The Challenge of Developing Countries from the Bottom-up

International Conference
McGill University, Montreal
March 21-23, 2013
Executive Summary

This conference explored the interface between development policies focused at the community level and sustainable national development. It also explored the potential for innovative public-private sector partnerships to improve the quality of life for national populations as a whole. It addressed one of the biggest shifts in development policy and practice: the commitment to promoting community participation in the design and implementation of national development programs. While this shift represents an important and positive change in development thinking, it has often not led to substantial improvements in development trends at the national level. It is against this backdrop that the conference brought together experts from the non-profit, private and public sectors, local and transnational civil society actors, and the international development community, to generate a rich but critical discussion of more effective strategies for translating community participating into sustainable national development.

The conference addressed three cross-cutting questions:

1) What is the most effective balance between the state and the private sector in achieving sustainable national development, both in terms of scope of their economic activities and the particular roles the state and private sector might play in promoting development?

2) While “one size fits all” strategies must be avoided, are there general lessons to be learned and that can serve as a basis for more effective coordination among the various stakeholders in achieving sustainable national development? and

3) What are the most effective policies for assisting particularly vulnerable groups (youth, women, indigenous populations) to better integrate into national economic, social and political processes in order to ensure that they benefit from national development in sustainable ways?

While a variety of views were expressed with respect to the first question, a general consensus emerged that the ‘right’ balance between state and market is context dependent: it varies between countries, between sectors, and over time. Participants frequently emphasized the need to balance the state and market, rather than focussing solely on one as the answer to the problem of inclusive development. Ultimately, the goal is to identify who does what best, not who should do it all. Participants noted that the state has an important role to play in addressing issues such as inequality, while the private sector can help to build the capacity necessary to facilitate bottom up approaches to development.

In examining how past experience might serve as a basis for more effective coordination among stakeholder the conference highlighted the fact that there is no model that will remove risk or guarantee success. Participants observed that there is a need to experiments with new ideas that risk failure. Experience does, however, points to the importance of using processes that are representative and which reflect good governance. Processes that identify common ground and which foster dialogue have tended to lead to more effective coordination.
In discussion of more effective policies for assisting vulnerable groups, conference participants emphasized the importance of building better governance at all levels. Discussions also emphasized that accountability is essential for identifying and implementing effective policies for assisting vulnerable groups. Picking the 'right' policies is not enough: vulnerable groups need mechanisms that allow them to hold political leaders to account when implementation falls short, or when policies have unintended side-effects.
Setting the Stage
Opening remarks, Thursday 21 March, 2013

Philip Oxhorn, Founding Director, ISID, McGill University

The motivation for this conference is the continuing demand for ways of fostering sustainable development. Three cross-cutting questions drive the conference:

1) What is the most effective balance between the state and the private sector in achieving sustainable national development, both in terms of scope of their economic activities and the particular roles the state and private sector might play in promoting development?

2) While “one size fits all” strategies must be avoided, are there general lessons to be learned and that can serve as a basis for more effective coordination among the various stakeholders in achieving sustainable national development? and

3) What are the most effective policies for assisting particularly vulnerable groups (youth, women, indigenous populations) to better integrate into national economic, social and political processes in order to ensure that they benefit from national development in sustainable ways?

Christopher Manfredi, Dean of Arts, McGill University

This conference deals with some of the enduring issues in development, some of which motivated the founding of ISID’s precursor the Centre for the Study of Developing Areas. It also reflects the multi-disciplinary nature of ISID, and its emphasis on collaborative research.

Michael Hawes, Fulbright Canada

This conference provides a valuable opportunity. It highlights the fact that although we understand the problems associated with development better now, we also know that they are more complex than was recognized in the past. Solutions to these problems are hard to come by, and require cooperation between academic researchers, practitioners, policy makers and business.
South Africa is a case study that provides many valuable lessons regarding the centrality of governance for development. Despite its problems, South Africa has had many notable successes. Its position now, compared to the challenges it faced at the end of apartheid, is remarkable. Economic inequality is now perhaps the single biggest challenge. Inequality has been increasing significantly, and has become a very important source of social conflict.

