to look at a capacity's contribution to development outcomes. This perspective forces attention on the different options available to meet the intended outcomes, and assesses whether the capacities at hand are necessarily the right ones to focus on. This broader approach encourages going beyond technical factors alone, so that options and alternatives are kept in mind. Health care services, for instance, are part of a web of social services, some modern,
some traditional. By adopting a systems approach, each system can find its right place, and overall health care delivery may improve more than under a narrowly focused development effort. The same applies to institutions. Setting up institutions may require more than the knowledge of their purpose.

Linking capacities to development impact in turn begs a normative question: What capacities are key to development, especially when development is defined as transformation? What capacities are required to meet the challenge of designing policies, institutions and programmes based on an understanding of social conditions and with a view to the transformational requirements of development? There is a dynamic aspect to this issue. Some capacities may be more critical than others at a given time. Following independence, planning commissions were established in virtually every developing country as a way to plan and direct development. They performed useful roles. Yet it can be argued that these institutions also lagged behind development challenges. India represents a classic example. Following the principles of Fabian Socialism from 1947 through the mid-1980s, India’s growth rates were disappointing, at around 3 per cent, especially when contrasted with those of East Asia. Apart from “inappropriate policies,” Bhagwati (1993) faults the heavy hand of the state with its distrust of markets in favour of bureaucratic plans. Planning commissions were charged with the tasks of allocating and managing development resources, rather than rethinking their role (and the capacities needed) in more market-driven environments.

The issue of capacities can be looked at in three interlocking categories (see Figure 1.1.1). While policies and markets do matter, their sustainability is intimately connected with having the capacities to direct and manage the policies within a broader vision of societal transformation. The challenge becomes one of finding the right balance through:

1. Setting priorities ("vision") and identifying the right mix of policies and market approaches. This especially includes taking a view of the preferred nature of development and the process adopted. Emerging from World War II, Europe pursued very different development paths than the United States, partly because it faced different challenges. While both stressed the importance of markets, the role of the state in protecting society and in its relationship to the individual and social groups varied significantly. Broad-ranging debates are necessary in developing countries so that development visions can be consciously constructed in line with national culture and social conditions.

2. Developing the appropriate capacities to direct and support these policies ("institutions"). While this can be understood to mean the administrative capacity of government, it can also imply a debate on the role of government and how it can complement markets. Keeping society together and functioning with essential social capital facilitates and supports development change. Development requires an understanding of both current and preferred

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5 As the three fundamental obstacles, Bhagwati blames i) the paradigm of state-led industrialization (with a substantial public sector involvement beyond the confines of public utilities and infrastructure), ii) inward-looking trade and investment policies, namely import substitution, and iii) the “License Raj” with its extensive bureaucratic controls over production, trade and investment.
social norms and attitudes. Modernization demands an adjustment in institutions and in these norms.  

3. Establishing a conscious policy to balance and link social norms and cultural values with development ("social capital"). Whether social capital is defined as social cohesion or social capabilities, transformation produces pressures that are large and need to be understood—including the relentless forces of globalization, which are leading to growing competition and specialization. There is a complex interplay of external and internal forces that are not only the backdrop for the application of economic and social policies, but also intimately influence their content.

The critical capacities identified and categorized here as vision, institution and social capital are integral components of capacity development, and hence of the formulation and implementation of public policies designed for sustainable development. The nature of and the interplay between these categories have a direct influence on how and what public policies are encouraged or instituted by governments and other prominent players participating in the development process. However, the relationship between the categories identified above and public policy, rather than being unidirectional, is synergistically interlocked. Public policy is shaped by but also shapes the visionary scope, institutional robustness and the social-capital content of a society. Well-established capacity strengths provide the necessary groundwork for sound and effective public policies, which in turn promote further development of critical capacities.

This close interrelationship invites a discussion of the necessary role of the state in influencing societal transformation, and inevitably the appropriate role of institutions in that process. Increasingly, pragmatic approaches are being taken to the role of governments. A new “third way” has been proposed, even by economists reared on neoclassical thinking (De Long, 1999). They view governments and markets as necessary complements, with the government having a critical role in ensuring “equality of

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6 The term “institutions” deserves a more rigorous elaboration. While it is broadly understood in the political science literature as “stable, valued, recurrent patterns of behaviour,” North (1990) specifically describes institutions as “any form of constraint that human beings devise to shape human interaction.” North also offers a useful distinction between organizations and institutions, with the former associated more with actors (political parties, churches, universities, etc.) and the latter with rules, or the way games are played in national life. North argues that both organizations and institutions are there to provide “structure to human interaction.”
opportunity,” while accepting and occasionally responding to the inequality of outcomes depending on the political imperatives. Too little government can be as destructive as too much. The Asian crisis of the 1990s and the US savings and loan crisis of the 1980s have been attributed to the failure of government to perform key regulatory tasks. Aid and TC have taken strong positions on the content of development policies and in particular the role of government. The issue ultimately is one of smart and effective government, and the need for ongoing assessments of the effectiveness of the key functions of government.

The three categories are profoundly connected, and their relationships vary with country and over time as development takes place. Personal relationships and social habits are part of institutions and influence their performance. Woolcock’s reference (2000) to the “social embeddedness of institutions” implies, inter alia, that transformation requires a more sensitive appreciation of the factors involved in change than passing decrees and new laws. The combination of the three capacity categories requires a country- and region-specific understanding of what is possible and what should be done. Fundamental questions on direction and development purpose are best answered by the people themselves and their representatives. The relationship between the three is likely to vary with country conditions, so the fundamental challenge is to find a balance.

The discussion of TC and related capacity-building has tended to be about the first and second categories, with less consideration of the third; rarely has there been much examination of the factors that promote a balance of the three.

Managing the Alignment

Traditional societies may have high levels of organizational and social capital, though this may not be in the form that facilitates change (Stiglitz, 1998). What stock of social capital exists might be destroyed during development transformations, or, as in Russia, transitions may happen without the emergence of a new social order and capital. This perspective leads to the proposition that public policy needs to go beyond narrowly defined capacities to consider approaches that promote social capabilities— institutions, incentives and social structures that encourage productivity, thrift and entrepreneurship.

In a traditional society, there may well be alignment between the three categories: a coherent vision of society with established priorities; institutions that manage them; and social capital that fits in with the priorities. Development change and the imperatives of new production systems in turn demand new social systems and capacities. Understanding that development is fundamentally about transformation, the real challenge then is in properly managing the transformation from a traditional to a modern society (see Figure 1.1.2). Transformation should focus not on the dismantling of entrenched institutions and capacities, but on the judicious management of the development process to create a social environment that sustains and enriches new social structures and alignments conducive to a modern society. In periods of rapid change, there is bound to be profound misalignment among the three components, making transformation management a daunting task. Development policy has to be concerned
Development aid can have surprisingly large influence. The experience of Russia is instructive. The disastrous results are well known—the collapse of incomes, a huge rise in inequality, shortened life spans—some were unprecedented since World War II. Dramatic new policies were introduced (with support from the international community) without thinking through their implications for the new institutional capacities needed, and even more fundamentally, without understanding the implications of the new social norms and networks needed to make the policies work. One of the reasons fostering this situation has been that “experts” and agencies charged with assisting the transition saw it as a conventional problem of weak markets and democratic institutions requiring standard solutions in the form of more financial and human resources, i.e., more loans and technical cooperation (Putnam, 1993a).7

An obvious arena where the state can step in to influence social norms and practices, hence social capital, is in instances of discriminatory and exclusionary practices linked with race, gender, ethnicity and religion. The World Development Report 2000/2001 argues that these anomalies can be redressed by understanding the nature of the problem. Some forms of exclusion can be eased by improving the outreach of public services to areas of neglect—for example, by setting up primary schools and hospitals in rural outposts. Stronger manifestations of discrimination ought to be dealt with legally through institutions of the state or special policies such as affirmative action.

Moving from one system to the other raises issues of absorption and sequencing. Much of the debate on “absorptive” capacities has been linked to the role of public policy in influencing the ability of developing countries to absorb “new ideas, norms and techniques” (Koo and Perkins, 1995). In South Korea, this led to investing in education first so that the transfer of skills and knowledge through TC could be better absorbed.

The East Asian crisis is a different example. Here the role of governments was well established, with generally strong, well-managed institutions and a mix of policies mostly regarded as growth-friendly. And, perhaps even more important, these countries

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7Jeffrey D. Sachs, himself an adviser to the Russian President from 1991 to 1994, has observed, “(W)e were witnessing a profound transition of a social, political, and economic system of a scale unprecedented in history, and we sent a handful of fiscal accountants to manage that transformation” (noted during a presentation at a Kennedy School of Government seminar, 2000).
had succeeded to a considerable extent in transforming their societies. So what went wrong? While critical observers have faulted the volatility of short-term capital flows and inadequate external advice (Radelet and Sachs, 1998a), there has also been serious questioning of key aspects of the Washington Consensus, such as premature capital account convertibility. The East Asian crisis represented a combination of risky lending and inadequate financial sector supervision in developed countries, hence calling for more, not less, governmental action, and for more and better international financial supervision.

Rethinking the Role of Governments (and Civil Society)

The incorporation of social-capital issues in the analysis of development, and defining development as transformation, raises the bar for social policy. In some ways, the role of social policy itself has to change. It has to go beyond policies concerned with how society treats the poor and other vulnerable groups. The transition that is occurring today in the newly independent countries of the former Soviet Union is much more than a transition from central planning to a market-oriented economy. It is an attempt to transform society, and in that process to develop a new relationship between social norms and development. Part of this has to do with how people interface with their government, and whether a new political culture emerges with preferred attributes such as greater transparency and accountability (Griffin, 1995).

This broader, society-driven approach affects how we look at traditional policy instruments. Macroeconomic policies, for instance, are rarely “poor neutral.” National budgets and their composition have to be seen in their political and social context. Partly because of the perception that these are technically complex areas best left to the experts, macroeconomic policies have avoided public scrutiny, despite a growing realization that the consequences of these technical decisions can have substantial implications for the development of nations and societies (Cagatay et al., 2000). The policy conclusions, for instance, are likely to be very different if education or health budgets are viewed as expenditures or investments. Mahbub ul Haq, the founder of the United Nations Development Programme’s (UNDP) series of Human Development Reports, was fond of cautioning finance officials that it is unwise to “balance budgets on the backs of the poor.”

A larger, transformative role for governments is not without precedent. In the early stages of development, governments of the more advanced economies did play key roles in laying the conditions for later economic and social progress, be it in Japan after the Meiji Restoration of 1868, or in postwar Germany. The role of the Government in coordinating decisions about investments in heavy industry in Germany, for example, stands in contrast to the more spontaneous growth of industry in the United Kingdom. It can be argued that it is only when fundamental policies were flawed or institutions ill-equipped that even a proactive role of the state produced little results, as in the communist bloc (Kornai 1992). The content and sequencing of transformative development policies becomes important in determining the speed and efficacy of the transformation path.

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8 Broadly understood to cover packages of policy prescriptions endorsing privatization, stabilization and liberalization.
How do states and civil society connect? Narayan and Woolcock (2000) argue that states must invest in the organizational capacities of the poor and help them build bridges with other social groups, suggesting the use of participatory processes. Their argument is that social networks of the poor are one of the primary resources they have for managing risk and vulnerability. Narayan and Woolcock add that states can identify virtuous cycles that link “structural” social capital (institutions) with “cognitive” social capital (norms and values). They can assist the growth of new linkages between the state, markets and citizens, e.g., among enterprises that pursue profits but distribute them for social ends, or through social policies that deliver effective child care without burdening women. States can also be aggressive and crowd out civil society organizations. The links are both obvious and subtle and need careful consideration.

A Necessary Digression on Crisis Situations

Civil wars are a major source of poverty. The worst-deprived societies, regardless of whether they are measured by human development indicators or GDP per capita, tend to have had major civil conflicts or wars. A staggering half of all low-income countries have experienced major political violence (Stewart, 2000). Preventing conflict requires an understanding of the economic and social causes of conflict, and the design of policies that strengthen social capital. In looking at conflict among organized groups, factors such as economic and social differentiation (group identity, etc.) and the political ambition of opportunistic leaders stand out. A basic reason, however, behind group conflict is relative inequity and perceived denial of “rights.” Prevention of conflicts requires countervailing pressures such as a strong state and/or communities. Dysfunctional social capital can easily overwhelm institutions created when society was more stable. Repairing institutions alone without a concomitant rebuilding of social capabilities is unlikely to be lasting. “Good” policies become insufficient if the government is not broadly based and groups do not feel appropriately represented.

In war-torn societies, the systematic destruction of social capital requires in equal measure a systematic approach to the creation of such capital, with emphasis on trust and confidence-building. Many African analysts have argued that past social capital in traditional societies in Africa is fast eroding as a result of pressures emanating from recent conflicts, with little attempt to restore such a social-capital base.

Stewart also identifies some trigger events that have implications for TC. Changes may be brought about by development policies that sharply affect relative access to jobs and incomes. Several development thinkers have argued that the structural adjustment policies promoted by the World Bank not only negatively affected the first two capacity categories but in the end reduced social capital by changing some of the basic social dynamics. In cases such as Rwanda and Guinea Bissau, this led to open conflict. Sharp reduction in aid has in cases like Liberia and Sierra Leone also been identified as among the causes of conflict. More than ever, country conditions need to be better understood so that international aid efforts are not only better targeted but also contribute to polices that that more likely to have some useful impact.
Technical Cooperation, Social Capital and Development Effectiveness

The rethinking of the development paradigm requires the rethinking of TC. TC has played and continues to play a large role in setting global agendas and in the design of both international and national development policies. Its substantive content has generally been shaped by the Washington Consensus (see Part 2, Chapter 1). There is remarkable lack of attention to empirical evidence (of what works and why) or to learning from those countries that have been successful in developing their economies and societies. In short, there is both promise and concern in aid and TC as transfer mechanisms and catalysts for development.

Aid has two basic functions: as a capital transfer and as a knowledge provider. Investing in infrastructure with support from international agencies like the World Bank (through low-cost lending) has been seen as a key factor in the conditions promoting accelerated growth in East Asian economies. The UN’s original development mandate (principally through UNDP) was directed towards developing skills and establishing institutions required for the running of newly established countries. By the 1990s, the overlapping of the mandates of the World Bank and UNDP testified to the growing complexity of the development process in a rapidly globalizing and connected world.

It can be argued that aid and TC function in an imperfect market. Driven in large part by governmental and intergovernmental concerns, this market is regulated by its own institutional frameworks and motivations. The growing emphasis on results and the waves of new aid priorities has meant that aid flows are no longer an exclusive function of need. In 1999, Africa received 29 per cent of total aid flows, compared to 40 per cent in 1989, in a period of stagnant or negative growth in development (Baris et al., 2002). Since the early 1990s, the development aid market has been characterized by a sharp shift away from “aid as entitlement” concepts towards an emphasis on results and performance. It is possible to identify supply-and-demand factors: On the supply side are the specific policy interests of donors, bilateral and multilateral, who, in pursuit of their respective political mandates, supply financing, grants and performance incentives to achieve their objectives. They promote their own projects largely in the thematic areas of their choice and are willing to develop partnerships with other aid providers in that context. On the demand side are the requests of governments to finance or co-finance their programmes and projects within a specific policy framework. While governments may be concerned with the proliferation of “third-party” financing, they are understandably interested in not missing funds that could help them to pursue their development agenda. In this context, the World Bank and UNDP could be viewed as brokers who try to reconcile the demands of countries with the funding supply provided by donors.

In principle, the monitoring of results, assessments of impact and the growing interest in comparative performance assessments can be seen as attempts to construct a resource allocation substitute for price signals in an imperfect market environment. It is, however, important to underscore that aid and TC transfers are not
unique mechanisms. The aid-dependent TC market does in some ways compete with private sector markets, especially involving multinational corporations, which transfer skills and support capacity-building as part of the process of investment in the productive sector. South Korea in the 1970s and 1980s provides a good illustration of skills transfer and institutional upgrading provided through the private sector. There is also considerable synergy between the TC and private sector markets. As was the case in South Korea, the sequencing of investing first in education and skills development, before receiving aid or TC transfers, facilitates the transfer of ideas and knowledge taking place in the private sector (and the production process).

To be helpful, TC has to be transformed into national policies, strategies and programmes. And to be effective, the proposed policies and programmes have to have positive development impact. This requires an assessment of the value of the knowledge transfer mechanisms used in the aid and TC markets.

That the traditional donor-recipient and TC-counterpart models have not worked well is amply documented. In 1993, these issues were the subject of an important book by Elliot Berg and UNDP. Yet, as is argued in this paper and as the World Bank (2000) also acknowledges, it is difficult to impose change from the outside. Ownership is a critical ingredient for sustainable development. Without it requisite capacities cannot be developed, and without capacities transformation cannot take place. This position questions the value of conditionality: whether imposed at the policy level by the Bank and the International Monetary Fund (IMF) or at the implementation level by the UN or bilateral aid agencies. While it is difficult to question the demand for performance, a concern in principle equally shared by the recipient, the question must be raised as to how effective existing conditionality regimes have been and whether they have influenced capacity creation.9

Development effectiveness also requires a closer examination of the forms of technical cooperation. A principal vehicle for the transfer of development aid has been through projects. Study after study has pointed to the inadequacy of this microperspective (UNDP, 2000). Projects may be termed a success, but may not lead to an improvement in development conditions, let alone creating anything sustainable.10 The new performance-driven approaches are producing sharp changes in development practice. Emphasizing the essential value of partnerships puts the accent on cooperation, not just between a donor and a recipient but between all key actors and

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9 Despite the practical deficiencies of conditionality, Collier (1999) presents a theoretical justification for conditionality as an instrument to acquire credibility. His premise is that lack of private investment in Africa is a result of risks associated with non-credible governments, and the two ways to cure problems of credibility are signaling or lock-in. Both these mechanisms could be achieved by creating what he calls an agency of restraint. Such agencies can be external in nature, e.g., through membership of regional trading blocs, or internal, say in the form of central bank independence, sustainable fiscal deficits, etc. By extension, donor conditionality that require governments to commit to a set of irreversible policies are also considered to constitute an agency of restraint. Conditionalities, if credible, are potential instruments for future punishment of governments that renge on pledges, and because private investors know this ex-ante, they spend money assured of little risks over damaging policy reversibility.

10 The failure of piecemeal, project-based development assistance has led to reforms in development agencies. Examples include the introduction of results-based management in UNDP, with a greater focus on outcomes (the development changes being promoted) and on demonstrating impact. It has highlighted the importance of partnerships, since no single agency despite large resources can exclusively influence development change.
institutions involved in change. This heightens the potential value of evaluation, which becomes not only an exercise to judge the effectiveness of specific interventions, but also serves as a pointer to institutions and incentive regimes that promise more effective strategies for sustainable development.

The record of TC in delivering on its capacity-development mission is problematic at best. It has been argued that the dominant roles of donors (and some forms of TC) have actually led to the destruction of emergent national capacities. Often, the transfer of developed country expectations onto a developing country environment has meant that tasks or conditions were disproportionately placed on poorer, less capable governments. Examples range from the 100-plus IMF conditions placed on Burkina Faso for the release of funds from the Structural Adjustment Facility, to the demands placed on small developing countries to produce data of internationally comparable quality for expenditure surveys. There appears an almost inverse relationship between the number of conditions imposed and the level of national capacities.

At the same time, it is probably misleading to leave an impression that TC and aid are synonymous with external factors. TC is no longer exclusively of external origin. Over the last decades, TC in many countries has developed national roots, a phenomenon that has to be factored in when talking about national ownership. The strong nongovernmental organization (NGO) community in Bangladesh, for example, has equally strong links with the international NGO world. It could be argued that facets of social capital (norms, networks) are now increasingly international, a consequence of globalization and perhaps the forms in which development cooperation has evolved. The UN global conferences of the 1990s have produced a “global compact” with values and norms that are now accepted as global standards. These conferences and international agreements have had large consequences at country level. Witness the women’s movement galvanized by the Beijing Conference, whose platform of action serves as a global charter for women’s movements everywhere. In turn, these global agreements and the more recent endorsement of global targets presented as the Millennium Summit goals are emerging as the framework for bringing together bilateral and multilateral donors.

Social Capital and Implications for Development Policy

Traditional societies may have high levels of organizational and societal capital, although this may not be in the form that facilitates change (Stiglitz, 1998). Whatever stock of social capital that exists might be destroyed during development transformations; or, as in Russia, transitions may happen without the emergence of a new social order and capital. It has been argued that individuals and agencies charged with assisting the process of transition in Eastern Europe saw the challenge as a conventional problem of weak markets and democratic institutions requiring standard solutions in the form of more financial and human resources, i.e., more loans and technical cooperation. But building on Putnam (1993b), it could be further argued that deficiencies in the new social capital in these countries is alarming, and that attempts should
have focused on rebuilding “shards of indigenous civic associations that have survived decades of totalitarian rule,” ranging from philanthropic agencies to chess clubs.

New approaches to development will need to find and articulate a clearer link between social capital and development. Development may have mostly failed because of misguided policies and flawed institutions. But even in the rare instances when policies and institutions were right, ignoring the social issues led to a development path that produced “incomplete transformation,” with the social construct not tallying with institutional and policy innovation. When all three don’t exist synergistically, the process is distorted and none of the sectors perform optimally.

Are there specific roles that state institutions can assume, or policies that support or hinder advancement of social capital? If public policy is an instrument and productive social capital a target, can a workable link between the two be established? If not, why? If yes, how? Can national public policies and international aid administrations (through TC) help social-capital formation, or at least stop the destruction of existing social capital? What kind of capacities do we require to create new development processes that engender productive social capital, which can then be leveraged for “good development”? Certainly, social capital as a concept is difficult to quantify, and so it is hard to make it an integral part of hard public policies.

Social capital does, however, point us towards a direction that is immensely useful in development—it helps us focus on how and under what terms we associate with each other. Woolcock (2000) highlights the following points. First, if a low stock of bridging capital makes it difficult for information and resources to flow among groups, larger socio-economic-political forces that divide societies—such as discriminatory practices along gender, caste and ethnic lines—make the situation even less conducive to growth. Second, if social capital offers an effective risk management strategy in crises, its absence implies a difficult time for countries at times of volatility. Third, institutions affect how communities draw on social capital to manage risks and opportunities. In countries where states are weak and the norm includes rampant corruption, bureaucratic obstruction, suppressed civic liberties, and a lack of the rule of law, it will be very difficult to showcase schools, hospitals and roads that are well maintained, for example. Vehicles, in the form of effective institutions, are needed to leverage social capital for “good development.”

