

Concept Note

World Bank Group Support to Transformational Engagements

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ABSTRACT: Seeking transformational engagements as a means to increase development impact is a pillar of the 2013 World Bank Group strategy. Lessons from previous experiences with transformational engagements can help inform design and implementation of interventions. Building on the Bank Group's definition of transformation, the Independent Evaluation Group (IEG) defines such engagements as programs and interventions that seek deep, systemic, and sustainable change relative to the system or challenge they aim to address. These engagements provide solutions to development problems of major societal concern by addressing critical constraints to development, often in multiple sectors simultaneously or sequentially, or by introducing new approaches and/or scaling up new products, technologies, ideas, processes, or opportunities. This paper lays out an approach for synthesizing lessons from past interventions (to include country level interventions, programs, programmatic approaches, and projects), applying a lens of transformation to existing evaluative evidence.

Introduction and Purpose

1. The transformation of economies and achievement of social progress are at the core of development work. The World Bank Group has adopted a new strategy (World Bank Group 2013d) focused on the twin goals of contributing to ending extreme poverty and promoting shared prosperity. Pursuing transformational engagements (TEs) is one of the key building blocks the Bank Group has identified to achieve its strategic objectives.
2. A transformation is a deep and irreversible change of something from one state to another. In development, structural economic transformation has traditionally referred to shifts in economies from a rural and agricultural base to an urban and industry-based economy (Chenery and Syrquin 1975). This in turn is associated with dramatic improvements in productivity and standards of living. The broad notion of transformation has been the intellectual basis of the Bank Group's assistance to poor countries over the past decades.
3. As the World Bank Group seeks to scale up its development impact, it aims to play a more transformational role in encouraging fundamental changes in client countries through its engagements. There are different means through which the World Bank Group can achieve transformational impact, and its role entails partnerships, knowledge generation and sharing, scaling up of transformations, or a connector for transformational activities that

originate outside the Bank Group. Underlying the focus on TEs is a recognition that the Bank Group's financial resources are limited and declining relative to rising international capital flows and the growing needs of its clients. This situation implies a need to enhance the impact and effectiveness of interventions, to be more selective regarding the areas in which it intervenes, or to act as a catalyst or connector for transformational changes, often in partnership with other donors. In this context, seeking to remove binding constraints to produce transformational impacts to development and economic growth can be a critical element in helping the Bank Group enhance its focus and effectiveness in support of reaching the twin goals. At the same time, it is necessary to note that there are no "silver bullets" in development, and in reality many TEs may actually reveal a more nuanced picture of transformational aspects in some areas, paired with shortcomings in other areas.

Objectives

4. The main objective of this IEG Learning Product on TEs is to distill relevant lessons from existing evaluative evidence on experiences of the Bank Group that aimed to catalyze transformational impact to help to inform and improve the design of such engagements in the future. There are gaps in how the Bank Group defines, operationalizes, achieves, and measures transformational impact. Therefore, understanding better how the concept applies to the World Bank Group and its instruments is important for better targeting of scarce resources and to help accelerate progress toward the Bank Group's twin objectives. By applying and testing a transformational lens on existing evaluations (using the criteria of the definition of TEs discussed in the following section), the study seeks to generate learning about characteristics, mechanisms, and factors related to approaches, the design, and the implementation of these interventions, drawn from both successful and failed TEs; to present insights for replicating and systematizing such outcomes; and to suggest criteria to identify TEs going forward.

5. The learning product is expected to inform Bank Group management and staff. The study is of strategic relevance to the Bank Group. There is thus an interest in generating knowledge from IEG's evaluation database on past interventions considered to have been transformational and in informing early implementation of the Bank Group's strategy in support of its twin goals. Beyond the World Bank Group, other multilateral and bilateral development institutions, key stakeholders, and Bank Group clients would also be interested in the findings of this study.

6. IEG recently introduced a suite of learning products to distill knowledge from existing evaluative material and to facilitate learning from evaluation, targeted to operational teams. As one of these products, this study is expected to contribute to IEG's priority areas of (1) deepening evidence about the results of Bank Group programs and activities to contribute to the achievement of the Bank Group's twin goals and (2) generating evidence on the early implementation of the World Bank Group Strategy.

7. This concept note provides the background and motivation for the review and proposes a framework and methodology for the Learning Product. It builds on and reflects preliminary work on TEs done by IEG in FY14, which benefited from a review and comments of senior staff from across World Bank Group and IEG.

Background and Context

8. The concept of transformation in development economics is not new. Although the topic of economic transformation and structural change has always been a critical part of economic development, it is now attracting renewed attention in economic policy discussions and academia. Structural change theory has focused on policies designed to change the structures of developing countries from subsistence agricultural practices to more productive sectors and activities (Chenery and Taylor 1968) as a means to increase economic growth and accelerate development. A number of recent studies have focused on economic transformation through industrial or manufacturing development, industrial upgrading and diversification, and the development of the services sectors (such as information technology services, tourism) as a basis for rapid and sustained economic growth and development. Recent research in this area considers key variables such as comparative advantage, factor endowments, information externalities, technology transfer, supply chains, and globalization (for example, Lin 2012; Greenwald and Stiglitz 2012; and Rodrik 2003, 2013).

9. Economic transformation is related to social and political transformations. Changes in these dimensions may take place simultaneously and are interrelated. Social transformation refers to individuals altering their social status or alternatively may involve large-scale change of the social system, as in cultural reforms (UNESCO). Recent work has highlighted the implications of demographic, spatial, and economic transitions and changes to knowledge and information for social inclusion (World Bank 2013d). Political transformations refer to thorough changes related to the government or the public affairs of a country (Bertelsmann Transformation Index). Good governance is an important factor in ensuring sustainable and inclusive development. Although the World Bank Group's focus is mainly on broad economic transformation, given the interrelated nature of these concepts, its work also affects social or political dimensions of transformation. This study aims to provide insights on the application of the concept of transformation to Bank Group operations. Appendix 1 provides a preliminary review of the literature on economic development-related transformation.

Transformation and Bank Group Strategy

10. **The World Bank Group strategy emphasizes the importance of TEs to meet the twin objectives.** In its new strategy (October 2013), the Bank Group set two ambitious

goals: (1) to end extreme poverty by 2030, by reducing the percentage of people living on less than \$1.25 a day to 3 percent, and (2) to promote shared prosperity by fostering income growth of the bottom 40 percent of the population in every country. These goals emphasize the importance of economic growth, inclusion, and sustainability and include strong concerns around equity.

