THE CARNEGIE PAPERS

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Progress Amid Uncertainties

Thomas Carothers and
Diane de Gramont

DEMOCRACY AND RULE OF LAW | NOVEMBER 2011

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Summary

Since emerging as a new donor enthusiasm in the 1990s, governance support has become a major area of aid to developing countries. The idea that remedying debilitating patterns of inefficient, corrupt, and unaccountable governance will unlock developmental progress appeals not just to aid providers but also to ordinary people throughout the developing world who are angry at unresponsive and poorly functioning states. Yet despite the natural appeal of improving governance, it has proved challenging in practice. Many initial assumptions about the task have run aground on the shoals of countervailing realities. As a result, aid practitioners have begun accumulating important insights about how to improve governance aid:

- Governance deficiencies are often primarily political and cannot be resolved through technical assistance alone.
- Fostering citizen demand for better governance is as important as top-down efforts aimed at improving the "supply" of governance.
- Governance aid may be more effective at the local level than at the national level.
- Despite the intuitive appeal of governance best practices, concentrating on locally determined "best fit" may be more productive.
- Informal institutions are a central part of the governance puzzle and cannot be treated as developmental marginalia.
- Governance concerns should be integrated into the full range of assistance programming.
- Donor countries should address international drivers of poor governance.
- Aiding governance effectively requires development agencies to rethink their own internal governance.

These eight insights represent the framework of an emergent but still tentative second generation of governance support. Often embraced in principle, they are still far from being widely implemented in practice.

Even as governance assistance progresses, it struggles with several continuing uncertainties. The empirical case that improved governance is necessary for development progress is less straightforward than many aid practitioners would wish. The increasing pressure faced by most aid organizations for rapid,

clearly measurable results sometimes works against sophisticated governance assistance. Larger international aid trends, especially the rise of new donors with other priorities, threaten to weaken the governance agenda.

Fully operationalizing these insights and overcoming the uncertainties will be hard. But the central promise of governance assistance—finally getting to the heart of the development challenge—is great enough to justify the effort and to ensure that even partial success will be worthwhile.

Introduction

Starting in the mid-1990s, international development assistance added a vital new element to its portfolio of priorities—improving governance. Donors defined this concept in slightly different ways, but their definitions converged broadly around the idea of governance as the exercise of authority over a country's economic, political, and social affairs.[1] Development aid organizations began addressing a quickly overflowing basket of interrelated and overlapping issues under this general rubric—anticorruption, institution building, governmental accountability, transparency, legal reform, public sector management, and others. Proponents of this new agenda argued that governance was not just one more priority in what seemed in those years a continually expanding arena of development aid enthusiasms. Rather, they held, poor governance was a central cause of underdevelopment, and remedying it was a crucial key that would unlock progress across the developmental landscape.

The governance agenda did not, of course, appear out of the blue. For many years, aid practitioners had struggled with how to address the punishing impact of ineffective, unaccountable, and often rapacious states in developing countries. At the World Bank, for example, accumulated frustration with continued developmental failure in many parts of sub-Saharan Africa in the 1970s and 1980s led some Bank officials to push for attention to governance, resulting in the publication of a landmark 1989 report, *Sub-Saharan Africa: From Crisis to Sustainable Growth*, that highlighted governance shortcomings in Africa.[2] It was only in the 1990s, however, that a confluence of factors emerged that vaulted governance onto the main stage of international development.

In those years, the reigning donor market paradigm evolved from its anti-state or at least minimal state orthodoxy to embrace the idea that institutions matter and that effective states are necessary for the successful implementation of market reform policies. This "rediscovery of the state" in the 1990s—embodied, for example, by the 1997 World Development Report, *The State in a Changing World*—opened the door for governance work in the aid domain.[3] Adding to this, the growing debates in donor capitals in the 1990s about the value of foreign assistance and concerns about the waste of aid funds prompted a new focus on reducing corruption in recipient countries. Anticorruption thus became a major early thrust of the emergent governance agenda. More broadly, the end of the Cold War opened up the political space needed to make possible explicit donor attention to governance: As Western powers faced fewer geopolitical imperatives to maintain friendships with governments in developing countries, donor agencies were freer to question whether such governments were functioning well in developmental terms and to look for ways to push for governance reforms.[4]

Almost all major donors added governance programs to their portfolios in the second half of the 1990s. Governance work started small but then grew substantially during the first decade of the new century. At the UK Department for International Development (DFID), for example, government and civil society programs now constitute approximately 18 percent of the agency's overall spending.[5] The World Bank currently uses 11 percent of its lending to support government institutions and the rule of law, which is just one part of its broader governance work.[6] Overall, about 11 percent of total official development assistance is devoted to the area of government and civil society.[7]

While expanding in size, governance aid also broadened in scope. Göran Hydén defines the objectives of governance work as forming a continuum between effectiveness and legitimacy, with the former dealing with managerial efficiency and the latter addressing the relationship between citizens and the state.[8] Governance programs in development agencies were initially a narrow pursuit concentrated on the effectiveness side. They sought to strengthen key public sector management functions, such as national budget offices, and focused on the goals of improving administrative efficiency and combating corruption. Over the past decade, many agencies have greatly expanded their governance work, in both the range of institutions they target and the goals they seek. Their conception of governance moved well beyond efficiency to embrace goals such as accountability, transparency, inclusion, and participation, and they thus began to develop programs across nearly all aspects of the effectiveness-legitimacy continuum.[9]

As governance work grew in size and scope, the challenges of doing it well became increasingly clear.

As governance work grew in size and scope, the challenges of doing it well became increasingly clear. Aid organizations frequently confronted a gap between their starting assumptions and countervailing realities on the ground. They quickly found that simply imposing political conditions on aid was not enough to prompt significant positive changes in how developing country governments were run.[10] As donors engaged more deeply and directly with governance reforms, they were buffeted by multiple criticisms of their work. These included charges of exporting precooked and inappropriate institutional blueprints as well as failing to take into account local political realities and resistance to reform within many host governments. More fundamentally, development agencies were accused of lacking a conception of how governance develops and how to improve it.[11]

Closing this gap between initial expectations and realities on the ground has proved slow and complicated, but progress has occurred. Governance assistance has moved along a learning curve, one defined by an unfolding series of insights gained from experience. As these insights are gradually operationalized, the resulting changes in practice, when taken together, represent a transition from a first generation of governance aid to a second, more developed though still imperfect one.

Many of the individuals within aid organizations who are most deeply involved in governance work believe that the attention to governance constitutes a major and long overdue paradigm shift in development aid. Yet despite this, and notwithstanding the movement along the learning curve, they are often still noticeably unsure about the place and future of governance work within the larger world of development assistance. Continuing uncertainties about the value and appropriate nature of governance aid raise doubts about whether this new form of assistance will fully realize its potential and gain a lasting, central place on the development agenda.