The bigger agenda of social capital, however, has the risk of being belittled by development practitioners, because as Edwards (2000) points out, attributes such as trust, tolerance and nondiscrimination are hard to engineer, and the tendency for development organizations is to focus on things that are measurable in the immediate run, such as the number of NGOs and civic organizations. This can be useful, but it is assisting “forms” not “norms” of social capital. Edwards suggests the following in relation to TC and social capital: First, the Western understanding of non-Western contexts of civil society and social capital is shallow, and dominated by Western preconceptions. TC should thus incorporate indigenous viewpoints about how civil society and social relations are structured. Narayan and Woolcock (2000) also advocate

for a social institutional analysis to identify the range of stakeholders and their inter-relations. Second, rather than picking winners, TC should focus on creating an enabling environment for social-capital formation by strengthening the legal, regulatory and fiscal frameworks. All these considerations have large consequences for both the content and the forms of TC.

Some Concluding Observations

In understanding TC and capacity development, and their role in development, it becomes necessary to ask difficult questions about the aim of development itself: What are the objectives? What promise does development hold for all segments of the population? How does the development process take place? Understanding development better requires digging deeper into societal forces, and examining how norms and attitudes are formed and how in turn they connect to production processes. This process leads to some interesting and potentially far-reaching conclusions: not only do good policies and institutions matter, but so do good norms and attitudes. And careful attention has to be placed on the role social policy can play in transforming society so that development progress can not only be initiated but also sustained. This requires that considered thought be given to the sequencing of measures. For TC to be effective in creating capacity, the ground has to be made ready in terms of literacy and education. Above all, there is a need for governments to play an active and effective role.

Historically, several rationales have driven the provision of aid, from altruistic reasons, such as helping those in need, to more practical justifications, which recognize that in a global, connected world, poverty and disease and civil conflict constrain the progress of all nations. Yet despite TC’s potential value, the record has been less than stellar. Partly, this is a consequence of less than adequate levels of aid. But perhaps even more importantly, the aid industry has been unable to meet adequately the challenges of development. If the aid industry is seen as operating in a market context, even if it is imperfect, then certain factors may be necessary for the market to perform better. Since aid donors, bilateral and multilateral, drive this market, issues of market regulation and oversight have to be thought through. The aid market cannot be left to regulate itself.

Aid constituencies have to be revitalized. When aid works, it represents a high return on investment. Yet despite the global commitment to 0.7 per cent of GDP, aid levels have continued to decline and are today at the lowest level ever (0.22 per cent of GDP of the countries of the Organisation for Economic Co-operation and Development). This reflects a lack of strong constituencies in developed countries. To reverse this trend, aid performance has to be more convincingly demonstrated. This requires, inter alia, serious and regular assessment of what works and why, and an examination of how different agencies, both bilateral and multilateral, contribute to development as transformation.

There have been and continue to be calls for reforming the aid architecture. But whatever the forms and specific roles assigned to institutions, there is a more fundamental
need for aid partnerships to become exactly that—partnerships. Current approaches have to be rethought so that the overall strategic framework is a shared one, and so that not only is there broad-based ownership, but also shared accountability. The Millennium Summit agreement and related action plans have set clear targets adopted by all the countries of the United Nations. This agenda has been widely endorsed by civil society at a variety of forums. As such, these agreements and targets potentially provide a coherent, widely shared platform for change. They represent as such a global compact. Aid agencies can come together in a coordinated fashion to help countries and country institutions develop and implement policies and programmes to translate these goals into reality.

Development agendas must change if the basic premise outlined in this paper—that development is about transformation—is to be taken seriously. This requires helping nationals and country institutions to come together to set their own visions and priorities. In the early 1990s, UNDP launched the national long-term perspective studies (NLTPS) programme. While many countries in Africa did produce national vision documents with broad national ownership, their limitation was that the vision was not linked to specific national policies and programmes, and in many ways the agenda was not sufficiently transformative in nature. Transformation requires a development dialogue based on specific country conditions, which in turn leads to specific policies and development actions. It requires a revamp of the current global aid regime based on built-in asymmetries between donors and recipients, and the imposition of conditions and fads. This approach must gradually be replaced by more home-grown development strategies that governments themselves are clearly accountable to.

Finally, transferring ideas and institutions requires the existence of local capacities to undertake this adaptation. As Stiglitz (1999) puts it, “(T)he chances of a successful transplant are much larger than if the tree is simply pulled up in one place and planted in another.” Advisers from developed countries or international aid agencies may not always appreciate the value of this adaptive approach to the transfer of development knowledge, or its importance, especially given the need to show quick results. Adaptation may take longer, but this process ensures that the policies that arise are “better prepared for the local soil.”

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1.2 AUTONOMY-RESPECTING ASSISTANCE: TOWARDS NEW STRATEGIES FOR CAPACITY-BUILDING AND DEVELOPMENT ASSISTANCE

DAVID ELLERMAN

Introduction and Overview

Development Assistance As Helping People Help Themselves

The purpose of this chapter is to analyse the old strategies for technical cooperation, capacity-building and, in broader terms, development assistance in a way that will point to new strategies. It is a very old idea that the best form of assistance is to help people help themselves. We are all familiar with the ancient Chinese saying that if you give people fish, you feed them for a day, but if you teach them how to fish—or rather, if you help them learn how to fish—they can feed themselves for a lifetime.\(^2\)

The Helper-Doer Relationship

To begin by establishing some concepts and terminology: Development assistance is analysed as a relationship between those offering assistance in some form, the helper or helpers, and those receiving the assistance, the doer or doers.\(^3\) The helpers could be individuals, NGOs, or official bilateral or multilateral development agencies, and the doers could be individuals, organizations or various levels of government in the developing countries. The relationship is the helper-doer relationship.

The Fundamental Conundrum of Development Assistance

The assumed goal is transformation towards autonomous development on the part of the doers, with the doers helping themselves. The problem is how can the helpers supply help that actually furthers rather than overrides or undercuts the goal of the doers helping themselves? This is actually a paradox: If the helpers are supplying help that is important to the doers, then how can the doers really be helping themselves? Autonomy cannot be externally supplied. And if the doers are to become autonomous, then what is the role of the external helpers? This paradox of supplying help to self-help, “assisted self-reliance”\(^4\) or assisted autonomy, is the fundamental conundrum of

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1 The findings, interpretations and conclusions expressed in this paper are entirely those of the author and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to the members of its Board of Directors or the countries they represent.

2 In Pierre-Claver Damiba’s “Foreword” to Berg and UNDP (1993): “Improved policy-making and better economic management—and self-reliance in these matters—are the central objectives of technical cooperation” (emphasis added).

3 Doing includes thinking; “doer” is not juxtaposed to “thinker.” Instead, the “doers of development” (Wolfensohn, 1999) actively undertaking tasks are juxtaposed to the passive recipients of aid, teaching or technical assistance.

4 The phrase is from Uphoff, Esman and Krishna (1998). David Korten terms it the “central paradox of social development: the need to exert influence over people for the purpose of building their capacity to control their own lives” (1983, 220). See also Chapter 8 of Fisher (1993) on the “central paradox of social development.”
development assistance. Over the years, the debates about aid, assistance and capacity-building keep circling around and around it.

My aim is not to provide a new blueprint for development assistance but to point the way for new strategies by trying to deepen the understanding of this basic conundrum and the kinds of “unhelpful help” that reduce the effectiveness of so much technical cooperation and other forms of development assistance.

Unhelpful Help

There are many strategies for development assistance that may supply help in some form but actually do not help people help themselves. The forms of help that override or undercut people’s capacity to help themselves will be called “unhelpful help.”

There are essentially two ways that the helper’s will can supplant the doer’s will to thwart autonomy and self-help:

1) The helper, by social engineering, deliberately tries to impose his will on the doer; or
2) The helper, by benevolent aid, replaces the doer’s will with her will, perhaps inadvertently.

“Override” or “undercut” are shorthand terms for these two conceptually distinct yin-and-yang forms of unhelpful help (which may be combined, as when benevolence hides the desire to control).

Unhelpful Help #1: Social Engineering

The overriding form of unhelpful help is a type of social engineering. The helpers supply a set of instructions or conditionalities about what the doers should be doing. They also offer motivation to follow this blueprint through various forms of aid to override the doers’ own motivations. If we use the metaphor of the doers as trying to work their way through a maze, then the helpers as social engineers perceive themselves as helicoptering over the maze, seeing the path to the goal, and supplying instructions (knowledge) along with carrots and sticks (incentives) to override the doers’ own motivation and push the doers in the right direction.

The alternative to providing motivation is to give some resources (perhaps with a strong matching requirement) to enable the doers to undertake development projects and programmes that they were already motivated to do on their own.

Unhelpful Help #2: Benevolent Aid

The second form of unhelpful help occurs when the helper undercuts self-help by inadvertently supplying the motivation for the doer to be in or remain in a condition to receive help. One prominent example of this is long-term charitable relief. The world is awash with disaster situations that call for various forms of short-term charitable relief. The point is not to oppose these operations but to point out how charitable help can actually undermine the doers’ own efforts to help themselves.

5For related notions, see Gronemeyer (1992) on “help (that) does not help” and Ivan Illich’s notion of “counterproductivity” (1978).
6The inability to engineer intrinsic motivation harks back to Socrates’ point about the unteachability of virtue.
relief operates in the longer term to erode the doers’ incentives to help themselves—and thus creates a dependency relationship. In this sense, charitable relief in the longer term is an undercutting form of unhelpful help.

All aid to adults based on the simple condition of needing aid risks displacing the causality. The working assumption is that the condition of needing aid was externally imposed (e.g., a natural disaster); the aid recipient shares no responsibility. But over the course of time, such aid tends to undermine this assumption as the aid becomes a reward for staying in the state of needing aid,\(^7\) all of which creates dependency and learned helplessness. Thus relief becomes the unhelpful help that undermines self-help.

It would be hard to overstate the problem this poses for today’s development industry. Official development assistance is shot through with practices that can charitably be seen as constituting charitable relief.\(^8\) Relief to those who can help themselves needs to be time-bound and, above all, separated as if by a Chinese wall from the promotion of development.

**The Scylla and Charybdis of Development Assistance**

The benevolent impulse to give charitable relief and the enlightened impulse to do social engineering are the Scylla and Charybdis of development assistance. Several major difficulties lie in the path of adopting and implementing new strategies of assistance based on the idea of the transformation of capacities in the direction of self-help and autonomous development. The first difficulty to be overcome—the\(^9\) to be crossed—is the simple recognition of the pitfalls of social engineering on the one hand and of benevolent aid on the other hand.

Again and again, one finds social engineering blueprints to “do X” being defended on the grounds that the doers should indeed do X. But there seems to be little or no real recognition that if the doers do X only to satisfy conditionalities and thus receive aid, then the motive will falsify the action, the reforms will not be well implemented, and the policy changes will not be sustained. Hence all the arguments about the beneficial nature of doing X miss the point. Paraphrasing Kierkegaard, it is not so much the “what” of reform that counts but the “how” of reform, if the reform is to take root and be sustainable.\(^9\)

And again and again, one finds benevolent aid being defended as doing good in the sense of delivering resources to the poor without any real recognition as to how this undercuts the incentives for developing self-reliance. All the arguments about the

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\(^7\) See Murray (1984) or Ellwood (1988) on the “helping conundrums.”

\(^8\) I said “charitably be seen” because many protests against the major development agencies see the agencies as pursuing political or even corporate goals. Without gainsaying the protests, my point is different. Even if the agencies are pursuing pure-hearted charitable relief, that itself cuts across and conflicts with the longer-term developmental goals of the agencies. And, unfortunately, many of the protests seem driven by the goal that the development agencies should pursue more pure-hearted charitable relief.

\(^9\) “All ironic observing is a matter of continually paying attention to the ‘how,’ whereas the honorable gentleman with whom the ironist has the honor of dealing pays attention only to the ‘what’” (Kierkegaard, 1992, 614). For a more recent critique of conditionality-based reforms, see Assessing Aid (World Bank, 1998).
relief being “help” miss the point. It is an unhelpful form of help that in the longer term undercuts capacity-building and autonomous development.

The other major difficulty to be overcome is the gap between rhetoric and reality. Development agencies are quite adept at adopting the language of being against charity and blueprint-driven social engineering, and being in favor of helping people help themselves. The challenge is that it is a rather subtle matter to overcome the basic conundrum and supply help in a way that does not override or undercut the development of the capacity for self-help. Yet reborn managers in restructured agencies regularly use recycled rhetoric to launch reconfigured programmes in social engineering or charitable relief or both.

The First Don’t: Don’t Override Self-Help Capacity with Conditional Aid

The Mental Imagery of the Expert Surgical Intervention

One major source of social engineering programmes is the mental imagery or “development narrative” of the expert helper who performs the surgical operation that restores the patient to health, a health that is thereafter self-reinforcing. If the patient were able to cure himself, then the operation would not be necessary. But, realities being what they are, the helper must take control to ensure success and must supply the motivation for the doer to undergo the operation. Afterwards, with health restored, the doer can go his own way.

A variation on this narrative is where the expert helper makes a surgical intervention to install a new and improved way of doing things, accompanied by technical training for the counterpart doer. The doer will absorb the required know-how and, seeing the benefits, the reforms will be sustained on their own.

This question is complicated by the fact that there are some cases where such expert interventions might work well—and then the success in these cases prompts the development industry optimistically to extend the strategy to the vast majority of cases, where it is quite inappropriate. For instance, there are certain stroke-of-the-pen or pro forma reforms, such as striking down a tariff, tax or licensing requirement, which might be implemented to satisfy a conditionality and thereby to receive aid. Once a tax is surgically removed, the tax-payers will readily comply so, in that sense, the socially engineered intervention will be effective. But these cases are the exception, not the rule.

The Spectrum of Institutional Reforms

Auturo Israel (1987) envisaged a spectrum of institutional reforms where the reforms were ranked in terms of specificity. At one end of the spectrum are the highly specific stroke-of-the-pen reforms that can be socially engineered. At the other end are the highly non-specific institutional reforms such as the rule of law, the ethos of fulfilling

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10 In terms of professions, social engineering is now sponsored largely by economics, not classical engineering.
contracts and paying back loans, the fair adjudication of disputes and the general shift to the private sector market mentality.

Particularly vexing are those reforms that are like icebergs, with a specific stroke-of-the-pen reform showing above the water and a massive below-the-water change in behaviour (which involves attitudes, norms and culture) needed to implement the reform. Again and again, above-the-water reforms are engineered with strong conditionals enforced by output-based aid geared to the passage of laws. Years later, the reforms are discovered to be ineffective due to the lack of below-the-water changes in behaviour. Instead of learning how the below-the-water changes actually take place and making a fundamental shift in development strategy away from social engineering, the economics-engineering frame of mind is constantly rededicating itself to better indicators of outputs upon which to base tougher conditionals for new and improved output-based aid.

The Indirect Approach

The notion of autonomous development provides the clue to a new approach. (see box 1.2.1) Autonomous action is based on intrinsic motivation. Any action based on the externally supplied motivation of carrots and sticks is heteronomous. Any attempt to engineer autonomous action with external carrots or sticks would be self-defeating; the means are inconsistent with the motive and thus defeat the end. This problem is often illustrated using the horse-to-water metaphor; externally engineered pressures can lead a horse to water, but that sort of motivation cannot make him drink.

The whole idea of imposing or engineering change with supplied motivation might be termed the “direct” approach. That formulation then points to the alternative as being an “indirect” approach to helping, which implies not supplying motivation to the doers but finding the existing intrinsic motivation of the doers and offering help on that basis.

If social engineering schemes don’t work (outside a few special cases), then what is the blueprint and where is the motivation for the alternative? This question is ill-posed.
The alternative is not having a different blueprint, but having an active and adaptive learning approach instead of a blueprint approach.

**BOX 1.2.2: Gilbert Ryle on the Helper-Doer Conundrum in Education**

The fundamental conundrum of development assistance occurs in all the helper-doer relationships across the range of human interaction (Ellerman, 2001). The philosopher Gilbert Ryle gave a particularly clear statement of the same conundrum in education:

(How, in logic, can anyone be taught to do untaught things? ...How can one person teach another person to think things out for himself, since if he gives him, say, the new arithmetical thoughts, then they are not the pupil’s own thoughts; or if they are his own thoughts, then he did not get them from his teacher? Having led the horse to the water, how can we make him drink? (Ryle, 1967, 105 and 112).

Ryle’s answer was a motive inconsistency argument: There is no way to heteronomously impose autonomous action.

How can the teacher be the initiator of the pupil’s initiatives? The answer is obvious. He cannot. I cannot compel the horse to drink thirstily. I cannot coerce Tommy into doing spontaneous things. Either he is not coerced, or they are not spontaneous...(Ryle, 1967, 112).

How in logic can the teacher dragoon his pupil into thinking for himself, impose initiative upon him, drive him into self-motion, conscript him into volunteering, enforce originality upon him, or make him operate spontaneously? The answer is that he cannot—and the reason why we half felt that we must do so was that we were unwittingly enslaved by the crude, semi-hydraulic idea that in essence to teach is to pump propositions, like “Waterloo, 1815,” into the pupils’ ears, until they regurgitate them automatically (Ryle, 1967, 118).

Ryle mentions that the “crude, semi-hydraulic idea” of the rote teaching of facts like “Waterloo, 1815” is mistaken as a general model of teaching. Similarly, we have seen that the simple example of engineered stroke-of-the-pen reforms is mistaken as a general model of institutional reforms.

In terms of motivation, the alternative does not involve a different set of carrots and sticks to motivate change, but instead comprises change that is based on intrinsic motivation. The key is for the doers to embark on projects or programmes motivated by themselves. Thus, money cannot be the leading edge of the helpers’ assistance. The direct link between money and motivation must be broken.11 Money can only play a role as a secondary or background enabler for what the doers independently want to do. Development transformation cannot be bought, but where it is afoot on its own there will be costs of change that could be partly covered by development assistance agencies. Where, however, aid money takes the lead, it will distort the dynamics and will end up essentially paying the costs of not changing.

Since intrinsic motivation cannot be based on external carrots and sticks, the helpers cannot supply this motivation (“virtue”) to the doers; they can only find it. Yet aid-seeking doers will nonetheless try to fake or mimic intrinsic motivation for real reforms, so the helpers face a difficult task of judgment. But the difficulties of judgment

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11 For a consumer, a subsidy only on certain goods skews motivation, while a lump-sum subsidy may allow one to buy what one already wanted to buy. Similarly, aid conditional on certain actions skews motivation, whereas pooled aid and similar sector-wide approaches break the link with specific donor sponsored actions and may enable the doers to do what they were already motivated to do. The doers’ activities, motivated by themselves, might be to launch raids on their neighbors or to launch real reforms. The helpers need to judge independently if these activities should be enabled.
are little in comparison with the pressures to “move the money” in the lender and donor agencies. One would expect large Type II errors (i.e., accepting faux-motive projects), particularly as the aid-seeking doers evolve better means of mimicry and the money-moving helpers supply more corroboration for the theory of cognitive dissonance (i.e., judgment bending to be more consonant with self-interest). Thus there is grave doubt that any agency with an organizational business plan based on providing aid by moving money could implement an autonomy-respecting indirect approach to development assistance. To lessen Type II errors, the agency must be able to say, “No.”

BOX 1.2.3: Socratic Helper and Active Doer

Instead of claiming that the “answers” should be disseminated from expert-helper to counterpart-doer, Socrates displayed the humility of knowing that he did not know. He did not put learners in a passive role, but helped them to try actively to answer questions or resolve problems.

That real education aims at imparting knowledge rather than opinion, that knowledge cannot be handed over ready-made but has to be appropriated by the knower, that appropriation is possible only through one’s own search, and that to make him aware of his ignorance is to start a man on the search for knowledge—these are the considerations that govern and determine the Socratic method of teaching (Versényi, 1963, 117).

Indeed, the key to the indirect approach is for the helper as midwife to facilitate the doer taking the active role. In a slogan: “Stop the teaching so that the learning can begin!” As George Bernard Shaw put it: “If you teach a man anything he will never learn it” (1961, 11). Or as management theorist Douglas McGregor said: “Fundamentally the staff man…must create a situation in which members of management can learn, rather than one in which they are taught…” (1966, 161). José Ortega y Gasset suggested: “He who wants to teach a truth should place us in the position to discover it ourselves” (1961, 67). Or as Myles Horton, founder of the Highlander Folk School, maintained: “You don’t just tell people something; you find a way to use situations to educate them so that they can learn to figure things out themselves” (1998, 122).

The Second Don’t: Don’t Undercut Self-Help Capacity with Benevolent Aid

The Mental Imagery of Relief and Gap-Filling Aid

One major source of encouragement for disguising benevolent aid as development assistance is the mental imagery of aid that allows doers to get back on their feet after some externally caused calamity so that they can thereafter help themselves. A second scenario is that given a genuine self-help project with a resource-gap, the gap-filling aid enables the self-help project to go forward.

These marvelous images might actually come true in a few cases, but it would be inappropriate to take them as a general model for development assistance. In each case, there is the time-consistency problem that the continuing offer of aid tends to make the motivation aid-driven. In the case of disaster relief, the continuing offer of aid takes the sting out of staying in a needful condition. While the needful condition was initially exogenous or independent of aid, staying in that condition may become a means for getting more aid. In the second case of gap-filling aid, the continuing offer

12 See “Problems Encountered in Buying Virtue through Aid” in Hirschman (1971, 205-7).
of aid leads to projects based partly on the incentive of the aid offer. Instead of self-help projects that were initially afoot on their own, doers may create aid-seeking projects camouflaged in a rhetoric of self-help.

In short, whenever money becomes the leading edge of assistance, then the supply of aid seems to create and perpetuate the demand for it—which might be labeled Say’s Law of Development Aid.\textsuperscript{13} Aid that might in a few cases be autonomy-respecting ends up chasing its own tail by funding needs or projects induced by the offer of aid—all to the detriment of building self-help capacity. What starts as a benevolent impulse thus becomes one of the major problems in the postwar effort towards capacity-building and development. Organizational reforms in the development agencies will need to separate development assistance from benevolent aid—as if by a Chinese wall.

The Example of Social Funds

This problem is illustrated by the debate about social funds (e.g., Tendler, 2000), which seems to recapitulate some forms of North-South unhelpful help at the community level. Social funds (SFs) are currently something of a policy fad; they are often described using the imagery of promoting self-help with gap-filling aid. The funds are typically set up by national governments to deliver quickly resources to poor people, bypassing the regional and local governments. They are funded by grants from donors or by hard currency loans with a payback beyond the political horizon of the central government. One of their main activities is to make grants (or near-grants with small matching requirements) to fund small infrastructure projects. Lenders and donors tend to like the social funds since they move the money with tangible outcomes (more schools, tube wells, health clinics, warehouses and so forth), which in turn rewards the benevolent impulse in the lender and donor agencies.

