Good enough? The evolving governance and anti-corruption agenda

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Abstract

Governance has reached the top of the development agenda. However, there is now a need to move beyond the general recognition that ‘governance matters’. Drawing on research for the Advisory Board for Irish Aid, this article suggests that substantial progress is needed on three fronts. Firstly, we need to invest in a better understanding of what elements of governance matter most and what governance improvements have which kinds of positive spill-over effects for other development outcomes. Secondly, we need better governance indicators, as well as a more orderly approach to governance assessments. Thirdly, we need more systematic learning about ‘what works’, to avoid perpetuating approaches that have little impact, and improve the chances that successful approaches are adopted more widely. The paper concludes with recommendations on how aid donors could strengthen their support of the governance agenda and reform current practices.

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1. Introduction

Governance is on the agenda of the international aid community as never before. Over the past ten years, it has experienced a steady rise, reaching something of a pinnacle in 2006. A fundamental achievement is that now all leading aid institutions agree that governance matters. However, this peak is the beginning, rather than the endpoint: ahead lies the long and tortuous path of actually changing governance in the developing world, and doing so in a way that has wider positive development impacts.

Importantly, improving governance is not something that donors have 'invented' or are unilaterally seeking to impose on developing countries. Rather, frustration with bad governance is a widely resonating feeling among people in the developing world. Nonetheless, donor visions and the visions of citizens in developing countries of what constitutes 'good governance' may diverge, and local opinions about governance priorities should certainly receive greater attention.

In 2006 and 2007, a number of key donor agencies adopted new governance strategies. Maybe the two most important ones are those of the World Bank (*Strengthening World Bank Group Engagement on Governance and Anti-Corruption* 2007), and the EU's Communication on *Governance in the European Consensus on Development* – the two largest multilateral donors. Other donors – including UNDP, DfID, France, the US – have similarly adopted new strategies or revised existing ones.[1] This new level of policy engagement is also reflected in current work programmes of the OECD/DAC's GOVNET. Furthermore, governance is closely linked to other important issues on the international aid agenda, in particular donor engagement with fragile states, which is increasingly focused on how to support the (re-)building of political and administrative structures, and the push for greater aid effectiveness.

[1] France: *Governance Strategy for French Development Assistance* (2007); UK: DfID *White Paper 3 – Making Governance Work for the Poor* (2006) and *Governance, Development, and Democratic Politics* (2007); US: *At Freedom's Frontiers: A Democracy and Governance Strategic Framework* (2005); UNDP: *Governance for the Future. Democracy and Development in the Least Developed Countries* (2006); CIDA set up a new office for Democratic Governance in October 2006.

Recent strategies have not been drawn up from a blank slate. Governance programmes and projects are already established in the aid world, and have been implemented for the past 10 years or so. In fact, some might argue that we have already been paying too much rather than too little attention to governance. However, to date, there have been a number of important limitations. Only a few donors have a serious body of governance experts working at the operational level. Most projects that are classified as 'governance' are rather traditional public sector reforms on the one hand or support for civil society groups on the other hand. While the governance agenda has become increasingly prominent at the policy level, at the level of implementing aid it has had much less 'real' impact.[2] More advanced analytical tools for diagnosing governance problems are only now being developed by most donor agencies and ideas for how to make concerted (and coordinated) efforts to transform governance – in the way that the aid business has set about transforming health and education sectors in recent years – appear still a rather long way off.

Consequently, although governance has had a presence as a theme in development for some time, there are important gaps in existing knowledge and practice: from the way in which governance and corruption issues are diagnosed, to recognized good practices for addressing them, to defining harmonized and aligned approaches for improving governance. Based on our research for the Advisory Board of Irish Aid on *Good Governance, Aid Modalities, and Poverty Reduction*, this article will discuss some of these gaps and the resulting challenges ahead.[3]

This article has three main sections. The following section revisits some of the fundamentals of the debate about 'governance matters'. There is good macro-level evidence that governance matters *in some way* for development success. Not least, today's developed countries would not have invested so much in building systems of

[2] See, for example, the EC's '*Thematic Evaluation of the EC Support to Good Governance*' March 2006; which finds significant gaps between the policy level and the country level in the EC's governance work.
[3] Research consortium consisted of the Overseas Development Institute (ODI, London/UK), Chr. Michelsen Institute (CMI, Bergen/Norway), and the Economic and Social Research Institute (ESRF, Dar es Salaam/Tanzania). See http://www.odi.org.uk/pppg/politics_and_governance/what_we_do/Politics_aid/Governance_Aid_Poverty.html.