Fundamentally, development is about power. It is about the political elite becoming accountable to the most marginalized parts of the population. This requires structural reforms, i.e. reforms that are rooted in popular initiatives, and which leave a legacy of empowerment in society. Pluralising power is what will create accountability.

Three elements are necessary to establish the accountability dynamic:

1. Electoral reform to ensure that multiple groups from within society are represented, and to ensure that Members of Parliament are primarily accountable to their constituents, rather than to party leaders.
2. The emergence of a viable opposition party. The threat of losing power is critical for accountability. This is what creates an incentive to be responsive. In South Africa, the best prospects for this are for an opposition party to emerge from within the ANC. Until recently, this has seemed quite unlikely to occur.
3. Robust and independent civil society. In South Africa, civil society has played a key role in encouraging 'rethinking' by political elite, and spurring greater efforts to address the concerns of the poor.

Inclusive development requires the reconciliation of two different objectives: addressing historical injustice, and building a new national identity that bridges the old divisions within society. In practice, this has proved difficult. Some initiatives designed to redress racial injustice have worsened inequality, as they have tended to benefit a very narrow, wealth section of the black community. Better results might be achieved if there is more focus on class and less on race.

There is also a tension between economic growth and inclusive development. South Africa has been quite successful at the first, but not at the second. Addressing this problem requires strong leadership, both in politics but also in the corporate sector.
Governance is a central issue in development, and one on which the Arab world provides valuable insights. Recent uprisings provide both opportunities and challenges. They have opened the door to democracy, but whether transitions can be consolidated in the long term remains unclear. Perhaps the biggest challenge will be that of addressing the governance gap, between citizens’ expectations and what the state is able to deliver.

In many post-uprising countries, civil society remains very weak. This represents an important challenge. If local communities are to play a more active role in national development it is imperative that democratic institutions be established. Without mechanisms of accountability, development from the bottom-up is unlikely to occur. In the Arab region, several factors make this a difficult task. One is natural resource wealth, which has often been used to sustain authoritarian regimes. In the past, oil rents have been used to discourage social movements.

The legacy of rent-seeking behaviour creates many challenges for fostering development in the Arab region. In particular, it presents a barrier to the promotion of equitable and inclusive economic growth. Economic development is important, as it will have an important influence on the success, or failure, of transitions towards democracy. In terms of both economic and political success, there is a significant degree of interdependence within the Arab region. Success by some countries in the region will support success in others, but failure in one country will also make failure more likely elsewhere.

Discussion

Participants noted that the experiences of South Africa and the Arab region are very valuable. Both highlight the centrality of inequality as a challenge for development. This is what makes active citizen participation so important. Without strong participation we cannot hope to effectively address inequality.

Participants also discussed the importance of strong and independent civil society. It was noted that the impact of civil society is affected by other factors. The panel observed that the extent of division among the political elite can be influential.

Several participants commented on the existence of a false dichotomy between market and state in discussions of development. It was suggested that the question is not market or state, but rather a question of striking the right balance between the two. Participants noted the importance of discussing economics as well as politics. For example, the issue of raising the minimum wage has important economic and political dimensions.

Discussions touched on the role of class, and the relationship between class and the state. It was noted that the middle class is very important theoretically, but when it is dependent on the state it may not have the positive effects that are commonly expected. In response, members of the panel
noted that expectations about class must be shaped by context. In particular, historical context matters. Other participants noted the danger of focussing on class too much. This can obscure other important sources of inequality, such as gender.

Participants commented on the role of culture, noting that while culture is important, recent events suggest that Arab culture is not the barrier to democracy that many once assumed. It normative dimension of democracy promotion was also discussed. Participants noted that there is a risk of imposing external values and assumptions about what constitutes democracy. Participants also raised questions about the relationship between democracy and development. Democracy is often cast as an instrument for achieving development but in some cases it has helped to entrench existing interests.