Eight Insights

Recognize That Governance Deficiencies Are Primarily Political

Governance assistance was initially shaped by what can be called "the temptation of the technical." This was the belief that deficiencies in governance could be substantially alleviated through technical assistance—providing specialized know-how to relevant governing institutions. These programs relied heavily on capacity-building and systems reform, with the idea that training state officials and improving the efficiency of policy processes would lead to improved governance. Thus, for example, when confronting a poorly functioning civil service system beset by ill-prepared civil servants, incoherent management practices, and chronic corruption, aid providers would respond with management advice and anticorruption lessons. Similarly, when seeking to help a government to prepare more accurate and effective national budgets, donors would try to bolster the technical skills of the staff of the national budget office and perhaps the staff of the parliamentary committee responsible for budget oversight as well as push for the streamlining of budgeting processes.

Many governance aid specialists came to realize that while important technical deficiencies in the governing institutions in question certainly existed, they were rooted in underlying political conditions and structures that prevented any simple fixes.

As governance assistance proceeded, however, it often bounced off state institutions that appeared to badly need technical inputs yet were unwilling or unable to change in response to donor efforts. In studying these failures, many governance aid specialists came to realize that while important technical deficiencies in the governing institutions in question certainly existed, they were rooted in underlying political conditions and structures that prevented any simple fixes. Civil services in many developing countries, for example, are not dysfunctional primarily because they lack understanding about how to run an efficient bureaucracy. Rather, their governance shortcomings often directly serve the interests of power holders. The lack of meritocracy allows leaders to reward political followers and cement their bases of support. The weakness of the bureaucracy diminishes the risk that an independent source of authority might limit or even threaten the prerogatives of the ruling elite. Inefficient and opaque policy processes provide opportunities to insert special favors for powerful interests.

When confronted with these obstacles, many practitioners' first reaction was to consider political realities as constraints to be overcome. Donors still believed that the proposed technical solution was correct; they just needed the right political leadership to implement it. Those who resisted reforms were labeled as corrupt or poor leaders, and donors searched for champions who would push forward their governance agenda. Development agencies classified governments as good or bad performers, based on donor perceptions of how well they were adopting good governance practices, and rewarded them accordingly.

Yet this strategy fell short in several respects. State officials act in response to complex incentives, and those who appeared champions of reform one day often disappointed donors the next. Moreover, governance problems are often rooted in structural conditions that are not easily amenable to reform even when political will for change is present. The most promising openings for reform are also likely to vary significantly among countries. Effective programming thus required a rethinking of how donors worked and what goals they pursued.

The importance of engaging seriously with political realities in recipient countries became particularly clear as donors expanded their attention to fragile and conflict-affected states. In these situations the primary governance challenge is unavoidably political: forging a basic societal consensus on the form and legitimacy of the state. Identifying the good guys and the bad guys is less important than understanding how power is distributed, the grievances of particular groups, and possible paths to achieving consensus. Recognizing this reality, DFID's work on conflict and fragility has emphasized the importance of supporting inclusive political settlements.[12] Similarly, the 2011 World Development Report, *Conflict, Security, and Development*, notes that "internal causes of conflict arise from political, security, and economic dynamics" and urges a focus on matching interventions to the local political context.[13]

As aid agencies have increasingly recognized the centrality of politics in governance work, they have sought ways to improve their understanding of the political roots of governance challenges. This has occurred both through greater informal discussions about politics within aid organizations and the introduction of new formal tools, particularly political economy analysis. Political economy analysis has taken different shapes and names at different donor agencies—whether "drivers of change" (DFID), "power analysis" (Sweden), or "strategic corruption and governance assessments" (the Netherlands). But these varied tools largely share the same methods and goals: They seek to identify the underlying institutional structures, processes, and actors that bear on key development issues, with a view to understanding the political economy constraints on development as well as opportunities to effect positive change.

By the end of the decade, most major aid providers were carrying out at least some political economy analyses, sometimes directly related to governance programming and sometimes to help aid programs in other areas. In addition, many donors developed governance assessments that sought to take into account political issues.[14] Some aid agencies, notably DFID, have also invested significant resources in academic research on the roots of poor governance and the nature of institutional reform processes.[15] These efforts at analysis and research have not yet been fully accepted and incorporated within development agencies, but they represent a significant step toward a more sophisticated donor understanding of the political constraints on governance.

Recognizing that governance deficiencies are usually rooted in underlying political issues is one thing. Acting on this insight—moving away from the temptation of the technical toward methods of assistance that are politically nuanced and politically engaged—is a much deeper challenge.[16] Some political economy analyses identify areas where the incentives of key actors align with governance priorities and significant openings exist for progress. They can provide guidance on where capacity-building efforts would be most useful, what existing incentives could be built upon to improve governance, and which government institutions might be receptive to reform. In many, and perhaps most, cases, however, aid actors face sharp limits on their ability to affect underlying political conditions as well as inhibitions about trying to engage in work that is "too political." Political analyses of the constraints on governance reform often point to a simple but damning central conclusion: Power holders directly benefit from existing governance deficiencies, and various structural factors constrain opportunities for far-reaching reform.

Where this dispiriting conclusion emerges, it undercuts the basic idea of a productive relationship between donors interested in helping to strengthen governance and their host country government partners. Reactions to it vary. Sometimes, of course, aid agencies simply soldier on, trying to help bring about governance improvements even when there is little heartbeat of reform on the other side. They may in such cases be driven by broader geopolitical or humanitarian interests that impel them to keep aiding the government in question despite its lack of interest in reform. Or, they may be convinced that, invisible though the progress is, they are gradually having small but real positive effects that will accumulate over time into significant change. But several more adaptive changes are common.

Aid actors face sharp limits on their ability to affect underlying political conditions as well as inhibitions about trying to engage in work that is "too political."

First, by identifying the political constraints on specific possible governance reforms, aid organizations are able to make more informed decisions about whether to mount certain efforts. As a result of political economy analyses, donor organizations have stayed away from various governance projects that they might otherwise have undertaken and have engaged in new areas they might not originally have considered. A 2005 DFID analysis of a proposed water project in Bangladesh, for example, revealed significant risks and constraints that were likely to prevent the government from being an effective partner. In response, DFID overhauled the program to focus on supporting water users in pushing for service improvements.[17]

Second, some donors have reacted to political constraints on reform by introducing different forms of positive conditionality in their assistance, in the hopes of stimulating governments to get serious about governance progress. The Millennium Challenge Corporation (MCC) is a notable example in this regard—governance figures significantly in the criteria the MCC uses to decide which countries will receive its assistance. The European Commission's Governance Initiative introduced a "governance incentive tranche" that provides extra assistance to countries that show a commitment to governance reform.[18] The World Bank's Country Policy and Institutional Assessment is also intended to allocate funding based in part on the quality of governance.[19] This approach holds promise as an extra incentive for countries already making governance progress or interested in embarking on it, but it is less useful in addressing governance challenges in more difficult environments, particularly in fragile states.

