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Toward a Comprehensive Development Strategy

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Nagy Hanna
Ramgopal Agarwala

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Operations Evaluation Department
Partnerships & Knowledge Programs (OEDPK)
Email: ecampbellpage@worldbank.org
Email: eline@worldbank.org
Telephone: 202-473-4497
Facsimile: 202-522-3125

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Nagy Hanna and Ramgopal Agarwala prepared this Working Paper for the 1999 Annual Review of Development Effectiveness. Nagy Hanna is a Lead Evaluation Officer in the Operations Evaluation Department of the World Bank, Washington D.C. Ramgopal Agarwala is the Chairman of a development research company, International Development Policy Institute in New Delhi, India, and a World Bank consultant. Deepa Chakrapani, a research analyst in the Operations Evaluation Department, provided excellent research assistance.

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Director-General, Operations Evaluation:	*Robert Picciotto*
Director, Operations Evaluation Department:	*Gregory Ingram*
Task Manager:	*Nagy Hanna*

Preface

Despite the potential benefits of globalization and technological change, world poverty has increased and growth prospects have dimmed for developing countries during the 1980s and 90s. The Comprehensive Development Framework (CDF) was launched by the World Bank in January 1999 in response to these difficult circumstances. It has evoked considerable interest throughout the development community as an approach that can address the increasingly intertwined challenges faced by development practitioners. Its basic elements are not new. What is new is their joint articulation as a framework to guide development assistance. The first point is that development constraints are structural and social, and cannot be overcome through economic stabilization and policy adjustment alone—they require a long-term and holistic vision of needs and solutions. Second, policy reform and institutional development cannot be imported or imposed; without domestic ownership, reforms and investments are not sustainable. Third, successful development requires partnership among government, local communities, the private sector, civil society, and development agencies. And fourth, development activities must be guided and judged by results.

In this context, the *1999 Annual Review of Development Effectiveness* (ARDE), authored by Nagy Hanna under the guidance of Robert Picciotto, set out to examine development experience through the lens of CDF principles. A number of papers were commissioned to support the ARDE by providing in-depth review of evaluation and research findings that assess the relevance of the CDF principles and constraints as well as promising approaches to their implementation.

Introduction

The environment for development has been changing rapidly in the past decade. Globalization brings new opportunities and challenges to developing countries. Many of the changes—the spread of markets and democratic principles, the integration of global markets for trade, finance, and information—should have helped developing countries accelerate their growth and reduce poverty. Yet most developing countries have experienced stagnation or a real decline in per capita income (World Bank 1997).

Income inequality has increased, both within and across countries. The fight against poverty is losing ground, and the efficacy of development assistance is being questioned. Informal channels of information exchange are breaking down, and new information-sharing institutions are emerging only slowly. Information failures remain pervasive, and global forces threaten to widen the gap between the information "haves" and "have nots" (World Bank 1999), while some areas of rapid information processing, such as those associated with global financial flows, have brought new problems. Increasingly, capital and other resources will flow to countries with stronger knowledge bases, reinforcing inequalities. With the Internet, the "digital divide" is growing, and unless harnessed for development, this technological revolution is likely to widen knowledge gaps—and thus productivity and wealth among and within countries.

A Comprehensive Development Framework for a Changing Global Environment

Globalization has raised the bar for developing countries to compete and grow. But while it amplifies the risks from increased instability in earnings and employment and increased stress on institutions and communities, it also increases the rewards of connecting to the world. The growth rewards are not automatic, however. Developing countries can thrive in the new global economy if they participate on their own terms, combining economic openness with a clear domestic investment strategy and effective institutions for governance, conflict management, and inclusion. Complementary policies and institutions are needed to promote strategies that exploit each country's resources and capabilities.

The successful experiences of East Asian countries provide some pointers: investing in human capital, reducing structural inequality, and developing coherent industrial strategies, science and technology policies and institutions, export promotion, technology diffusion, and extension programs, among others. Institutions of governance, negotiation, coordination, and regulation, as well as mechanisms of social protection, will be increasingly important for coping with global turbulence and countering the widening inequality that openness can bring (Rodrik 2000). But there are no blueprints. Countries have to fashion their own competitive strategies in a fast-changing global marketplace. The significant decline in donor assistance and multilateral lending and advice, and the withdrawal of many donors from assistance to the productive sectors such as agriculture and industry, are therefore alarming.