The problem is that social funds are more instruments of relief in the sense of “quickly delivering fish to poor and hungry people,” rather than instruments of capacity-building and development in the sense of “helping poor people learn how to fish for themselves.” There is disagreement less about the facts than about the choices between short-term aid and long-term capacity-building.

By using a new, separate and clean organization of the central government, supporters argue that SFs circumvent unresponsive, incompetent and perhaps corrupt regional and local governments to help quickly satisfy the needs of poor people. Critics see the same reality as central government largess buying or rewarding local support, as an elite special agency (often outside the civil service) attracting good talent out of the ministries, and as a bypass of sustainable reforms and capacity-building in the lower levels of government. Since no one argues that SFs should actually replace local and regional governments, the net result is a plus for short-term relief and a minus for long-term government reform.

Supporters see the process of local people choosing their preferred local infrastructure project from a menu funded by the social fund as being bottom-up, demand-driven community empowerment. Critics see the same reality and argue that

\textsuperscript{13}The original Say’s Law in economics is usually paraphrased as: “Supply creates its own demand.”
local people soliciting and receiving largess from an agency funded by and solely accountable to the central government is more top-down paternalism than bottom-up community empowerment. Eliciting demand for grant-funded projects is hardly demand-driven in the sense of projects that are afoot on their own (i.e., with doers covering enough of the costs to ensure that they wanted to do the project anyway). Empowering people to buy outcomes with an external grant is rather different from building the community's own capacity to reach those outcomes in a fiscally sustainable manner. Thus the social fund debate provides an illuminating example of how Orwellian the rhetoric can become, and how phrases like “bottom-up,” “demand-driven” and “community empowerment” can be used to describe almost the opposite reality.

Social funds, like all good policy fads, seem to have self-reinforcing loops that keep them rolling. To close these loops, the funds need to be evaluated. Supporters argue that they have done the research and have the impact evaluations to show that SFs have a good impact. Critics argue firstly that impact evaluations are independent of cost. A true project evaluation would have to look at whether the impact was obtained with US $10 or $10 million. Secondly, the impact evaluations compare communities that receive social fund grants with otherwise similar counterfactual communities that receive no grants. Not surprisingly, the studies tend to show that the communities that receive the funds have better facilities (more “impact”) than the communities that don’t receive funds. Sometimes the difference is not that significant, but the real point is that a well-specified counterfactual would be a community that had the same resources available for the best alternative approach to community development (e.g., see the 18 cases of assisted self-reliance in Krishna et al., 1997).

Relief Assistance As Generalized Moral Hazard

The First Don’t deals with social engineering as a form of unhelpful help that overrides (hopefully temporarily) any self-help capacity in order to get the doers to do the right thing. The Second Don’t concerns benevolent aid that, unless very temporary, will tend to undermine the capacity for self-help. Sometimes aid is sought by a country because of a self-perceived lack of efficacy. Aid granted out of benevolence, even without carrots and sticks, has the adverse effect of reinforcing the lack of self-confidence and doubts about one’s own efficacy. Eleemosynary aid to relieve the symptoms of poverty may create a situation of moral hazard that weakens reform incentives and attenuates efforts for positive change to eliminate poverty (see Maren, 1997). Such aid “tends to render others dependent, and thus contradicts its own professed aim: the helping of others” (Dewey and Tufts, 1908, 387). The Two Don’ts are interrelated when dependency-creating aid leaves the doers vulnerable to more social engineering control as well as more charity in a vicious circle that drives them away from autonomous development.14

Moral hazard refers to the phenomenon where excessive insurance relieves the insured from taking normal precautions so risky behaviour might be increased. The phrase is applied generally to opportunistic actions undertaken because some arrangement has relieved the doers from bearing the full responsibility for their actions. Benevolent help softens the incentives for people to help themselves.

14 See the “shifting the burden” to the helper as the “generic dynamics of addiction” in Senge (1990, 104-113).
In the insurance example, the limit case of no insurance (which means complete self-insurance) certainly solves the problem of moral hazard since the individual then has a full incentive to take precautions to prevent accidents. Yet the no-insurance option forgoes the benefits of insurance. There is no first-best solution of complete insurance without moral hazard, but there are partial solutions in the form of co-payments and deductibles so that the insured party retains some risk and thus some incentive to take normal precautions.

In a similar manner, the conservative approach of no assistance could be seen as the “tough love” limit case. It certainly solves the problem of softened incentives for self-help, but it foregoes forms of positive assistance that might be compatible with

BOX 1.2.4: John Dewey’s Critique of Benevolence

We saw previously that John Dewey criticized the controlling engineering approach to help as not promoting people’s capacity to help themselves. Dewey also criticized “oppressive benevolence” as undercutting that capacity development. He was inspired in this by Chicago reformer Jane Addams’ critique of industrialist George Pullman’s paternalism towards “his” workers in her essay “A Modern Lear” (Addams, 1965), an essay that Dewey called “one of the greatest things I ever read both as to its form and its ethical philosophy” (quoted by Lasch in Addams, 1965, 176). Christopher Lasch developed some of the same ideas in his contrast of the “ethic of respect” with the “ethic of compassion” (Lasch, 1995).

According to Robert Westbrook, Dewey held that:

(S)elf-realization was a do-it-yourself project; it was not an end that one individual could give to or force on another. The truly moral man was, to be sure, interested in the welfare of others—such an interest was essential to his own self-realization—but a true interest in others lay in a desire to expand their autonomous activity, not in the desire to render them the dependent objects of charitable benevolence (Westbrook, 1991, 46-7).

An incapacity for beneficial self-activity was assumed to be part of the condition of the poor, so reformers would treat them accordingly.

The conception of conferring the good upon others, or at least attaining it for them, which is our inheritance from the aristocratic civilization of the past, is so deeply embodied in religious, political, and charitable institutions and in moral teachings, that it dies hard. Many a man, feeling himself justified by the social character of his ultimate aim (it may be economic, or educational, or political), is genuinely confused or exasperated by the increasing antagonism and resentment which he evokes, because he has not enlisted in his pursuit of the “common” end the freely cooperative activities of others (Dewey and Tufts, 1908, 303-4).

Thus development assistance as benevolent aid does not help people help themselves and it may even lead to antagonism and resentment—all of which is baffling to those who derive moral satisfaction from doing good and making others happy.

To “make others happy” except through liberating their powers and engaging them in activities that enlarge the meaning of life is to harm them and to indulge ourselves under cover of exercising a special virtue…. To foster conditions that widen the horizon of others and give them command of their own powers, so that they can find their own happiness in their own fashion, is the way of “social” action. Otherwise the prayer of a freeman would be to be left alone, and to be delivered, above all, from “reformers” and “kind” people (Dewey, 1957, 270).

David Thoreau noted, “If I knew for a certainty that a man was coming to my house with the conscious design of doing me good, I should run for fear that I should have some of his good done to me” (quoted in Carmen 1996, 47; and in Gronemeyer, 1992, 53).

In the insurance example, the limit case of no insurance (which means complete self-insurance) certainly solves the problem of moral hazard since the individual then has a full incentive to take precautions to prevent accidents. Yet the no-insurance option forgoes the benefits of insurance. There is no first-best solution of complete insurance without moral hazard, but there are partial solutions in the form of co-payments and deductibles so that the insured party retains some risk and thus some incentive to take normal precautions.

In a similar manner, the conservative approach of no assistance could be seen as the “tough love” limit case. It certainly solves the problem of softened incentives for self-help, but it foregoes forms of positive assistance that might be compatible with
autonomy. The idea of co-payments carries over to the idea of non-trivial matching funds from the doers as a commitment mechanism to show that they are dedicated on their own account to the programmes. The idea of deductibles carries over to the concept of second-stage funding, where the doers show commitment by funding the first stage of a programme on their own.

This problem suggests the possibility that the post-World War II development assistance effort from the developed countries to the developing world has created a massive generalized moral hazard problem. Among development economists, Peter Bauer (1976 and 1981) has developed these arguments about aid with particular force. William Easterly (2001) has summarized the empirical results that, on the whole, document the lack of success in the last half century of development assistance based on various combinations of social engineering and benevolent aid.

Surely one bright spot was the Marshall Plan, which, in many ways, provided a model for later development efforts. Yet it also contained the seeds of moral hazard. Robert Marjolin, the French architect of the Marshall Plan, noted in a 1952 memo that American aid continuing over a longer term could have precisely that effect:

> Although American aid has been a necessary remedy over a period, and will continue to be for a time, one is bound to acknowledge that in the long run it has had dangerous psychological and political effects.... It is making more difficult the task of the governments of Western Europe trying to bring about a thorough economic and financial rehabilitation. The idea that it is always possible to call on American aid, that here is the ever-present cure for external payments deficits, is a factor destructive of willpower. It is difficult to hope that, while this recourse continues to exist, the nations of Western Europe will apply, for a sufficient length of time, the courageous economic and financial policy that will enable them to meet their needs from their own resources without the contribution of external aid (quoted in Marjolin, 1989, 241).

However, the demands of the Korean War and the lack of a permanent aid bureaucracy resulted in the winding down of American aid. If the industrial countries of Western Europe faced moral hazard problems in the short-lived Marshall Plan, one can only begin to fathom the extent of the moral hazard problem in developing countries that face well-established professional aid-providers in the developed countries who constantly reinvent ways to move the money.

Money is a mixed blessing—to the extent that it is a blessing at all in development assistance. As long as money continues to be the leading edge of development assistance, then the problems of moral hazard will only be compounded.

15 A programme like the African Management Services Company (AMSCO) that provides help only by topping off doer-supplied funds would be enabling without engendering faux-motive projects. AMSCO is a joint initiative between the United Nations Development Programme, the African Development Bank and the International Finance Corporation (see www.amsco.org).

16 One sees the evidence every day in calls by leaders of the development industry to address this or that development problem with US $X billions more in funding—rather than undertaking the difficult and subtle reforms for a more effective approach where money has a background role.
The Two Dos

The First Do: Start from Where the Doers Are

The via negativa of the Two Don'ts needs to be supplemented by Two Dos that can help guide a more autonomy-respecting approach to development assistance. To be transformative, a process of change must start from and engage with the present endowment of institutions. Otherwise, the process will only create an overlay of new behaviours that is not sustainable (without continual bribes or coercion).

Yet this is a common error. Reformers oriented towards utopian social engineering (see Popper, 1962) aim to wipe the slate clean in order to install a set of ideal institutions. Any attempt to transform the current flawed, retrograde or even evil institutions is viewed as only staining or polluting the change process. For instance, in the transitional economies such as Russia, the “leap over the chasm” imposed by institutional shock therapy fell far short of the other side, since people “need a bridge to cross from their own experience to a new way” (Alinsky, 1971, xxi). It will take the country much longer to climb out of the chasm than it would have taken if a bridge over the chasm had been built step by step.

Similar considerations support the argument for an evolutionary and incremental strategy in poor countries rather than trying to jump to new institutions.

The primary causes of extreme poverty are immaterial, they lie in certain deficiencies in education, organization and discipline…. Here lies the reason why development cannot be an act of creation, why it cannot be ordered, bought, comprehensively planned: why it requires a process of evolution. Education does not “jump”; it is a gradual process of great subtlety. Organization does not “jump”; it must gradually evolve to fit changing circumstances. And much the same goes for discipline. All three must evolve step by step, and the foremost task of development policy must be to speed this evolution (Schumacher, 1973, 168-9).

Given a choice between helpers using the momentum of bottom-up involvement in “flawed” reforms and the top-down social engineering of “model” institutions, the start-from-where-the-doers-are principle (the First Do) argues for the former.\footnote{Applied to technical cooperation, it would be better for the helpers to train local doers to do the job—even if locals do it poorly at first, so long as there is a learning mechanism—than for the helpers to do the job well but with little or no local capacity-building. Sometimes the best form of training is for the helper to broker horizontal learning between the doers and those who have already successfully done a job under similar circumstances.}

The Second Do: See the World Through the Doers’ Eyes

If a social engineer could perform an “institutional lobotomy” to erase present institutional habits, then development advice would not need to be tailored to present circumstances. Generic advice would suffice; one message would fit all blank slates. But failing that, it is necessary to acquire a deeper knowledge of the present institutions. This is done by, in effect, learning to see the world through the eyes of the policy-makers and people in the country. “The change agent must psychologically zip him or herself into the clients’ skins, and see their situation through their eyes” (Rogers, Everett; 1983; 316).
An interaction between teacher and learner that is compatible with autonomy requires that the teacher have an empathetic understanding with the student. If the teacher can understand the learning experience of the student, then the teacher can use his or her superior knowledge to help the student. This help does not take the form of telling the student the answer or solution, but of offering advice or guidance, perhaps away from a dead-end path, to assist the student in the active appropriation of knowledge. The teacher, according to Dewey’s learner-centered pedagogy, must be able to see the world through the eyes of the students and within the limits of their experience, and at the same time apply the adult’s viewpoint to offer guideposts. Similarly, in Carl Rogers’ notion of client-centered therapy (1951), the counselor needs to enter the “internal frame of reference of the client” in order to give assistance that respects and relies upon the actual capacity of the person.

In describing the process of an aid agency trying to help a developing country, Albert Hirschman recommends a process of familiarization—of walking in their shoes and looking through their eyes at the array of problems facing the country.

Little by little, after getting committed and “seeing,” that is, learning about the country’s problems, some hypotheses should emerge about the sequence in which a country is likely to attack successfully the multifarious obstacles. In the search for the best hypothesis, those who administer aid programmes should use what Dr. Carl Rogers, the psychotherapist, calls “client-centered therapy” (Hirschman, 1971, 185).

In the context of adult transformation, how does the educator/investigator find out about the client-student’s world? One way is through Paulo Freire’s notion of dialogue. In the non-dialogical approach to education, the teacher determines the appropriate messages to be delivered or “deposited” in the students, as money is deposited in a bank. Instead of ready-made best-practice recipes, Freire, like Dewey, saw the educational mission as based on posing problems, particularly those stemming from the learners’ world:

In contrast with the anti-dialogical and non-communicative “deposits” of the banking method of education, the programme content of the problem-posing method—dialogical par excellence—is constituted and organized by the students’ view of the world, where their own generative themes are found (Freire, 1970, 101).

Yet often to development “professionals, it seems absurd to consider the necessity of respecting the ‘view of the world’ held by the people” (Freire, 1970, 153-4).

**Albert Hirschman’s Model of Unbalanced Growth**

Within development theory, the best exposition of the alternative indirect approach (including the Two Dos and Two Don’ts) is the still-classic work of Albert Hirschman. I previously used the image of the social engineer helicoptering over a maze giving both instructions and motivation to the doers in the maze to do the right thing. In the context of Hirschman’s work, the social engineer was the development planner designing an integrated development plan of balanced growth for a country to make the big push out of

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18 Maurice Friedman emphasizes the importance of seeing through the eyes of the other in Buber’s notion of dialogue. “The essential element of genuine dialogue...is ‘seeing the other’ or ‘experiencing the other side’” (Friedman, 1960, 87).
the low-level traps and to take-off on the path of self-sustained growth. But the planners have neither the knowledge nor the motivational powers for such plans to be implemented.

Instead of having a clear view of the path out of the maze, social engineers often have preconceived plans based on economic theory. Hirschman provides an example from his own experience as a development adviser in Colombia:

But word soon came from World Bank headquarters that I was principally expected to take...the initiative in formulating some ambitious economic development plan that would spell out investments, domestic savings, growth and foreign aid targets for the Colombian economy over the next few years. All of this was alleged to be quite simple for experts mastering the new programming technique: Apparently there now existed adequate knowledge, even without close study of local surroundings, of the likely ranges of...all the key figures needed....

My instinct was to try to understand better their patterns of action, rather than assume from the outset that they could only be "developed" by importing a set of techniques they knew nothing about (Hirschman, 1984, 90-1).

Instead of preconceived blueprints, a local learning process was necessary. Hirschman has often noted the problems created in developing countries by the tendency that Flaubert ridiculed as la rage de vouloir conclure or the rage to conclude (see Hirschman, 1973, 238-40). And the same attitude is common in development agencies. Indeed, there is a self-reinforcing lock-in between developing countries that want “The Answer” and development agencies that have “The Answer.”

(Policy-makers) will be supplied with a great many ideas, suggestions, plans, and ideologies, frequently of foreign origin or based on foreign experience.... Genuine learning about the problem will sometimes be prevented not only by the local policy-makers' eagerness to jump to a ready-made solution, but also by the insistent offer of help and advice on the part of powerful outsiders.... (S)uch practices (will) tend to cut short that "long confrontation between man and a situation" (Camus) so fruitful for the achievement of genuine progress in problem-solving (Hirschman, 1973, 239-40).

In addition to replacing imported blueprints with a local learning process, an alternative indirect approach also has to find a substitute for the external carrots and sticks that drive programmes in the social engineering vision—a "picture of programme aid as a catalyst for virtuous policies (that) belongs to the realm of rhapsodic phantasy" (Hirschman, 1971, 205). Instead of supplying exogenous motivation for a faux-virtuous reform, the idea is to find in the small where "virtue appears of its own accord" (Hirschman, 1971, 204) and then to recognize and strengthen it.

Endogenous motivation for change is based on problem-solving. Not all problems can be attacked at once so attention and aid is first focused on the sectors or localities where some of the preconditions are in place and where problem-solving initiative is afoot on its own. The initial small successes will then create pressures through the forward and backward linkages to foster learning and change that is nearby in sectoral or regional terms. The successes, when broadcast through horizontal learning to those facing similar problems, will start to break down the paralyzing beliefs that nothing can be done and will thus fuel broader initiatives that take the early wins as their benchmark. Unlike a model that assumes large-scale organized social action on the
balanced-growth model, directed by the government under the pressure of external conditionalities, the parties in Hirschman’s unbalanced growth model, like the pieces on Adam Smith’s human chessboard, are responding to local endogenous pressures and inducements from their economic partners or to opportunities revealed by others in a similar position.

One thing leads to, induces, elicits or entrains another thing through chains of “tensions, disproportions and disequilibria” (Hirschman, 1961, 66). Hirschman at one point refers to the principle of unbalanced growth as “the idea of maximizing induced decision-making” (1994, 278). The problem-solving pressures induced by unbalanced growth will call forth otherwise unused resources and enlist otherwise untapped energies. As a project or programme moves from one bottleneck and crisis to another (in comparison with the smooth, planned allocation of resources), then “resources and abilities that are hidden, scattered or badly utilized” (1961, 5) will be mobilized.

Conclusion: The Two Paths

After a half-century of official development assistance, we still find ourselves wandering in a dark wood. But starting from the fundamental conundrum of helping people to help themselves, it is becoming clear that there are two divergent paths. The well-worn path is the direct approach of conventional money-based and knowledge-based aid. If the goal is to help the doers of development to help themselves, then I have argued that the direct path tends to override (with conditional aid) or undercut (with benevolent aid) the doers’ capacity for self-help.

Perhaps it is time to consider the less-trodden path of the indirect approach, which emphasizes forms of assistance based on respect for the autonomy of the doers. Initial steps on the indirect path were described with the Two Dos: Start from where the doers are and see the world through their eyes. Perhaps it would be useful to have a Third Do as an overall description of the indirect approach: Respect the autonomy of the doers.

On the direct path, the helper helps the doers by supplying distorted motivation (conditional aid) and “managed” knowledge (ex cathedra answers buttressed by one-sided research and public relations campaigns) to get the doers to do what the helpers take as the right thing. On the indirect path, which respects autonomy, the helper helps the doers to help themselves by supplying not motivation but perhaps some resources to enable the doers to do what the doers were already motivated to do themselves. On the knowledge side, the helper who respects autonomy supplies not answers but helps in a Socratic manner to build learning capacity (e.g., by enabling doers’ access to unbiased information and developing their ability to hear all sides of

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19 “The man of system...seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chessboard; he does not consider that the pieces upon the chessboard have no other principle of motion besides that which the hand impresses upon them; but that, in the great chessboard of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it” (Smith, 1969 (1759), 342-3).

an argument) that allows the doers to learn from whatever source in a self-directed learning process.

Direct methods can help others, but they cannot help others to help themselves. That requires autonomy-respecting indirect methods on the part of the helpers and autonomous self-activity on the part of the doers. Doers need not only to participate but also to be in the driver's seat in order to make their actions and learnings their own. It is the psychological version of the old principle that people have a natural ownership of the fruits of their own labor. The helpers can use indirect and enabling approaches to provide background assistance. But the doers have to take the initiative and then keep it from being overridden or undercut by external aid. And then they will be the doers of their own development.

References


1.3 TECHNICAL COOPERATION AND INSTITUTIONAL CAPACITY-BUILDING FOR DEVELOPMENT: BACK TO THE BASICS

DEVENDRA RAJ PANDAY

Introduction

Development capacity has been on the forefront of development thinking and practices from the time the economic and social status of the former colonies and other emerging states became a matter of international concern in the postwar world. The origin and rise of technical cooperation has been part of the same process, specifically geared to fashioning institutions and practices to support the development objectives of these countries. The role of development aid was originally conceived fundamentally as a means of bridging the savings gap, and it emphasized the importance of capital more than any other factor of development. There was also an understanding of the need to establish or upgrade capabilities for planning and implementation in the recipient countries, at the macro as well as the sectoral and project levels.

In addition, most donor-funded projects, both from bilateral and multilateral sources, have usually had an institutional component to complement physical development work. This has been the case with nearly every World Bank financed scheme (Israel, 1987, 18). In projects financed by regional development banks in Asia and Africa, too, there has been a practice of introducing institutional development even as a condition for loan approval and disbursement. The emphasis on policies that later came to assume a dominant position in aid programmes shaped by the Washington Consensus was similarly supported by institutional initiatives, with and without the conditionality element. These institutional processes have ranged from deregulation, privatization and downsizing of the public sector to civil service and financial sector reforms. More recently, as donors have woken up to the malaise of corruption, accountability and transparency have also been of concern.

Academic institutions and scholars have similarly been engaged from the early years of international development efforts, assisting in building institutions and streamlining management systems for designing and executing development. They have laboured hard, particularly to reconceive and reconceptualize the principles and practices of public administration, as traditionally understood, and to transform them into the principles and practices of “development administration” that is capable of meeting the new challenges facing governments freshly initiated to development. This has been an interactive process, lending, perhaps, a substantive meaning to the term “cooperation.” The literature in this field from the early years illustrates that academic work has been enriched to a considerable degree by the learning opportunities offered by technical cooperation schemes, as executed in the developing world, with its intellectually challenging diversity. Now we have the benefit of the more comprehensive
and inclusive concept of “governance.” This, too, is the product of similar engagements and experiences—that is, an outcome of the continuing search for development capacity.