When faced with partner governments that lack a strong interest in pushing through governance reforms, aid organizations have increasingly concluded that they need to directly empower societal actors to push for change.

Perhaps most significantly, a better understanding of political contexts has begun to force donors to rethink the traditional model of governance assistance as being primarily about technical aid to central governing institutions, leading to several other major insights.

Give Attention to Demand for Governance, Not Just Supply

When faced with partner governments that lack a strong interest in pushing through governance reforms, aid organizations have increasingly concluded that they need to directly empower societal actors to push for change.[20] Or, as aid practitioners commonly say, they have learned that they should seek to foster greater demand on the part of citizens for better governance. This makes intuitive sense, given that the people directly suffering the consequences of poor governance are likely to be motivated to help improve it. Such demand-side assistance generally began with grants and other assistance to citizen advocacy groups, media, and other social actors that support reform in specific governance sectors.

The World Bank's evolving approach exemplifies the adoption of this insight. The Bank traditionally partners with developing country governments and, initially at least, pursued governance reforms in a top-down, technical fashion. Yet the Bank's views on citizen participation have evolved significantly, if sometimes unevenly. The World Bank focus on participation began with recognition in the early 1990s of the importance of community consultation in order to improve the popularity and effectiveness of Bank development projects. Bank officials then expanded this concept to include empowering the poor to press their governments for improved service delivery and other pro-poor policies. This move was exemplified by the 2000/2001 and 2004 World Development Reports and the introduction of participatory Poverty Reduction Strategy Papers in 2002. The Bank's focus on improving services for the poor then shifted to a broader view of bottom-up programs as empowering a range of societal actors in order to strengthen government accountability. In its 2007 governance and anticorruption strategy, the Bank identified governments as its "principal counterpart" but also pledged to work with a variety of stakeholders, including community groups, civil society, and the media.[21] The Bank has now established a Demand for Good Governance community of practice to bring together demand-side experiences from across Bank operations.[22]

Other aid actors have similarly moved toward greater attention to the demand side of governance, often embedding such work in the concept of social accountability that has come to be widely popular in donor circles. Social accountability encompasses myriad efforts, from encouraging participatory budgeting processes to facilitating citizen monitoring of government performance.[23] Donors also relate demand-side work to efforts to promote citizen empowerment. Oxfam International, for example, has proposed "active citizenship" as a guiding approach to governance work, along with "effective states."[24]

Donors have begun to apply these approaches to nearly all governance issues. They see demand-side governance both as a means to achieve specific goals, such as mobilizing citizens to pressure for reform in the health sector, and as an end in itself, for example, empowering marginalized groups to play a larger role in the political process.

Demand-side approaches have become so popular that they have forced development agencies to rethink the ways in which they are providing this assistance. When donors first began civil society programs, aid was often distributed without sufficient regard for how broad-based or effective the recipient organizations were. The influx of funds also prompted a proliferation of nongovernmental organizations, as some individuals created NGOs simply to gain access to donor funds. Donors are now coming to realize that simply funding civil society—any civil society—is not sufficient to address governance problems. They are taking more seriously the questions of whom to support, how to help them, and how to assess the consequences of donor aid on recipient societies. Program evaluations have also demonstrated that demand-side approaches are effective only if the government is able and willing to respond, and donors should focus more on strengthening citizen–state relations and accountability processes rather than supporting demand-side actors in isolation.[25]

Go Local

The initial wave of governance assistance primarily targeted national-level institutions, such as civil services, executive ministries, national agencies, parliaments, and judiciaries. It seemed natural that to have a significant impact on a country's governance, one should assist its largest and most powerful governance institutions. With experience, however, this assumption has softened. Precisely because these institutions are the largest and most powerful, they are also ones where the efforts by externally sponsored governance programs appear small relative to the scale of the problems. They are often the ones in which internal, entrenched opposition to change is the strongest. Faced with the difficulties of working with such institutions, some aid providers have responded over the past decade by broadening their governance work to engage in subnational contexts. They have created programs to assist regional, provincial, and municipal governing institutions as well as support local demand-side actors.

At the local level, outside assistance can weigh more heavily, and efforts at community mobilization can be more effective.

At the local level, outside assistance can weigh more heavily, and efforts at community mobilization can be more effective. Moreover, diversifying the range of target institutions gives aid providers a much greater scope for choosing those in which there appears to be a genuine interest in positive change. It also allows them to create programs in which aid can go to a few institutions within a larger set of similar bodies in an effort to show that taking reform seriously will bring greater international aid. In Nigeria, for example, in the face of frequent blockages on national-level governance reforms, both DFID and the U.S. Agency for International Development (USAID) have carried out governance programs with state governments in which several such authorities are favored as aid recipients based on a record of good performance.

Strive for Best Fit Rather Than Best Practice

Governance aid initially focused on building best practice institutions, that is, pushing and helping developing countries to conform to a set of recommended practices for such institutions drawn from the experience of developed countries. This approach has proved problematic. To start with, of course, are problems with the concept itself—whether coherent sets of best practices in fact exist across the varied domains of each institutional category in developed countries.[26] It is questionable, for example, whether judiciaries in Europe and the United States share a set of clear best practices with regard to many basic operational features such as methods of judicial selection and promotion, case management, and judicial procedures.

Even to the extent they were able to bring to bear such generalizable best practices, however, governance aid providers began questioning whether utilizing such targets as the guiding approach in developing countries makes sense in all or even many cases. Stated in stark terms, would it be useful to organize efforts to help Southern Sudan build a judicial system around an attempt to bring that fledgling institution into conformance with best practices drawn from Germany, the United States, and other developed countries? Even if best practices make sense as a distant desired end point in such a case, it is unlikely that they are a useful guide to the very first phase of institution building in a fragile state. On the contrary, attempting to install best practice institutions that lack any real relationship to their local context is likely to spark unintended consequences and could even hinder institutional development.[27] In response to these challenges, governance experts have increasingly embraced the idea of "best fit" rather than best practice. Instead of importing Western models, a best fit approach focuses on helping support institutions that are appropriate for the specific context in which they operate.

Would it be useful to organize efforts to help Southern Sudan build a judicial system around an attempt to bring that fledgling institution into conformance with best practices drawn from Germany, the United States, and other developed countries?