11. A key challenge is how to increase the World Bank Group's impact, given the huge gap between the magnitude of the development challenges and the resources at its disposal. The new strategy envisages a repositioned institution that "catalyzes the development community to seize the opportunity to win the age-old struggle against poverty and exclusion." Although the Strategy indicates that the Bank Group will strive to reposition itself in a number of ways, a critical element of this repositioning is to "seek TEs and take smart risks." Similarly, the International Finance Corporation's (IFC) medium-term strategy identifies a shift in resources and focus to TEs, or "game changers," that involve fundamental improvement in people's lives. IFC expects this shift to involve taking more risks and more collaborative approaches among the member institutions of the Bank Group.¹ The Multilateral Investment Guarantee Agency (MIGA) has identified transformational projects – defined as large-scale and significant investments – as one of its areas of strategic focus.²

How does the World Bank Group define "Transformational Engagements"?

12. **The Bank Group's strategy document provides elements of a definition of TEs,** noting they would "produce demonstration effects that can be replicated or scaled up; generate spillover effects on multiple sectors of the economy, including broader changes that increase government effectiveness or stimulate private investment; result in far-reaching impacts; or help client countries, regions, or even the entire developing world shift to a higher and/or more sustainable development path." The document argues that helping accelerate progress toward the two goals demands a new form of problem-solving engagement by the Bank Group, "one that moves definitely from a project mentality to a development solutions culture embedded in widely disseminated knowledge of what works and how to deliver it." According to the Strategy, "Focusing on results and the science of delivery, seeking transformational engagements, and taking informed risks are all part of the development solutions culture.... Transformational engagements are often multisector in design and often involve a mix of knowledge, policy reform, and investment. Typically, such engagements involve very strong client ownership.... The WBG can expand its role as a platform to disseminate and/or scale up the impact of external development innovations

¹ IFC Roadmap FY15-17: Implementing the World Bank Group Strategy (2014).

² MIGA Strategic Directions FY15-17 (2014).

with transformational potential.”³

13. Thus, the Bank Group’s definition emphasizes broad changes or shifts (discontinuities) in development trajectories, large impact, and sustainability of results. It also includes mechanisms for achieving transformational impact such as demonstration effects for replication, adaptation, and scaling up, externalities (spillovers) and multipliers, multisector interventions, and development innovations. Finally, the strategy refers to delivery mechanisms or modalities such as the need to move from a project to a solutions focus, the importance of the instrument mix (especially knowledge and financial services), and – implicitly – collaborative approaches and the role of risk management. Going forward, the World Bank Group plans to increase its emphasis on engagements with the potential for transformational effects.

14. **The World Bank Group has implemented interventions considered transformational before, and lessons can be learned from these experiences.** The Bank Group Strategy highlights several examples of TEs implemented in the last decade (see Table 1 for a list of these projects with a brief assessment of their perceived transformational impact, as assessed by Bank Group management). This IEG learning product will build on examples of completed Bank Group interventions designed as transformational, regardless of whether they succeeded or failed, and distill lessons on channels and drivers of transformation from IEG’s database of completed evaluations.

Table 1. Examples of Transformational Projects Provided in the World Bank Group Strategy

Project	Description	Perceived transformational impact
Turkey’s Decade of Energy Sector Reform Program (World Bank, country impact)	Supporting long-term national energy sector reform covering regulatory reform, electricity market development, electricity transmission and distribution, renewable energy and energy efficiency, and natural gas storage and transmission. In addition, IFC has financed several private sector energy projects, with significant mobilization of private financing.	Program transformed the sector from one that relied on public investment and state guarantees to one based on market-based private investment. It developed a comprehensive legal and regulatory framework and electricity market. Large-scale private investment, successful distribution privatization, an impressive renewable energy program and increasing interest in energy efficiency. Since 2001, about 20,000 MW has been added to the power sector (15,000 MW in 2008–12 alone). Privatization of distribution attracted \$12.7 billion from the winning bidders.

³ The World Bank Group Change Team further defined transformational projects as “game changers” that yield “fundamental change or unprecedented impact on people’s lives.”

Project	Description	Perceived transformational impact
Bujagali Power Project in Uganda (WBG, country impact)	The power project doubled Uganda's electricity generation capacity. This joint engagement by the IDA, IFC, and MIGA provided \$800 million in financing and guarantees while ensuring environmental, social, and economic due diligence.	<p>IEG rating: Out of 10 projects, 2 were <i>Highly Satisfactory</i>, 6 <i>Satisfactory</i>, and 2 <i>Unsatisfactory</i>.</p> <p>Project doubled Uganda's electricity generation capacity and attracted one of the largest private financings in the power sector in Sub-Saharan Africa. It established a model for WBG collaboration in the power sector that may be considered for replication in other IDA countries. However, there is a risk that WBG's institutional approach to the implementation of the project may be too costly in terms of time and money for the country, and may not ensure replicability.</p> <p>IEG rating: <i>Not evaluated</i>.</p>
Efficient Securities Markets Institutional Development (joint IFC/WB with regional impact)	This to develop securities market in East Africa (Kenya, Tanzania) - The Efficient Securities Markets Institutional Development (ESMID) is a multi-region joint World Bank/IFC program developed well-functioning securities markets in order to improve financing for infrastructure, housing, corporate growth, and social safety nets.	<p>Project improved bond markets in Africa by mobilizing private funds and encouraging self-sustaining long-term investment (in infrastructure, housing, microfinance, and other sectors), and it encouraged regional economic integration and cooperation. It has facilitated \$950 million in new bond issues in East Africa by streamlining approval and regulatory processes (reducing the time required to approve bond issues from about 270 days to 45 days in Kenya and 60 days in Tanzania). Project also supported establishment of a regional Securities Industry Training Institute, which has trained more than 2,000 people, and a regional bond issuance framework.</p> <p>IEG rating: <i>Not evaluated; not closed</i></p>
Equator Principles (<i>global impact</i>)	This set of voluntary standards designed by the banking industry, with the assistance of IFC, addresses environmental and social risks in project financing. Adopting banks agree to not provide loans to projects in which the borrower will not (or cannot) comply with the social and environmental policies and procedures set out in the Equator Principles.	<p>The Equator Principles were developed in 2002/launched in 2003, against the backdrop of increased transmission of global reputational risks to financiers—growing stakeholder awareness and public demand were pressing private banks to follow environmental and social safeguards in investments/lending.</p> <p>IEG Safeguards Evaluation (2010) <i>notes some improvements in scope and increased acceptance since 2006 revisions.</i></p>

Sources: World Bank Group, IEG.