What, then, is the special significance of the present interest in institutions, development capacity-building and the role of technical cooperation? Why revisit a subject that has been a part of development thinking for a long time, and about the significance of which there should be little controversy? There are several reasons, some of which will come up during the discussions that follow. In short, one may approach the exercise fundamentally as a part of the learning process that the international development community is going through. Our knowledge about development seems to grow more from a process of trial and error—and, as far as the poor countries are concerned, more error than trial—than any established theoretical wisdom. Everyone is, thus, constantly on a learning curve.

Lessons Learned

In the innocence of the early days of international development efforts, the government was seen as the “engine of development,” with the five-year plans it produced and the foreign aid it attracted providing the energy to enable the engine to speed up. Community institutions at the local or national level—there were few in the latter category—were not noticed. The people were supposed to be the beneficiaries of the benevolent process the system promised, not rightful participants or recognized stakeholders. However, the potential capacity of the private sector was not altogether ignored. After all, the most important donors of the time, as now, carried with them the experience, wisdom and interests of the capitalistic mode of development. But the private sector was either overwhelmed by the emphasis on the value of an overactive state, or its entrepreneurial prowess was simply taken for granted. Even within the government, the emphasis was merely on building the capacity of public institutions as managers of public policy and programmes. That the policy environment, ownership and accountability constituted a part of institutions for development—especially as they affected the incentive structures for other possible development agents or actors—generally escaped the wisdom of the time. Development capacity was considered neutral to the character of the political regime of the country as long as, perhaps, it was not a communist state. Authoritarian states flourished all over the third world, though not in an enduring manner, with the support or benign neglect of their international development partners.

The problem arose when many governments floundered in their attempts to manage national political economies amidst competing interests, and tended to succumb to predatory allure or the proclivity to self-serving populism, rather than rational policy-making to match development goals. The result was widespread government failure that overshadowed the earlier convictions about market failure. Contradictions in the international political economy also played a role in bringing this about. Even as international cooperation in development became a novel characteristic of the era, the unequal relations inherent in trade and in the distribution of information and technology, among other factors, adversely affected the welfare of the developing countries.
At the same time, the influential centres of knowledge and development finance engineered a radical reorientation of development strategies, which entailed a shift in the principles of economic management and in development policies. This basically required a country pursuing development to put more faith in the impersonal forces of the market rather than in the undependable wisdom of the state.

The important donors also began to be more open to suggestions that, in many cases, their understanding of the issues in relation to aid and development left much to be desired. Some of them were also humbled by their own performance, which was found wanting. The poverty and deprivation submerging the peoples of many lands, variously called least-developed, low-income or poor, were an embarrassment not only to the donors, but also to the social science community, which supplied knowledge and practical wisdom on how to organize and accomplish development. The donors also saw loopholes in their approaches to liberalization and privatization, as the national and global rent-seekers made a mockery of their theoretical potential, even as the sufferings of the poor in sub-Saharan Africa and elsewhere became worse. In the case of some donors, including the international financial institutions (IFIs), their own internal evaluations showed gaping holes in their strategies and performance (French, 1994; Kapur, 1997; Berg and UNDP, 1993). In the policy domain, structural adjustment, by itself, was no longer sacrosanct; poverty reduction regained its place in the development discourse and policy designs.

The less-than-satisfactory experiences of structural adjustment and economic reform initiatives in several important cases have produced two results relevant to this discussion. First, as stated, the donor community and its think-tanks were required to approach the subject with some humility. Second, a recognition arose, even for those who had argued for a minimalist state, that the incentive system inherent in a market economy would not be triggered, or could even misfire, if the required set of institutions were not in place (World Bank, 1993, 1997 and 2001). It may also be the case that as the debate oscillated between two extremes, a middle ground emerged as a natural course (Stiglitz, 2001; also see Collier, 2001; Rodrik, 2001).

At the moment, this middle ground is not so much about ideology as about finding gaps in earlier approaches to development (market-led as well as state-led) and making amends for them. For the ideologically motivated, for example, the market system may be an institution by itself, but the markets, too, need an encompassing institutional foundation to work according to their “design capacity.” The middle ground seems to recognize that this foundation has to be provided by the state, on the one hand, and traditional and new community institutions, on the other. If there is any ideology in this, it may be about the “back to the basics” of a mixed economy, though there is now less inclination to accept the government as an economic agent as in the period before 1970.

Premise and Scope

The purpose of this chapter is to explore or retrace, in the light of these experiences and emerging tendencies, some critical approaches to capacity-building for development.
that may complement and support related measures for the development of the poor countries. Given the fact that many countries have failed miserably in governance, the interest here is in examining how and under what conditions the governments, which have failed to bring development to their people on their own, can help the market to do the job for them. And since, as with the state in the past, the framework of institutions necessary for the market is now a priority area for donor consideration and support, the interest will be on the role of technical cooperation to that end. In line with our theme of “back to the basics,” we see that, even today, the donors are apparently conceding that their technical cooperation has to concentrate more on public institutions than the private sector. If so, this effort should help create not only efficient markets, but also effective governments.

In what follows, we will try, very briefly, to cull the key messages on the promises of market-friendly institutions and on the associated debate. The next step will take us back to the struggle with the complexity of the task of establishing effective state institutions that can support the legitimate purposes of the market. The role of technical cooperation will be examined in that context and within the framework of development cooperation in general. The emphasis will be on the need to promote institutions that support democratic values, sustainability and self-reliance, and country ownership of the development mission and enterprise.

This chapter is inspired, in particular, by the conditions and needs of the poor, low-income or least-developed countries, which are also called here “nonperforming.” There is no doubt that many developing countries have demonstrated their capacity for development, which has enabled them to radically transform their economies, especially in the last two decades. Some have used the political potential of the state as well as the invisible hand of the market to their advantage. In the process, some of them have even graduated from the third world community to the first world or the near-first world. However, many others who seem condemned to poverty and deprivation continue to suffer, though international attention and access to available capital, knowledge and technology have not been denied to them—at least, one should add, until the Uruguay Round and the emergence of the intellectual property rights regime. If it were not for these nonperforming countries, the discourse on development and capacity-building and the role of technical cooperation would not probably be as relevant or challenging to human intellect and sensitivities.

**Reviewing the Debate**

To begin with the market-centric argument, the developing countries have much to benefit from promoting markets that function as “incentive-compatible institutions,” with internally inspired self-enforcement mechanisms that promote human ingenuity and enterprise. When the poor and the rich alike freely participate in income-earning activities commensurate with their potentials, the result is a boost for economic growth and reduction of poverty. To perform to their full capacities, markets need institutional support that helps to transmit information, protect property rights, enforce
contracts, and manage—or, if necessary, regulate—competition in the interests of the society. In this sense, market institutions must comprise "rules, enforcement mechanisms and organizations" that serve such purposes. It is the responsibility of the government to create and ensure the proper functioning of these institutions, though the people also have a role to play in signaling the demand for them (World Bank, 2001).

Such institutional functions are also available in norms, networks and traditions in the form of the “unwritten” laws of a society. These informal mechanisms can be efficient in terms of low transaction costs, risk-sharing, and physical and political proximity to the poor. They need to be harnessed. Opportunities should also be seized for a higher level of efficiency where it can be achieved through formal institutional intervention. As markets develop and become integrated, the importance of formal institutions grows. Demand for new institutions arises in order to respond to new opportunities and new incentives, and to address new threats to competition. The developing countries need to build such institutions to make their market-oriented policies work better and produce the expected results (World Bank, 2000 and 2001).

The Catch-22 Situation

The role of the state is constrained by two major problems. One, the government in power usually cannot take firm measures to develop institutions and policies that might be unpopular among supporters who supply “political resources,” including financing. Two, governments are prone to arbitrarily exercise state power and stifle private initiatives through over taxation, corruption and so on. Nonetheless, the foundation of the arguments about markets and market institutions is related to the premise that governments will create institutions necessary for the markets. Among other requirements, governments have to make laws and establish organizations; enforce and adjudicate property rights and contractual obligations; and generally maintain the rule of law (Rodrik, 2001; also World Bank, 2001). Similarly, government intervention may be necessary because not all community norms may support efficient market operations. One example is the caste system and the social environment affecting the status of women and other excluded sections of the population in India, Nepal and elsewhere. This throws up high barriers to the entry of specific communities into the markets. One is forced to go back to the basic problem of dealing with states, which are, as argued, and often as experienced, inherently predatory. It is more than a catch-22 situation. We need markets, because governments cannot do what the society needs; but the markets need governments to produce the public goods that the markets require in order to perform for the society.

There are other issues in the debate that merit recalling before we consider what can be done. Some historical and social analyses and our own experience tell us that the poor countries are poor today because generally they lack some fundamental prerequisites that would otherwise allow them to benefit from the operations of the market. The institutions these countries lack are not only those related to the market. This is illustrated by the possibility that in these countries, the state also suffers from many of the same institutional and other social and global factors that inhibit markets
from performing efficiently. In fact, narrowly conceived reform measures that may be initiated under such conditions can exacerbate the rent-seeking tendencies of a predatory state and other segments of the society. As Stiglitz (2001) puts it, “When predatory states seem to reform, shouldn’t political economy arguments lead to worries that the seeming reform is not really a reform, but a change in the manner of acquiring rents—and not necessarily in ways that reduce the adverse effects?” State institutions might receive recognition from some unlikely quarters for the service they provide to the markets. But this does not change the historical and cultural environment within which a judge, a legislator or a police officer has to work (Rodrik, 2001)—or within which a nation has to develop, for that matter.

If development, indeed, means “social transformation,” which some influential mainstream economists now acknowledge (e.g., Stiglitz, 1998), then reforms in state institutions are necessary for their own sake and for the sake of an integrated development of all societal institutions relevant to such transformation, including the market. A society cannot change in a manner that is way out of step with some of its own constituents. And a state is, after all, a constituent that, in addition, exercises “coercive power” over the rest of the society, albeit, in a democracy, with the latter’s consent.

It is necessary to improve the state’s capacity for other reasons, too. In Nepal, for example, the Asian Development Bank (ADB) claims that much of its technical assistance is geared towards capacity-building and institutional strengthening. The reason for this is not difficult to see. After more than 30 years of lending and advisory technical assistance, the ADB is still struggling with the problem of aid utilization and effectiveness. Of the 45 loans that have been evaluated, only 56 per cent were “generally successful” (ADB, 2001, 7). The principal reasons identified for a lack of success in project implementation were “weak project preparation and design, and inherent institutional weaknesses” of the executing agencies. One might think of auctioning off these executing agencies under the rules of the market! But the ADB also reports that the “poor quality of consultants and contractors [who are market-players] has also contributed to the poor performance of projects.”

For all the clarity and purity of ideas that market economics tries to project, implementing these ideas in practice for the purpose of development may still come down to living with the “on the one hand, and on the other” syndrome that economists are often accused of displaying. There are many positive features of a market-oriented policy framework on which there can be universal agreement, just as there will be the same about the state, when it works perfectly. The key is to find policies and methods that work in the conditions present on the ground. It is hard to argue with the idea that the aim of any reform should be not “to define what should be done in an ideal world, but what can be done in today’s world” (World Bank, 2001, 4). This message may be applicable as much to the actual potential of the markets as of the governments.

The key point, of course, may be striking a balance. But the balance needs to be pursued not only between the relative roles of the market and the state, but also in terms of how we view development. The existing literature on capacity-building
recognizes this point. Some donors already see capacity-building as development itself. For others, “a vision of development and the kind of society to be nurtured” is a precondition for capacity-building (UNICEF, 1999, 19). We have to understand that capacity is a generic, neutral concept. Hence, it is naturally relevant to ask: The capacity to do what? The balance may differ from country to country and, within one country, from one time period to another. In every case, the responsibility for defining it falls on the country’s leadership and the political process, which cannot be ignored.

**Major Challenges for the Future**

The essence of the debate on institutions, as briefly reviewed above, is that development institutions are not only about enabling, facilitating or even regulating the markets. They are about finding a mandate, based on the view of development as social transformation, for setting policies and deploying resources accordingly. A situation should be avoided where the institutional capacity-building effort may fail for the same reason that the periodic paradigm shifts have failed — because they were viewed too narrowly (Stiglitz, 1998, 2). If markets need “good” government institutions, including the policies they embrace, then the need for building the capacity of the government becomes paramount. Importantly, such institutions serve interests that go beyond the markets. A good governance structure that guarantees the rule of law, enforces contracts and protects the rights of citizens is necessary everywhere, regardless of the country’s stage of development. The critical question is how to go about this task in light of our experience so far.

The *World Development Report 2002* claims that the report is about the “how,” not just the “what,” of necessary reforms (World Bank, 2001, 4). But it seems to contain few practical messages on “how the government can change ways of thinking and institutional arrangements” (Stiglitz, 2001). The underlying complexity of the task has been a challenge for the poor countries all along. In many cases, the governance structures are getting weaker by the day, with civil strife and violence further taxing their meagre institutional resources. The underlying problems of political economy embedded in the historical and cultural experiences of these countries cannot be oversimplified.

As we shall see shortly, the currently popular governance paradigm, too, falls short of providing practical messages and methods that touch at the core of the problem. Institutions, whether related to national governance or international development, that claim to look at the interests of the poor may need something different to guide them, something in addition to the universal principles of management and capacity-building. This may be about values (Edwards and Sen, 2000), where the change-agents may articulate and pursue their self-interests in broader terms than is the case when development is merely a career. In a technical cooperation context, it is difficult to come to grips with these issues, but we may have to face them sooner or later. There is a considered point of view that the technical practitioners might be better suited than theologians to promote a “global ethic” for human societies, because they can hopefully do so without moralizing too much or unduly emphasizing moralism.
as against the “functional value” of morality (Kung, 1999). The moral capacity of a nation and the institutional processes influencing it may soon emerge as an important agenda item in development discourse. An element of it can already be observed in the growing concerns with corruption.

**Understanding Capacity-Building**

There are many definitions of capacity-building, although in general there are basically two ways of looking at the concept. We can look at it from a management perspective, focusing on some specific, but possibly disjointed organizational areas needing reform, including the state organs or the legislative framework. Or we can look at it as something intimately close to the nation-building process, and as requiring a broader and more integrated perspective. The first approach makes it easier for a desperate donor to find entry points for project formulation and financing. To focus its capacity-building effort, each donor can look for a suitable niche in such areas as governance, policy advocacy, corporate governance, human resource development, decentralization or specific public organizations. This approach may, however, be insufficient for producing the expected results, and can be even counterproductive if some fundamental issues are not addressed simultaneously.

The point may be illustrated by recalling a particularly comprehensive definition of capacity-building, as articulated by the United Nations Development Programme (UNDP, 1997) on one occasion. UNDP defines capacity-building as “the process by which individuals, groups, organizations, institutions and societies increase their abilities to: 1) perform core functions, solve problems, and define and achieve objectives; and 2) understand and deal with their development needs in a broad context and in a sustainable manner.” This definition suggests that capacity-building be not merely about devising management tools and instruments or some other technocratic frames and frameworks. It should be about the community’s ability to appreciate organizational goals, and to build and use its resources to that end. If so, everything becomes important—from the nature of the polity and regime structure to the sense of self-respect and self-reliance among the leaders and members of the institution (in this case, the host nation).

Amidst frustrations, mixed with genuine concerns, the donor think-tanks have sometimes a tendency to seek comfort by experimenting with reforms in the vocabulary of development, amounting only to what one scholar has called, in a different context, an attempt at “explanation by redefinition.”¹ The new concepts, frameworks or even the so-called development paradigms have their value, but only if they embody new ideas and practical methods in place of the old ones that did not work. These ideas and methods, in turn, have to be grounded on some foundational values that can ensure long-term consistency in institutional behaviour, and also inspire popular support. If, for example, the UN system wishes to promote its “development assistance framework” on the basis of a rights-based approach, it has to be recognized that the departure it seeks is about values, about how the partners in

¹ Writing about political disorder in some Indian states, Kohli worries about “the greatest danger” that “problems of political disorder will simply be redefined as problems of institutionalization, in the belief that something has thus been explained” (1991, 6).
development cooperation are to value human life and human dignity and solidarity. These values have to be reflected in how people see the roles of the government, the markets, the civil society (including the community organizations and households), and, obviously, the donors.

The premise that guides the rest of this chapter is that unless we try to come to grips with important foundational issues with critical implications for the outcomes of capacity-building efforts, the progress on any other front can be elusive or, if at all achieved, not enduring. To make the discussion manageable, we focus on three issues that are not new, but extremely challenging for technical cooperation in relation to capacity-building. They are democracy, sustainability, and ownership and partnership.

**Democracy**

There is a good deal of emphasis in the literature, as well as in capacity-building programmes and projects, on the role of the rule of law, transparency and accountability, and, generally, corruption-free governance. The expectation that civil society and citizens in general demand institutions that support their interests indicates an assumption that democracy is, indeed, at the foundation of capacity-building efforts (World Bank, 2001). However, after the significant advancements of the last two decades, many countries are, again, demonstrating that there is a big gap between a country's ability to introduce democracy and the ultimate capacity to nurture it in the traditions of liberal democracy (Huntington, 1997). The democratic regimes that rode the tide of the “third wave” have generally failed to demonstrate a capacity to develop and demonstrate pluralistic culture that should go with its manifest structural form. Nor have many of them been able to come up with a dependable policy framework that takes into account the challenges of a “traditional” society, polarized by diverse conditions, interests and aspirations affecting the people. The interest of the important sections of the donor community in promoting and defending democracy may also be eroding precisely when the unsatisfactory outcomes of their efforts so far in the post-cold-war era may require greater commitment from them.

After aggressively trying to promote democracy in the third world for some years, there are signs of some reticence in the case of some donors. More importantly, there is a lack of consistency in views, or at least in emphasis. At one point, democracy may be considered responsible for a hostile or unreceptive institutional environment (e.g., World Bank, 1991, 132-3). At other times, the emphasis is more on presenting the system as a precondition for institutional change (e.g., World Bank, 2000, 113). For a realistic practitioner of development wanting reform through technocratic initiatives, democracy can indeed be a hindrance. It is certainly easier to implement economic liberalization and austerity measures when they are not subject to popular scrutiny, as they are in a democracy that is open to dissent and a competition of ideas and visions (Thomas, 1999; Panday, 2000). The increasing ambivalence about democracy among some donors, however, may also be explained by the mixed findings of empirical studies on the relationship between democracy and long-run economic growth rates. In addition, the instances of political instability in many “third wave” democracies may
even support the view that, on the basis of the experience so far, democracy need not be valued much because it disturbs social stability and peace and, therefore, development.

If development, indeed, means social transformation, we have to look at the relation between democracy and development from a different, more broad-based perspective. Irrespective of the growth rates recorded, there are other social processes and values that only a democratic regime embedded in a pluralistic culture and legitimized by an inclusive policy outlook can guarantee and sustain (Bhagwati, 1995). The natural dissent and divisions in the society about public policy may give an impression that democracy is an inefficient or status-quo-oriented political system. But when democracy is functioning well, it demonstrates its capacity to manage such dissent, resolve conflict and also build consensus for policy changes. This is the essence of democratic policy-making and of the accountability of a democratic government to its domestic constituency (Panday, 2000). It is another matter that the consensus so reached may be different from what the “global community” has in mind for the country at a given time. The point is that an adherence to democratic norms should, in the end, provide for principled partnership that yields “fulfilling conclusions” from the process (Edwards and Sen, 2000)—for all concerned.

The interest of the donors in “democracy assistance” has not completely dissipated. But there is a possibility of further withdrawal as they find that there are no workable strategies they can implement in this complex area. It is difficult to imagine a more curious situation than one where the rule of law and public accountability are valued (for the sake of markets), but a democratic regime (for the people) cannot be nurtured. Some optimistic scholars have gone to the extent of identifying 57 specific initiatives that the United States can take to promote democracy (Allison Jr. and Beschel Jr., 1992). The difficulty is that it is uncertain how the donors can help a country to democratize in this manner if the country’s leadership on its own fails to tackle the underlying social conflicts and tensions in a consensual manner, as is now the case in many struggling democracies. Certainly, one does not wish to see the powerful nations in the West install “democratic leadership” in the third world countries the way they enshrined the authoritarian ones in some countries in the past.

The new and very popular discourse and intervention on “governance” has also not been able to go beyond formal, organizational aspects. The concept has added little to the arsenal of analytical tools for enabling the leaders and citizens committed to institutionalizing democracy, as they struggle with multifarious conflicts and contradictions of a social and historical nature. One also gets an impression that the concept of governance has become handy to development practitioners and aid managers who may wish to divorce development from politics and the underlying issues of equity and justice. Even decentralization can be implemented in an apolitical manner, as when all that is accomplished is the delegation of authority to implement projects financed by aid, giving the donors a foothold in local governance.

The donors cannot be faulted for not being able to influence the political culture of a developing country, which, obviously, is the task of national institutions and
actors. They may, instead, have to be mindful of the possibility that the technical cooperation programmes launched in the name of governance reform or capacity-building do not become counterproductive. The system of development cooperation has certain fault lines, where the harder the donors try for results under adverse conditions, the worse the situation may become. It may be necessary in some countries to take efforts to support legislatures, the judiciary and civil society, and to augment the legislative framework and support the rule of law. But these are matters that the host society institutions, including the government, should be interested in on their own. If they are not, the donors may succeed only in legitimizing a regime that is not interested in the principles of pluralism, justice or development. Similarly, introduction of anticorruption measures as an element of governance reform in an environment where the government has no intention or ability to do anything in that direction can further legitimize a corrupt regime. It is claimed that donors’ practice of supporting electoral processes has driven up the “cost of democracy” without improving the content of the process (Ottaway and Chung, 1999; also Santiso, 2001).

The nascent civil society institutions, including the nongovernmental organizations (NGOs), provide some entry points for donors interested in the promotion of democratic governance under such circumstances. There are NGOs in many developing countries that play a very positive role in the field of human rights, including minority rights, the rights of women and children, environment, media development and so on. In Bangladesh (Sobhan, 1998), there is plenty of evidence that NGOs can make far-reaching contributions by mobilizing group action and promoting linkages and solidarity among the poor, especially by empowering women. Such approaches need to be supported. However, they need not be romanticized too much (Streeten, 1999).

First, the civil society in many developing countries is not a homogenous entity in terms of the genesis, agenda and interests of its constituent elements. It is also misleading to think that it invariably pursues “noble causes” with committed public-spirited actors (Carothers, 1999-2000; also Dahal, 2001). Supported almost exclusively by the donors, the nascent civil society movement in many countries is perceived as donor-driven, with an agenda addressed to the supporters outside the country, rather than the domestic constituency. The civil society institutions, in many cases, also project a mirror image of distortions brought by foreign aid to the state sector. When the spirit of volunteerism, so essential for a genuine civil society movement, is lacking, the unsustainably high cost of running an organization—including the high salaries of the promoters and other functionaries and staff—raises questions about the movement’s propriety as well as its sustainability (Ottaway and Chung, 1999).