Setting Priorities: The Need for Employment Creation
Session 2, Friday 22 March, 2013

Emilio Zevallos, Universidad Latinoamericana de Ciencia y Tecnología
Fostering entrepreneurship and job creation in Latin America

One mechanism of promoting development from the bottom up is the facilitation of entrepreneurship. The experience of Latin America provides a useful insight into the challenges and opportunities associated with this mechanism. In terms of social indicators, Latin America has been performing above average. But in terms of incomes it has not. Part of the reason for this is that a majority of those employed work in the informal sector, often in small and medium-sized enterprises (SMEs). SMEs face a number of challenges. These include the need to compete with big businesses, fewer links to government and less reliable supply chains.

Entrepreneurship can help to increase incomes, but there are a number of challenges that must be addressed. One is gender: women represent around 24% of entrepreneurs but they tend to only be found in the smaller and simpler businesses. So far, many of the challenges of facilitating entrepreneurship have not been overcome. Many of the policies designed to promote SMEs in Latin America have not been successful. This is often because they have been poorly targeted: insufficient attention has been paid to the type of entrepreneurs that they are trying to assist. These programs need to be tailored, and to recognize that not all entrepreneurs and small businesses are the same.

Eduardo Zepeda, UNDP
The challenge of youth unemployment

In developing countries, unemployment is often highest among youth. This represents a significant challenge in terms of facilitating development. Research from Kenya demonstrates that youth unemployment is distinct from unemployment at other ages. Much of it is related to
the challenge of transition from study to work. The percentage of young people employed in the formal sector is very low.

This raises the question of what can be done: what would top-down and bottom-up approaches to youth unemployment look like? The Millennium Development Goals (MDGs) are an important top-down mechanism that could be used to address youth unemployment. They provide an important focal point for action. However while they include poverty reduction targets, they do not include an employment target. This limits their utility with respect to this particular problem. Research suggests that the most important bottom-up mechanism for improving employment is to improve education. It is clear that a lack of education is one of the biggest barriers to employment in the developing world. There is also a need to develop better mechanisms for facilitating the transition between education and employment. This could include internship programs and other programs designed to give graduates the practical skills required by employers. Minimum wages are important, as they mean that employment has flow on effects, increasing demand for goods and services in local communities and so creating opportunities for entrepreneurs and small business.

David Fulton, International Finance Corporation
Creating Opportunity Where it is Needed Most

The International Finance Corporation (IFC) is the world’s largest development institution focussed exclusively on the private sector. A key part of its mission is to generate productive jobs in order to foster sustainable growth. The IFC provides investment services, advisory services, and asset management.

The IFC Jobs Study examined how the private sector contributes to job creation and poverty reduction. Worldwide, the private sector is by far the largest employer. As such it must play a central role in job creation. In developing countries, the jobs are in smaller firms. IFC projects contribute to job creation primarily through supply chains. As a result, they create more jobs indirectly, rather than directly.

IFC studies have identified a number of constraints on the private sector. These include over regulation, poor infrastructure and limits on access to capital. Investment climate is perhaps the most important, and the biggest factor here is informality. This is one of the big reasons for lack of access to capital. IFC programs address this in several ways. For example, the IFC supports local banks, who can then provide credit to small local businesses. The IFC also aims to support projects that tackle key infrastructure gaps that create barriers for small business. For example, projects that build communications infrastructure. These create few jobs directly, but create many jobs indirectly by supporting the growth of small businesses.
Discussion

Discussion highlighted the centrality of job creation in driving sustainable development. Participants noted that this is the focus of the current World Development Report. Many of the jobs being created in the developing world are being created by entrepreneurs and small business. Job creation is an area where we see the importance of collaboration between economists and political scientists.

Participants raised questions about the motivations behind entrepreneurship. Panellists responded that independence is an important motivation, but in many cases the need for income is also influential. Some people would prefer to just be employees, to not have to take the risks associated with entrepreneurship. Some people are entrepreneurs by opportunity, others by necessity.