Globalization will require developing nations to reach out to international partners to manage changes beyond their sole control—in trade, finance, and environment—and promote global public goods and global governance mechanisms that are equitable and supportive of development. Similarly, the forces of democracy and decentralization must be understood and used to guide development assistance. Democratic decentralization can be an essential part of the enabling environment for development. This also suggests an institution building approach shaped by the learning of local stakeholders and open to participation by the poor. Finally, development cooperation must put special emphasis on knowledge and information sharing—within countries and among aid partners—as key ingredients to holistic development, empowerment, social learning, ownership, partnership, and managing for results.

The Comprehensive Development Framework (CDF) responds to this changing global environment by promoting more effective development assistance through national processes and institutions that address and manage the new opportunities and risks arising

from the global environment (OED 1998). Just as modern businesses set their goals in line with the external environment, market competition, and core competencies, each developing country needs to take a long view of its potential and aspirations and to take account of its regional context and global factors. This suggests moving beyond the current fragmented, short-term, and project-based development framework to one that emphasizes the interactions among policies, investments, and institutions and their dynamics over the long term.

Toward a New Consensus

The CDF reflects a growing consensus on the key ingredients for improving the effectiveness of development assistance through a more comprehensive and participatory approach than during the planning era of the 1960s and 1970s or the adjustment era of the 1980s. The CDF crystallizes this emerging consensus and constitutes a new paradigm on development and development assistance strategies. Like all new paradigms, however, it is embryonic, short of tools for implementation. This volume looks at the experience of aid agencies and developing countries through the lens of the CDF and distills key lessons and promising practices to guide implementation of CDF principles.

Focus on Macroeconomic Concerns

By the late 1960s the limitations of the central planning approach to development were becoming obvious. There was a growing recognition of the "crisis of planning" (Faber and Seers 1972). It was evident in the plans of country after country, which, absent due attention to macroeconomic balances, ran into serious problems of balance of payments and inflation. In many countries industries that had developed behind the protective shield of high tariffs and import controls were generating negative value added.

The energy crises of the 1970s exposed the macroeconomic imbalances in many developing countries, forcing attention to be redirected from investment planning to macroeconomic management. The changes in incentive systems unleashed by energy price boosts, inflation, exchange rate fluctuations, and rising interest rates in the global economy pushed price distortions to the fore of the development debate. By the early 1980s the limits of government and the potential of markets had been fully recognized in developed countries, and there was a new "consensus" about the role of stabilization, marketization, and privatization.

The Washington Consensus

The debt crisis of the 1980s left many developing countries with no choice but to follow what came to be known as the "Washington consensus" (Williamson 1990). Highly indebted countries sought respite from their massive foreign obligations by following orthodox macroeconomic policies and dismantling protectionist structures. This brand of development became popular with the collapse of the central planning systems of Latin America and Eastern Europe. "Its appeal was helped by its self-assured tone (the consensus), its prescriptive orientation, its directional message and its origin in Washington, the

capital of the victorious empire" (Naim 2000, p. 90). The Washington consensus served as a simplifier of what was, and continues to be, an overwhelmingly diverse and complex reality. Adjustment lending and conditionality became the popular instruments embodying the relative simplicity and presumed reliability of the Washington consensus. Policymakers faced increasingly complex and sometimes politically impossible conditions for debt relief, and resistance or hesitance was derided as ignorance or lack of political will.

By the late 1980s concerns were emerging in the donor community and among recipients of adjustment lending about the neglect of the social dimensions of adjustment. New style adjustment programs—"adjustment with a human face"—began adding a social development component to adjustment programs. But it soon became apparent that it was not just the social dimensions of adjustment that were in question but the economic dimensions as well. In most countries with adjustment programs, growth of income, saving, investment, and even exports was slower than expected. In many developing countries the power of vested interests and the deterioration in governance proved too strong to be tackled by the policy conditions under adjustment lending. Institutions were a key missing dimension of the Washington consensus. But even when that was acknowledged, there was no agreement on how to implement institutional reforms.