There is a more critical, substantive point on the subject of civil society and democracy. With the donors working directly with local government institutions and civil society, the domain of policy-making has extended beyond the state apparatus and the usual framework of dialogue and negotiations between the donors and the recipient governments. This is part of a deliberate policy, which has been adopted as a response to the general ineffectiveness of the policy frameworks and institutions inspired and supported by the donors in the past. In some cases, the process has
helped to temper and improve upon the guidelines that local governments and civil society organizations use in shaping programmes and policies impacting on the environment, human rights and so on. Taking the agenda of development to the grassroots may also create some possibility of enriching its substantive content in favour of the poor, and ensuring compliance by all parties concerned.

This cultural shift in development cooperation can, however, have an adverse effect on the political process and the fragile state institutions of the host country. If an elected government does not represent the public interest in the eyes of the donors, the civil society cannot fill that political void. Besides, it may not be for the donors to decide who the real representatives of the people are, who the civil society is, and who the international partners should deal with. This is so especially if the donors' own judgement about the value of democracy in a recipient country lacks conviction.

Moreover, with important sections of civil society simultaneously engaged in partisan politics in many developing countries, the dialogue with civil society can degenerate into a “convocation of the opposition,” as some public officials in Latin America complained to a visiting dignitary (Summers, 2001; also Santiso, 2001). The vibrant civil society cultivated by the Weimer Republic in Germany became handy for Hitler's later machinations (Berman, 1997; Encarnacion, 2000). To put it more ideologically, there can be a civil society that mediates between capital and labour or one that just represents capital. There can be another that mediates between the state and the citizens, and also yet another that may become the handmaiden of the more powerful, including, in the present context, the donor community. These all have their uses for different purposes, but our interest should be with those that help to promote democratic legitimacy in the society.

The problem with governance, in most cases of democratic decay or erosion (Santiso, 2001), is that the country's political leadership is unable to manage the special interest groups as they seek to advance their careers in a competitive political system. The answer to this problem does not lie in further surrendering political autonomy to yet another actor, civil society, but in enabling the leadership and other political forces to come to terms with their responsibilities. An enduring relationship between the state, civil society and the market cannot be developed in a situation where engagements between donors and civil society (Encarnacion, 2000) may look like a coalition for cutting the state to its size, and putting it in its place, as it were. Civil society needs to be promoted with these risks and opportunities in mind.

**Capacity-Building**

An important lesson that can be learned from history is that most of the successful economies have emphasized mobilization and use of national resources, not foreign aid, for capacity-building and development in general. Institutions for development, therefore, should be about building domestic capacity, including the cultivation of values and norms that determine a nation's appreciation of the concept of development and the role of foreign aid in it. It has become a fashion to talk about and pursue sustainable development in the developing countries. Capacity-building is directly related to this
objective, because only domestic capacity can make the development process sustainable. However, this is not possible, if the message of sustainability itself has to come from foreign aid.

There is more to development than aid and its management, and more to aid than its financing role. Concessional aid is but a fraction of the total financial flows in the developing world. The share of the IFIs is only 5 per cent of the total, prompting the Meltzer Commission to recommend far-reaching structural changes in the International Monetary Fund (IMF) and the World Bank nearly three years ago (Meltzer, 2001). Even for the poor countries that concern us here, and for whom such aid is immensely important, aid effectiveness may be defined and determined more by the character of the aid delivery system and the donor practices than by the substantive policies and programmes being financed.

Until some time ago, the characterization of development cooperation as an industry used to be considered almost derogatory. Now, the US $50 billion strong global development industry, one quarter of which is attached to technical cooperation, is accepted with reverence and as a challenge to be coped with in the aid market. As argued, aid is not an entitlement. The logic may be that if the recipients are not entitled to it, the middle-people are not either, and that they have to compete in the market on the basis of their products and performance (see Part 2, Chapter 1; Berg and UNDP, 1993). This is a novel approach to building the capacity of technical assistance delivery institutions. And competition should be good for the process. However, the idea that the aid industry, which is driven by so many motives and conflicting interests, can mix with market principles may be somewhat incongruous.

Technical cooperation, the way it works, may be about finding ideas and experts that money can buy. One difficulty is that the ideas—not to mention the values, which may be missing the most in the nonperforming countries—are not offered in the market. One of the cruel ironies of development cooperation is that the support of external partners has a tendency to become less effective precisely in areas that are critical to development, such as building democratic institutions and traditions. With or without the aid market, the scope for a substantial contribution to sustainable governance institutions through technical cooperation may be limited in any case, except in countries where what might be called foundational capacity already exists.

The perceptions and arguments about aid as an industry arise basically from the declining trend of aid resources, on the one hand, and the growth in the number of intermediaries, on the other. As the most prominent, if not also the largest source of technical assistance, the position of UNDP in this respect may be educational. The changing financing framework within UNDP can be observed in the declining role of its core resources, and the more prominent role of non-core programmes. The core expenditures have declined sharply from US $1.1 billion in 1990 to below $700 million in 2000. The non-core expenditures had increased to $1.6 billion during the same period, representing 75 per cent of total UNDP spending (Ruffat, Andic and Weisner, 2001, 7-8).
The dependence of UNDP on non-core resources has pushed the institution into a situation of several contradictions. First, UNDP, like any other development financing institution, would claim that its programmes are demand-driven—that is, they are determined by the conditions observed, needs assessed and priorities identified in the field. But dependence on non-core resources means essentially responding to the priorities of donors who supply UNDP with the non-core funds. It could be claimed that there is a commonality in the interests and objectives of the institutions concerned. And this may be so. But there is no guarantee that the recipient country's interests and objectives coincide too. Instead, there is a danger that the country may be drawn into making commitments in areas that the government cannot sustain on its own.

The temptation to produce “replicable” ideas and programmes, with or without the technical cooperation framework being transformed into an industry, is a risk to be avoided in the future. As we know by now, even the structural adjustment programme was not replicable. Institutional capacity-building is a less generic proposition than macroeconomic policy-making (Stiglitz, 2001). The literature is full of warnings against the one-size-fits-all idea. On the ground, however, there is plenty of practical interest in it, as projects are designed and implemented in different countries and cultures, often by the same consultants using the same project parameters and organizational approaches. The push for locating the so-called “best practices”—and their articulation and presentation, at times, in relevant reports—might be responsible for one of the more common, yet harmful, sins of the profession. The only attraction here is the opportunity to market the product and promote replicability, regardless of the need and suitability in given conditions.

The replicability myth makes the life of aid administrators and development consultants more comfortable than it would be otherwise. But this is not how development works. And when the donors become disappointed with their methods, the blame is often put on the cultural deficiencies of the country that rejects them. It is not possible to pursue a universal paradigm of development and replicable institutions to support the markets everywhere, and also blame the “local policies, economies, polities and cultures” when you meet with failure (Mishra, 2000). Now, market economics seems to take notice of and also value social capital, including community norms and practices for their functional relations with the market. If so, it may also help to remember that there was culture before many of the other things, including, obviously, markets (Escobar, 1997). If market economics sees value in community norms and traditional practices as a part of a self-enforcing set of rules supporting the market, it may also be necessary to be careful of distortions and perversions that may be introduced when aid is delivered to these countries without adequate sensitivity to them.

Ownership and Partnership
From the beginnings of technical cooperation, or development aid for that matter, it has been recognized that economic and social development is the responsibility of the governments and the people of the developing countries. Of all the areas of development, this message is most relevant for capacity-building. External partners can provide support,
but cannot do what a committed leadership and the dedicated people of the host country must do on their own. Experience has validated this principle, as we observe the better performers of East Asia, on the one hand, and many nonperformers in sub-Saharan Africa or even South Asia, on the other. Surprisingly, despite the agreement in principle and the demonstrated experience on the ground, country ownership of capacity development efforts remains a contested field in practice. Some clarity on this issue and honesty in application may be important preconditions for the success of other related efforts in the future.

For the source of the confusion, we have to go back, again, to the unsatisfactory outcomes of models and practices applied in the past. The more the states and leadership of the developing countries floundered in their mission, even with the adoption of recommended shifts in development policies and strategies, the greater the possibility became of giving a wider and more flexible meaning to such concepts. As the donors tried harder with new paradigms and new approaches, they became involved in policy designs, implementation and monitoring of the programmes with an intensity that could not be consistent with the proclaimed wisdom about and commitment to country ownership. The situation became more complex and contradictory with the emergence of conditionality in the IFI-financed structural adjustment programmes and other associated reforms.

There are lessons to be learned here. In the design, negotiation, approval and implementation of capacity-building programmes, there must be an effort to avoid the kind of mistakes committed in the era of structural adjustment (World Bank, 1997, 83-4). It must be remembered that the acquiescence of the government of an aid-dependent country to a reform programme or a project “recommended” by important donors does not constitute its ownership of that programme. The interest may be only in not missing the funds (see Part 1, Chapter 1). Buying ownership is one of the corrupt practices that some donors may indulge in by offering incentives that may vary from personal to societal. But the most they can have is the support of individual counterparts, and not of the recipient system as a whole. This applies to civil society institutions as well.

In the context of structural adjustment and economic reforms, the methodology followed in designing, implementing and monitoring the “aid for reform” packages was such that it could not but weaken the host country capacity (Collier, 2001) to develop its own policy packages. In many African countries, it has been found that their “natural capacity to manage the macroeconomy” could not develop “while international financial institutions continued to hold technical analysis and decision-making captive to their programmes and conditionalities” (UNDP, 1996, 52).

The problems become worse when insensitive donor representatives develop a patronizing attitude towards their counterparts and exploit the generally less favourable psychological and material condition of the latter for speedy project execution or, worse, in the interest of a personal career. One of the most serious capacity problems in many developing countries is the way the public officials have, in effect,
abandoned the responsibility of the positions they hold. Individuals and institutions have lost their capacity to analyse (Collier, 2001) and understand their own reality. Across Africa and in most South Asian countries, the planning commissions, line ministries, and, now with decentralization, the local government bodies are becoming increasingly donor-dependent not only for financing but also for their routine functions.

Together with ownership, the idea of partnership is growing in popularity. The two approaches can be mutually supportive but also internally inconsistent if we are not careful about the details of how one goes about the process. Both concepts are multidimensional and might be interpreted more inclusively or exclusively in different times and different places. First, if ownership is to mean country ownership rather than mere government ownership, then the partnership idea requires a framework where all responsible national actors have a forum to debate and arrive at a consensus on the national vision and the mission. Ordinarily, in a well-functioning democracy, existing institutions and processes would ensure that this happens, to the extent realpolitik permits, nearly automatically. The government, representing the nation, would claim ownership of policies and be answerable to its partners, that is, the various sections of the society, under a defined accountability framework. In the absence of such a system, the donors can play the mediating role, which, however, contradicts the idea of country ownership.

Second, since partnership also means including the donors in the cooperative framework, country ownership should mean the government taking the lead in framing strategies and policies, following the process just mentioned. A representative, responsible government would produce a strategic plan that the donors would be constrained to argue against, though their constructive inputs could add value to the exercise. Because such an ideal situation rarely exists in a developing country, both the concepts are plagued by ambiguity and controversy in reality. There are plenty of examples of “tokenism” or donor-created “islands of participation” (Sobhan, 2000), and partnerships that run counter to the objectives pursued.

One does not have to go very far to look for ideas on what to do in the future. In 1993, the Operations Evaluation Department of the World Bank published a study that suggested four criteria for assessing country ownership. They are: “(a) the locus of the initiative for the policy or project must be in the government; (b) the key policy-makers responsible for implementation must be intellectually convinced that the goals to be pursued are the right ones; (c) there must be evidence of public support from the top political and civic leadership; and (d) there must be evidence that the government is building consensus among the affected stakeholders and can rely on their support and cooperation.”

One could add one additional criterion: that ownership is not something to be offered by the donors. The government and other concerned institutions, that is, the designated “owners,” must claim ownership and also be held accountable to other stakeholders.

The related tendency to claim the rights and the role of stakeholders has become prominent in recent years as the donors, frustrated by the nonperforming states, actually

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look for surrogate partners. The old idea of the two parties in action—the donors and the recipients—became untenable amidst a record of pitiful results and nontransparent systems of aid management. The traditional norms of international diplomacy, including aid diplomacy, and the sovereignty of the recipient governments are sacrificed in the name of a purposeful dialogue and promotion of an accountability process in the society. Special care should be taken that broadening the partnership ensures national ownership without diluting the framework of accountability.

Conclusions

The concrete situations we face in the world are diverse and challenging. The ideologues will not be bothered by them; they have their preconceived notion about what is good and what is bad or what is desirable and what is not for this world. Development specialists or thinkers, on the other hand, have to approach the subject with less certainty and more humility, given the sufferings they have not been able to help heal. No ideology can hide the fact that, for all the economic and technological advancements the world community has made, the number of the least-developed countries has grown to 49 today from the original 25 in 1971. The 600 million people living in these countries in absolute poverty and at least as many living elsewhere are awaiting a life with dignity and security in the new century. This section of the world population suffers the worst capacity deprivation; ultimately, it is the capacity of these people we should be addressing with a view to enabling them to “signal,” both to the government and the market, for the goods and services they need or could offer.

Limitations

The rules, mechanisms and organizations that are considered essential for markets are also needed for maintaining the rule of law, dispensing justice and generally protecting the public good. Institutions for promoting development capacity must, therefore, be built on the foundation of democracy and a development culture that values basic democratic principles. The challenge for development cooperation in general and technical cooperation in particular is compounded by the fact that the external partners may not really have much to contribute here, other than using gentle persuasion or some threat where possible, and providing moral support to the reform-oriented national actors.

There is also the danger that the “institutions for market” paradigm may meet the same fate, at least, in some countries, as the earlier initiatives for policy reforms. This is so especially if the incentive structure associated with development cooperation does not change and nonperforming recipients accept it as yet another mode of accessing fungible resources in the name of yet another paradigm.

Need for Donor Patience and Restraint

Capacity-building is a long-term and never-ending process. In many countries of our concern, the governments and the people seem to be a long way from covering even
the few initial and enduring steps as far as the foundational and strategic direction is concerned. The domestic actors who should be doing something about this are often busy asking the ordinary people to be patient. Ironically, however, the donors, especially their technical representatives, tend to be more impatient and short-term oriented. It is widely believed that the incentive structures of the aid system—which mix the career prospects and earnings of aid officials and experts with immediate successes in programming and execution of projects, rather than their sustainable contribution—is partly responsible for this mindset. This needs to be looked into, because this system also has implications for the motivation and morale and, therefore, the capacity of the most important partner in the process: the national counterparts.

Among those who serve in all the areas of development cooperation, the “capacity-builders” should be more aware than others that there is just no alternative to trying patiently to work with governments and other national institutions in their reality. If governments and the people of the host countries do not show necessary commitment, the donors cannot fill that void by just trying harder. For example, many countries may need fresh programmes to build their critical institutions; but it is also the case that many countries are not utilizing their existing capacities. The legal framework is one example. In a number of third world countries, law abidance suffers because the citizens as well as the responsible functionaries in the legislature, judiciary and the executive are not sensitive to the value of justice, fairness and the rule of law. The donors competing to help draft and promulgate new legislation can contribute but little under such conditions.

The same may be the case with planning, budgeting, civil service reforms or decentralization. Even with brain drain, resulting from the development of individual as opposed to institutional capacities, much knowledge exists within most poor countries and in their governments for articulating appropriate development policies, designing management practices and executing them. The hindrance, as we are fond of repeating, is the absence of political will, which donors cannot generate even with their conditionalities. If this is the case, it may be more appropriate for technical cooperation not to get involved in such areas at all. The nonexistent partnership only dilutes responsibility and may provide an excuse for a nonperforming government to abdicate it altogether.

**Coordination and Possible Specialization**

Leaving the principal responsibility of building capacity to the recipients themselves, the donors can do the next best thing in this respect. They can concentrate on continuing the reforms in areas where they have greater control. We will refer to only one of them, the problem of donor coordination, because this issue has a direct impact on national capacities.

The old problem of aid coordination has now become more complicated, due to the new concerns, priorities and practices presently surrounding international cooperation. First, there are strategic frameworks at the global level, like the Comprehensive Development Framework (CDF) of the World Bank. Many other donors,
too, have similar strategic guidelines. Then there are country strategies adopted by
the same donors. For each donor, there may be little problem in matching global and
local. But integrating and transforming them into a coherent national strategy and
then implementing the strategy is a very difficult proposition for a poor country whose
coordinating capacity is swamped from all directions. Not only the number of donors
but also the number of recipients—the nonstate institutions the donors deal with
directly—has proliferated in each country. The “coordinators” have to cope also with the
consequences of the horizontal and vertical expansions of the policy-making domain,
covering the market, civil society and the local bodies, apart from the state institutions.

In the last decade or so, donors have made special efforts for better coordination
among themselves, by introducing various innovations to the traditional mechanisms
of “consultative groups” and aid programming. There are now sectoral groups, them-
atic groups and like-minded groups of donors that meet to coordinate their
approaches and activities in areas of mutual concern and priority. Such attempts need to
be continued and built upon so that they can, in turn, help national agencies to integrate
their efforts with those of the other set of partners in the country, the national actors.

There have been many good ideas floating around for some time as a response to
the much-acknowledged problem of aid coordination. Some of them may be too ide-
alistic for the real world, like the suggestion that all donors pool their resources into
one pot and then allow the recipients to use them in accordance with priorities and
conditions agreed under some kind of a compact. There are some other suggestions
that may, however, be doable, in the light of the progress already made. The donors
are now more inclined than before to work together and share their strategies for bet-
ter harmonization of their programmes. This may be the right time to take that one
additional step—towards a division of labour based on the specialized knowledge and
demonstrated experience of each individual donor.

To give some provocative examples, governance programmes, or at least the parts
dealing with state institutions, are best left to those bilateral donors who have
decades and centuries of experience in their own countries in this respect. The United
Kingdom and other similarly placed donors must have the best comparative advantage
when it comes to democratization and democratic governance, for example. The World
Bank and regional banks like the Asian Development Bank could withdraw from these
fields and concentrate elsewhere, one possible area being the capacity-building of the
private sector in conditions where a corporate culture is still alien to the mainstream
business communities. The IFIs know governments mainly as borrowers or, maybe, as
their corporate members. They have rarely had to deal directly with the complex bun-
dle of history, economic interests, social demands, political conflict, and a large and
diverse citizenry that the morally fragile and harassed politicians have to handle in
many poor and polarized societies.

The World Bank is already a “knowledge bank” as well. It could concentrate more
efforts in that direction and help build research capacities in institutions in the recipi-
ent countries, which can do more than provide consulting services for them. The
capacities of national universities must be upgraded if development capacity in a
developing country is ever to be supported by indigenous and sustainable means.

UNDP can feel satisfied that some of the critical ideas about human-centered
development it floated with its Human Development Reports in the 1990s are now an
integral part of global discourses and development policy-making. The important
ideas already resonate, for example, in the CDF of the World Bank and in the Poverty
Reduction Strategy Papers (PRSPs) many poor countries are formulating. But UNDP
will be hard-pressed to compete with the World Bank in knowledge-building and dis-
semination. On the other hand, UNDP, the United Nations Children's Fund (UNICEF)
and, in fact, the United Nations as a whole have established a splendid reputation in
humanitarian programmes, including those addressed to the poor, women, children
and other excluded groups. UN agencies also have a proven record in nation-building
programmes in post-conflict situations, though they have not succeeded everywhere.
This is a challenge that is likely to grow. The United Nations is also the most likely can-
didate for “genuine global secretariat” (Streeten, 1999), should this increasingly felt
need materialize in the foreseeable future. The point is that if the idea is to assist the
developing countries, and if they are to be patient with the reality there and not try to
do too many things by themselves, there is plenty to do for all competent organiza-
tions in development cooperation. There should be no need for any one of them to
overstretch or overlap with the others.

Advisory Support or a Turnkey Assignment?
Finally, some additional questions on the modalities. The reach and domain of tech-
nical cooperation today is very different from the past, when technical assistance
schemes could be easily differentiated from physical development projects, although
both were supported by external financial assistance. Technical cooperation is now a
mainstream endeavour, not an adjunct to larger projects that may include small tech-
nical assistance components or some stand-alone advisory services. With increasing
stress on policy reforms, institutional development and governance, a donor can now
provide fungible resources to the recipient government as a grant or a loan with the
attached technical assistance component for designated reforms taking care of the
more substantive part of the cooperative effort. The activities under a typical gover-
nance reform programme today would also be a part of a technical assistance project
as defined in the past. Their scale, sources of financing and management structures,
however, including separate project offices and mandate, make them look like a regu-
lar present-day capital project. Yet, the nuts and bolts of technical assistance projects
have not changed much.

The partnership structure is now broader, as discussed, and a civil society actor
in the recipient country can also be the beneficiary of technical cooperation. But a
national partner still expects to receive from an external collaborator in a technical
cooperation scheme the same package of experts, training (including overseas visits)
and commodities, which may now include computers and other useful and not-so-useful
gadgets, in addition to the traditional four-wheel drives. One difference is that the
humble advisers of yesteryear are now replaced by more “rational” consultants maximizing their personal utility function. The team of experts may include host country nationals who, too, may be driven by the same values.

Is it possible that the potential of technical cooperation to contribute to domestic capacity-building was higher in the old days, when technical assistance meant advisory services, where advisors attached to government offices, and when project experts worked together with national counterparts who were formally designated as their understudies? Have the notions of partnership and even ownership produced, to some extent, perverse results, where the national political, civic and bureaucratic leadership has forgotten to respect the notion of self-reliance and the sense of personal responsibility?

Earlier, it was an accepted principle that the understudy would eventually take over from the expert, who would then be redundant in that context. This method may look anachronistic at a time when the distinction between technical cooperation and a composite development project has blurred. But capacity-building is not a task that can be organized like a capital project, which may be completed on a turnkey basis. Building institutions is no less intricate a task than producing physical development in economic or social sectors. For greater effectiveness of technical cooperation in this area, the concerned actors and activities must be integrated fully with the national institutions to be supported, including imbuing them well with the values and norms we want to create or replace. This idea may deserve a fresh interrogation.