15. Some outside observers have expressed concerns that the new Bank Group strategy and its focus on TEs may push the organization to “engage in fewer, larger high-risk operations (mainly in infrastructure) at the regional or national level rather than working on small-scale, locally relevant projects.”⁴ However, this study is designed to cover transformational engagements in a diverse set of sectors and contexts.

IEG’s Definition of Transformational Engagements

16. **IEG’s definition of TEs is based on the elements provided by the World Bank Group strategy and encompasses deep systemic and sustainable change.** Building on the definition provided in the Bank Group strategy, for the purposes of this learning product IEG defines *transformational engagements* as *those associated with deep, systemic, and sustainable change relative to the system or challenge they aim to address*. These engagements provide solutions to development problems of major societal or economic concern by addressing critical constraints to development, often in multiple sectors simultaneously or sequentially, or by introducing and/or scaling up new products, technologies, ideas, processes, or opportunities.

17. IEG defines “engagements” as projects, programs, or series of interventions that are synergistic or complementary so that, taken together, they represent more than the sum of the parts, and may involve several donors. Such engagements may relate to financing or knowledge/advisory products, or a combination thereof, and also involve the Bank Group’s role as a connector or a convener. Programs are groups of interrelated projects managed in a coordinated way that aim to achieve common strategic goals. In addition, engagements may consist of a series of interventions at either local, national or regional level that emerge over time in response to opportunities and challenges resulting from previous interventions; they are interrelated and synergistic although not managed explicitly as a program. This definition covers instances of sustained engagement in a sector, or in multiple sectors of a country, which often involve the deployment of different instruments from different members of the Bank Group (analytics and knowledge products, policy reform, and/or investments).

⁴ Bretton Woods Project. 2013. “World Bank Group Strategy: Who Benefits?” Autumn.
http://www.brettonwoodsproject.org/wp-content/uploads/2013/10/bw_observer_autumn13.pdf.

18. **Transformation is a means to an end, not an end in itself.** Transformation refers to a deep and systemic change for a purpose. It needs to be evaluated from the point of view of its impact on the development problems or binding constraints that the project or the program seeks to address. But transformations typically have multiple and far-reaching effects – some intended, some unintended, some positive, and some negative that can go beyond the problem being addressed. So one needs to pay attention to all material effects of a transformative change to assess its effects on society.

19. **Interventions with highly successful outcomes, complex or large projects, or those in the infrastructure sector are not necessarily “transformational.”** In fact, the definition of TEs encompasses any type of approach, strategy (such as transition from plan to market) and instrument (including both knowledge products and financial services), sector, or size of interventions. Therefore, this Learning Product will aim to cover a balanced and diverse sample of potential TEs in terms of their size and sector.

Characteristics of Transformational Engagements and Mechanism for Impact

20. **Transformation involves nonincremental change.** In the context of the World Bank Group’s focus on TEs, transformation can be defined as intentional and non-incremental⁵ change for the solution of social problems.⁶ Discontinuity is a defining feature of the impact of transformational change. Non-incremental change is a systemic change, as opposed to change within the system, for instance, doing the same thing better. Non-incremental change can be reflected in a discontinuity in the trajectory of a development indicator, such as the acceleration in progress in a development indicator. The concept of non-incremental change does not preclude sustained efforts through longer-term, programmatic approaches.

21. **Development challenges as points of departure.** Transformation is thus a change for a purpose. The World Bank Group’s new strategy seeks to help client countries tackle their most difficult development challenges related to the twin goals. In the Bank Group context, the range of development challenges that have the highest potential impact on the twin goals can be very broad and may include making growth more inclusive, reducing poverty, building capabilities, enhancing social protection, or ensuring sustainability (World Bank 2014). The implicit assumption is that the type of problems that are being addressed needs systemic change to help reach a solution.

⁵ In this definition, intentional is in contrast to non-planned or emergent change; episodic, in contrast to continuous change and implies change occurring in a relatively bounded time period; non-incremental is in contrast to incremental, first-order, quantitative, within the existing system type of change.

⁶ Change theories acknowledge multiple forms of change that can be classified along dimensions such as temporality, degree and scale (for example, Van de Ven and Poole, 1995; Weick and Quinn, 1999).

22. **Understanding and tackling difficult social problems requires a systemic approach.** Not all problems require deep changes as solutions, but solving difficult, long-standing problems typically requires a systemic approach.
23. **Scale of transformation.** Problems and associated systems can be tackled at different levels, for instance, local, national or global. This defines the scale of the transformation. Problems can be addressed at a low level in an experimental fashion and successful solutions can then be scaled up. The demonstration, adaptation, and replication is part of the transformational process.
24. **Mechanisms of transformation.** Approaches to transformation thus depend on understanding the economic or social problem that is being targeted, and on diagnosing and addressing its root causes. Transformative change is by nature context specific, but some general approaches can be identified. Transformation may be achieved directly, for instance, by rearranging the relationships between parts of the system through innovations in technology, legislative reforms, changes in norms, procedures, and regulations, or by pursuing changes in multiple parts of the system simultaneously or in well-ordered sequence.⁷ Transformation can also be pursued indirectly by targeting key parts⁸ of the system and relying on the interdependence and relationships between the parts for the effects to propagate and change fundamentally the system.⁹ These approaches can be applied in combination. They may be based on seeking leverage points in the system where even small shifts can bring deep and large-scale changes (Meadows 1999).
25. By this definition, TEs are expected to demonstrate **disproportionality between inputs and outcomes**. At the same time, such engagements may involve a degree of experimentation with new methods, approaches, and technologies, or “trial and error.” The gap between the resources available to the Bank Group and the magnitude of development challenges it seeks to address are key motivational factors behind the strategic intention to emphasize TEs. An important implication of emphasizing the ratio of outcomes to inputs in TEs is that large projects have often been viewed as proxies for transformational impact, yet

⁷ The World Bank Group strategy recognizes that tackling difficult challenges requires multisector solutions.