Such an approach can mean several things. In response to the frustrations of trying to build model institutions, best fit can be a scale-down of expectations and a recognition that in difficult conditions, less-than-ideal institutions can serve basic state functions. As the World Bank's public sector strategy paper noted in 2000, "that 'the perfect is the enemy of the good' is often true in this complex area of work."[28] Merilee Grindle articulated this concept as "good enough governance," suggesting that donors prioritize and sequence governance interventions to focus on what changes are both feasible and necessary for development progress.[29]

A more ambitious formulation of the best fit insight is that donor agencies should identify transitional institutions that can help developing countries move from their current governance structures to something closer to good governance practices.[30] For instance, an aid provider may believe that while the desired end point of civil service reform in a particular country is indeed a meritocratic civil service with minimal ethnic-based patronage, that goal may not be achievable in the short term. The aid actor might then focus on best fit transitional approaches that could generate long-term progress toward that end.

Another interpretation of best fit is to abandon the idea of certain desired destinations altogether and focus on assisting whatever institutions seem to work with the country context. As Dani Rodrik notes, "the strategy of gradualism presumes that policy makers have a fairly good idea of the institutional arrangements that they want to acquire ultimately."[31] In reality there is considerable institutional divergence even among successful developed countries, and unorthodox institutions may be the best solution for a country in both the short and long term.

In their policy statements, most donors emphasize that they are not seeking to export their own institutions and that they recognize that governance arrangements must work well with the local context. Yet putting that insight into practice has proved challenging. It is difficult to come up with context-specific institutional solutions in every situation, and donors often feel that they need some replicable best practices.[32] Additionally, best fit institutions that work in the short term may fail in the long term.[33] In response, several aid agencies—notably the World Bank and DFID—are making serious attempts to invest in research on this topic and figure out how to better operationalize this important insight.

Take Informal Institutions Into Account

As donors both increased their work at the local level and came to recognize the limitations of best practice institutions, they also began to look beyond a country's formal institutions to consider the roles of informal institutions. Informal institutions—defined by Gretchen Helmke and Steven Levitsky as "socially shared rules, usually unwritten, that are created, communicated, and enforced outside officially sanctioned channels"—appear in myriad forms, from norms of patrimonialism to alternative justice systems.[34] They can complement, substitute for, accommodate, or compete with formal institutions.[35] As Sue Unsworth and researchers at the Centre for the Future State have argued, informal arrangements are pervasive and their role can sometimes be as large as or larger than the role of formal institutions in explaining development outcomes.[36]

Informal arrangements are pervasive and their role can sometimes be as large as or larger than the role of formal institutions in explaining development outcomes.

Development practitioners have obviously long known that informal institutions exist, but donors did not systematically find ways to incorporate them in their analyses and activities. To the extent they did engage informal institutions, they often saw them either as a hindrance to be overcome to move from traditional toward modern rules-based modes of governance or as a positive force for stability that should be incorporated into formal governing structures.[37] The reality is more complicated; informal institutions are very diverse, and even the same institution may have both developmental and nondevelopmental elements.[38]

Leading development agencies now include a focus on informal institutions as an element of their political economy analysis frameworks. As part of a best fit approach, David Booth has suggested that donors should seek to work "with the grain" of preexisting institutions, including informal patrimonial ones.[39] Yet grasping the full developmental implications of informal institutions and incorporating them into programming remains a work very much in progress.

Mainstream Governance

When governance first emerged as a donor concern, the aid community conceived of it as a separate sector, alongside the various traditional areas of international assistance, such as health, agriculture, and education. Aid agencies created specific offices or departments devoted to the issue, staffed with persons who were considered to be or expected to become governance specialists. Aid providers recognized that governance issues were likely to affect other areas of development work and often intersected with the traditional aid domains. Yet they initially concentrated on establishing governance as a legitimate, valued area of aid and did not focus extensively on its possible integration with other areas. In addition, sector specialists in the traditional domains were sometimes wary about this new focus on governance. They often engaged with governance issues in their sectors, such as improving health service delivery or the governance of educational institutions, but many were concerned that adding an explicit governance label on their activities might unhelpfully politicize their work. Health practitioners, for instance, did not want to endanger their cooperation with recipient governments on health system strengthening by being seen to question the management of domestic politics.

Aid actors are increasingly recognizing, however, that this division between governance and other areas of assistance is both unnatural and unhelpful. Following the pattern of other new focal areas of aid during the past two decades, such as gender and the environment, governance stovepiping is giving way to an impetus to mainstream governance throughout the assistance portfolio. This push draws on the realization among governance specialists that their work will gain greater traction both within their own bureaucracies and within recipient countries if it is tied directly to concrete socioeconomic issues—like bad schools, childhood disease, and lack of food—rather than treated as a self-standing domain measured by somewhat abstract performance indicators concerning administrative efficiency or other "pure" governance concerns. Many socioeconomic sector specialists have also increasingly recognized that governance issues are affecting—and often hindering—their work and that addressing underlying governance constraints could improve the effectiveness and sustainability of their programs.

Development agencies have already built up a small repertoire of interesting integration experiences. In the Philippines, for instance, the World Bank established a multi-sectoral Governance Advisory Team that met regularly to discuss governance issues affecting their work; reviewed and had the ability to reject project concept notes on the basis of governance issues; set up a civil society advisory group; and invested in political economy analysis.[40] USAID Guinea went even further in 2006, establishing governance as its sole strategic objective and incorporating under this umbrella its long-standing work on health, agriculture, and other socioeconomic issues. This integrated program emphasized strengthening various governance elements, especially citizen participation and transparency in local decisionmaking processes, as the organizing framework for its work in the traditional sectors.[41] It received good reviews from sector specialists, particularly those in health, as an important contribution to the effectiveness of their programs.

Many leading donors have sought to build on these experiences and take steps to integrate governance throughout their work. The Swiss Agency for Development and Cooperation has chosen governance, alongside gender equality, as a "transversal" theme that it seeks to incorporate across all its programs. In 2007 it produced a guide to explain core governance issues to operational staff from other sectors and present suggestions for implementing a governance focus.[42] In 2008, the European Commission produced a similar document to encourage a focus on governance across its programs and to provide guidelines for analyzing and acting on governance issues.[43] Through the Governance Partnership Facility launched in 2008, the World Bank has encouraged country programs to incorporate a governance focus across multiple areas of the Bank's work. The Canadian International Development Agency has also adopted governance as a crosscutting theme and is at work on policy guidelines to put this into practice. The Norwegian Agency for Development Cooperation is exploring how governance perspectives can be more fully integrated into their programs, especially in priority areas such as climate change and natural resource management. In June of this year, Rajiv Shah, the head of USAID, devoted a major speech on democracy and governance issues to the goal of "breaking down the wall that has long existed between development practitioners and democracy, rights and governance experts."[44] USAID is now working on various ways to implement this agenda.

"Full integration" could mean ensuring that governance insights are taken into account in sector program planning and that core governance principles such as participation, accountability, transparency, and effectiveness are embodied in all assistance.