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1.4 CIVIC ENGAGEMENT AND DEVELOPMENT: INTRODUCING THE ISSUES

KHALID MALIK AND SWARNIM WAGLÉ

This chapter has a simple purpose. By pulling together a disparate set of arguments, we put forward the case that civic engagement, a critical part of social capital, has an essential role to play in successful development transformation (Stiglitz, 1998; see Part 2, Chapter 1). From this premise, some key conclusions are drawn: a) that civic engagement, often argued as an end in itself from a moral-philosophical perspective, is also an important means through which social capital and effective development efforts can be fostered; b) development efforts are likely to yield better long-term benefits if they build in components of civic engagement; and c) this focus on civic engagement has significant implications for strengthening country capacities to manage development processes for which international resources might be necessary. The paper reviews civic engagement as a concept, looks at its critical attributes and examines some policy implications. The recent example of the Poverty Reduction Strategy Papers (PRSPs) is illustrated as one important attempt to influence development policy through civic engagement.

The Link Between Social Capital and Civic Engagement

Despite growing appreciation of the concept of social capital, literature on the subject is diffuse. Though arguably different in character from human and physical capital, social capital can also be understood as a factor that influences productivity. As Putnam (2000) puts it, social networks have value, and, like physical capital (machines) and human capital (education), social contacts influence the productivity of groups and individuals. If human capital is embodied in individuals, social capital is embodied in relationships. Woolcock (2000) is more succinct when he limits the understanding of social capital to “norms and networks that facilitate collective action,” cautioning that any definition of social capital should differentiate between its “sources” and “consequences.” In this context, social capital would, for example, exclude “trust” from its definition, since it is an outcome, not a source, of social relations that foster repeated interactions. Social capital is linked to the idea of civic virtue, which is most powerful when embedded in a dense network of reciprocal social relations.

The concept of social capital came out of its character of civic engagement. Its first use is attributed to Lyda J. Hanifan, who, as a Superintendent of schools in West Virginia in 1916, highlighted the importance of community involvement in the success of state schools. The theme was independently picked up by social scientists in subsequent decades, including in the late 1980s by James Coleman. The notion's

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2 Draws on Waglé (2001).
scholarly credibility reached new heights, however, only with the publication in 1993 of Putnam’s 20-year experimental study, *Civic Traditions in Modern Italy*, which sought to establish linkages between successes in regional governance and stocks of social capital in different Italian provinces. In the early 1970s, 20 regional governments, identical in form, were implanted in provinces with very different characteristics. Some failed; some succeeded. Putnam attributed this difference in quality of performance not to party politics and ideology, not to affluence and population movements, but to traditions of civic engagement—voter turnout, newspaper readership, membership in choral societies and literary circles, soccer clubs, etc. Putnam places this finding in the context of an observation that Alexis de Tocqueville made in the 1830s about civic engagement and the successful working of democracy in the United States. He had noted, “Americans of all ages, all stations in life, and all types of disposition...are forever forming associations.”

Putnam (1993a) argues that when networks of civic engagement are dense, reciprocity and trust are fostered, “lubricating social life.” Coordination and communication among agents amplify information about the trustworthiness, or general reputation, of other individuals, reducing incentives for opportunism and malfeasance (Putnam 2000). The association between social networks and economic growth has been extensively explored in the economics literature. Fukuyama (1995) elaborates on the virtue of trust in spurring economic growth by drawing a distinction between “low-trust” and “high-trust” societies. He identifies their respective abilities to generate social capital as being key to mitigating the adverse consequences of the discipline that market economies impose. The success of some East Asian economies in making giant material advances within a generation has been partially attributed to the positive externalities of “network capitalism.”

Social capital and civic engagement, of course, have downsides. Establishing and maintaining relations may require a level of investment that may not be cost-effective. Adler and Kwon (1999) cite a study that argues that while social capital may generate informational benefits, these may be costly to maintain. The same forces of solidarity that “help members bind can turn into ties that blind,” as over-embedded relationships stop the flow of new information and ideas into the group, and create non-economic obligations that hinder entrepreneurship. Dreze and Sen (1995), for example, attribute high dropout rates for girls from schools in India to family obligations and pressures to fulfill community expectations. Indeed, it has to be recognized that religious cults, terrorist organizations, gangs and drug cartels are groups with strong internal ties among members that nonetheless impose severe damage to society.

**Defining Civic Engagement**

In the confusing yet obvious domain of social capital, civic engagement is a key subset. If the term civic engagement is understood as a process that organizes citizens or their entrusted representatives to influence, share and control public affairs, then we see this contributing to social capital through interactions between people and the processes they engage in for a positive public outcome. More generally, civic engagement
contributes to social capital and to development efforts through the channels of voice, representation and accountability. This link between civic engagement and development can be organized in a variety of ways, both formal and informal. The latter refers to processes that may complement the formal processes of electing officials or making development plans in a consultative manner.

Discussions here use the terms “civic engagement” and “participation” interchangeably for convenience, with both terms concurring broadly with the definition that participation is a process through which stakeholders influence and share control over development initiatives, and the decisions and resources that affect them (World Bank, 1996). However, it is still worth noting that civic engagement is a more specific term than participation, with an emphasis on civic objectives and concerns. The United Nations Development Programme’s (UNDP) Human Development Report 1993 sees participation in similar terms, describing it “as a process, not an event, that closely involves people in the economic, social, cultural and political processes that affect their lives.” The report places the issue within a wide developmental, and in some ways even philosophical, paradigm—seeing it as both a means and an end. Because the paradigm of human development stresses investment in human capabilities and the subsequent functional use of those capabilities to allow people to lead the kind of lives they choose, participation is viewed as facilitating the use of human capabilities, hence serving as a means for socio-economic development. In this context, by allowing people to realize their full potential and enhance their personal fulfillment, participation is also seen as an end in itself (Sen, 1981; UNDP, 1993).

Korten (1988) frames civic engagement as an issue of governance, stating, “If sovereignty resides ultimately in the citizenry, their engagement is about the right to define the public good, to determine the policies by which they will seek that good, and to reform or replace those institutions that no longer serve.” This is a useful definitional reference for the purposes of this paper, because our attempt here is also to talk about activities among entities at the macrolevel—the higher echelons and departments within the central government—whose work is usually difficult to access and influence by common citizens, both procedurally, because of centralization or bureaucratic restrictions, and substantially, because of technical content. This perspective on governance in a sense draws upon the notion that members of groups and society at large enter into social compacts that present mutual or reciprocal obligations, and that civic engagement is an active process of exercising these obligations. In this sense, exercise of this obligation implies the essential right of every citizen to voice their concerns and to enforce accountability.

At a more technical level, the scope of the term civic engagement is best understood on a continuum that spans information-sharing to empowerment. Following Edgerton et al. (2000), this continuum can begin with: a) a one-way flow of information to the public in the form of, say, media broadcasts or dissemination of decisions; and progress on to; b) bi- or multilateral consultation between and among coordinators of the process and the public in the form of participatory assessments, interviews and field visits; c) collaboration encompassing joint work and shared decision-making between
the coordinators and the stakeholders; and d) empowerment, where decision-making powers and resources are transferred to civic organizations, in the form of say, forestry or irrigation user groups. It might also be useful to highlight the concept of “exit,” which was originally highlighted by Hirschman (1972). He contrasts the issue of voice, or the capacity to influence policy and debate within an institution, with the capacity of a group to get what it wants by choosing a specific institution or switching to another, i.e., an exit. This concept is interesting insofar as it reminds us that people choose to express dissatisfaction with an institution or process by ignoring or moving away from it rather than necessarily working from within. More broadly, it might be useful to recognize the existence of a complex interplay between different forms of civic engagement, and the role and function of state institutions—rather than civic groups only being on the receiving end of the process, for instance as communities or groups who need to be involved in projects or programmes in order to make development more effective.

The Conundrum of Policy Implications

Are there specific roles and policies that state institutions can assume or introduce that support or hinder advancement of civic engagement? If public policy is an instrument, and productive civic engagement as a form of social capital is a target, can a workable link between the two be established? If not, why? If yes, how? What kind of capacities do we require to create productive social capital, which can then be leveraged for development transformation?

Social capital, including more specifically civic engagement, can be thought of as a missing block in many development parcels, but it is not a solution to all ills, and while its influence should be recognized, it ought not be exaggerated. It does, however, point us toward a direction that is useful in development—it helps us focus on how and under what terms we associate with each other. Woolcock (2000) highlights the following points. First, if the low stock of bridging capital makes it difficult for information and resources to flow among groups, larger socio-economic-political forces that divide societies, such as discriminatory practices along gender, caste and ethnic lines, will stand in the way of growth. Second, if social capital is part of an effective risk-management strategy in crises, its absence implies a difficult time for countries at times of volatility. Third, institutions affect how communities manage risks and opportunities. In countries where a corrupt bureaucracy and a lack of the rule of law are the norm, it will be difficult to showcase well-maintained schools and roads, for example. It is rare that one witnesses cases where a country is characterized by strong features of positive social capital and simultaneously weak systems of government responsiveness to citizen concerns.

Can we then find a role for public policy to nurture, or create, or at least stop the destruction of the positive aspects of social capital? Social relations are neither culturally determined in a permanent way, nor are they always shaped by the responses of rational agents. Institutions and history play a big role in shaping social relations. Public policy can shape institutions that support social relations that in turn sustain high levels of productive social capital. The World Development Report 2000/2001
cites an example where the Brazilian state devised a health programme that increased vaccination and reduced infant mortality, and in the process created social capital in the form of building trust between government workers and poor people.

An arena where the state can step in to influence social norms is in instances of exclusionary practices linked with race, gender and ethnicity. Some forms of exclusion can simply be redressed by improving the outreach of public services to areas of neglect—such as rural primary schools and hospitals. Stronger manifestations of discrimination ought to be dealt with legally through institutions of the state or special policies such as affirmative action. The bigger agenda of social capital, however, risks being belittled by practitioners, because as Edwards (2000) points out, attributes such as trust and tolerance are hard to engineer, and the tendency for development organizations is to focus on things that are measurable in the short run. This focus can be useful, but it assists “forms” not “norms” of social capital. Helping countries build social capital is complex, however, as assistance dedicated to “building other people’s civil societies by investing in their social capital” encourages the idea of picking winners, which spreads mistrust among groups, and even backlash as indigenous groups become associated with foreign interests (Edwards, 2000).

In sum, as Narayan and Woolcock (2000) put it, a new consensus is emerging about the importance of social relations in development: a) they provide opportunities for mobilizing growth-enhancing resources; b) they don’t exist in a vacuum; and c) the nature and extent of interactions between communities and institutions hold the key to understanding development prospects in a given society. Edwards (2000) paraphrases Ramon Daubon in likening social capital to the Indian Ocean: “Everyone knows where it is, no one cares where it begins or where it ends, but we know we have to cross it to get from India to Africa.”

**Going Beyond Civic Engagement as an Instrument**

At a broader level, though, the virtues of social capital can only be exploited fully by internalizing civic interaction in mainstream political and development processes. Narayan and Woolcock (2000) call for social capital to be seen as a component of such orthodox development projects as dams, irrigation systems, local schools and health clinics. Quoting Esman and Uphoff (1984), they posit, “Where poor communities have direct input into the design, implementation, management and evaluation of projects, returns on investments and the sustainability of the project is enhanced.”

The idea of civic engagement at the grassroots level has been tested, and has generally been seen to generate benefits that contribute to better planning, implementation and sustainability of projects. Civic engagement has costs and constraints, of course, but it is to the credit of the successes at the microlevel that questions are now being asked about the desirability of scaling civic engagement up to the macrolevel. But equally, there is a growing question as to the development value of microinterventions, however successful or well meaning they might be, along with a
corresponding search for improved understanding about the necessary factors and conditions that can more fundamentally ensure broader progress in the issues raised. A concrete example is microfinance, where however successful or well designed individual schemes might be, the larger development outcomes of increased access to credit by the poor can only be tested by examining the functioning of capital markets, and how they might be adjusted (institutions, approaches, etc.) to allow for such access.

Civic Engagement at the Microlevel
The term civic engagement has been in frequent use since the early 1960s in the narrower arena of people's engagement in small projects. It is, however, only in recent years that it has received much academic attention as an important development theme. Following the gradual replacement of the coercive socialist order by democratic regimes in many countries around the world, together with the heightened quest for new ways to achieve a sustained rise in standards of living for the world's poor, participation has been rediscovered as an instrument that can be used both to consolidate democratic systems of governance and to strengthen the global project of development. The fundamental premise is that the people have the urge as well the right to be part of events and processes that shape their lives.

Benefits, Costs and Constraints
A compelling body of empirical evidence exists that makes a strong case for people's participation at the microlevel (Uphoff et al., 1979; World Bank, 1996). Such has been the wave that most foreign-aid-financed programmes in the developing world today make participation an essential component of project design and implementation. Theoretically, the channels through which participation is seen to contribute usefully to the effectiveness and sustainability of development outcomes are: information-driven efficiency, ownership, transparency and accountability, and constructive partnerships. It is very hard to quantify success in these broad terms, and this is probably one of the reasons why it is difficult to make a strong case for civic engagement even when the gains seem obvious. While attempts at quantifying success can be made, the best indicators are likely to continue to be qualitative—whether people perceive the processes to be successful or not.

By involving the beneficiaries in a project's design, one can expect a more accurate perception of needs based on the direct exchange of information (Robb, 2000). When the people are not consulted, policy-makers work on assumptions that are subject to problems of information asymmetries, such as moral hazard and adverse selection, as discussed extensively in the economics literature. Participation can be expected to alleviate these problems to some extent by allowing a more accurate flow of information that translates into better decisions. Informed decisions are more efficient in terms of resources consumed and outcomes generated than those that are not. Often, there may not have been demand for the project, or it might not have been a priority. With people's participation, not only can the most important needs be identified, but by having people play a role in the entire project cycle—formulation, adoption, implementation and monitoring—ownership can be ensured, and with it the
sustainability of the project (World Bank, 1996). In a study of 121 diverse rural water-supply projects in 49 countries in the developing world, the World Bank provided evidence of how there exists a strong correlation between project success and high levels of beneficiary participation. It claimed that of the 49 projects with low levels of participation, only 8 per cent were successful, while of the 42 projects with high levels of participation, 64 per cent were successes (World Bank, 1997). When coordinators of projects are subject to civic scrutiny of their decisions and actions, this forces them to be more accountable and responsive to the needs of beneficiaries. By getting rid of the vacuum in communication between the two groups, bureaucratic obstructions can be overcome, which can make government more answerable.

If public policy is about deciding the most efficient allocation of scarce public resources, policy decisions often take the form of analysing trade-offs between options. Participation of the people, especially differing groups with divergent interests, can allow an exchange of each other’s positions and interests, which can kick-start a deliberative process of mutual understanding of the trade-offs involved in the collective decision. Not only can the groups then enter into constructive alliances, but they are also likely to be less combative and disruptive to the processes and programmes subsequently decided on.

Beyond its instrumental roles in ensuring better decisions and sounder implementation, participation is also seen as a good in itself that deepens democracy. By giving citizens an opportunity to access and shape governance and the exercise of power, participation complements the systems of electoral competition that may fail to meet citizen needs directly (Agrawal, 1999). Along these lines, participation has also been viewed as a process that politically educates citizens in the art of governance, and the pursuit of rights and civic roles (Freire, 1970).

The virtues of participation are, however, not unanimously appreciated. Concerns often raised about participatory processes are: costs in terms of money, time and management (high transaction costs); risks of elite capture; the possibility of instability; and legitimate representation. In addition, Brinkerhoff and Goldsmith (2000) suggest that participatory processes may also result in policy stalemates and unrealistic expectations on the part of those involved.

Civic engagement as a process needs to be managed and requires resources. In developing countries, where many equally deserving ends compete for scarce resources, opportunity costs in terms of money and bureaucratic capacities diverted to manage a participatory process may be significant. While all development and all politics is about, and for, the people, any argument to avoid their engagement in these processes on the pretext of “inconvenience” can confuse ends with means. While participatory processes impose real costs in terms of time, money and management, a balanced tally indicating clearly the benefits and costs of the process may justify a better case for civic engagement.
Scholars further talk about the danger of elite capture when development and political processes become more open and participatory. The fear is that as more opportunities become available for citizen participation, local elites may become more dominant and reap a disproportionate share of the possible benefits that emanate from benign processes aimed at bringing “governance closer to the governed” (Agrawal, 1999). When opportunities for grassroots participation in development and political processes are extended to the village level, the local elite, who are better off financially as well as in power relations, may be the first ones to capture control of the local administrative and political bodies. Roodt (1996) adds that local elites monopolize power and are hostile to the widespread participation of common people, which they attempt to prevent from occurring by using their power positions. For every optimist who sees participation as a genuine tool for transformation, it seems there is a less-optimistic person who views it as a mere legitimizing tool for top-down implementation.

A related fear expressed by scholars like Huntington (1968)—and even John Stuart Mill, in an earlier context of whether democracy is well suited for all countries—is that a society without strong institutions to set and enforce rules may easily create environments where greater participation, without the institutional safeguards, leads to anarchy. It is in this spirit that one hears arguments such as, “A high level of participation could be antithetical to democracy, for it may endanger freedom and rights, impede governability and destroy pluralism” (Agrawal, 1999). This has, of course, been countered by arguments that in the absence of broad-based citizen participation, electoral democracies may instead run into the risk of becoming hostage to the manipulations of the powerful minority.

On balance, however, there is a growing recognition in the global development movement today of the conditional virtues of civic engagement. As Oakley et al. (1991) note, “Whereas up to ten years ago a review of project-based literature would probably highlight technological effectiveness, good planning and management, and resource efficiency as the key ingredients of project success, today participation figures prominently; some would say that it is the single most important ingredient.”

Scaling Up Participation: The Leap from the Microlevel to the Macrolevel

If we recognize that the experiment of civic engagement at the microlevel has been, on balance, a positive experience, it might be reasonable to expect similar outcomes at the macrolevel. Is it realistic to expect to reap there the microlevel benefits of enhanced efficiency through better information flow, improved programme effectiveness through solicitation of local knowledge, greater accountability, stronger ownership and partnerships, and empowerment of stakeholders? If yes, what are the channels? Is there a higher-order case for civic engagement as an essential part of democracy and development sustainability, and as a key channel for strengthening the “glue that binds and holds society” together, especially in circumstances of development transformation? (See Stiglitz, 1998.)
**Expected Benefits**

Brinkerhoff and Goldsmith (2000) suggest that the outcomes of civic engagement at the macrolevel can be expected to be very similar to those at the grassroots. They, among others, posit that inclusive participatory processes can create: a) better socio-macroeconomic policy content based on better information; b) social consensus on policy priorities because of civic involvement in the discourse; c) a positive signaling effect to international donors and investors because of national consensus; d) equitable policies and distribution of benefits to the vulnerable, such as the poor; e) accountable and responsive government; and f) better implementation of policy and programmes.

While these are a direct extension of anticipated benefits at the macrolevel, based on the microlevel evidence, there also exists a set of related reasons that can be presented to strengthen the case for civic engagement at higher levels.

- **Participation and Economic Stability**

  Rodrik (2000) presents empirical evidence on the association between participatory political regimes and lower levels of aggregate economic instability, suggesting that this may be because participatory political regimes moderate social conflict and better induce compromises among citizen groups. While there does not exist convincing econometric evidence on the link between democracies and long-term economic growth, evidence on the positive link between democracies and volatility (annual standard deviations in GDP growth rates) is statistically significant. Because economic volatility triggers high welfare losses in a world with incomplete insurance markets and inadequate levels of intertemporal trade, Rodrik accords this finding much importance. It suggests that participatory processes induce cooperation and generate stability. First, as individuals meet and discuss, they “understand each other’s viewpoints, develop empathy, recognize the value of moderation, internalize the common interest and de-emphasize self-interest.” Participatory regimes induce cooperation not by “changing the constraints we face, but by changing the type of people we are,” or by altering the preferences of agents. Second, democracies with constitutional provisions that prevent the majority from suppressing the minority, or the winners from marginalizing the losers, induce cooperation among groups ex ante who are aware of the costs of noncooperation. Third, cooperation among groups is ensured by the possibility of repeated interactions. As long as this probability is strong and past actions influence future behaviours, groups who have a sufficiently long-term time horizon have an incentive to cooperate rather than renege on negotiations for short-term gains (Rodrik 2000).

- **Participation and Prevention of Famines and Extreme Destitution**

  Similarly, building on an observation by Sen (1993) that “there are no famines in democracies,” T. Besley and R. Burgess (as cited in World Bank, 2000) highlight the importance of the free press in preventing famines in India—the world’s largest democracy. In participatory political regimes, where informed citizens can exact
accountability from politicians on the speed of relief programmes, responsiveness to disasters is swift, preventing major calamities. Besley and Burgess find that for a given shock, in the form of a drought or flood, higher newspaper circulation leads to greater public food distribution or relief spending. Their hypothesis is that an “informed population can link inefficiency to a particular politician and elicit a greater response to a crisis” (World Bank, 2000). Freedom of the press can be thought of as a reasonably good proxy for the freedom and the scope of the activities of civic organizations.

- Participation and Strength of State Capacities

It has also been argued that civic engagement strengthens state capacities in two additional ways. First, when citizens can express and press for demands legally, states acquire some of the credibility to govern well. This is partly because wide-ranging and open discussion of policy goals tends to avoid the risk of a small elite or minority influencing the course of government. Second, where public services are inefficient because of weak state capabilities and incentive problems, the user groups and citizen associations can inform public officials of their needs and press for improvements (World Bank, 1997). It has been argued in the Kenyan context, for example, that better information flows from the supposed beneficiaries lead to better decisions, resulting in the kind of efficiency that alleviates budgetary pressures on central governments— a crucial point in resource-starved nations (Smoke, 1993).

Costs and Constraints

The costs and constraints briefly discussed above for microactivities apply to the following section as well. It is important to note, however, that when an argument in favor of civic engagement is presented as being supportive to the legitimacy of the state, etc., there may exist inherent difficulties in attaining this goal. As Mathur (1997) describes, central governments and the bureaucrats usually are very reluctant to give up powers, as they consider their decision-making authority an exclusive preserve. Government institutions and their staff are quite suspicious and feel threatened by people who organize themselves for participation; hence the often lacklustre or even hostile reception of participatory initiatives by government officials. As Ghai (1988) adds, “Many participatory initiatives have to contend with hostility, harassment and attempts at suppression. Certainly few attract resources of the type and amount reserved for more conventional development projects.” This, he contends, is because the dominant groups mistakenly tend to equate participatory movements with subversion or revolutionary doctrine. It is in this context that Agrawal (1999) views participation as a thoroughly political process. He argues that, among the many factors related to the success of participation, two key issues are: the management of political relationships at the central level in order to extract commitment from powerful actors, and the creation of institutional mechanisms at the local level.