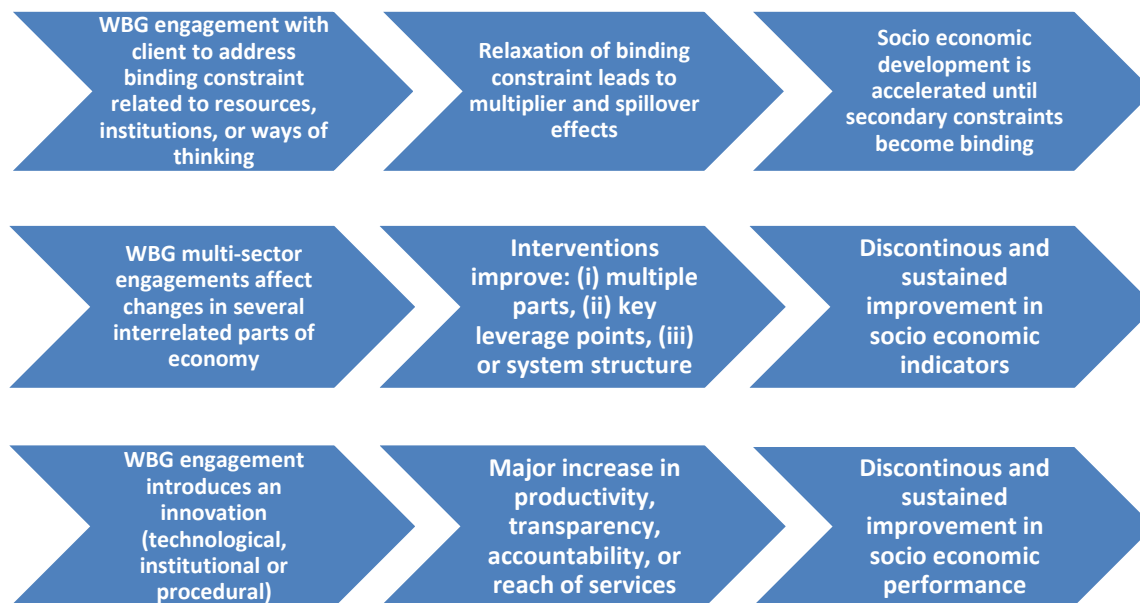
⁸ Key parts of a system are typically system components that play a disproportionately large role in system functioning by being connected to all other parts of the system, determining the composition of the system, or serving as a critical link in the system (an useful analogy in illustrating the concept may be to keystone, foundation and critical link species in ecosystems).

⁹ This approach may involve identifying and addressing the most binding constraint, a critical (possibly missing) link (as in disclosing and publishing monthly transfers to primary schools in Uganda), a turning or tipping point (defined as the threshold level of a control variable beyond which the system changes dramatically (for instance, 400ppm CO₂ in the case of climate change), or changing behavioral norms, values, and attitudes (for instance, behavioral norms involved in perpetuating corruption).

they are neither necessary nor sufficient conditions for disproportionately large impact.

26. The Bank Group strategy identifies aspects of transformation strategies – especially in its reference to binding constraints and associated spillover effects, multisector approaches, and innovations and associated demonstration effects. Although in and of themselves these mechanisms are neither necessary nor sufficient conditions for transformation, they closely align with the examples of direct and indirect approaches to transformation, as outlined above. IEG will build on these possible mechanisms of transformation. Recognizing that knowledge on how transformation occurs is limited, IEG will treat these as preliminary. The Learning Product will test, revise, and expand them based on the analysis of evaluative evidence. One output of the study will be the validation of these mechanisms, and related criteria to identify TE, and development and refinement of a theory, or theories, of change for TEs. Three possible mechanisms of transformation are discussed below: (1) addressing a critical binding constraint to development or economic growth; (2) affecting multiple sectors; and (3) introducing innovations or technological change (see also Figure 1).

Figure 1: Three Possible Mechanisms of Impact Related to Forms of Transformational Engagements



27. **Addressing critical binding constraints:** The World Bank Group strategy and associated documents refer to “identifying the most critical constraints to reducing poverty and promoting shared prosperity” (World Bank 2013, p. 25) as a possible mechanism for transformation. Bank Group country programs and strategies have long been informed by and based on to diagnostic work, and the Group is introducing a Systematic Country Diagnostic as a tool intended to identify exactly such constraints. The presence of binding

constraints implies that there are idle resources that can be mobilized if some complementary lacking resource is provided. There can be multiple binding constraints in an economy, with differing impacts. Addressing the most binding constraint (Hausmann, Rodrik and Velasco, 2005) has the potential to produce the biggest impact. Binding constraints are leverage points in the system. The implication is that TEs would have the greatest chance of having a magnified impact if they address a binding constraint, underscoring the importance of an analytical approach driven by identification of the most critical constraints.

28. Addressing a binding constraint can generate a **multiplier effect** and can have **spillovers** into other economic sectors. Yet the binding constraint approach may require a dynamic and continuous response, because in many circumstances addressing one binding constraint can lead to new, secondary constraints that may emerge as binding. Relaxing one binding constraint can bring economic progress up against the next one, as resources shift, and some sectors expand until latent limitations become actively constraining. In fact, this is how development progresses and sustains itself.¹⁰ This is one reason that transformation often involves a series of interventions – for instance, an engagement with a country over time.

29. **Multisector interventions:** A second possible mechanism is to undertake multisector engagements that affect several interrelated parts of the system (for example, a country or a sector) simultaneously or sequentially. Transformational interventions thus lead to broad, structural changes in systems. These are changes that affect multiple parts, multiple leverage points, or the structure of the system. This can, of course, overlap with the first approach if aimed at a binding constraint. Transformational impact may thus be achieved by addressing development constraints in a single sector or in multiple sectors, either simultaneously or sequentially. Yet IEG has frequently found that the complexity of project designs has been associated with low project performance; this suggests that sectorwide or multisector issues may best be addressed by multiple, focused, and coordinated interventions, or by programmatic approaches.

30. **Innovations** and technological change provide a third possible mechanism of transformation. Sometimes the trajectory of development can be changed by introducing or adapting a technology (physical, institutional or procedural) – fundamentally pushing out the production possibility frontier. Introducing an innovation that makes the economy or some sector of the economy fundamentally more productive represents the kind of discontinuous change referred to by the term “transformational.” The Green Revolution provides a classic example, as does the mobile telephony revolution that has enabled

¹⁰ For instance, theories of unbalanced growth.

leapfrogging of developing countries in adopting technologies (see applications such as M-Pesa). Adoption of new technologies can increase firm-level productivity, contributing to accelerating economic growth (Brynjolfsson and Hitt 2000; Stiroh 2002; Brynjolfsson 2007), but this may also lead to reduced employment. Technological change can also increase the efficiency of government functions and the delivery of services to citizens, such as in health and education. As noted above, however, innovations are not a necessary or sufficient condition for transformational change.