The Washington consensus also ignored the challenges and consequences of globalization, especially in the financial sphere (Naim 2000; Stiglitz 1998; OED 1998). With the growing frequency of financial crises in middle-income open economies, especially the East Asian financial crisis, and the failure of the policies of the Washington consensus in Russia, it became clear that the adjustment era had paid too little attention to public and corporate governance, financial institutions, and social insurance mechanisms. Democratic institutions and mechanisms to manage conflict became critical for forging the political consensus needed to undertake policy reforms and to bridge the tensions between market forces and social cohesion (Rodrik 2000).

New Focus on Partnership and Ownership

A World Bank report on Sub-Saharan Africa acknowledged in the late 1980s the problems of adjustment lending and weak governance and called for greater attention to social, ecological, and institutional issues for long-term sustained growth (Ohiohenuau 1998). It argued for a more holistic approach to development, one that goes beyond economic issues and includes political, sociological, and cultural aspects of development for sustainable growth. The report also cautioned against donor-directed development as a substitute for government-directed development and against a blueprint policy package approach as a substitute for a blueprint planning approach. It highlighted the importance of long-term perspectives and endogeneity in development programs affecting countries in Sub-Saharan Africa.

A common theme of World Bank evaluation reports of the 1990s has been the importance of ownership for success in investment and adjustment lending and in analytical and advisory services. A 1995 Country Assistance Review of Ghana noted the disappointments in almost all areas of development and proposed a more comprehensive approach in designing the Bank program in Ghana (box 1).

Box 1. Ghana's Economic Recovery Program—A Precursor of the Comprehensive Development Framework

It is now more than 10 years since Ghana launched its far-reaching but "gradualist" Economic Reform Program. The World Bank Group has lent more than $2 billion since 1984, more than $1 billion of it for adjustment operations. In the 1980s, against a background of highly strained relations and mutual mistrust, the Bank succeeded, by and large, in establishing excellent Bank-country relations and a true sense of partnership with a core group of Ghanaian officials. These officials were believed to be responsible for preparing and implementing the reform program and for sustaining the reforms since 1983, despite a setback in 1992.

Unlike the experience in many adjusting countries, the stabilization objectives were achieved simultaneously with increased real public expenditures, especially on social services and public investment. This win-win outcome facilitated the pursuit of adjustment with a human face.

The World Bank's country evaluation (OED 1995) suggests that fiscal problems have resurfaced since 1992 and the move toward greater democracy. There is a long agenda of unfinished adjustment. Despite the relative success of the stabilization program, the evaluation suggests that performance has been disappointing in private-sector development, public enterprise restructuring, civil service reform, expenditure control, agricultural development, educational achievement, environmental control, and institutional development. Progress in privatization is also believed to have been slow, despite some important new measures since 1994.

Current efforts in Ghana to implement the CDF represent a continuity of efforts at learning from experience in the Bank. The lessons from past experience and learning led OED (1995) to make the following recommendations in its evaluation:

- Focus strategy on sustainability, institutional development, and economic governance.
- Develop a more strategic and longer term Bank strategy.
- Build on Bank comparative advantages.
- Reach out and listen to broader constituencies within and outside Ghana.
- Beware of downsides of aid dependency.
- Develop new aid coordination policies and practices.
- Change the skill mix of staff to better meet skill requirements of the strategy.
- Reassess the mix of staff between headquarters and country offices.

The evaluation recommends that the future strategy should be based on a shared vision of the kind of society that the government and the people wish to bring about. The evaluation draws attention to the words of a senior Ghanaian official: "When we know what we want and take the initiative, things go okay. But when the World Bank takes the initiative, things don't work so well."

Increasingly, the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development also called for taking a comprehensive approach to development and putting the country in the driver's seat. DAC's development strategy for the 21st century describes a "compact" for effective partnerships and identifies the responsibilities of developing countries and external partners, as well as joint responsibilities. A preamble lays down the "basic principle" that "locally owned country development strategies and targets should emerge from an open and collaborative dialogue … in ways that respect and encourage strong local commitment, participation, capacity development and ownership" (OECD 1996, p. 14).