Informality was also discussed. Differing views were expressed regarding whether informality is a last resort, due to barriers to entering the formal sector, or whether under some circumstances informality may have advantages that lead it to be preferred. Flexibility and freedom from regulations can be attractive, and may increase individuals’ satisfaction with their work and business, even though it may reduce incomes. As a result, development strategies need to recognize the diversity of the informal sector.

Participants discussed strategies for dealing with informality. It was noted that many factors lead to informality. One is the difficulty of registering a business, i.e. the difficulty of entering the formal sector.

Addressing the Needs of Vulnerable Groups
Session 3, Friday 22 March, 2013

Harry Patrinos, World Bank
Indigenous Peoples, Poverty and Development

One important issue in engaging with indigenous peoples is that of identity. Indigenous identities are often layered, and people identify differently in different contexts.

Research indicates that the situation of indigenous peoples has improved in terms of social indicators, but that poverty has remained at very high levels in indigenous communities. In some countries, the income gap between indigenous and non-indigenous peoples has been increasing rather than decreasing. An important exception is China, where poverty rates for ethnic minorities has decreased at higher rates that for the rest of the population. This is notable given the relative absence of policies that specifically target minority groups in China. This suggests that programs which target poverty, rather than indigenous peoples, may be more effective in improving the economic circumstance of indigenous groups.
Research also shows that indigenous populations are more vulnerable to economic crises and that the economic integration of indigenous peoples with national economies is essential if indigenous poverty is to be reduced. It is important to remember that there have been cases of success. These cases demonstrate that poverty among indigenous peoples is not necessary or unavoidable.

Sam Benin, International Food Policy Research Institute (IFPRI)
Complying with the Maputo Declaration: How serious are African governments?

The Comprehensive Africa Agriculture Development Programme (CAADP), also known as the Maputo Declaration, aimed to put agriculture back on the development agenda. Agriculture is central to poverty reduction, as a disproportionate number of the poor are employed in the agricultural sector. It can play a critical role in fostering economic growth generally, and in reducing poverty. Despite the CAADP, African countries continue to spend relatively little on the development of the agricultural sector. Generally, in Southern Africa, the percentage spent on Agriculture has stagnated. In North Africa it has increased. In West Africa there have been more increases. As such, we see significant regional variation across Africa. An important contextual factor is the historical involvement of government in agricultural production. This created an incentive for expenditure on agriculture. Now that governments play a less direct role in agricultural production, some of their motivation for spending in this area has been removed.

The CAADP provides a motivation for poor sections of the rural community to engage with debates about investment in agriculture. As such, it represents an important opportunity for bottom up development strategies. There is a need for programs which strengthen the capacity of the poor to engage in this process.

Margaret Capelazo, CARE Canada
When Good Intentions are Not Enough

A number of CARE projects provide insight into how to balance state and private sector. They can also help to identify the most effective policies for integrating vulnerable groups into national economic processes. CARE runs a number of programs designed to support micro and small businesses. These programs demonstrate the importance of integrating a gender perspective. Among other things, they highlighted the fact that gender stereotypes affect the bottom lines of business and banks. This can occur due to a number of factors, including assumptions that women are risk averse and that women engage in business only as a sideline. These kinds of assumptions often create a tendency for banks to loan less to women. Women also tend to be subject to more restrictive collateral requirements, in part because they have less access to 'hard' sources of collateral. This reduced the ability of women to compete by buying bulk, and to expand their businesses. Yet women often proved easier to contact in order to ensure
that loans were repaid. This is partially due to the fact that women are less mobile. In theory, this should create an incentive to loan for women, and to offer them more favourable terms. Ultimately, the exclusion of women from economic opportunities is reducing productivity.

CARE’s experience suggests a number of changes that could be made to programs that support local banks. In particular, they suggest the need to

- Encourage local banks to hire more female loan officers.
- Identify social stereotypes and collect data that allows disaggregation by sex. This will allow analysis of the impact of gender stereotypes.