Despite progress on mainstreaming, there is no clear consensus on what integration entails. An "integration light" approach sees governance as a useful add-on to fill specific gaps in sector programming. Thus, for example, a health program would include an anticorruption component to address graft in the provision of health services. "Full integration" could mean ensuring that governance insights are taken into account in sector program planning and that core governance principles such as participation, accountability, transparency, and effectiveness are embodied in all assistance: Has a program to supply primary schools with textbooks examined the underlying governance issues behind the failure of schools to be adequately supplied? Does the aid seek not just to supply the books but also to help render the performance of the relevant governing institutions more accountable, transparent, participatory, and effective?

Deepening thinking and action on integration remains a challenge. In some cases, sector specialists have embraced the integration agenda and helped find innovative ways to build a greater focus on governance into their work. Others remain wary, concerned not only about what politicization of their work might result but also whether governance issues like transparency or participation are just pleasing extras that will not produce as high a rate of development return as would a narrower focus on basics, like the provision of core supplies. Even when enthusiasm around addressing governance within sectors is high, practitioners in the governance and socioeconomic sectors can have differing conceptions of what integrated work requires. Governance specialists, for instance, sometimes feel that their colleagues in socioeconomic areas are unaware of the accumulated lessons of governance assistance and thus are pursuing overly technocratic best practice interventions. Some socioeconomic specialists, on their end, believe that they already have significant experience in this area and are skeptical that governance experts without extensive technical knowledge of their sectors can make significant contributions to their work.

Don't Ignore the International Dimension

As aid providers seek deeper explanatory accounts of the causes of governance shortcomings in countries where they work, they increasingly recognize the importance of international factors. They find that although globalization brings some benefits concerning governance in developing countries, it also includes numerous problematic elements. The international drug trade and other burgeoning areas of transnational crime inflict severe harm on state institutions in many places—by corrupting customs officials, police, judges, and other officials—and often undermine stability.[45] The assertive efforts of international arms merchants to sell their wares to developing countries distort budgetary choices and enable both government repression and internal rebellions. The international brain drain in poor countries reduces the availability of technically qualified people to work in these countries' state institutions. High international prices for oil and gas contribute to the centralization of power in energy-rich developing countries, often with deleterious governance consequences. International tax havens allow corrupt officials to shield their money from domestic accountability.

Although globalization brings some benefits concerning governance in developing countries, it also includes numerous problematic elements.

Some donor agencies are widening their lenses to take explicit account of such global factors in their governance aid and looking for ways to help reduce some of these international pressures. Proponents of this approach argue that donor countries directly contribute to global drivers of poor governance and thus have both the responsibility and capacity to mitigate them.[46] In its 2007 Governance and Anticorruption Strategy, the World Bank emphasized the need for coordination at the global level to improve governance, including support for transparency measures, efforts to combat money laundering and tax havens, and international anti-bribery regulations.[47] DFID's 2006 White Paper, as well as its most recent policy paper on governance support, also highlighted the international dimensions of governance problems in the developing world and set out some priority areas for attention.[48] The Extractive Industries Transparency Initiative, for example, was established in 2002 to encourage both governments and companies involved in the extractive industries to publish the payments they receive and pay, with the goal of reducing opportunities for corruption.[49]

While aid agencies are paying increased attention to international drivers of poor governance, many of these global challenges require legal and diplomatic responses that fall beyond the scope of assistance agencies and necessitate greater coordination across government agencies and among states. Tackling money laundering, for example, involves cooperation with domestic police forces and diplomatic efforts to pressure countries not to serve as tax havens. Addressing the problems caused by arms trafficking requires stronger international regulations on arms sales. The sorts of broader cooperation and coordination that are needed are not easy, but several interesting initiatives have already won cross-governmental support. For instance, while the Extractive Industries Transparency Initiative is voluntary, the U.S. Congress passed mandatory regulations through the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring that all U.S.-listed oil, gas, and mining corporations publish their payments to foreign governments (though this provision has yet to be enforced).[50] The European Commission is considering a similar rule, and the G8 expressed support for the idea in its recent Deauville Declaration.[51]

Reform Thyself

Development agencies traveling along the learning curve of governance assistance are discovering that implementing the various insights outlined above requires them to change not just *what* they do but *how* they operate, and by extension, their own governance. It is striking that in gatherings of aid practitioners to reflect on governance assistance, the conversation often turns quickly from the challenges "out there" to those "in here," that is, the internal changes that development agencies need to make to become more effective governance aid providers.

Development agencies are discovering that implementing the various insights outlined above requires them to change not just *what* they do but *how* they operate.

Operating in a more politically informed way, for example, requires developing not just staff expertise in political issues—no small task—but also more innovative, flexible programs capable of addressing underlying political constraints. This may be the difference between simply implementing a training program already widely used elsewhere and a context-specific and sophisticated strategy to affect the incentive structures underlying poor sector management.

Developing significant assistance on the demand side and going local tend to be labor- and knowledge-intensive, requiring a much greater amount of staff time per aid dollar spent. Moving from best practice to best fit and engaging with informal institutions requires new types of knowledge that aid organizations must find ways to generate and renew over time. Mainstreaming governance means breaking down bureaucratic silos and creating new organizational structures as well as changing staff perceptions of governance assistance. Addressing international drivers of poor governance requires greater collaboration with other agencies across and between governments.

Individually each of these changes represents a major challenge. Collectively, they constitute very significant potential organizational changes and call into question basic elements of the traditional aid paradigm, such as the project model (with its front-loaded design, relatively rigid implementation strictures, and time limitations) and the role of aid practitioners as technical experts providing knowledge.[52]

Donor agencies have acknowledged the need for some internal reforms in order to improve the effectiveness of their governance assistance. For instance, following the publication of the 2011 World Development Report, the World Bank leadership suggested several operational changes to improve the Bank's ability to support institutions in fragile and conflict-affected states. These included hiring and staffing reforms to foster greater political economy competencies and country knowledge as well as revisions to procurement, risk assessment, and results measurement frameworks.[53] Even if implemented, these changes will address only part of the reform imperative, and only in the context of conflict and fragility. What aid organizations might look like if they fully adapted their internal structures to best fit the imperatives of cutting-edge governance work has not been fully explored.

A Second Generation

These eight insights have emerged and gained traction in different sequences and with varying strength at the various major aid organizations over the past fifteen years. Sometimes they were drawn from formal research findings, but most emerged directly from the accumulated experiences, especially the frustrations, of practitioners. They are often embraced in principle but are still only inconsistently implemented. Taken together, they can be seen to represent the framework of an emergent but still tentative second generation of governance assistance. The table below sets out this framework.[54] This new generation of governance aid seeks to be more politically attuned in conception and implementation, to address demand for governance alongside supply, to reach the local level as much as or more than the national level, to push for institutional change that best fits local circumstances, to take into account informal institutions, to integrate a governance focus into traditional aid sectors, to address international causes of poor governance alongside domestic ones, and to modify internal donor governance to allow for the positive adaptation to these new principles.