relatively good government if there was no development pay-off. However, 'governance' is a broad and vague term, and the debate about *how* governance matters, and *what* matters about governance and *when* is not settled. As argued in the section, now – as governance is becoming increasingly more prominent in development programmes – is a good time to question some notions that have been taken for granted and to deepen our analysis. This is important in order to ensure that the advice given to developing countries is well grounded in evidence. Section 3 looks at how governance is measured and assessed. This area is rapidly evolving. The section points to some of the challenges involved in generating better quality data and assessments, and for coordinating and focusing assessment efforts. What donors actually do about governance and the dearth of lessons-learning about 'what works' are addressed in section 4. The section argues that more serious effort monitoring and evaluation efforts are needed in order to generate better knowledge of what kinds of interventions actually bear fruit. Greater reflection should also support more innovative approaches to reforming governance. Section 5 summarizes the key arguments of this articles, emphasizing 'next steps' for moving forward.

2. Governance matters: the unsettled debate

Kofi Annan: 'Good governance is the single most important way to end poverty and support development.'

The emerging policy agenda is based on the growing recognition that governance is a key factor in enabling or hindering development. Governance refers to the 'rules of the game' but also to the underlying power relations and norms that are decisive for how rules are made and what the rules are, as well as for how rules are applied in practice. Therefore, governance is much broader than 'corruption'. In fact, corruption is a typical symptom of bad governance, and it can be a particularly pernicious one. Oppression and the denial of rights can be other dimensions of bad governance, while yet others are lawlessness and the spread of crime, often in the context of political instability.

Governance is closely linked to the concept of ‘institutions’. Institutions have been re-discovered in the economics literature since Douglass North’s seminal book on *Institutions, Institutional Change and Economic Performance* (1990). Institutions refer to the ‘rules of the game’ (including the organizational ‘machinery’, such as government bureaucracies, in place to implement them). However, governance captures also the underlying ‘drivers’ that are responsible for which rules emerge as well as how these are applied. In a nutshell, governance captures institutional aspects as well as the ‘political economy’ context.

Underpinning the policy agenda, we have a growing body of research that explores whether governance matters for development (Rodrik 2004; Khan 2006; Dervis 2006). Kaufmann et al. (1999) and (2002) find that the six dimensions of governance that they have measured are positively associated with per capita incomes and adult literacy and negatively associated with infant mortality. According to Knack and Keefer (1995), better governance is positively associated with improved investment and growth rates. Mauro (1995) finds that the efficiency of the bureaucracy (among other issues) has been associated with better rates of investment and growth, whereas corruption was negatively related to these. Chong and Calderon (2000) conclude that good governance contributes to strong economic performance (and also results from it). Furthermore, as McGillivray et al. (2005) summarize, a number of studies find that better governance can contribute to making aid more effective in promoting development.

Overall, the majority of quantitative studies looking at possible links between governance and development find that governance has a significant and positive impact. Therefore, the general case that governance/good institutions are important for development appears rather solid. However, there are two important limitations to this literature. Firstly, the indicators used for the governance variables are still rather vague, and/or measure only rather specific dimensions. These nuances are at times lost in broad claims about the conclusions. Secondly, the literature has focused on broad conclusions about whether some form of measured improvements in governance are associated with stronger growth and/or higher incomes. Such analyses provide few insights into the pathways towards better governance and the payoffs that various kinds of governance improvements may bring.

We will return to the issue of governance measurements in the next section, while exploring first the debate about what more specifically it is that matters within the broad confines of ‘governance’.

The finding that ‘good governance’ or ‘good institutions’ are associated with development success has been taken as a rationale to promote a wide range of reforms – of public financial management, property rights, political regimes and institutions, the public administration, and so on. However, as the growing number of governance strategies imply an increasing engagement of donors in promoting better governance, there is an urgent need to deepen our understanding about what matters most, where, and how.