Discussion

Discussion raised the issue of how different vulnerable groups intersect. Participants queried how gender fits into efforts to address indigenous poverty, and how ethnicity affects women. Participants noted that there are important interactions between these factors. For example, pressures for indigenous women to act as the 'keepers of culture' may create barriers to them adopting innovative approaches to agriculture or business. Culture can also limit their mobility, as their reputations can be affected by travelling to urban centres.

Participants discussed the need to balance targeted policies with freedom to decide at the local level. In some cases, targeting of policies towards indigenous groups have been counterproductive, as their rigidity as reduced motivation for compliance. In some cases, flexibility can be more productive as local actors then take more responsibility for deciding what is appropriate.

Participants noted the large amount of Canadian investment in the mining sectors of developing countries. Participants asked how this investment can be used more effectively to contribute to development. It was suggested that there is a significant risk that this investment will actually worsen the situation of vulnerable groups, particularly indigenous peoples. Panellists noted that many developing countries lack the institutional capacity to comply with international norms mandating consultation with indigenous groups affected by projects such as resource development. Similarly, resource investment has the potential to exacerbate gender gaps, as men are more likely to be employed in mining projects. This suggests a need for more vocational training for women together with the adoption of strategies that open up more non-traditional employment opportunities for them.

Discussion also highlighted the need for gender analysis at the planning stages of development projects. Participants asked whether or not NGOs and international organizations (IOs) are becoming better at incorporating gender in their projects. Some observed that evaluations continue to identify unforeseen negative consequences of development projects with respect to gender. However participants also noted that IOs and NGOs are changing their practices and establishing working groups tasked with integrating gender into strategies and projects.
Balancing the State and the Market: The Roles of Public Policy and the Private Sector
Session 4, Friday 22 March, 2013

Sajjad Zohir, Economic Research Group, Bangladesh
Lessons from Bangladesh

The state is essential in development, as it plays an important role in mobilizing resources around a collective vision. This can create tensions with the private sector. Yet both state and private sector are necessary to promote development. The example of microfinance demonstrates this. It is one strategy that has been effective in promoting development from the bottom up. The experience of Bangladesh demonstrates that access to credit does more than enrich individuals; it also contributes to institution building. It also demonstrates the need to recognize that the poor already have skills and knowledge that they can utilize, if given the opportunity to do so. States need to acknowledge the dynamics of capital accumulation and design appropriate regulatory frameworks.

Bangladesh’s experiences also show that targeted policies and programs can have adverse effects. In particular, they can contribute towards the segmentation of society rather than the integration of vulnerable groups.

Dave Donovan, Canadian International Development Agency
The perspective from aid agencies

The Canadian government aims to develop better policies for working with the private sector, including in the context of development. It is working in a context in which conceptions of development are changing. While aid has increased in absolute terms, it no longer represents the majority of financial flows into the developing world. Both foreign direct investment and remittances now exceed aid flows. As such, the private sector is already playing a much larger role in development than it used to. However, we are still working out how these financial flows can contribute to development most effectively.

While the role of the state may have shrunk, it is still essential in correcting market failures. The state has an important role to play in getting economic development going, but ultimately it must allow space for the private sector.

Leading aid agencies are now developing more sophisticated policies for working with the private sector. Agencies such as DFID (UK) and SIDA (Sweden) have taken the lead in this area. For aid agencies, the advantage of this new approach is the ability to leverage the funding available in the private sector. However there have been questions raised about how well partnerships with the private sector work in terms of poverty reduction. The donor community is still accumulating research and knowledge in this area, and will need to adjust strategies as more
discussion

discussion highlighted the history of oscillation between extremes in development: first too much government intervention, then excessive efforts to shrink the state and give the market a free hand. it is now clear that in developing countries, the problem is that both the state and the market are ineffective. balancing the two, rather than focussing solely on one is the answer. panellists observed that we need to work out who does what best, not who should do it all. they noted that the correct or best balance may be historically contingent, and may need to shift over time depending on what circumstances require.