Taking a similar approach, the United Nations Development Assistance Framework (United Nations Secretary General 1997) envisages a framework for formulating each country assistance program with "common objectives and timeframe." The conceptual and operational underpinnings of the framework were developed by a team of the UN Development Group, which recommended that the framework become a strategic instrument for programming the UN's development assistance and setting out areas for collective UN action, both grounded in the country context. The Development Assistance Framework would integrate global conferences and conventions with national priorities,

taking a holistic approach and strengthening the links between peace and development. It would be results driven, focusing on impact and outcomes that ultimately can be measured and reported. In time, it is expected to become an instrument for helping coordinate all external assistance in the areas covered. It is also expected to promote consensus building and partnership. Finally, it would strengthen monitoring and evaluation for both accountability and management needs.

Elements of the New Consensus

Building on this new way of thinking about development, World Bank President James D. Wolfensohn warned in 1999 that if we continue along the present path, poverty reduction would be difficult to achieve. He proposed a new Comprehensive Development Framework, articulating the emerging consensus on the need for a new paradigm. Its distinguishing features are the following:

- A development strategy has to incorporate not only the economic dimensions but also governance and human and social dimensions.
- The country has to be in the driver's seat in formulating and implementing its development strategy. Because a country is more than its government, a country-led strategy has to involve all the stakeholders, including the private sector and civil society. This dimension was largely absent from the government-led strategy formulation of the 1950s and 1960s.
- Donors and multilateral institutions are only part of the development assistance community, and they should concentrate on their areas of comparative advantage in partnership with the country.
- Success in development assistance has to be judged by progress on the bottom line of poverty reduction and sustainable growth rather than progress on investment (as in the planning era) or on compliance with policy conditionality (as in the adjustment era).

The principles of the CDF differ significantly from those of the planning and adjustment eras (table 1). The CDF seeks to balance the three I's of development: investment, incentives, and institutions. The planning era focused on investment and neglected incentives and institutions; the adjustment era focused on incentives and neglected investment and institutions. The CDF thus adds a new emphasis on institutions—economic and social governance, rule of law, financial systems, and social capital—while also emphasizing the interdependence of investments, incentives, and institutions.

Long-Term View

There is a growing realization that development is essentially about transforming society and its institutions (Stiglitz 1998, forthcoming). The Washington consensus was narrow in its objectives and instruments (OED 1998). A development strategy needs to be broader, to set forth a vision for the transformation of institutions and the creation of new social capital and capabilities. It should also identify the barriers and catalysts for change and set a framework for realizing the vision. The long-term vision is key to bringing consistency and coherence to the development effort.

Table 1. Three Development Paradigms

Planning	Adjustment	Comprehensive Development Framework
• Pervasive market failures • Government-led development	• Pervasive government failures • Market-led development	• Joint public-private-civil society failures • Country-led development through partnerships
• Centrally driven, detailed blueprints	• Short-term adjustments	• Long-term vision, social transformation, adaptive learning process
• Investment-led development • Resource allocation by a dministrative fiat	• Incentive-led development, with investments and institutions following	• Investment, incentives, and institutions considered jointly
• Dominance of planners and engineers	• Dominance of economists and financial experts	• Multidisciplinary approach
• Resource gap filled by donors	• Resource envelope determined by donors	• Country-driven aid coordination based on comparative advantages
• Donor-placed foreign experts	• Donor-imposed policies	• Donor-provided advisory assistance to empower stakeholders with options
• Marginal role for monitoring and evaluation	• Donor-driven monitoring of policy implementation	• Participatory monitoring and evaluation to enhance learning and adaptation

This transformation is a long and slow process. There is no quick fix. Developing a broad-based and inclusive national consensus on development takes time, particularly in societies fraught with social divisions and extreme inequities. Developing and transforming institutions takes even longer. There are always pressures to shortcut the social learning processes involved and to impose blueprints from above or outside. The experience of transition economies suggests that the shock therapy approach of the Washington consensus for installing new institutions or imposing institutional change has so far failed (Stiglitz forthcoming). An adaptive learning process approach, though seemingly slower at the outset, might have preserved critical social capital and led to more sustainable change.

The development process involves many uncertainties and complex interactions that cannot be mapped in advance or controlled in detail. The political dynamics of policy reform are complex and difficult to predict. And developing countries have little control over an increasingly volatile external environment. That means that a development strategy must be more like a compass than a map or blueprint. No blueprint can anticipate the dynamics, risks, and shocks along the way. Solutions are conditioned by national history and social capital. Hence a development strategy needs to serve as a catalyst, to open up opportunities and facilitate experimentation in order to identify areas of dynamic comparative advantage and build new competencies. Projects become policy instruments and vehicles for social learning.