There are still many open questions about what types of institutions and institutional change ‘works’ and hence should be advocated and supported by donors (see also Grindle 2007). China and Vietnam are important examples in this debate. Both have a number of governance dimensions that are widely designated as ‘bad’: authoritarian political regimes; considerable-to-high levels of corruption; rather insecure property rights; and a rather underdeveloped ‘rule of law’. Nonetheless, both countries have grown rapidly in recent years, brought millions of people out of poverty, and managed to operate education and healthcare services for large populations, despite still low per-capita incomes on average. Furthermore, Vietnam in particular has become a star of government-led donor coordination (OECD 2007).

Based on such evidence, Harvard economist Dani Rodrik (2004) has pointed out that while we know that institutions matter, we know much less about what types of institutions matter. Khan (2006) has emphasized that what countries at low levels of development may need are ‘growth enhancing’ institutions more than ‘market enhancing’ ones. He argues that complex legal rules and the enforcement mechanisms needed to implement them (lawyers highly trained in complex economic matters; effective court and penal systems) are too costly for very poor countries. Instead he sees political stability and the capacity of the state to manage property rights re-allocations in ways that enhance productivity as important governance 'assets' for poor countries to catch up. These are governance capacities typically associated with successful 'developmental states' (see Fritz and Rocha Menocal 2007). Ha-Joon Chang has attacked the 'good governance' agenda even more forcefully then Khan, arguing in his book *Kicking away the Ladde*r (2002) that the numerous demands imposed by donors can hinder rather than promote development.

Considering again China and Vietnam, some governance factors clearly matter: a degree of political stability, and in particular a reasonably effective government, as well as – crucially – one that is committed to its country's development. Another example from Asia is illustrative: North Korea clearly has an effective government in the sense of being able to impose rules on its population. However, in contrast to Vietnam or China, the commitment to use this capacity for economic and social development is absent. Furthermore, while a number of successful countries have not followed the full 'governance textbook', they have certainly adopted selected institutional reforms over time.

The combination of political stability and commitment to development is also evident in Botswana, one of the few established African 'success stories' (although in that particular case, growth has been less 'shared' then in East Asia, as levels of inequality have remained high). Interestingly, Botswana, as well as Mauritius, the second successful case in the region, have been rather stable as well as democratic since independence. More generally, while some Asian countries have had developmental authoritarian regimes for some time, in Africa the developmental track record of authoritarian regimes has been particularly poor.

Given these various uncertainties about what matters, and about pathways, donors may want to be considerably more cautious with advocating specific 'institutional packages'.

Creating and sustaining institutions is costly, and especially in very poor countries, trade-offs need to be made carefully with a view to getting to the next 'platform' of development rather than trying to achieve up-to-date international best practice. State capacity, political stability, and a commitment to development appear to be important underlying factors for facilitating development, as well as for achieving specific institutional reforms. Moreover, figuring out how to combine political and economic liberalization with building state capacity and commitment to development in mutually productive ways requires greater attention. In principle, helping countries to figure out what kinds of governance reforms they need at a particular point in their development is more likely to be a worthwhile approach.

However, as section four will discuss, our structured, evidence-based knowledge about what works to improve governance in various circumstances is still rather limited. Thus, this knowledge needs upgrading in order to be better equipped for advising countries on what they might need and what experience other countries have made with certain types of reforms.

A further and equally fundamental challenge concerns our knowledge about the underlying political economy dimensions of governance. We do have quite a body of research on what types of political economy constellations are more likely to generate successful reforms. For example, committed elites empowering technocratic experts to pursue reforms, insulating them at least for some time from interest group pressures is a frequent one associated with successful change (see, for example, Robinson 2006). We have also learned quite a bit about socio-political structures, such as 'neo-patrimonialism', that can undermine efforts at reforms and can even generate states that are outright 'anti-developmental' (Chabal and Daloz 1999; Erdmann and Engle 2006). Cammack et al. (forthcoming) have looked at 'neopatrimonialism' and how this has affected efforts at decentralization as part of the research for ABIA. However, our knowledge about what generates positive changes, about the kinds of variations among countries with 'neo-patrimonial' structures, as well as about how donors could and should influence political economy constellations is still rather patchy (Armon 2007).

As the next section will discuss, donors have begun to analyse political structures, power relations, and how rents are being distributed in societies. These analyses are helping to improve our understanding of how the political economies of developing countries evolve, and what kind of opportunities exist for external actors to support progressive pathways. Simply promoting democratization – in particular when this is primarily done by promoting elections without much addressing the wider conditions for effective accountability – is not sufficient, as shown by the research by Rakner et al. (2007) for ABIA. However, patience and perseverance in supporting more substantial democratic structures to emerge may eventually pay off, as the examples of Ghana or possibly even Kenya indicate. Serious donor engagement with the political and political economy dimensions of governance is still young, and so is the learning about how best to engage on these issues (Armon 2007).