discussions also pointed to the fact that we are also seeing large philanthropic organizations (such as the bill and melinda gates foundation) play a larger role in international development. commercial consulting firms are also starting to play a bigger role in identifying those development strategies that are most effective.

participants raised the issue of the increasing amount of investment from china, particularly in africa. this blurs the state-private sector divide given the number of state-owned companies and investment funds. some participants commented that the international community needs to think about how it we can transform china into a development partner.

discussion also highlighted the need to ensure that dialogue between state and private sector does not obscure the importance of dialogue with local communities and developing countries.

the importance of regional governance: understanding recent successes

session 5, friday 22 march, 2013

jorge luís miranda vieira, secretaria de planejamento e gestão de pernambuco, brazil

experiences from pernambuco

pernambuco provides a valuable illustration of how community consultations can be held in a successful manner and translated into an effective development strategy. in pernambuco, the state government adopted a participatory approach that encouraged citizens to contribute to the development agenda. participatory seminars were open to all, and a special effort was made to reach out to the more vulnerable parts of the population, who in the past had not been consulted. the seminars were held in all sub-regions of the state to facilitate participation. this presented a significant logistical challenge.

a key component of the consultations was the fact that all participants were able to make proposals. they also had an opportunity to talk directly to key government officials, including in
some cases the Governor. Systems were put in place for recording and tracking all proposals, and for identifying and coordinating priorities. This allowed proposals to be grouped and sorted, and for the state government to identify which proposals made strategic sense. Once proposals were selected for action, regular tracking of progress was implemented. This fostered a focus on achieving results.

Feedback from participants was generally very positive. Between 2007 and 2011 the number of participants almost tripled, indicating strong community interest in the process. The experience makes it clear that a large-scale consultation process (the state has population of around 9 million) is possible, and can have a meaningful impact on development strategies and projects. The consultations have also had a substantive impact. Now almost 50% of the state's priority goals are goals that were identified via the participatory seminars.

Olufunmbi M. Elemo, Michigan State University
Taxation and Representation in Africa: Determinants of Local and State Budgeting and Revenue Generating Priorities

This presentation outlined a new research project which aims to identify the conditions under which African governments are more likely to spend public revenues on public services. This project builds on existing research which suggests that when revenue comes from taxation of constituents, governments are more likely to spend resources on public services. When revenue comes from other sources (e.g. federal transfers of oil rents or development aid), governments tend to spend more on government salaries. The research employed a sub-national comparison in Nigeria, drawing on both quantitative and qualitative evidence.

The research also examines why some Nigerian states are more able than others to generate tax revenues. The key factors which it points to are political leadership, and political support for tax agencies. The states that have increased tax revenues are those where politicians have identified tax as a priority and the primary means of financing sustainable development. These leaders have provided tax agencies with resources and encouraged citizens to pay taxes. They have made efforts to explain why citizens should pay taxes, explicitly articulating a fiscal contract. They have also simplified paperwork, opened more offices and generally made tax compliance easier. Where political leadership is lacking, and where relationships between political leaders and tax agencies are adversarial, tax revenues are lower.

Discussion

Discussion observed that both presentations highlight the importance of responsive and accountable government. Participants noted that the state is the only actor empowered to make these big distributional decisions. Both presentations also suggest a link between democracy and inclusive development.
Some participants asked about the role of civil society in both of the cases addressed by presenters. Panellists responded that in Pernambuco, civil society played an important role in raising awareness about the opportunity to participate in the seminars. Many who attended were representatives of civil society organizations, but the forums were also open to individuals. Participants also noted the importance of sustainability of participatory mechanisms, and the need for participants to feel that their suggestions and comments are having a real impact on government policies and priorities.

Participants raised the importance of responsiveness. It was suggested that this is a result of taxation. However there is a degree of circularity, as expectations about responsiveness also have an important effect on willingness to pay taxes and actual payment of taxes.