The Distinctive Case of Macrolevel Policy-Making

While cases may be made for both advocating and downplaying the roles of civic engagement in policy processes, and it is also recognized that civic engagement is

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3 Co-author S. Wagle was a member of a team that interviewed several economists at the World Bank and the International Monetary Fund about the option of incorporating elements of civic engagement
certainly not a solution to all things wrong with policy-making or programme implementation, there is a broad acceptance now that participation is a necessary if not solely sufficient ingredient for attaining successful policy outcomes.

Some areas of macroeconomic policy-making, however, are slightly different. Neoclassical economists point to the technical nature of macropolicies, for example, noting that monetary policies about interest rates or decisions on currency devaluation should not be issues subject to civic influence. Similarly, it may be unreasonable to expect informed public debates to take place on issues such as optimal credit targets or the sustainability of fiscal deficits. But where participation can play a role is in public education about the consequences of these technical decisions, and, perhaps even more importantly, about the role macropolicies can play in development transformation (see Part 1, Chapter 1). On issues such as the inevitability of short-term pains to reap medium-term benefits in inflation-reducing policies, for example, the public ought to be informed and convinced about the rationale for short-term austerity. (Although even on this there is disagreement, for instance, over how short-term austerity is to be achieved, whether expenditures on health or education are protected or not, and so on.) On questions of public sector reform, or privatization, there are economic and political choices to be made, and bringing groups with varying priorities to a common forum to hear and understand each other and deliberate on trade-offs can be helpful.

It has also been pointed out that since macropolicies are public goods, which, by definition, are characterized by people's understatement of their willingness to pay for them, there may be situations when outcomes of certain participatory mechanisms ought to be overruled, e.g., when externalities are involved. Along these lines, it has been argued that participation, when used as a management tool, as in a farmer's ownership of irrigation systems, may also give rise to problems of moral hazard through incentives for excessive risk-taking.

When macroeconomic decision-making on resource allocation is subject to popular influence, there is a fear that participatory processes might generate an outcome that is not only “populist,” but also one that is laden with conflicting demands from different segments of the society (e.g., simultaneous calls for imposition and removal of import tariffs, specific subsidies, low taxes and greater expenditures).

Broad-based consultative exercises can result in lengthy lists of demands. It becomes a challenge then to square the wish list of people with the budgetary realities. After the agenda is defined, reality presented, and trade-offs regarding revenue and expenditure examined through a process of consultation, the elected government officials ultimately have to decide how to proceed. While scope for participation in macropolicies may well be limited, it is by no means a given. Citizen groups can be engaged in debates over trade-offs among priorities, e.g., between low inflation and growth-generating high public expenditures.

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at the macrolevel in June 2000. Those consulted were H. Bradenkamp, S. Devarajan, M. Katz and D. Morrow, among others.
A recurring concern about participation pertains to an apparent contradiction. While participatory processes are usually credited as instruments that lend legitimacy and credibility to policies, valid questions may be asked about stakeholder identification and representation. Who exactly does a particular civic group represent, and who is it accountable to? Furthermore, by creating ad hoc participatory processes in addition to established political-legal processes, a question that can emerge is whether the former subverts the latter, and if it does, whether that is desirable. Since participation does not have a constitutional “feel” to it, practitioners suggest that governments should be drawing on established institutional resources, not bypassing them, in order to reap the kinds of benefits that civic engagement could be expected to generate.

One area where the participation of people, especially the poor, has been found to be valuable in formulating national-level strategies is the arena of poverty reduction, where policies have relied extensively on information fed through Participatory Poverty Assessments, which employ flexible visual and verbal techniques of inquiry, as opposed to predetermined statistical questions asked in household surveys. Robb (2000) argues that these participatory approaches have resulted in a broader definition of poverty and better-informed public policies that are more responsive to the needs of the poor. She draws on a range of African examples to conclude that broad policy dialogue on poverty typically widens the constituency for reform and strengthens a country’s sense of ownership of policies.

Weighing the competing claims and arguments about the virtues and the vices of participatory processes, it is clear that, at a theoretical level, while participation can be expected to yield benefits, the channels through which this may happen are specific and conditional on an array of circumstances. The challenge for policy entrepreneurs is to identify the right channels and the circumstances for employing processes of civic engagement.

**PRSPs: A Case of Macrolevel Civic Engagement**

Between 1999 and 2001, around 50 countries prepared interim or full Poverty Reduction Strategy Papers (PRSPs). They are now the primary source of 1171 lending for most poor countries. Although triggered by the Group of Seven (G-7) initiative to relieve the debts of the Highly Indebted and Poor (HIPC) countries, and by the World Bank and International Monetary Fund (IMF) requirement that countries must articulate how they have sought to channel resources to fight poverty after debt relief, the PRSPs have now developed into an elaborate development policy vehicle of their own. According to the World Bank, there is a renewed emphasis on six basic approaches: a) a country-driven process, b) results-orientation, c) comprehensive coverage of issues, d) prioritizing of issues for improved implementation, e) a strong base in partnerships, and f) a long-term perspective. A feature most worth noting in the PRSPs is that they are supposed to be prepared in a participatory manner. While in the interim PRSPs participation is not mandated—the only requirement is a plan indicating how participation will be cultivated—at the full PRSP stage countries are required to follow a participatory process.
Over the past two years of PRSP preparations, there have been numerous assessments by leading nongovernmental organizations (NGOs) and agencies external to the World Bank and the IMF. Some of the recurring findings on civic engagement that emerge are as follows: a) there is considerable divergence in the conceptual understanding of civic engagement; b) the breadth and depth of civic engagement is insufficient, with the real poor, ethnic minorities and the poor outside urban areas not generally consulted; c) civic engagement has enriched and widened the description and analysis of poverty, but has not influenced much the technical areas of macroeconomic choices and public expenditures; d) the participatory processes have spun off many positive externalities, such as new legal developments and creation of civil society alliances; and e) correlates of an open regime, such as freedom to speak and to form socio-political organizations, seem conducive for the flourishing of civic engagement processes, although little direct link is observed between a political regime per se and the quality of a civic engagement process.4

Concluding Remarks

Following the publications of UNDP’s flagship Human Development Reports, and the increased operational orientation of large institutions like the World Bank to more “human” arenas such as education and health over the past decade,5 the development debate has refocused on the basics of the ends and means of development. What are we seeking to achieve? For whom? And how? People informed by both personal value judgments as well as empirical results make cases for specific policy measures. Our attempt in this paper has been to introduce one such notion of social capital. If one recognizes this to be a desirable input, output and outcome of development, then the question that policy professionals need to ask is: Can it be created or nurtured? This paper explores the theme of civic engagement as one possible policy response, and we discuss its many dimensions, appreciating its perceived successes at the microlevel and positing whether it could be up-scaled and out-scaled to the macrolevel. We also briefly talk about a practical example of the PRSPs in this context.

Increasingly, what we do in development is becoming as important as how we do it (Stiglitz, 1998). The thesis of development as transformation emphasizes the process as much as the product, and as various disciplines—from philosophy to sociology, and from urban planning to economics—converge to shape the multidimensional field of development, concepts and issues that were hitherto ignored as irrelevant to the basic pursuit of enhancing national incomes have emerged as important ingredients to meaningful and sustainable development. By presenting an array of issues and positing hypotheses in the area of social capital and civic engagement, we hope this paper will modestly nudge the policy debates into appreciating more the multidimensional color of the developmental puzzle.

4 Co-author S. Wagle led a team in December 2001 to review over 60 distinct documents on participation in PRSPs, including 33 interim PRSPs, 9 PRSPs and over 20 external assessments. A volume that synthesizes the findings is expected from the World Bank in early 2002. Please consult this for details.

5 Over 25 per cent of World Bank lending has gone to the social sector in recent years, with the agency becoming the largest source of funds for education, health and HIV/AIDS programmes in the world.
References


1.5 SOCIAL CAPITAL AND INDUSTRIAL TRANSFORMATION

SANJAYA LALL

Introduction

This chapter is an exploration of the social-capital needs of industrial development. "Social capital" has attracted considerable recent attention in socio-political analysis, and we are now beginning to see its application to development economics. However, there has not to my knowledge been any application of the concept to industrialization. This essay is a preliminary attempt to remedy this gap, although it is more an exploration than a completed piece of research.

The analysis of social capital in industrialization may, to start with, need some justification since there now seems to be a presumption in development thinking that industrial development is best left to the market. The dominant Washington Consensus view, supported by leading development and aid agencies, is that the key to efficient industrialization is "market-friendly" policies. Drawing upon the success of the export-oriented East Asian newly industrializing economies, market friendliness is taken to mean rapid and full exposure to international trade, investment and technology flows, and the removal of all government interventions in the allocation of investment resources. This interpretation of the Asian experience remains controversial, as discussed below. More important for present purposes is the fact that the social factors that affect the process are rarely taken into account. There is an implicit assumption that such factors do not matter, or that if they do, market-friendly policies will by themselves ensure that social norms will automatically adapt to economic needs.

There is growing evidence that this view is oversimplified and possibly harmful. Economies are not equally equipped to cope with international competition and globalization: A few do very well, but a large number flounder. Take the well-known figures on growing disparities in incomes between countries: Per capita income in the richest 5 per cent of all countries was 30 times higher than that in the poorest 5 per cent in 1960. In 1997, the ratio was 74 times. Inequality in the manufacturing industry has risen even more sharply. The ratio of per capita manufacturing value added (MVA) in the 5 per cent most industrialized countries to that in the 5 per cent least industrialized rose from 95 to 566 during 1985-98 (UNIDO, 2002). This disparity also rose within the developing world. While the five industrial leaders in the developing world did quite well vis-à-vis highly industrialized countries (with the ratio of per capita MVA narrowing from 2.3 to 2.2), the ratio for the five developing leaders to the five laggards rose from 42 in 1985 to 261 in 1998.

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1 I am grateful to Khalid Malik for encouraging me to undertake this foray into a new—and very important—field, and for his comments and suggestions. I have drawn heavily on the survey of the social-capital literature by Waglé (2001) and would not have been able to produce even this exploratory draft without this.
All the relevant measures of industrial performance reinforce this impression of massive and rising disparity. Take a measure of competitive industrial performance, manufactured exports. The leading ten exporters in the developing world (a group of 58 developing countries with sizeable industrial sectors) accounted for 76 per cent of manufactured exports in 1985; by 1998 they accounted for 80 per cent. The share of the bottom 30 countries in this group fell from 2.2 to 1.3 per cent over this period (UNIDO, 2002). In skill- and technology-based exports, the levels of concentration were even higher. A large part of the developing world has been dropping out of the dynamics of global industrial activity.

A similar picture emerges from the data on the inputs into industrial growth. Inflows of foreign direct investment (FDI) into manufacturing were highly concentrated, with the leading 10 developing countries accounting for 80 per cent of the total. While data on FDI in export-oriented manufacturing are not separately available, this was probably even more concentrated (UNIDO, 2002). To the extent that FDI constitutes the engine of globalization and integration of countries into world production and trade systems, this is a worrying sign. Productive resources and knowledge are more mobile today than before, but where they “stick” depends very much on local economic and social capabilities. National capabilities are very unevenly distributed. Take an indicator of skills as an indicator of capabilities: The leading 10 countries accounted for nearly 70 per cent of the total number of developing country enrolments in tertiary education in 1997. These countries also accounted for over 97 per cent of enterprise-funded research and development (R&D).

These figures imply that there are major structural forces at work. Theory and evidence suggest that there are pervasive market and institutional failures holding back the supply response of many developing economies (Stiglitz, 1996 and 1998). Divergence in economic performance can therefore go on rising. While endogenous growth theory can explain divergence based on cumulativeness, increasing returns and externalities, it assumes that the solution for developing countries is simply to open up to investment and technology inflows. It neglects the fact that investment and technology need strong absorptive capacities (below). As such, it oversimplifies the nature of the development challenges facing modern industry in the developing world.

A branch of the development literature has dealt at length with these capabilities and their policy needs in economic terms (for a review, see Lall, 2001). It has not, however, considered the equally vital social capacities that allow economic capabilities to be developed and efficient policies to be designed and implemented. Without a consideration of the social capital that provides the basic precondition for structural change and policy, the analysis is clearly incomplete. There are also important and salutary lessons for development economists who give policy advice. We often feel that the prescriptions we dispense, based on best-practice policies and institutions in the developing world, have a rather low chance of success in many countries. Whatever the reason—poor design and implementation, rent-seeking, lack of commitment, low skill levels and so on—there is often a strong underlying social-capital element. If we ignore this, we are being partial or naïve.
Other chapters in this volume deal better with the problems in imposing solutions from outside when local commitment and ownership are lacking. We simply note that the issues are as important for industrialization as in other spheres. Within the industrial sphere also, “it is time that social groups and social capital be integrated in a broader, more complete framework of the understanding of development” (see Part 1, Chapter 1).

**Concepts**

The concept of social capital can be a powerful aid to development analysis. In simple terms, social capital comprises the ability of individuals in a group to form relationships of trust, cooperation and common purpose. For Putnam (1993), social capital is valuable because “a society that relies on generalized reciprocity is more efficient than a distrustful society,” and its benefit lies in its ability to facilitate collective action. For Fukuyama (2000), the norms provided by social capital promote “cooperation between two or more individuals”: in the economic sphere, this can reduce transaction costs, and in the political one it can promote the association necessary for the success of modern democracy. The World Bank’s *World Development Report 2002* uses a concept very similar to that of social capital: “informal institutions.” Informal institutions comprise social norms or networks that supplement or supplant formal laws and institutions; where they work well, they can lower the costs and risks of economic transactions, improving information flows and spreading risks.

While the concept and uses of social capital originate in sociology, they can be complementary to economic analysis. The conventional economic approach to growth deals mainly with physical and human capital and technology. Even when it includes broader factors like economic capabilities, structures or policies, it neglects the social factors that allow these broader factors to be used effectively (see Part 1, Chapter 1). However, it is widely accepted that interactions between groups and social structures, on the one hand, and productive systems, groups and governments, on the other, are critical to economic performance. Countries with similar factor endowments and policies often perform very differently in economic terms because their modes of social and political interaction differ. Or, where policies differ, the transfer of best-practice policies from successful economies often fails because the social glue or commitment and ownership that makes them work in some cases is absent in others.

The presumption is that groups or countries with strong social capital are able to function better: Members interact more closely with each other, spend less effort on formal methods of enforcing contracts, reach greater consensus on common aims and are able to implement joint actions more efficiently. In economic terms, therefore, social capital can reduce transaction costs, facilitate information flows, lower risks, allow joint action (say, to realize externalities or offer insurance), and supplement formal contracts and property rights.

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1 On the distinction between formal and informal institutions, see Chapter 9 of the *World Development Report 2002* (World Bank, 2002). Formal institutions are “formal constructs of governments and modern organizations” (such as legal systems), while informal ones are “systems based on social norms or networks...[that] are a central means of facilitating market transactions” (p. 171). While there is a general trend from informal to formal institutions with economic development, informal institutions remain vital to the efficient functioning of formal institutions even in mature societies.
Social capital is valuable everywhere: Without it, the costs of many economic transactions would be prohibitive, even in countries with sophisticated institutions and legal systems (World Bank, 2002). However, its value is likely to be much greater in developing economies that lack such institutions and systems and are undergoing difficult economic, political and social transformations. Many of the mechanisms and structures needed to facilitate the transformation are absent. Since markets are not well developed, there is a need for policy measures to strengthen them—but the social capacity to mount such policies effectively is generally weak. Rapid technological changes, liberalization and globalization add to the stresses while reducing the shelter earlier offered by protection from world market forces. In these conditions, social capital can help countries or communities to cope better and facilitate more effective policy.

This need not imply that all forms of social capital are desirable. As analysts have noted, some forms of social capital can be discriminatory and harmful to those excluded from the group. Social capital may also be used to further antisocial objectives, as in fundamentalist religious organizations, or among terrorist and criminal groups. Traditional social values even in well-intentioned groups can hold back economic progress and modernization (World Bank, 2002, 174-6; Stiglitz, 1998). Social capital may be ineffective if groups grow beyond a certain size or try to pursue multiple objectives. The risk of negative effects of social capital in fact often leads analysts to regard it as less valuable than physical, human or technological capital (Fukuyama, 2000). Some economists also question the validity of social capital as an economic concept: It is almost impossible to measure and is generally not accumulated deliberately (by reducing consumption).

Many of these criticisms are valid. There are undesirable forms of social capital, and it is difficult to include it in the usual economic models. This does not, however, mean that the concept is not useful: The existence of “bad” social capital only strengthens the case for analysing how “good” social capital comes into being and how it can be created. Problems of measurement do not preclude qualitative analysis; many other important development issues share this problem. As Wagle (2001) notes, several writers have forcefully defended the economic validity of the social-capital concept.

Nevertheless, it is true that the concept of social capital remains vague and is used by authors in different ways. In its narrowest (and original) sense, it refers to the very microlevel. For instance, the Civic Practices Network defines it as the “stocks of social trust, norms and networks that people can draw upon to solve common problems...[at the level of] neighbourhood associations, sports clubs and cooperatives” (CPN, 2001). Putnam (1993) extended the scope of social capital to the role of individual connections that allowed more or less effective coordination and cooperation in regional governments. Woolcock (2000) extends it further, noting seven disparate fields where the concept is being applied, one of them being economic development. There is, however, a risk of stretching it to cover the entire institutional, cultural, political and social framework within which economies have to function.
It is not the purpose here to explore the semantics or theory of social capital. Accepting that the lines between social capital are strictly defined and the larger cultural or political settings are porous, we confine social capital to the norms that permit groups and networks (in civil society, enterprises, institutions and governments) to cooperate, share information, and formulate and act towards common objectives. We apply this concept of social capital to one important aspect of development—industrialization—and draw upon the experience of successful industrializing countries to illustrate the kinds of social capital that may be necessary.

**Industrialization and Economic Transformation**

Despite the recent hyperbole on the information age, structural and economic transformation in developing countries still depends vitally on industrialization. Historically, almost all societies that have developed have done so by moving from traditional low-productivity activities like agriculture or simple services to manufacturing and high-value services. Manufacturing has been the engine of the transformation process for several reasons: It allows greater scope for the continuous application of new technology; yields greater economies of scale, scope and learning; has more spillover effects; and is a major source of innovation and skill formation. It is also a powerful modernizing agent, changing work and entrepreneurial attitudes, creating new institutions and ownership forms, and raising the productivity of traditional activities. The information age is itself the outcome of technical progress in manufacturing. For poor societies, there seem to be few development alternatives to industrialization, at least for some time to come.

Before considering the social capital that industrial development requires, it would be useful to start with the changing setting for industrialization. Perhaps the most important feature is that, unlike a few decades ago, industry has to become internationally competitive if it is to survive and grow, and it must do so in the context of rapid, pervasive and continuous technological change. In the past, many governments—in the presently mature countries as well as in the dynamic newly industrializing economies—used such tools as protection, subsidies, procurement and the like to promote local industry. In the early days, high transport and communication costs (with large gaps in information and standards) also provided considerable “natural” protection.

The setting today is very different. Most governments are rapidly reducing interventions in trade, finance and investment. At the international level, this trend is strengthened by new rules of the game. Production is being integrated across national boundaries under common ownership or control—often at the hands of a relatively small number of large private companies—making it even more difficult to isolate economies from world market forces. Technological change is eroding natural protection. The end result of all this is that enterprises are exposed to global competition with an immediacy and intensity rarely seen before. Thus, competitiveness is essential.

Reaching best-practice competitive levels within firms involves much more than importing new technology in the form of equipment, designs or patents. Technical
knowledge has large tacit elements that cannot be codified or embodied in these forms—the user of the new technology has to engage in a process of building new capabilities. This process is often long, costly, difficult and uncertain. It involves seeking new information, creating new skills, experimenting, devising new routines and making mistakes. Firms do not operate in the certain, clear world of neoclassical textbook economics, where there is perfect information (past, present and future), all markets are complete and efficient, and the job of the industrial enterprise is to maximize profits mechanistically. Instead, they struggle in a fuzzy world of incomplete information, deficient markets and constant uncertainty (Stiglitz, 1996). Their world is rife with externalities, and their learning processes are closely intertwined with those of other firms around them (and sometimes far away). A dense and rich information environment is increasingly the essence of industrial competitiveness.

Competitiveness also has stringent requirements at the national and regional level. Governments must provide the right framework conditions: security, good economic management, sound and enforceable legal and property rights, transparent and predictable policies, well-functioning institutions and an environment with low transaction costs. They must also mount trade, industrial and technological policies that lead firms to invest in building dynamic capabilities, and then support them in doing so. At the sectoral level, suppliers of inputs and infrastructure must meet international standards of cost, quality and delivery. Markets for labour, capital and information, along with their supporting institutions, must work reasonably efficiently. At the cluster level, there must emerge strong networks of enterprises willing to combine competition with appropriate collective action. This is the essence of what Michael Best (1990) calls the “new competition.”

In the new competition, competitive industrial activity takes new forms. Low costs arising from the traditional advantages of developing countries (cheap, unskilled labour or natural resources) do matter, but are of diminishing importance. Inexorably, such things as innovation, flexibility, reliability, service and quality are becoming more critical. This is as true of developing as of industrial countries. The most successful developing countries are those that have been able to master and build upon new technologies, develop strong technological capabilities, and build efficient supply and information networks (Lall, 2001). The determinants of industrial success constitute a “national industrial learning system”3 in that the main elements interact with each other in a systematic way. The system comprises the incentive framework (trade, industrial and technology policies, the macrosetting, legal system and so on), factor markets (including skills, finance and industrial linkages) and support institutions. A good learning system stimulates investments in competitive capabilities by firms, embedding them in a rich information environment and providing them the factors and institutional support they need. A weak learning system leads, by contrast, to poor capabilities that do not equip firms to face the competitive challenges of a globalizing economy.

3 The concept is similar to that of “national innovation systems” used in developed countries (see Nelson, 1993). However, I prefer to use “national learning systems” to emphasize that developing countries are concerned with mastering and using existing technologies rather than with innovating on the frontier.
What does this mean for social capital? An industrial learning system able to cope with the new competition needs various forms of social capital not generally found in developing countries. Social capital, for instance, is needed for the ownership and effective implementation of new strategies and policies. It is also needed to create and operate new institutions, legal systems and property rights, and to facilitate closer interaction between major stakeholders (firms, employees, policy-makers and institutions). At the microlevel, it is needed to promote new modes of behaviour within firms and institutions (see below). The emergence of new forms of social capital must, in other words, match the development of new industrial capabilities.

Some of these new forms may well arise as a consequence of exposure to new economic incentives and information flows, but others may not. As with capabilities, policies and assistance may be necessary to create or foster new social norms and relationships. This may prove to be the most difficult part of effective development strategy: It is relatively easy to design or imitate good economic policies. How well these policies work in practice is another matter entirely, and differences in social capital are certainly one major reason why the response to globalization has been so varied across the developing world.