Holistic and Balanced

Economic development can be seen as a process of expanding human freedom, taking account of social and economic institutions, legal frameworks, governance, social capital, and culture

(Sen and Wolfensohn 1999). Freedom includes freedom from starvation, from undernourishment, from illiteracy, from preventable disease, and from premature death, and it also includes freedom of political participation and social association. These linked freedoms are both the primary ends and the principal means of development. Development is a process that ends with freedom from poverty and from other social and economic deprivations.

Achieving development objectives thus requires more balanced attention to social as well as economic development, a balance of growth and poverty reduction concerns. Social development, an end in itself, is also essential for sustained economic development, while economic policies that ignore social dimensions, such as adjustment policies that substantially increase unemployment and tear at the social fabric, are not sustainable. World Bank evaluations suggest that "the best hope for promoting growth and reducing poverty" comes from an "integrated approach that combines macroeconomic stabilization and structural adjustment with appropriately tailored public expenditure in social sectors, mechanisms to upgrade skills and institution capabilities, and safety-net policies offers" (Jayarajah 1996). Economic development can advance social development, particularly through well designed education and communication systems that build social cohesion and mobility.

Poverty is multidimensional and location specific, and therefore poverty reduction efforts should be directed at several fronts and tailored to different contexts (Kanbur and Squire 1999). Poverty goes beyond income and consumption, to health and education, risk and vulnerability, and a sense of powerlessness. A World Bank evaluation of the health sector in India highlights the importance of addressing intersectoral linkages, seeing a need for "more focus on determinants of health status that are outside the traditional confines of the formal medical care system—transport, communications, environment, pollution, and health education are examples" (OED 1997b). Hence holistic development should focus on empowerment through participating in programs and decisionmaking, security through reducing vulnerability and establishing safety nets, and opportunity through sustaining growth and investing in human capital.

The highly successful Sri Lanka Karunagela and Second Rural Development Project used such an integrated approach. The first attempt at multisectoral planning for an entire district in Sri Lanka, it had subcomponents in agriculture, adjustment, finance, transport, water and sanitation, power, education, health, and monitoring and evaluation. Sixteen further projects have been implemented, and another four more are planned, building on the multisectoral integrated approach and existing institutions, correcting earlier failures to include beneficiaries, and focusing more on poverty alleviation.

Recent research suggests that many ingredients contribute to sustainable development and that they interact to create poverty traps or virtuous circles (Dollar 1999; World Bank 2000). Hence there is a need to think strategically about these factors—to identify bottlenecks and address binding structural constraints such as governance and institutions. These tasks have often been postponed, even though governance and institutional quality are excellent predictors of growth, as donors went after easier targets (Wolfensohn 1999).

Ownership and Social Learning

Ownership as a key to success has been a regular theme in evaluations (Johnson and Wasty 1993). The success of both investment and adjustment operations has been strongly

associated with borrower ownership and beneficiary participation. Hirschman (1992), Putnam (1993), Fukuyama (1995), and others have argued that the success of a market economy cannot be understood through narrow economic incentives; norms, institutions, social capital, and trust play critical roles. Social transformation requires change-oriented social institutions, whose emergence often weakens traditional relationships. The danger arises when this process of destruction occurs before new organizational and social capital are created, as has been the case over the last decade in Russia (Stiglitz forthcoming). Social and organizational capital cannot be created overnight or handed over from outside. They must be created gradually, from within. Thus the pace of change and the pattern of reforms must match each country's ability to create such capital.

The case for home-grown strategy has been put well by Dani Rodrik (2000):

> "The lesson of the twentieth century is that successful development requires markets underpinned by solid public institutions. Today's advanced industrial countries—the United States, Western European nations, Japan—owe their success to having evolved their own specific workable models of mixed economy. While these societies are alike in the emphasis they place on private property, sound money, and the rule of law, they are dissimilar in many other areas; their practices in the areas of labor-market relations, social insurance, corporate governance, product-market regulation, and taxation differ substantially. All these models are in constant evolution, and none is without its problems ...
>
> What is true of today's advanced countries is also true of developing countries. Economic development ultimately derives from a home-grown strategy, and not from the world market. Policy makers in developing countries should avoid fads, put globalization in perspective, and focus on domestic institution building. They should have more confidence in themselves and in domestic institution building, and place less faith on the global economy and blueprints emanating therefrom." (p. 40–41)