Participants noted the importance of the federal dimension in Nigeria. It was observed that the state governments can only do so much. If they are not supported at the federal level then there is a limit on the development outcomes that they can achieve. It was noted that there may be a political motivation behind efforts to strengthen tax administration, specifically a desire to increase independence from the federal government.

The discussions also raised questions about how marginalized groups were included in the participatory seminars in Pernambuco. The panel responded that there were not specific meetings for specific groups, but there was a deliberate effort to contact those groups and encourage their participation. There were also efforts to support participation by the disabled (e.g. information was available in braille and through sign language interpreters).
Planning Workshop

Issues addressed

The workshop addressed each of the three central questions discussed during the conference:

1) What is the most effective balance between the state and the private sector in achieving sustainable national development, both in terms of scope of their economic activities and the particular roles the state and private sector might play in promoting development?

2) While “one size fits all” strategies must be avoided, are there general lessons to be learned and that can serve as a basis for more effective coordination among the various stakeholders in achieving sustainable national development? and

3) What are the most effective policies for assisting particularly vulnerable groups (youth, women, indigenous populations) to better integrate into national economic, social and political processes in order to ensure that they benefit from national development in sustainable ways?

Key themes

Two key themes emerged during the workshop. The first key theme was the issue of how to build better governance at all levels. Discussion also emphasized the centrality of accountability. Participants noted that a key challenge in building better governance is the challenge of evaluating impact. This is particularly difficult when it comes to building governance capacity of developing countries.

The second key theme to emerge during the workshop was the need to improving our ability to learn from experience and to make use of multi-disciplinary approaches. Participants noted that there is, in particular, a need to build better connections between economics and politics. This is particularly true in the area of evaluation. Development policy makers, practitioners and academics need to know what works, why it works and whether or not the same thing will work elsewhere.

Issue 1: The most effective balance between state and private sector

Participants noted that the answer to this question is shaped by the nature of the political regime in each country. The same balance cannot be applied successfully in every country. The state is not value neutral: there are different types of states. Historical circumstances also change. As a result, the right balance in the past may not be the right balance today. Participants also observed that striking an effective balance between the state and private sector will always involve trade-offs.
Discussions addressed this question in the context of specific sectors. Some participants highlighted the issue of employment, noting that there are institutional barriers to the creation of more sophisticated labour creation strategies. Very few countries have developed effective strategies to deal with this issue. Education is not enough, there needs to be private sector creation of jobs. This may often require new infrastructure.

Discussion highlighted the difficulty of clearly defining states and markets. Participants noted that the distinction is not always clear. For example, it is not clear how Chinese state owned enterprises operating in Africa should be characterized. Participants observed that some parts of the private sector are more 'market based' than others. Some very large companies obtain monopolies and are not subjected to market forces in the same way as smaller companies. There is also a need to avoid assuming that either the state or the private sector is a monolithic actor. Participants highlighted the fact that there are divergent preferences and interests on each side.

Participants noted that the most effective balance between the state and the private sector may vary depending on the issue or problem that is being addressed. A different balance may be more effective for addressing poverty compared to inequality. Similarly, the right balance is shaped by whether the ultimate goal is economic growth or inclusive development.

Discussion also touched on the transnational aspect of the issue. Questions were raised about whether countries can strike an effective balance between the state and the market in isolation. Each state’s choices and strategies are affected by what others do. As a result, there is a need to analyze the issue not only at the state-level, but also at the regional and global levels.

Participants noted that the state and the private sector are not the only actors who are important in promoting development. There are important actors who are positioned somewhere in between, e.g. large philanthropic foundations and philanthropy by private individuals. The impact of philanthropy is strongly influenced by its relationship with the state. Participants suggested that while some see philanthropy as an alternative to the state, this may be a mistake. Philanthropy has the greatest impact when it is supported and facilitated by the state.