31. Innovations typically start as a local phenomenon; to have a transformative impact, they need to reach scale. To do that, innovations need to be adopted across the economy. Interventions that may generate large transformative changes have multiple and far-reaching effects. They are more likely to induce political responses from various actors and interest groups, and this political response can ultimately determine their feasibility and scale (Acemoglu 2010).

32. Box 2 presents initial observations from IEG’s application of the above definition and characteristics to a sample of highly rated projects – as a proxy for projects with high impact (such projects are not necessarily transformational, as outcome ratings are made against the development objectives). This preliminary analysis of TE indicates that a majority of reviewed interventions were not transformational by IEG’s definition, but they still have the potential to be relevant and have substantial impact.

Box 2: Findings from IEG’s Earlier Analysis Based on Highly Successful Projects

In earlier work, IEG applied the definition and characteristics of TEs to a limited sample of projects rated highly successful during FY08-13 – using these as a proxy of projects with high impact – with the objective of developing an understanding of some of the mechanisms by which transformation projects achieve high impact. (Note: The current Learning Product will not use IEG ratings as a starting point for selecting transformational engagements.) Recognizing that this is an imperfect sample – highly rated projects likely are not necessarily the ones that are transformational because the rating is made against the development objectives of the project– the analysis allowed IEG to test the utility of the definition and develop some initial observations about the mechanisms of transformation. Understanding these mechanisms was intended to help identify TEs for this review. The results of this exercise, covering 51 Bank lending and IFC investments and 8 advisory services, are summarized below. IEG made a judgment regarding whether or not the projects in this sample were potentially transformational or not, based on the framework of analysis comprising the following criteria drawn from the key characteristics and elements of the theory of change: large effect size, sustainability, innovation, and addressing binding constraints.

Key findings of IEG’s review include:

- Such engagements are a small fraction of Bank Group operations and are expected to remain so. But they can occur in projects undertaken in different circumstances, and of different size. The vast majority of Bank Group interventions, though not meeting the high standard of “transformational,” nonetheless have the potential to be highly relevant and impactful.
- Applying this framework, slightly more than half of the 51 World Bank and IFC projects rated highly successful were identified as potentially transformational (27 of 51 projects).
- Large effect size is a necessary, but not a sufficient condition for being transformational. A few projects with large effect size were assessed as non-transformational largely because of weaknesses in sustainability or problematic impacts caused by their adverse social and environmental performance.

- With IFC projects, size and economic rate of return capture important aspects of effect size. High economic rates of return, however, do not differentiate transformational from non-transformational IFC projects. However, social benefits or effects that cannot be quantified (such as ex post positive externalities/spillover effects) are typically not taken into account in these estimates. This points to shortcomings in the existing results measurement framework's ability to adequately capture transformational impact.
- These results indicate that highly successful projects do not necessarily imply large impact.
- In the case of Bank projects, the scale of the interventions at a national, multicountry, or regional level is on average almost at the same level for both transformational and non-transformational projects. However, scale was a differentiating factor in IFC's projects. Those projects tended to be more local in nature than the Bank's (58 percent vs 33 percent). Non-transformational IFC projects are predominantly local (11 of 12) in nature, whereas transformational projects are predominantly national or multinational (9 of 12).
- Significant differences were observed between transformational and non-transformational projects within the sample in terms of innovation, demonstration, and replication effects. These are characteristics associated with mechanisms of impact.

These findings suggest that any theory of change for TEs must allow for different initial conditions and different mechanisms (or combinations of mechanisms) for achieving transformational impact.

Source: IEG

33. **Quantifying transformation and its impacts.** Although transformational changes are intrinsically difficult to quantify, their effects are typically large and often “visible to the naked eye.” These effects manifest themselves in discontinuities, including turning points and rapid accelerations. Such discontinuities can indicate underlying transformations. Therefore, one approach to identifying transformations quantitatively is to look for substantial discontinuities in indices of development outcomes (such as for income, productivity, health, education, access to infrastructure services, quality of institutions and governance).

34. **Tackling critical issues and constraints:** Implicit in the concept of TEs is that they tackle issues of great societal concern. In the context of the World Bank Group, these are typically issues and critical constraints that deeply affect a large number of poor people. The World Bank Group seeks to help countries address some of their “most difficult development challenges” (World Bank 2013d, p. 13). TEs are a means to that end. Country partnership strategies and Country Program Review Completion Report Reviews and analytical documents (Country Economic Memoranda) are sources to identify whether the Bank Group aimed to address critical issues and constraints.

35. Transformations are typically led and implemented by clients (governments or the private sector), with the Bank Group's role limited to catalyzing such engagements through knowledge or interventions, or as a convener. This points to the importance of country readiness and commitment, as well as the role of political economy consideration as important enabling conditions for transformational impact. This Learning Paper will explore the role of partnerships with other donors, beneficiaries, and the private sector in

the implementation of TEs.

36. **Sustainability of change:** A focus on sustainability of results is important to ensure “that today’s development progress is not reversed tomorrow” (World Bank 2013d, p. 1). It includes environmental, social, and economic dimensions but goes beyond that to capture the likelihood that changes in development trajectories are irreversible once the intervention concludes. Sustainability is a necessary attribute of something transformational, since the objective is to set development on a higher and more sustainable trajectory, based on the removal of a binding constraint to development on a permanent basis. Ex post project evaluations of projects/programs contain ratings indicating the likely sustainability of results, and IEG’s sector, thematic, and country evaluations typically look at the longer-term effects of interventions and programs.

37. In conclusion, IEG’s preliminary analysis suggests that interventions that address single or multiple binding constraints or bring improvements in products or processes have the potential to generate non-incremental change, that is, to make large improvements in performance compared to existing practices (see Figure 1).

Analytical Framework

38. The possible mechanisms of transformation identified in Figure 1 provide an analytical framework for this Learning Product. However, these mechanisms are preliminary, as additional ones are likely to exist for the universe of diverse interventions. IEG will therefore seek to validate and expand on these mechanisms through the review of interventions that meet the definition and characteristics of TE, as defined in paragraph 16. This paper would thus contribute defining the elements of a theory of change for transformation that would facilitate application of concept in operational contexts.