The Evolutionary Path of Governance Assistance

First Generation	Second Generation
Technocratic assistance	Politically informed assistance
Focus on supply	Incorporate demand side approaches
Central institutions	Add local focus
Best practices	Best fit
Formal institutions	Incorporate informal institutions
Standalone programs	Integrated programs
Focus on domestic determinants	Include international factors
Existing aid mechanisms	Renovated aid mechanisms

Continuing Uncertainties

The learning curve of governance assistance is significant. The emergent second generation represents an important advance. Governance aid has progressed from being a promising new enthusiasm to a major element of international development assistance. Despite this progress, however, many governance specialists within major aid organizations are less confident than one might expect about the place of governance aid. Several continuing uncertainties nag at the overall endeavor:

The Still-Uncertain Empirical Case for Governance

The initial momentum to make governance part of the core portfolio of development aid drew on the simple but powerful idea that problematic governance is a key cause of poor socioeconomic outcomes. This belief initially rested on a strong intuitive appeal. Given that almost all wealthy countries (except for some oil-rich states) appear to have reasonably good governance (above all, more or less effective, accountable states and the rule of law), it is not a big leap to conclude that governance is connected to development. Moreover, many of the greatest frustrations donors faced in the 1970s and 1980s, especially in sub-Saharan Africa, were in countries with extremely weak or chaotic governance. As donors gravitated toward governance work in the 1990s,

Governance aid has progressed from being a promising new enthusiasm to a major element of international development assistance.

they stated the case for doing so in axiomatic terms. The World Bank in 1989 said that "underlying the litany of Africa's development problems is a crisis of governance."[55] The 1997 World Development Report stated that without an effective state, "sustainable development, both economic and social, is impossible."[56] DFID's 1997 White Paper asserted that "raising standards of governance is central to the elimination of poverty."[57]

This intuitive case, however, is insufficient to sustain large commitments to governance aid. Donors still need answers to several interrelated questions. First, is there strong evidence that better governance promotes better development? Even if this is so, is remedying governance deficiencies the most cost-efficient way to achieve developmental progress? Additionally, do donor definitions of good governance correspond to the elements of governance most likely to support development?

Over the last decade some researchers empirically examined the relationship between governance and development in cross-country studies and concluded that better governance contributes to higher incomes and other development results.[58] These studies have not convinced all scholars, some of whom argue that the causal arrow runs primarily from economic development to better governance or at least involves some complicated interrelationship between the two. Nevertheless, there is general consensus around the idea that governance matters, often significantly, for development outcomes. This has provided some comfort for the governance agenda.

Governance advocates have yet to make the case that in countries where governments do not operate in conformance with good governance principles, governance issues must be addressed to achieve development.

Governance advocates have yet to make the case, however, that in countries where governments do not operate in conformance with good governance principles, governance issues must be addressed to achieve development. Dani Rodrik notes that "the long-run association between good governance and high incomes is incontrovertible." Yet because of the long time horizon of this link and because "as a rule, broad governance reform is neither necessary nor sufficient for growth," a "broad governance agenda rarely deserves priority as part of a growth strategy."[59] In other words, donors can be confident that improved governance will contribute to faster growth over the long term but are much less certain that improved governance is crucial for growth in the short to medium term. Given the difficulty and complexity of governance interventions, some development practitioners remain hesitant to get involved in governance work if they are not convinced that governance is a primary binding constraint on development.

Even if governance is the main obstacle to development progress, it is unclear whether the donor model of good governance—which usually emphasizes inclusion, transparency, participation, and accountability alongside state effectiveness—is always the best prescription for development. The authors of the World Bank's aggregate World Governance Indicators found positive correlations between each of their six main indicators (covering accountability and participation, political stability, effectiveness, regulatory quality, rule of law, and corruption) and development outcomes.[60] Using these indicators, Daniel Kaufmann has claimed a causal relationship between political and civil rights and positive development results.[61] Yet specific country cases sometimes tell a different story. The China case vividly embodies this point. How strong or immediate can the connection between Western principles of good governance and economic growth be, governance skeptics argue, if China can achieve thirty years of continuous rapid growth despite lacking many basic elements of the donor-preferred governance model? Moreover, China is the biggest but not the sole counter example. South Korea experienced broad-based economic growth in the 1960s and 1970s while lacking strong rule of law, property rights, or legal infrastructure.[62] Vietnam has brought millions of its citizens out of poverty while lacking many basic governance attributes. These cases have led some to argue that the most important key to development is an effective state and that other aspects of the governance agenda are unnecessary.

Being visible and highly tangible, the China challenge to the governance agenda attracts considerable attention in policy debates and in senior policy circles where detailed, nuanced arguments about the issue tend to take a second chair to short, sharp positions. And this model, which some interpret as being rapid development without Western-style governance, is influential in the developing world. Yet the China example does not in fact constitute a fatal blow to the case for other elements of governance. The fact that China (and South Korea, Vietnam, and others) have been able to make important, even dramatic, developmental progress does not mean that improvements in transparency or rule of law or other governance features would have no positive developmental effects for many poor countries. Nor is it clear that China will be able to move from where it is today (a per capita income of approximately $7,600, with over two hundred million citizens still living in poverty[63]) to a high-income, low-poverty society without some substantial governance reforms. Also, as the governance agenda moves away from static best practice models to more flexible, varied best fit approaches, the case of China can be seen less as a refutation of a governance-development nexus and more as a challenge to push developmentalists to think harder about the different ways governance affects development.

Nevertheless, the case of China and other developmental success stories that do not conform to the core donor-supported governance principles, as well as Rodrik's cautionary argument, highlight the fact that the development case for governance is not as straightforward and settled as the axiomatic policy statements emanating from the aid community imply.

Results Pressures

The uncertain empirical link between donor-preferred models of good governance and development outcomes becomes especially problematic in a context of increasing pressure on aid to demonstrate results. The declining public support for foreign assistance in many donor countries raises the sobering prospect of significant funding cuts, leading development agencies to seek new ways to prove that their work is worthwhile. This heightened pressure creates anxiety across all aid sectors. But it is especially acute among persons engaged in governance assistance.

Many development agencies are investing large amounts of time and energy in developing new systems of assessment and evaluation in order to meet the demand for results. While some see the push for better assessments as an opportunity to show that governance can improve overall aid effectiveness, the pressure for results often translates into efforts to measure impact in ways that are ill-suited to evaluating governance interventions. Very specific and quantifiable indicators are seen as necessary to establish a certainty and clarity that will be persuasive to policymakers and the public alike. When making the case for foreign aid in July 2011, for example, British Prime Minister David Cameron said that the UK will "make sure our aid money is directed at those things which are quantifiable and measurable, so we really know we are getting results."[64]

Establishing quantifiable indicators is often more difficult for governance programs than for programs in other assistance sectors.