To be sustainable development models, policies, and institutions must be owned, not imposed. World Bank evaluation studies have repeatedly emphasized lack of ownership as a weakness that has severely compromised the development effectiveness of Bank-supported operations (OED 1999b; Shah 1998; Girishankar 1999). Complex projects have performed poorly, mainly because they were prepared by outsiders, failed to engage stakeholders, exceeded local implementation capacity, and thus did not engender borrower commitment. Evaluation lessons indicate that borrower ownership is not a given; it must be earned. Development as transformation affects both what we do and how we do it. It argues for openness, partnership, and participation. A change in mindset is central to development, but the change cannot be forced from outside or ordered by a small elite group. Transformation must come from within.

Change is often threatening. Participatory processes ensure that concerns and anxieties are not only heard, but also addressed, thus dissipating much of the resistance to change. Creating the capacity for participation and social learning so that countries can forge their own development strategies through active and transparent debate needs to take center stage. Operations Evaluation Department findings suggest that "ownership of Bank

assistance needs to occur at several levels: Bank staff, senior government officials involved in negotiations, civil servants concerned with implementation, the intended beneficiaries and those indirectly affected by an intervention" (OED 1999b).

Decentralization is spreading throughout the world over, in response to growing forces of democracy and popular movements (World Bank 1999). Devising successful decentralization is a complex and slow process, since its pace and genesis are not fully controlled by central decisionmakers. Yet this process is critical to development. Over time, decentralized systems should allow for a more wide-ranging sense of ownership of policies and programs, as lower level bureaucrats, accountable to elected officials, move to higher posts, bringing with them an enthusiasm for the more consensual and responsive modes of governance that tend to develop in decentralized systems. Decentralization also holds considerable promise for partnerships between local government institutions and civil society and grassroots communities. International aid agencies may have lagged behind developing countries in supporting decentralization, a reflection of the prevalence of the blueprint paradigm.

Partnership and Development Cooperation

Spurred by global economic and political change, development cooperation is undergoing fundamental changes in rationale, strategy, and mode of operation (Picciotto 1999; Gwin 1999). Globalization has replaced superpower geopolitics as a driving force in development assistance. Globalization has also intensified concerns about increasing inequality and volatility, as well as a host of transnational problems. In this changing context, industrial countries seek competent partners in the developing world, while developing countries look to industrial countries to manage the global economy in ways that foster stability and equitable outcomes.

This change in the rationale for development assistance has led to a major shift in strategy, from special treatment to accelerated integration of developing countries into the global economy and the shared management of problems arising from rapid integration. Aid is increasingly viewed as a source of knowledge and a catalyst for deriving sustainable and equitable benefits from greater openness.

In a related shift in perspective, effectiveness and selectivity (in allocating aid in response to demonstrated performance) have replaced the notion of aid as entitlement (Gwin 1999). Aid is also increasingly seen as a means of providing international public goods that benefit and require the involvement of developing countries.

Recent studies have concluded that there is an urgent need for a country-led partnership approach to development assistance (OED 1998; 1999a). The development assistance system is too fragmented, mechanisms for coordination have multiplied, and the burden of fragmentation is onerous, particularly for poor and weak countries. World Bank evaluations suggest that, to avoid duplication and overlap, the Bank should team up rather than "compete" with private foundations and development assistance agencies with a long tradition of grant giving (OED 1998). They recommend that the Bank play a supporting role in areas where it does not have a comparative advantage (Girishankar 1999). For example, the Bank could concentrate on mainstreaming programs, relying on other agencies to pilot and demonstrate new approaches.

There is a growing commitment to expand partnership and integrate development efforts, but conflicting interests among donors and barriers to progress within countries should not be underestimated. Bank evaluations suggest that the Bank forge strategic alliances with other lenders and donors to obtain a consensus on the policy objectives and criteria for their involvement (Corarrubing 1996). Evaluation findings also highlight the need for active internal and external involvement by Bank management and a well-staffed country office for ensuring effective coordination at the sectoral and implementation levels (Krienner and others 1998).