39. Table 2 provides a breakdown of the elements of definition of TEs, systematized by its key attributes: characteristics and possible mechanisms for transformation. It also lists risks or challenges to TEs. The definition and issues have been derived from recent World Bank Group strategy documents.

Table 2: Definition of Transformational Engagements and Possible Issues

Characteristics	<ul style="list-style-type: none"> • Importance: issues of great societal concern or developmental challenge such as poverty, equity, climate change. • Depth of change: causes or supports fundamental change in a system or market, addresses root causes of the development challenge; a change in trajectory • Scale of change: causes large scale impact relative to the development challenge at hand (the system to be intervened on, such as national, regional, global) • Sustainability: changes are sustained; impact is economically, financially, environmentally and socially sustainable
Possible mechanisms of transformation	<ul style="list-style-type: none"> • Addressing binding constraints (in economic development, political and political economy, social, security) • Multisector interventions • Introducing innovations (technological, process, or institutional)
Possible approaches	<ul style="list-style-type: none"> • Catalytic effects (including those beyond the sector of intervention), positive spillovers, and multipliers effects • Changing mental models/paradigms often through of analytical work and generation of ideas • Introducing, scaling up, adapting or replicating innovative approaches
Possible risks to transformation	<ul style="list-style-type: none"> • Negative spillovers and externalities (such as environmental and social impacts) • Lack of sustainability of solutions and impacts • Governance and political economy concerns • Lack of client capacity • Elite capture of benefits • Lack of diagnostics and analytics • Lack of alignment of internal incentives

Scope of the Study

40. To provide a synthesis on the experience with TEs, in this product IEG will draw primarily on existing evaluative knowledge in the World Bank Group, complemented with insights from task manager and staff interviews (or surveys) to better understand mechanisms of transformation and its enablers and constraints.

41. IEG will apply a “transformative lens” to a purposive sample of TEs. The study will focus on “engagements” (comprising projects, series of projects, programs, and initiatives). Such engagements would be identified by triangulating several approaches, as described below. The review will be based on engagements for which evaluative evidence exists within IEG, that is, engagements for which IEG has undertaken evaluations in FY2000-14, which pertain to projects and programs implemented in the 1990s and 2000s. IEG’s review intends to cover “successes” as well as “failures” (that is, engagements of highly similar design to TEs but without their transformational design) to compare and contrast factors associated with positive and negative outcomes, respectively.

42. Based on its definition of TEs, IEG will develop an approach to distill lessons from design, implementation, and impact. Thus, IEG will first differentiate TEs from non-transformational ones by triangulating information from a variety of sources, including initial identification by experts and consistency with elements of the definition of TEs. To this end, IEG will apply a “filter” to confirm that individual engagements are consistent with IEG’s definition and criteria.

43. IEG will then look deeply at activities with transformational potential, identifying their design, observable changes of development trajectories to which the intervention(s) is (are) thought to have contributed, and qualitative information. The study will compare and contrast interventions in several clusters of transformational activities (for instance, engagements in infrastructure, related to climate change, in social protection, and in human development; as well as initiatives to introduce benchmarks and standards). Each cluster will contain activities with successful and less successful transformational impact that will enable IEG to identify differences in design, implementation, and contextual factors. Where possible, similar cases with and without transformational impact will be “paired” to enhance learning. The study will cover lessons and insights from TEs at different levels: global, regional, country, and project/intervention and will include a broad range of interventions: financial products (investment and policy finance/ investments/ guarantees), knowledge products, and policy dialogue and convening power – and combinations thereof. Because addressing development constraints often involves more than one project or one type of intervention, sometimes in parallel and sometimes in sequence, the study will also include programmatic approaches or instances of using a series of projects intended to achieve transformational impact. Such cases will enhance learning about complementarity, sequencing, coordination and synergy of Bank Group interventions.

44. Consistent with a learning product, the study focuses on completed programs/and projects for which evaluative evidence is available. IEG will build on and expand the initial analysis it did to gain a deeper understanding of channels and mechanisms of transformation, enabling factors and constraints, and develop lessons for operational

teams.¹¹ However, additional evaluative work is expected, mainly by applying the lens of transformation to existing evaluations, and reflecting feedback from Bank Group task team leaders and managers.

45. The review would also include some collection of updated project information, as outcomes and impacts may not be realized until well after the time of the TE's closing, and spillovers, multipliers and demonstration effects (affecting outcomes) may not be considered in the program/project assessment.

As a Learning Product, this study will not include a systematic review of the portfolios of the Bank Group. Rather, it will review a purposive sample of engagements identified by triangulating information arising from several approaches and sources, as described in detail in the section on "Approach and Study Design."

Questions and Issues for the Learning Product

46. IEG seeks to cover the main issues and questions (in bold) in elaborating the experiences with TEs listed below. Items in bullets are indicative of the scope of review of existing evaluative evidence, applying a "transformational lens."

How does the concept of TE apply to the different levels (global, country, sector, and intervention) and types of interventions of the Bank Group?

- Which contexts, challenges, or country characteristics lend themselves to implement TEs, if any?
- What evaluative evidence and lessons exist regarding elements of the theory of change for TEs?

What are the main channels and mechanisms through which interventions support transformation? How do these contrast with interventions that failed to have transformational impact? What lessons can we draw about selecting, designing, and implementing transformational engagements?

- How can large spillovers and demonstration effects be produced? What mechanisms work to ensure replicability and impact on a large scale?
- How do (and where have) technological innovations support(ed) transformation?
- Which channels and design features in TE were associated with transformations?

¹¹ The study will reflect findings from research in this area including those that may have used IEG project/program performance (see Denizer et al. 2011).

- Which factors have been associated with successful and less successful transformation?
- What is the relationship between internal factors, such as processes for appraisal, design, implementation support, resources, and incentives, and outcomes of TE?
- What lessons can be distilled from evaluative evidence regarding selectivity, identifying, designing, structuring, and implementing TEs? In particular, the study will draw on experiences with unintended and intended externalities, spillovers, and demonstration effects associated with TEs.
- Which aspects of country readiness and ownership have been associated with successful TE outcomes?
- Recognizing that transformational impact is often reached in partnership with other donors and clients, what can we learn from TEs regarding attribution of contribution of outcomes to the Bank Group?

Which factors were associated with sustainability of transformational impacts and change (or the lack of sustainability)? What are the drivers and mechanisms of sustained impact?