Establishing quantifiable indicators is often more difficult for governance programs than for programs in other assistance sectors. It is possible at the macro level by comparing overall aid flows to a country against that country's macro-governance indicators.[65] Or it can be feasible at the micro level to evaluate the impact of discrete interventions, such as the institution of quotas for female policymakers in certain localities on specific policy outcomes.[66] But governance programs that are easily susceptible to quantifiable impact evaluation are more the exception than the rule. Measuring what constitutes an effective parliament in terms of specific numerical indicators, for example, is much harder than trying to do the same for a literacy program or a vaccination drive.

Moreover, second-generation practices make finding such indicators and satisfying the pressure for easily measurable impact even more difficult. Engaging with local or informal institutions, for example, or aiming at highly differentiated best fit approaches rather than standardized best practice models makes results measurement more complex. As Western legislatures, media, and publics grow more skeptical of assistance spending, they are more likely to attack aid agencies for any sign of waste, diminishing the willingness of many development practitioners to take risks with flexible or experimental programs.

More generally, governance programs often do not lend themselves well to colorful, evocative narratives that "tell the story of aid," compared to traditional types of aid programs. It is harder for an aid official to present a compelling account to a journalist or a parliamentary committee about a program to strengthen the audit function of a national budget office, for example, than to describe a program that is building new primary schools or distributing vaccines. The consequences of cutting governance assistance are also less tangible. In March 2011, for example, USAID Administrator Rajiv Shah told a U.S. congressional committee that proposed cutbacks in international health and food assistance would lead to the deaths of 70,000 children.[67] It is much harder to make a similar plea for not reducing governance assistance. The very term "governance" has an impersonal, somewhat gray quality that lends itself poorly to the search for easily accessible, compelling narratives that donor agencies need to produce.

Governance specialists generally believe they can meet the challenges presented by the results pressure—that they can find acceptably rigorous ways of measuring results and persuasive narratives about the value of their work. But to do that they need two things: some time to develop their evaluation methodologies further and some flexibility on requirements for strict quantitative measures. Yet in the current climate of pressure on foreign aid in most donor countries, time and flexibility in meeting demands for results are both in short supply.

Unfavorable Larger International Trends

Increased pressure for results is one part of various larger currents in the world of international aid adding to uncertainty about governance. To start with, some aspects of the evolving multilateral framework of international aid sit uneasily with the governance agenda. The Millennium Development Goals, for example, represented a landmark in international aid and were embraced by many aid donors as a basis for prioritizing resources. Yet these goals did not include specific references to governance. It is not yet clear whether a successor set of post-2015 goals will give greater attention to this issue.

The interpretation of country ownership by some as *government* ownership of aid can work against efforts to directly address host country political constraints on development.

Similarly, the emergence of the aid effectiveness principles formalized with the Paris Declaration on Aid Effectiveness of 2005 and then modified at the Accra Agenda for Action in 2008 was a step forward for foreign assistance overall but not necessarily for the governance agenda. The strong emphasis on country ownership in these principles multiplies the stakes of governance: If recipient countries are to take greater responsibility for managing their development programs, the quality of their governance becomes more important than ever. At the same time, the interpretation of country ownership by some as *government* ownership of aid, and the ensuing desire to maintain congenial relationships with recipient governments, can work against efforts to directly address host country political constraints on development.[68] The push to invest more in budget support, which appears to be fading at some donor agencies even as it is gaining strength at others, works against many of the insights, from the need to think more politically to support for demand-side and local level efforts.

Finally, the rise of new aid donors from the developing world and the growth of South-South development cooperation raise some issues for governance aid. It is not clear whether emerging aid providers will have a strong interest in governance and whether their increasing weight in the international aid world will mean a shift of attention away from governance. China is the clearest case in this regard. Thus far at least, China's rapidly growing aid relationships with other developing countries are well-known for their absence of attention to governance considerations. The presence of Chinese aid as an alternative to traditional sources of assistance has sparked worries among more established donors that they will lose the leverage to encourage developing country governments to adopt governance reforms. Some traditional donors hope that China will join international agreements on aid effectiveness. Yet bringing China to the table may require making some concessions on governance issues.

Other rising aid providers, like Turkey and Brazil, are democracies but are also question marks with regard to governance. Although some of their aid is designated as governance-related, the strong ethos of South-South solidarity that marks their foreign policies can imply a soft approach to advancing good governance principles, particularly if such an agenda is resisted by recipient governments.[69] At the same time, these donors are not actively opposing a governance agenda, and their involvement in such initiatives as the nascent Open Government Partnership could signal openness to greater engagement on governance issues.

The Democracy Divide

One further area of uncertainty, or perhaps more an area of complexity than uncertainty, is the relationship between strengthening governance and fostering democracy. Different aid organizations take different positions on this issue, sometimes explicitly and sometimes implicitly. This can hinder cross-donor cooperation on governance.

Some aid providers believe that governance aid should not be tied to democracy building. They hold that the two tasks are distinct even though the types of institutions they reach (such as parliaments or judiciaries) are sometimes the same. They highlight this distinction by pointing out that a country can be well governed in many ways but not democratic (such as Singapore) or democratic but not well-governed (such as the Philippines). They also contend that directly associating governance aid with democracy support risks dragging governance support further into the suspicions and controversies around political interventionism and the international backlash against democracy aid. They acknowledge that governance aid providers need to understand the political underpinnings and constraints on their efforts. This is quite different, they hold, from giving their work an explicitly ideological profile.

Some are also unsure about the basic requirement of democracy: elections. Elections in fragile environments, they argue, can increase the risk of conflict and future development problems.[70] The outbreaks of violence surrounding various elections in the past five years, such as after the 2007 elections in Kenya, confirmed these fears for many people. Election skeptics often accept democracy as an eventual goal but contend that supporting progressive change on inclusion and participation is more effective than pushing for immediate democratization.

The World Bank is one major aid organization that maintains the separation of governance work from democracy support. The Bank's Articles of Agreement expressly prohibit it from interfering in domestic politics or making decisions based on the political character of any member state.[71] The Bank's legal opinions have recently allowed more flexibility on the prohibition against political interference, saying that "neither of these limitations would prevent the Bank from considering noneconomic issues, including human rights, that have economic consequences or implications, provided this is done in a non-partisan, non-ideological and neutral manner" and referencing an evolving international conception of sovereignty that "recognizes that there are norms which traverse national boundaries."[72] Yet many Bank officials subscribe to one or all of the question marks about democracy outlined above and continue to emphasize the legal obstacles to the Bank's doing anything explicitly aimed at democracy building. The Asian Development Bank and the African Development Bank have the same prohibition in their founding agreements and take a similar line.