**Issue 2: General lessons to be learnt about coordination among stakeholders**

The workshop highlighted the fact that the same strategies cannot be applied to all vulnerable groups. There are important differences between these groups and the problems that they face. For example, belonging to the 'youth' groups is temporary, although the effects of some of the problems affecting youth (e.g. unemployment) can be long-lasting.

Discussions highlighted the fact that there is no model that will remove risk or guarantee success. There is a need for experiments with new ideas that risk failure. However, experience also points to the importance of using processes that are representative and which reflect good governance. Processes that identify common ground and which foster dialogue tend to lead to more effective coordination.
Participants discussed the role of democracy. It was noted that without democracy, economic growth can have perverse effects. In particular, the problem of inequality can become acute. Democracy shapes the kind of development which results from economic growth, supporting inclusive development. This is because of accountability. Participants highlighted citizen participation in the setting of priorities as a very important mechanism of accountability. It changes attitudes among citizens (increasing personal sense of efficacy) and among politicians (increasing feeling of responsibility). Participants observed that these kinds of mechanisms are very difficult to establish at the national level. They need to develop from the bottom-up, starting in local and sub-national governments. Political leadership is also critical to success, creating challenges when leadership transition occurs. However good consultation mechanisms, and good policies, can have political payoffs. This creates a political motivation to maintain them despite changes in leadership.

Discussions also emphasized the need to think about the level at which decision making is taking place. Subsidiarity (devolving decisions to lower levels) can have significant payoffs, particularly when it comes to assisting vulnerable groups to be part of development.

**Issue 3: Effective policies for assisting vulnerable groups**

The workshop examined the impact of Millennium Development Goals (MDGs) as a top-down strategy of assisting vulnerable groups. Questions were raised regarding the accountability of the international community if these targets are not met. While participants noted that the focus on measuring and evaluating results has been valuable they were also wary of the potential for targets rather than outcomes to become the focus. Some participants were wary of calls for a second round of MDGs, suggesting that we first evaluate whether or not the existing MDGs have been helpful in promoting inclusive development. Differing views were expressed with respect to how successful the MDGs have been. Several participants noted that while the MDGs are not perfect, they have been a valuable focal point.

Discussions emphasized that accountability is essential for identifying and implementing effective policies for assisting vulnerable groups. Picking the 'right' policies is not enough. Vulnerable groups need mechanisms that allow them to hold political leaders to account when implementation falls short, or when policies have unintended side-effects. Participants also noted the need to identify goals by references to what communities actually want. If individual satisfaction is relative (i.e. about being better off than others) then this becomes problematic. Some participants suggested that part of development may be changing expectations about what being developed means. If this is the case, there may be a need for broader challenge in terms of individual attitudes.

Discussions raised the importance of economic growth. Some participants noted that inclusive development requires economic growth, so that there is something for vulnerable groups to be included in.
Participants emphasized the need to pay more attention to the transferability and sustainability of models. It was noted that Pernambuco's mechanisms for community participation have been a significant success, but have yet to be replicated, even in Brazil. This exposes a need for research that identifies barriers to transferability. One barrier may be the need for evaluation: decision makers will be reluctant to adopt apparently successful models unless there is clear evidence linking them to improvements in developmental outcomes. Participants observed that rigorous impact evaluations are still lacking for the vast majority of development programs. This is particularly true in areas like governance and dialogue, as it is very difficult to quantify outcomes in these areas.

Participants suggested that the private sector can help to build the capacity necessary to facilitate bottom up approaches. This can be a significant hurdle. Participants noted the case of Peru, where some local communities now have access to funds for development projects, but lack the experience and practical skills necessary to implement projects. This is a situation in which private sector can make a valuable contribution.

The discussion also noted the value of cross-regional comparisons, particularly comparisons between Latin America and Africa. This is a type of comparative research that remains relatively rare. Participants also noted the challenge of addressing less visible problems. Tackling these does not produce the same political payoffs, but they remain important. As a result, there is a need to consider how incentives can be created for investment in these areas.