**Social-Capital Needs of Dynamic Industrial Learning Systems**

An efficient and dynamic industrial learning system is one in which enterprises are able to access, absorb, master, adapt and deploy in production modern technologies, and, over time, develop innovative capabilities. Such a system is becoming the sine qua non of industrial success in all developing countries, and it needs social capital at every level. To illustrate, new forms of social norms and relationships are needed to:

- build the interactions that allow new, competitive industrial capabilities to be developed and deployed by firms;
- encourage new forms of entrepreneurship based on the use of new technologies and aimed at international competitiveness, particularly in small- and medium-sized enterprises (SMEs);
- strengthen networking, trust and information flows between firms in geographical clusters, value chains and global production systems, and to facilitate closer links between backward regions and activities in the mainstream;
- promote stronger supply and information linkages between large firms and SMEs, and in particular between local affiliates of multinational enterprises and local suppliers;
- strengthen institutions providing skills and financial, technological and marketing support to industrial enterprises, and intensify their linkages with...
firms, again by building new capabilities (within institutions) and improving linkages and trust between them;

- strengthen international networks and links that allow developing country enterprises to link with global markets and technology suppliers, access foreign resources, and keep close tabs on the changing market and technical situation;

- improve corporate governance, competition systems and the legal systems within which modern industry functions;

- finance the costly and uncertain process of technology acquisition, mastery and development, and at higher levels to finance innovation;

- create government capabilities to manage industrial development; and

- link the government effectively to other stakeholders, create local ownership of policies and ensure flexible implementation.

**FIGURE 1.5.1: FORMS OF SOCIAL CAPITAL NEEDED FOR INDUSTRIAL DEVELOPMENT**

We can organize these new forms into the six categories shown in Figure 1.5.1.

**Within firms:** The new technological setting has significant effects on the way firms are managed and organized, and on how they create skills and work-systems. There are four main types of organizational change. The first change is work-teams. This approach "lies at the core of the new systems" (ILO, 1998, 42), and involves greater group responsibility, broader skills on the part of workers and frequent job rotation. The second change is involvement in off-line activities, such as problem-solving, quality improvement, health and safety. The third change is a flattening of organizational hierarchies, with greater responsibility by shop-floor workers and more intense information exchange. The fourth change is links to human resource policies. Work reorganization can only be successful if training and remuneration systems are changed to prepare and reward employees for the new responsibilities.

The use of new technologies, in particular information-based technologies, calls for more, better and newer kinds of skills (ILO, 1998, 39). The technological reasons for
this are self-evident, but there are also organizational reasons. New skills and norms are entailed in setting up and working effectively with new work-production systems. For instance, skills have to be complemented with different attitudes to work, new occupational categories, new work relationships and new management systems. All developed and successful developing countries are raising the skill profiles of their industrial workforces.

There are matching changes in management and organization. The need to facilitate information flows causes firms not just to introduce ICT, but also to cut management hierarchies and build new tools to handle information. On the shop floor, the use of new technologies requires not just new skills but also more continuous training, “multi-skilling,” work-teams, close involvement of workers in quality and productivity improvement, and so on (ILO, 1998). Information technology is now pervasive in new work methods, plant layouts, process control, quality management, continuous improvement, lean production and “just-in-time” inventory systems. Other ICT applications include computer-aided design, manufacturing or engineering; manufacturing and enterprise resource planning; product data management; automation; robotics and flexible manufacturing systems. ICTs are being applied to the automation of design, manufacturing and coordination, and are changing the technology of the innovation process itself.

These new systems are not easy to set up and manage, particularly in developing countries. They need not only training and advanced infrastructure—which is demanding enough—but also new systems of contracting, greater trust and openness, and new forms of management-worker interaction (Mansell and Wehn, 1998). Information-sharing, networking and flexibility are the new weapons in the competitive armoury, with large potential benefits in terms of efficiency, innovation and flexibility. In many developing countries, inherited business cultures are not conducive to these practices. In those with a small base of modern industry and associated skills, new forms of management, organization and worker training are difficult to adopt, particularly in traditional small enterprises. In those with significant industrial sectors nurtured behind high protective barriers on Fordist methods of organization and family-dominated management, the change is also quite difficult. Confrontational union attitudes, traditional work divisions, and mistrust of new technologies and management can severely constrain the adoption of new organizational forms.

Between firms: Firms do not learn, innovate or build capabilities in isolation. They rely heavily on formal and informal interactions with each other. The new technological setting strengthens the role of networking and information flows between firms, within the same industry and vertically along the value chain. With greater concentration by firms on “core competencies,” there is increased use of long-term supply
linkages with suppliers. With the accelerating pace of technological change and skill requirements, firms have to share information and resources to survive and compete. Even global corporations are contracting out what used to be internal functions, including R&D, to other firms. Some are going the other way, specializing in R&D and marketing, leaving the entire manufacturing and logistics process to contractors. It is likely that industrial firms in developing countries will have to adopt similar organizational forms, both within their domestic sectors and within global value chains.

Vertical inter-industry relations have always involved dense networks of cooperation and trust, but the nature of networks has changed, and the intensity of interaction has increased, under new technological and competitive pressures. The growth of these organizational forms involves new (formal) contractual relationships, but such relationships can only work efficiently if there is a concomitant development of trust, information exchange, corporate governance and openness.

Within clusters: Another organizational change lies in the rising importance of geographical clustering, particularly of SMEs (Best, 1990; Humphrey and Schmitz, 1998). The benefits of clusters lie in external economies like access to information and personal interaction, or proximity to pools of skilled workers, specialized suppliers and customers. These economies tend to be cumulative and path-dependent, and can increase the competitive advantages of clusters over time if they are able to keep up with new technologies. Clusters can also attract new technological and skill resources from outside; thus, multinational companies now look for cluster economies in siting production and other activities abroad.

In recent years, the competitive success of industrial districts in “Third Italy,” where groups of small firms became world leaders in products like clothing, footwear, leather products and engineering goods, has illustrated the strength of SME clusters. New high-tech clusters are spreading across the developed economies. Efficient clusters are also found in developing countries, and firms located within them have been found to be more competitive than those located outside. In the new competitive setting, however, effective clustering involves more than just being passively located in an agglomeration. It needs deliberate cooperation and joint action by cluster members to identify common problems and find and implement common solutions. This requires vision, trust, information-sharing and coherence, along with continuing competition: a very different form of social capital than what is found in traditional agglomerations in most developing countries.

We can illustrate this with reference to innovation. The rising costs and risks of R&D and the pressures of competition are forcing even industry leaders to establish collaborative relations with other firms. “Large firms no longer ‘make’ all their innovations in-house, in large corporate laboratories, but increasingly ‘buy’ in order to keep abreast of the competition. There are several channels through which firms can gain access to the required knowledge....[But] innovation surveys suggest that inter-firm collaboration is generally the most important channel of knowledge-sharing and exchange” (OECD, 2000, 32). There are two main forms in which enterprises share in innovation. The first is with enterprises in the same value chain. The automobile industry is a good example: Major manufacturers involve first-tier suppliers in developing new models, expecting them to take on the full burden of designing and developing new components and sub-assemblies. The other important means of collaboration is between competitors, within and across countries. The rising costs and risks of innovation drive this trend (particularly in the basic, pre-commercial stages), with strategic alliances and consortia used with greater frequency. Thus, there were some 5,100 strategic alliances formed during 1990-98.
Clusters need not only comprise SMEs. They can be made up of large “lead” firms surrounded by key input and service providers of all sizes. Again, taking such linkages into the new realm of technological dynamism and competitive efficiency often needs closer relations and trust than what is found under old social and business norms. Where clusters are deliberately formed or strengthened by policy—say, in technology parks—there is a need for cooperation between governments, institutions like universities, or technology services and enterprises.

Without the base of norms, cooperation and trust that allow linkages and clusters to function effectively, the industrial economy loses greatly. Transaction costs between enterprises are higher, innovation lower and specialization constrained. Small size is a more severe constraint if SMEs cannot cooperate to realize external and scale economies jointly. Formal legal instruments and industrial infrastructure can provide the framework and setting for increased cooperation, but these are irrelevant if social capital does not evolve appropriately.

Institutions: Industrial development and capability-building needs interaction between enterprises, and between enterprises and support (or intermediary) institutions. These institutions fulfil a range of functions. They provide the public goods of industrial activity or innovation, like technical standards or basic R&D that private agents cannot profitably supply. They remedy deficiencies in markets, for instance, by providing information and technical assistance or common facilities to SMEs. They also plug specific gaps in markets, say by providing risk capital for technological activity where the private provision of venture capital is underdeveloped. They provide specialized facilities for industrial training, where economies of scale make it too expensive for firms to undertake particular training in-house. In some cases, institutions are responsible for spearheading innovation or coordinating R&D efforts among private enterprises.

One feature of the new technological setting in developed countries is the increasing interaction between firms and research, technology and training institutions. The outsourcing and specialization tendencies noted above also apply here. The changing nature of innovation and its growing science (as opposed to engineering) base make close linkages with science institutions (R&D laboratories and universities) imperative. The need for SMEs to keep up with rapid technological change makes it more important for them to interact with extension, R&D and service institutions. Rapidly evolving skill needs and the growing emphasis on continuous skill upgrading of employees makes it similarly important to link up with education and training institutions. And so on. Many institutions charge for their services, often at full market rates, as a result of pressures on government budgets.

This means four things. First, support institutions have to raise their skills, capabilities and facilities to meet new demands. Second, they have to be able to match their capabilities better to rapidly changing customer needs. Third, they have to win the trust and confidence of enterprises, particularly if they wish to charge for their services. Fourth, different institutions have to coordinate their respective services better to avoid duplication and meet overlapping demands more effectively. All developed
countries have a large array of industry support institutions, which they are trying to reform and improve. This generally means instilling new values and management methods into the institutions, reorganizing them, merging them and sometimes privatizing them. The gradual nature of the reform—say, in the United Kingdom, where it has taken years to strengthen industry-university linkages—suggests that significant changes in values and attitudes are involved. Again, new forms of social capital are evidently needed to create effective institutional networks.

Most developing countries have adopted institutional forms from industrial countries. However, most industry-support institutions function far less effectively. As a forthcoming book by the present author and a colleague (Lall and Pietrobelli, 2002) shows for sub-Saharan Africa, many of these institutions are badly staffed and equipped, with inadequate equipment and few incentives to link to their clients. As a result, they perform their functions poorly, doing little to help industrial enterprises. The latter, in their turn, are unaware or distrustful of the institutions. Technical and economic deficiencies aside, there are also social-capital gaps that have to be overcome.

**Within governments:** The government has, as noted above, a critical role to play in building competitive industrial capabilities. As Malik argues (see Part 1, Chapter 1), the government has to set the right policies and have the capacity “to direct and manage these policies within a broader vision of societal transformation.” Within the context of industrial development, the government also has to set a vision of the structure and orientation of industry. One vision may be to leave its evolution entirely to market forces, but this is certainly not the only available option. Other choices would be to specialize in resource-based or labour-intensive activities; to focus on technology-intensive activities within the context of multinational production systems; or to upgrade more autonomously, relying on domestic enterprises. These are not theoretical possibilities. As the dynamic economies of East Asia show, success can be achieved with all these different visions—but they need different sets of strategies and policies. Whichever vision is chosen, the government has to be firmly committed to industrial development; while this may sound banal and obvious, most developing country governments have not shown this commitment. One distinguishing feature of the “development state” in East Asia has been its clear, firm commitment to the overriding goal of efficient industrialization.

Once the vision is set, the government has to develop the capability to design appropriate policies and programmes to realize it. The vision must, in other words, be translated into achievable goals followed by concrete actions to achieve those goals, a complex organizational and learning process (Lall and Teubal, 1998). This involves collecting and analysing large amounts of information, within the economy and from other countries. It encompasses the process of deciding and setting priorities: Industrial priorities involve most other branches of government apart from the ministry directly concerned with industry. It also implies separating the executive and political parts of the government.
Once industrial priorities are set, factor markets and institutions have to be directed toward meeting the needs of these priorities. To the extent feasible, this also means changing the social-capital base to render new policies effective. The implementation of the policies may need new capabilities and attitudes within the bureaucracy; it also requires monitoring of progress and the ability to change policies as circumstances change. In fact, the ability to adapt policies and respond flexibly is probably more important than the ability to formulate complex plans and strategies.

Most governments lack the capabilities and social capital to make and implement industrial strategy. The political leadership and bureaucracy tend to be composed of different interests, making it difficult to arrive at a common vision or priorities. The formulation of policies cutting across traditional lines of authority may be hard, and the coordination and cooperation needed for continued implementation even harder. Monitoring, flexibility and the ability to learn from mistakes may be the hardest of all.

All this points to the need for capacities within the government to build coherence, coordination, independence and dedication. This can be seen as a specific and vital aspect of social capital.

**Between government and industry:** Effective industrial policy requires close coordination between the government and industry. The government must share its vision with the private sector, and win its understanding and support. It must collect accurate information on the needs, priorities and actions of the industrial sector to provide the right signals, incentives and support. Industry, for its part, must have clear information on government priorities and plans, and be assured of a voice in policy-making. Few governments in developing countries achieve this level of cohesion and stakeholder participation. It calls for considerable trust, sharing, honesty and dedication to a common purpose, all rather at odds with inherited structures of government and attitudes towards involving the private sector. The private sector similarly often lacks the internal cohesion to decide on national priorities and industrial priorities, and the trust and attitudes needed to coordinate with the government.

To conclude this section, we have used the concept of social capital broadly to illustrate the kinds of values, norms, attitudes and interactions that industrial transformation may require. The analysis is, of course, tentative and preliminary. It seeks to show that social relationships are relevant to industrialization, and that the compelling need to transform quickly the nature of industrial capabilities makes the consideration of these relationships more important and urgent. In brief, a strong base of social capital can offer the following benefits to industry: efficiency, specialization, innovation, flexibility, realization of clustering and scope benefits, stronger institutional support, lower risk and more effective policy direction and support.

**Some Lessons from East Asia**

The mature Tiger economies of East Asia, in particular Singapore, Korea and Taiwan, are rightly held up as best practices in industrial development policy. Starting with few
advantages, they have achieved world-class levels of industrialization in one generation. More impressive than their rates of growth, however, is the quality of their industrial development. Their industrial sectors, while quite different from each other in many ways, display enviable depth, innovation and flexibility. Despite differences in strategy and vision, they are based on a strong human-capital and institutional base. All the indications are that they have the capabilities to sustain high levels of income and competitiveness in the future (Lall, 2001).

The above discussion would lead us to expect that these economies had, or developed, the kinds of social capital needed to achieve this massive and rapid structural and technological transformation. It is difficult to test this proposition empirically, since there is no meaningful way to measure social capital at the national level. The extensive literature on East Asian industrial policy has focused on the economic tools employed, and the business systems and political economy that lay behind the policy.\(^7\) It has not, to my knowledge, addressed social capital explicitly, though many of the writings touch on particular aspects. In general, the issue is whether the social capital needed at various levels was present in the society or inherent to the culture (the Confucian ethic), or if it grew under force of circumstance or because of government policies. If the former is true, the replicability of the East Asian experience is correspondingly difficult; if the latter is the case, replication is more feasible, assuming the policy and economic conditions can be imitated.

The greatest gap in knowledge is probably at the microlevel. We know relatively little of the social-capital base of enterprises, their management and organization, labour attitudes and so on. The outcome in terms of performance clearly suggests that they have been very efficient in accessing, mastering and using new technologies, and over time in innovating products and processes.\(^8\) The social mobility engendered by massive shifts (e.g., the break-up of Korea after the Korean war, the move of mainland Chinese to Taiwan as its rulers) allowed for an efflorescence of entrepreneurship. The removal of strong land-owning classes and a good base of primary education led to a relatively equitable pattern of development and a broader social commitment to national development. All these factors may have contributed to a more disciplined, willing and trainable labour force receptive to new technologies. At the same time, labour legislation and practice were repressive, giving considerable power to the employers and allowing a very strong hierarchical set of relationships. We do not know enough about how these relationships are changing as labour relations become more balanced and the emphasis shifts to flexibility, use of ICTs and modern management techniques.

Korea and Taiwan deliberately fostered local inter-firm and inter-industry relations from the early stages of industrial policy; in Singapore, the creation of local linkages by multinational corporations came later. The emphasis on autonomous industrial development in the first two Tigers led to a strong emphasis on local procurement of


\(^8\) Singapore is the exception here because the major source of management practices and technology lay outside the economy, in the parents of the multinational corporations that dominated the industrial economy. However, foreign affiliates were able to deploy new technologies so efficiently presumably because of the social capital embodied in the local labour force.
inputs and the diffusion of technology to local firms. The Korean reliance on giant conglomerates initially penalized the development of SME suppliers, offset later by a deliberate effort to promote SMEs. Korean SMEs are today fairly strong in technological terms, and the chaebol, or business conglomerates, are committed to their development. In Taiwan, SMEs were always in the vanguard of industrial growth and exports, and they formed strong information networks to overcome the handicaps imposed by small size. They also had strong networks with Chinese entrepreneurs and engineers in the United States. Close links with overseas buyers and trading companies were another source of knowledge transfer. The evidence suggests that social norms and attitudes were conducive to intense networking, with considerable collective learning taking place in both countries.

The government promoted the development of competitive industrial clusters in all three economies. Each undertook a battery of measures to ensure that new technologies were made available to enterprises on terms that enabled the development of local capabilities (Mathews and Cho, 1999, describe this for the semiconductor industry). Singapore’s recent industrial plans have been explicitly based on clusters, identifying dynamic clusters for promotion and striving to fill gaps in the value chain to strengthen and deepen their competitiveness. Korea and Taiwan developed their industries, using protection, subsidization and other tools of policy (Amsden, 1989; and Wade, 1990) along cluster lines to take advantage of economies of scope and agglomeration. Both set up industrial and technology parks and cities. Both had strong industry associations able to act in the competitive interests of their members; set up supporting technology and training centres; and represent their members in government bodies. The Taiwanese Government set up several innovation groups (called R&D consortia) where advanced technologies were absorbed and developed by groups comprising firms, technology institutions, trade associations and the Government (Mathews, 2001).

This is all well known. What is difficult to decipher from the evidence is whether the social capital necessary to form clusters, associations and the like was present before the policies were launched or if it developed later in response. The likely answer is a bit of both, but we need more evidence before we can pronounce this with any certainty.

Institutions supporting industry are strong in the Tigers. Each country has the full complement of technology infrastructure institutions, extension services, linkage promotion bodies, export marketing agencies, training centres and financing schemes for innovation. For instance, Korea has a massive programme for promoting technological activity in the national interest by the chaebol and other firms.\footnote{The Designated R&D Programme has, since 1982, supported private firms undertaking research in core strategic technology development projects in industrial areas approved by the Ministry of Science and Technology. It funded up to 50 per cent of R&D costs for large firms and up to 80 per cent for SMEs. Between 1982 and 1993, the programme funded 2,412 projects, which employed around 25,000 researchers at a total cost of around US $2 billion, of which the Government contributed 58 per cent. This resulted in 1,384 patent applications, 675 commercialized products and $33 million in direct exports related to know-how. Its indirect contribution in terms of training researchers and enhancing enterprise research capabilities was much larger. The value of grants under the programme in 1994 was $186 million, of which 42 per cent was directed at high-technology products like new speciality chemicals. The Industrial Technology Development Programme was started in 1987 to subsidize up to two-thirds of the R&D costs of joint projects of national interest (National Research Projects) between...} Taiwan has one...
of the most comprehensive and effective programmes for SME technology support anywhere (Lall, 1996, chapter 3). Singapore has a superlative industrial training system. Each country has excellent ICT infrastructure. Each has created massive amounts of human capital, gearing education to the specific needs of industrial policy rather than simply overcoming generic failures in education markets (Ashton et al., 1999).

While there are certainly deficiencies, and the nature of social norms evolved over time as institutions became more effective, in general these countries succeeded in building strong support systems and linking them with enterprises. Again, we cannot say for sure if the social capital involved in institutional development in the Tigers was present before government initiatives were undertaken, and before industry grew and competed in international markets, or if it developed concomitantly.

Most academic attention has focused on government capabilities to formulate and implement risky and innovative selective interventions in these Tigers without being waylaid by sectional interests or massive rent-seeking. The political economy features of the development state in Korea and Taiwan are well studied: leadership committed to competitive industrial development, a broad education base, equitable income and land distribution, and the absence of strong rural groups. The special nature of the bureaucracy—with its strong skill base, competence and remuneration; relative insulation from politics; pragmatism; speed of reaction to change and harmony of interest with business—has been analysed extensively. There was an early tendency to focus power in the executive branch of government. At the same time, policy vision, coherence, coordination and flexibility were achieved by a difficult process of experimenting, making mistakes, changing and learning. The specific institutional measures adopted were important: the Economic Development Board in Singapore, the Economic Development Bureau in Taiwan and the Economic Planning Board in Korea, for instance, acted as focal points to form policy. There may have been strong social-capital elements underlying all these efforts, but clearly there was nothing inherent that sprang out ready-made to guide government policy.

Evans (1999) makes the strong point that the “myth of the super bureaucracy” in the Tigers can create undue pessimism in other developing countries concerning the replicability of their development strategies. He believes that there are practical lessons to be drawn from the Tigers for all economies. After describing the difficulties they
faced in building their government apparatuses, he concludes that all governments have “something to build on” if they start modestly and focus their efforts on the most important tasks at hand (p. 80). They can clearly learn from the procedures and forms adopted in East Asia, where progress was also often hesitant. However, he does not underestimate the difficulties involved in countries with massive income inequalities, non-development-minded elites and the limitations imposed by the new rules of the game.

In terms of the present analysis, the evident conclusion is that certain elements of social capital can be fostered by policy and do not have to be present before strategies are launched. Moreover, of the important preconditions of East Asian success—equality, education, leadership commitment, bureaucratic independence and so on—some seem to be predominantly economic or political in nature. What is not clear is that they also contain social-capital requirements. Does the achievement of greater equity, the popular desire to invest in education, or the isolation of the bureaucracy from political forces reveal underlying social norms? Can the government coordinate well with business only where certain forms of personal interaction are well established? Or can we simply ignore the social aspects altogether on the assumption that they will fall in line once the economic and political conditions are in place? If not, which social norms and relationships are the really crucial ones, and what affects their development?

We do not yet know. And until we find out, we cannot really draw policy conclusions from East Asia (or on industrial development more generally). It is frustrating for a development economist to say this after working so long on industrial and technology policy, but there we are.

References