Other aid organizations specifically connect their governance programs with democracy. Some do so by articulating the goal of their governance programs as being to foster "democratic governance." In this view, the key constituent principles that governance aid seeks to advance—especially accountability, participation, and transparency—are also fundamental democratic principles. Although there are cases at either end where good governance and democracy do not go together, in most places they argue that good governance is closely linked to democratic political practices. Strengthening governance will thus tend to fortify democracy, and aiding democracy will tend to bolster governance.

The United Nations Development Programme (UNDP), for example, defines its governance objectives in terms of democratic governance, which it takes to include "fostering inclusive participation," "strengthening responsive governing institutions," and "basing democratic governance on international principles."[73] It emphasizes that the principles of democratic governance not only are good development practice but also have been enshrined in international human rights law. Yet given its nature as a multilateral organization, UNDP rarely takes a confrontational stand toward politically backsliding governments.[74] Other donors sometimes take a more assertive approach. USAID considers promoting democracy an intrinsic goal and has incorporated much of its governance work within a broader democracy mandate. It is sometimes willing to support democracy in ways that may irritate host governments, such as by funding local civil society groups that the host government disfavors.

Some governance specialists operate in a quiet gray zone between these two positions. Behind closed doors they recognize that the governance agenda does have important ties to democracy support. Yet they are hesitant to draw this link publicly, primarily out of concern about politicization of the governance domain. And although they see the connection between governance principles and democratic values, they feel the relationship is nevertheless hardly a complete one given that so many new democracies are poorly governed. This intermediate view is common at DFID, for example, which in its policy statements about governance has avoided attaching the adjective "democratic" while at the same time making democracy strengthening an explicit goal of programs in some countries.

These differing donor perspectives can inhibit cooperation on governance assistance among aid agencies, even when much of their work is substantially similar. The World Bank, for instance, would not want to associate itself with a USAID democracy promotion program, despite the fact that both organizations may be engaging in the same type of civil society programs in the same countries. Even at a more informal level, conversations between governance specialists at these different agencies often devote significant time to their differing views on democracy, sometimes distracting from areas of common understanding and potential cooperation.

The Hard Road From Insight to Practice

The eight insights discussed here are best understood not as end points of change but as points of departure for more successful assistance. Their acceptance among aid providers is hardly complete and varies considerably from organization to organization. The old ways of thinking and acting that these insights challenge remain at least partially, and sometimes quite substantially, in place. This is in part due to the continued pull of some of the old assumptions, such as the attractiveness of best practice models or technocratic approaches. Moreover, accepting insights in principle is one thing, but putting them into practice is, of course, quite another. Operationalizing the second generation of governance aid runs into a thicket of difficulties, including generating more and different types of knowledge, institutional inertia within aid agencies, the limits of donor leverage, and concerns about the appropriateness of more political interventions.

The eight insights discussed here are best understood not as end points of change but as points of departure for more successful assistance.

Many elements of the second-generation approach require aid actors to deepen their knowledge of the context in which they work. Going local works well only if practitioners understand the fine grain of actors and interests throughout a country rather than just in the capital. Paying attention to informal institutions requires learning about rules that by their very nature are hard for outsiders to identify and fully understand. Giving attention to the demand side means building a sophisticated understanding of the non-state sector, including what social bases specific organizations have and what interests they really represent. Attending to international drivers of governance requires getting to know a whole other set of factors and issues.

Yet the problem of knowledge goes well beyond the need to generate more information about the places where aid agencies operate. It is also about developing a deeper understanding of *how* to affect change through development aid: how to encourage the development of best fit institutions, how to affect political constraints, and how to improve governance within traditional aid sectors. Going a step further, donors also need to understand how these changes will contribute to development goals—in other words, how stronger best fit institutions will lead to economic growth.

Those seeking to move along the governance learning curve also face obstacles in carrying out the needed internal reforms in their own organizations. Abandoning formalistic technical assistance or best practice models in favor of context-specific programs that address political constraints and encourage best fit institutions raises serious operational questions. Among them: How can donors ensure quality standards or evaluate results if every project is unique? Moreover, donors require some degree of cooperation with governments in recipient countries in order to operate, which limits their ability to adopt politically challenging approaches. Aid agencies also face the basic obstacles of any internal bureaucratic reform. Institutional incentives as currently structured in many agencies encourage large projects, not small-scale, local efforts. Additionally, some staff members are still skeptical of the governance agenda, and changing institutional culture is a major challenge.

The various unfolding insights about governance assistance programs may lead to greater aid effectiveness down the road, but in the short term they force donors to confront the limits of their power.

The various unfolding insights about governance assistance programs may lead to greater aid effectiveness down the road, but in the short term they force donors to confront the limits of their power. Political economy analyses often reveal deep structural obstacles to development that international actors can do little to resolve. Despite the manifest appeal of bottom-up pressure for better governance, the power of citizen groups to affect change is often less strong than aid providers initially hope. Going local may create new avenues for positive change, but local-level interventions alone are unlikely to have cumulative transformational impacts. While elements of informal institutions may be conducive to development, donors are ill-equipped to deal with the ones that are not. Efforts to address international drivers of poor governance may promise larger impacts, but they often require types of policy engagement that are outside the purview of aid agencies.

Finally, donors face a basic uncertainty about how far they can or should go in pushing for political change in recipient societies. Domestic political factors may be a primary impediment to socioeconomic development, but does that give international actors the right to intervene in them? This issue is especially visible with demand-side assistance, where donors are directly supporting domestic social actors seeking greater political influence. Such aid aims to change the balance of power in a society. Recipient governments often attempt to limit or control this assistance out of fear that it will undermine their own positions. When socioeconomic sector specialists resist integrating governance into their programs, it is not necessarily because they are ill-informed about governance or unwilling to learn new things. Often it is because they have real concerns about doing anything that might make their health, education, or other sectoral projects appear politically unsettling to recipient governments. Donors have yet to clearly establish the threshold at which smart governance assistance becomes unacceptable political interference.

In short, operationalizing all of the insights undergirding a second generation of governance assistance is hard. It will require considerable persistence and skill on the part of aid practitioners as well as strong political leadership in donor agencies. The fact that major uncertainties still shadow the overall endeavor—concerning, for example, the empirical case for governance and the ability to measure results—does not make it any easier. But governance specialists are not giving up. Serious efforts are under way at many different development agencies to upgrade and improve governance work. The central promise of governance assistance—finally getting to the heart of the development challenge—is great enough to justify the effort and to ensure that even partial success will be worthwhile.

Notes

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