What factors internal to the Bank Group (including processes for design, implementation arrangements, risk management, incentives, resources, team characteristics, and results measurement frameworks) have enabled or constrained implementation of TEs?

- To what extent have TEs involved coordination, collaboration, and synergies across the Bank Group or with other partners? What lessons can we learn about different approaches, sequencing, and complementarities of instruments? What approaches are associated with better results in adopting and mainstreaming effective interventions?
- To what extent do Bank Group evaluation methodologies and systems sufficiently capture the impact of TEs? What evaluative framework would better capture their observed impact?

Approach and Study Design

47. IEG will use multiple methods and sources to identify mechanisms of transformation and lessons from TEs.

48. **IEG will identify an inventory of TEs using a mix of approaches and triangulating information from several sources, including:**

- Interviews with IEG sector/country program evaluators and key Bank Group staff

and task team leaders to “crowdsource” TEs based on their professional judgment in operations and evaluation

- An analysis of trends in development indicators at the country level to identify discontinuities in trends (as a proxy for changes in trajectories of economic and human development indicators we care about)
- IEG’s evaluation databases (of Implementation Completion and Results Report Reviews, Country Assistance Strategy Completion Report Reviews, Expanded Project Supervision Reports, and MIGA Project Evaluation Reports)
- The list of TEs identified by the World Bank Group Change Team (2013) as an input to the new Bank Group strategy, limited to the ones for which there is evaluative evidence in IEG work
- Relevant IEG sector, thematic, country, and corporate evaluations, including underlying background papers and country case studies undertaken for relevant topics.¹²

49. **The study will be based on a review of clusters or pairs of TEs to identify mechanisms and channels of transformation for a sample of interventions.** The sample will be drawn from interventions and activities for which evaluative evidence exists, and comprise programs (including country programs), projects, and knowledge products. (The method for identifying such engagements is explained below.) The review will focus on comparing and contrasting broadly similar engagements in key sectors to identify mechanisms and channels of transformation, and draw out factors contributing to success or failure. Where feasible, this will involve a “matched pairs” method, comparing interventions that are broadly similar in key features such as size, country classification, sector or group of sectors, and use/combination of instruments to enhance learning. Engagements will be reviewed in clusters comprising sectors, issues, or themes (these may include, for instance, engagements in infrastructure, related to climate change, in social protection, and in human development, as well as initiatives to introduce benchmarks and

¹² Relevant IEG evaluations include: Transition Economies, Doing Business Indicators, Country Policy and Institutional Assessment, Investment Climate Reforms, the Afghanistan and Brazil Country Program Evaluations, the clustered country program evaluation for resource rich developing countries (forthcoming), Safeguards and Sustainability Policies in a Changing World, Climate Change (phases I-III), Poverty Focus of Country Programs (forthcoming), IFC’s Poverty Focus and Results, Health Financing, Health, Nutrition and Population, Lessons from Education, Innovation and Entrepreneurship, Information and Communications Technologies, Transport, Electricity Access (forthcoming), Public Private Partnerships, Low-Income Fragile and Conflict-Affected States, and global program reviews.

standards).

50. **TEs will be differentiated from non-transformational ones, eliminating interventions that did not meet IEG’s definition of transformational.**¹³ To this end, IEG will develop, test and apply a “filter” to review the characteristics and attributes of such engagements consistent with its definition. The filter contains the following criteria: (1) importance relative to the development challenge, (2) depth of change (fundamental change in system or market; change in trajectory); (3) scale of change (relative to the system that is being intervened in); and (4) sustainability.

51. **IEG will conduct an in-depth review of clusters or matched pairs of TEs, applying a “transformational lens” to existing evaluative material.** Following the initial screening for consistency with its definition, IEG will then further analyze a subset of approximately 30 transformational engagements to identify characteristics, patterns, and design and implementation issues. These engagements would be selected purposively to ensure diversity by sector, countries, and type of engagements; and consistent with the cluster and matched pairs method (and as such include successful and failed TEs). The reviews will be based on existing project or program evaluations or validations of self-evaluations from IEG’s evaluation database, and relevant IEG thematic, sector and corporate evaluation reports and their background papers or case studies. The desk review will be complemented by insights from task team leaders and other key staff, as relevant.

52. The study will also systematically consider institutional factors internal to the World Bank Group, such as processes, systems, and incentives enabling or hindering the design and implementation of TEs; it will also offer observations on implications regarding the selection, design, implementation and measurement of TEs –and on the application of the concept of TEs more generally. Finally, the study will draw out implications for the appropriateness of existing Bank Group results measurement systems to capture aspects of transformational impacts.

53. The assessment of Bank Group engagements will be complemented by experiences of relevant multilateral development banks, particularly from the European Bank for Reconstruction and Development, whose mandate is the transformation of transition economies.

54. Attribution of results to Bank Group programs/interactions will be a challenge. Such attribution has always been problematic, given the difficulties of linking observed outcomes to a specific intervention versus the influence of other factors such as general economic conditions, or political changes. It is particularly difficult to assess when there are

¹³ Although this approach omits engagements with unintended transformational impact, the focus here is on intended transformations, as the scope for replicating unintended effects through project design and implementation is limited.

multiple development partners involved. And it is important to keep in mind that the uptake and effectiveness of Bank Group interventions, such as policy reforms, usually depend on the capacity and willingness of government clients to implement difficult reforms (“country ownership” and institutional capacity). Furthermore, many transformational engagements may include multiple partners ranging from local nongovernmental organizations to other bilateral and multilateral donors.

55. Given these challenges, IEG will explore the use of contribution analysis for its case study component as a framework for trying to separate the impact of different institutions’ engagements, acknowledging that outcomes and impacts are also influenced both positively and negatively by local and global policies, events, and activities. Contribution analysis provides an explicit framework to consider the plausible association of interventions or programs to outcomes while accounting for the various other factors that may have influenced observed outcomes. Within a given context, contribution analysis starts from a theory of change with a clear results chain linking Bank Group activities to outcomes to impacts; it explicitly acknowledges any underlying assumptions, risks to the outcome, and other influencing factors outside of the direct control of the World Bank Group.

Expected Output

56. The expected output is a report of findings of the study that will draw out implications for the Bank Group’s objective to increase its transformational impact, and for IEG in terms of its evaluative approach to TEs.