Focus on Results, Learning, and Accountability

A focus on development results is a growing priority in response to demands by citizens of donor and developing countries for transparent and accountable development. The aid business has focused on inputs, financial commitments and disbursements, and supply-driven technical assistance. A recurrent theme of World Bank reports is poor monitoring of development operations and the need to develop better performance indicators to manage projects and strategies (Johnson 1999). One evaluation study suggests that the Bank's main failings were due to the difficulty in reaching objectives using "plans" rather than "results" for assessing the quality of management" (Van Wicklin 1998).

However, concern for development results and effectiveness is growing, spurred by stagnant aid flows and rising poverty. International development goals have been set, and the need to keep score has been established. Recent changes in the political environment in many developing countries are also shaping the design and use of results-based approaches to development: the drive for greater public transparency, the expanded role of legislatures, and the increasing involvement of civil society.

A focus on results and on development as a learning process implies an enhanced role for monitoring and evaluation and other mechanisms for generating and sharing knowledge at all levels of participation and decisionmaking within the country and among development partners. An extensive evaluation literature provides ample evidence of the crucial impact of monitoring and evaluation on performance, learning, and development effectiveness, including a World Bank study suggesting a need for strengthening the Bank's results orientation by developing standards and best practice examples of monitoring and evaluation.

Evaluation findings also suggest that focusing on the ultimate goals of expenditure reform right from the start is important for proper selection of expenditure instruments and for better implementation (Datta-Mitra 1997). A recent evaluation of public expenditure reviews concludes that their focus on monitoring and control of inputs rather than outputs and outcomes prevents them from adequately assessing public sector performance in the delivery of public services (Shah 1998).

Institutional Alternatives

The view of development as a holistic, long-term, social learning process calls for institutional experimentation across a rich array of institutions. A consistent theme of World Bank evaluation findings for almost 20 years has been that institutions matter and that

institutional innovation is a key to progress. A recent World Bank evaluation demonstrates the difference that institutional quality can make to project performance (OED 1997). From an extensive literature about the potentials and limits of governments, markets, and civil organizations, it is possible to construct a hierarchy of participation and market features in line with the nature of the goods produced (Picciotto 1999). The problems of poverty and development call for blending such capabilities and for partnerships among these institutions at the local, national, and global levels.

Managing adjustment in an increasingly demanding global economy requires that societies develop their own institutional innovations for dealing with conflicts and reaching consensus on policy reforms (Rodrik 2000). In particular, globalization—and integration of developing countries into the global economy—calls for innovation in institutions for conflict management and social insurance. Such institutions legitimize a market economy by improving stability and social cohesion. Economic history also suggests that desirable institutional arrangements vary not only across countries, but also within countries over time. The countries that have performed best are those that have liberalized gradually, tailoring their reform programs to institutional preconditions. Conditionality ought to leave room for development policies that diverge from the orthodoxies of the day (Rodrik 2000). Whatever shape the evolving architecture of the global economy takes, it should allow developing countries to experiment with their own institutional arrangements and reform strategies, based on local practices and needs.

New Approaches—Old Lessons

The CDF calls for a new role for development experts—one that challenges traditional norms and assumptions of technocratic expertise and professional effectiveness. It calls for new professional competencies, defined less by techniques and more by capacity building for action learning with clients.

Like any new paradigm, the CDF calls for retooling, adaptation, and innovation. "Led by a new paradigm, scientists adopt new instruments and look in new places. Even more important, during [paradigm shifts] scientists see new and different things when looking with familiar instruments in places they have looked before" (Kuhn 1970). Current tools and processes have been shaped by a mechanistic, technocratic, control-oriented, and supply-driven paradigm. In adopting the new paradigm, experts may not find ready-made tools and standard solutions at hand; they will have to see through a new lens, craft new tools, and learn new ways as they proceed.

The task before the supporters of the CDF is to learn from the experience of the planning and adjustment eras. They will need to design a process of implementation that avoids the mistakes of the past and a set of tools, skills, and processes appropriate for the emerging paradigm. Experience tells us that the new paradigm should not be taken as a rigid blueprint. It is vital that the CDF be applied as a learning process. The pilot program for implementing the CDF principles in 13 countries should focus testing and learning on areas where new tools, processes, and approaches are especially critical. The following chapters identify some of the challenges—and the areas in which learning is needed most.

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