57. The final product will follow quality assurance steps established for IEG learning products. Peer reviewers are Anis Dani (consultant, former Lead Evaluator, IEG), Alan Gelb (Senior Fellow, Center for Global Development), Neil Gregory (Chief Strategy Officer, IFC), and Kristin Hallberg (consultant, former Lead Evaluator, IEG). IEG will explore options to engage with staff and management within the Bank Group as part of this Learning Product, and seek their inputs.

58. IEG expects the main audience for this report to be operational management and staff in the Bank, IFC, and MIGA; strategy departments; Global Practices and Cross Cutting Solutions Areas; and regional and country units. IEG will proactively disseminate the findings of the study among these audiences, and externally to multilateral development banks and donors as well as selectively to other stakeholders. Various platforms for outreach and disseminations will be considered to reach targeted audiences, including through presentations or video (conferences), blogs, and the IEG website.

Timeline and Resources

59. The study will be undertaken in FY15 and the report will be delivered to management at the end of FY15.

60. The study team will be comprised of staff and consultants with expertise in private and public sector approaches and programs. The report is designed as a collaborative effort across all IEG departments. Furthermore, major building blocks of the study depend on harnessing the expertise, insights, evaluative judgment, and feedback of IEG staff and consultants beyond the core team regarding knowledge specific to TEs.

61. The study will be undertaken under the direction of Marvin Taylor-Dormond (Director, IEGPE) and the guidance of Stoyan Tenev (Senior Manager, IEGPE) and Andrew Stone (Head, Macro Evaluation). The team consists of Stephan Wegner (task team leader, IEGPE), Stoyan Tenev (advisor), Andrew Stone, Shahrokh Fardoust, Ann Flanagan, Hiroyuki Hatashima, Lauren Kelly, Mari Noelle Lantin Roquiz, Midori Makino, Aurora Medina Siy, Melvin Vaz, Houqi Hong, and Daniel Palazov. In addition, IEG has established an advisory panel of senior evaluators and consultants from across IEG, which includes Ismail Arslan, Jaime Biderman, Kenneth Chomitz, and Inder Sud.

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Appendix 1: Economic Transformation – A Preliminary Review of the Literature

1. Structural change theory has focused on policies designed to changing the structures of developing countries from subsistence agricultural practices to more productive sectors and activities (Chenery and Taylor 1968) as a means to increase economic growth and accelerate development. A number of recent studies have focused on economic transformation through industrial or manufacturing development, industrial upgrading and diversification, and the development of services sectors (such as information technology services, tourism), as a basis for rapid and sustained economic growth and development.
2. Recent work in this area considers key variables such as comparative advantage, factor endowments, information externalities, technology transfer, supply chains, and globalization (for example, Lin 2012; Greenwald and Stiglitz 2012; and Rodrik 2003, 2013). Rodrik (2013) highlights structural transformation, understood as the development and expansion of new industries and the transfer of labor from traditional or lower-productivity activities to modern ones, as one of two drivers behind economic growth.¹⁴
3. The growth and employment effect of “transformational engagements” can be seen as part of the country’s overall economic transformation which can be triggered and sustained through a set of major development projects and or industrial policies. As implied by the name, it suggests a discontinuity, or acceleration, rather than simply a gradual evolution.
4. The concept of economic transformation associated with international development institutions is related to other dimensions of transformation such as social and political transformations. These changes may take place simultaneously, and the relationships among the dimensions have become stronger and more complex, due to the effects of globalization. Social transformation involves processes by which individuals alter their social status; or alternatively may involve large scale change of the social system as in cultural reforms. According to the United Nations Educational, Scientific, and Cultural Organisation (UNESCO), this encompasses changes in a society’s systemic characteristics, including technological, economic, political and cultural restructuring. This definition encompasses influences on productive infrastructure that can bring about new technological changes, new structures of economic organization, the distribution and use of political power, and changes in a society’s value-normative system.¹⁵ Political transformations refer

¹⁴ The second driver of growth, according to Rodrik, is the “development of key fundamental capabilities”, human capital and institutions, which determine the sustainability of economic growth over the long run.

¹⁵ Genov, N. 1999. *Managing Transformations in Eastern Europe*. UNESCO-MOST, Paris.

to thorough or dramatic changes related to the government or the public affairs of a country. Good governance is an important factor in ensuring sustainable development. Several indices aim to capture political transformation, such as the Bertelsmann Transformation Index, which measures progress towards democracy based on the rule of law and a market economy.¹⁶ The World Governance Indicators project (Kaufmann, Kraay, and Mastruzzi 2007), covering six indicators of governance and various indexes of democracy and freedom also aims to track aspects of the state of governance and democracy.¹⁷

5. Development institutions have begun to take a long-term view of poverty reduction through economic transformation. A recent research program at the World Bank focused on the role of manufacturing in structural transformation in Africa. A new African Development Bank strategy focuses on Africa's economic transformation.¹⁸ The International Monetary Fund and the Organisation for Economic Co-operation and Development have discussed the importance of economic transformation, diversification, and growth for developing countries.¹⁹ The most recent Industrial Development Report of the United Nations Industrial Development Organization focuses on sustaining economic growth through manufacturing and structural transformation.²⁰ The Least Developed Countries Report by the United Nations Conference on Trade and Development,²¹ and the European Report on Development²² look specifically at economic transformation and job creation. The report of the United Nations' High-Level Panel on Post-2015 also presents a set of transformations, including inclusive growth and job creation. These developments are important, particularly with regard to economic transformation and productivity change in low-income countries, and in defining the role of economic transformation and structural change in setting the post-2015 agenda. However, this requires new thinking about development processes and economic transformation and new instruments, including transformational engagements, market-friendly industrial policies, and new sources of long-term financing for development.

¹⁶ Bertelsmann Stiftung: Bertelsmann Transformation Index. The index ranks countries according to their political as well as economic transformation.

¹⁷ For instance, Freedom House's annual reports on the state of global freedom; or the Economist Intelligence Unit's Democracy Index.

¹⁸ African Development Bank: At the Center of Africa's Transformation. A Strategy for 2013-2022 (2013).

¹⁹ OECD, et al.: African Economic Outlook 2013: Structural Transformation and Natural Resources (2013).

²⁰ UNIDO: Industrial Development Report 2013. Sustaining Employment Growth: The Role of Manufacturing and Structural Change (2013).

²¹ UNCTAD: The Least Developed Countries Report 2013: Growth with employment and sustainable development (2013).

²² European Report on Development 2013: Post-2015. Global Action for an Inclusive and Sustainable Future. (2013).