Governance advocates have sometimes created the impression that we have clear answers to the range of fundamental questions outlined in this section – what matters about governance, what needs to be done, how to get there, and how external actors can best contribute. Now that governance has made it to the top of the agenda, it is important that we use the opportunity to take a step back and take a clear and fresh look at the 'state of the art'. In particular it seems important to move from a normative approach to one that is more strongly grounded in evidence and actual experience. The fact that governance is on top of the donor agenda provides a unique opportunity to invest in building up knowledge and tools, which will enable us to move from the policy debate to realizing the push for better governance on the ground. One important step in this direction is the development of indices and qualitative assessment tools that has taken off in recent years. We review these in the following section and then move on to look at our current knowledge about 'what works' in governance reforms in section four.

3. Measuring governance: indices and qualitative assessments

‘Governance’ is an abstract as well as complex concept, which poses challenges for accurate measurement or assessment against clear, transparent, and comparable benchmarks. The difficulty of measuring governance adequately and fairly also gives rise to the question of whether it is ethical – in particular for donor agencies – to try and measure governance and to publish results, especially in the form of rankings (or use them to determine aid allocation). For this reason, UN agencies have tended to oppose comparative indices, while others, such as the WB, have been reluctant to make its Country Policy and Institutional Assessment (CPIA) public.[4] The report by Court et al. (2007) for ABIA looks at the most influential governance indices, and at the question of how these are or could be used to decide on aid allocations and the choice of aid modalities.

There are a number of strong arguments in favour of measuring governance. Firstly, impressionistic judgments about governance are likely to be less fair and less useful than those based on a clearly defined methodology. Secondly, if we want to learn more about how governance matters for development, we have to measure it. Only by doing so can we begin to systematically correlate various dimensions of governance with outcome indicators. Without measuring governance comparatively the policy and research community would be cutting off an important avenue for knowledge and for influencing change.

The risk is of course that if approaches to measuring governance ‘get it wrong’ – i.e. do not measure what they purport to measure and/or rate a country wrongly against a benchmark that is valid as such – they can create quite powerful misperceptions, and even trigger wider inaccurate research conclusions. As governance ratings are still a relatively young ‘industry’ and one that evolves while learning from initial mistakes, users should be aware of methodological uncertainties, and interpret ratings and rankings

[4] The World Bank Institute publishes one of the most widely used indices – the World Governance Indicators. However, being based in the WBI there is an arms-length relationship with the policy and operational work of the World Bank, whereas the CPIA is directly used as a tool to influence aid allocations in particular for low income (‘IDA’) countries.

with due care. However, this is not always the case and those undertaking ratings do not necessarily have an incentive to encourage careful interpretation.

There are two basic approaches for ‘measuring’ governance: one is quantitative indices and the other is qualitative assessments. The two approaches serve different purposes. Broad ‘macro’ ratings of countries are primarily useful for macro-level, cross-country research, which in turn has an important influence on policy debates, as described in section two above. Furthermore, such ratings and rankings can be used for aid allocations by some donors. They can also give an impression of a country ‘at a glance’ compared to a universe of comparator countries – alongside other types of development indicators. Qualitative assessments, in contrast, are needed to underpin country-focused strategies and projects. For example, while Madagascar’s rating on the CPI gives an impression of the relative degree of corruption, a donor planning a country-focused intervention will need to know far more detail about key areas of corruption, existing anti-corruption efforts (laws, institutions, etc.), and so on.

Quantitative indices are based on ratings either by an individual expert or a small team of (most often external) experts, or on elite or public opinion surveys undertaken in country (which may or may not be externally managed).[5] A third option is to aggregate a wide range of existing data sources. Aggregate indices – such as the World Bank Institute’s World Governance Indicators or Transparency International’s Corruption Perceptions Index – to date have been the most influential, since they have the widest country coverage (the WBI’s Worldwide Governance Indicators cover 213 countries) (for a useful overview of governance indices, see UNDP/EU 2005). The Mo Ibrahim foundation is planning to launch an important new series of governance indicators on Africa this autumn, with a proposed emphasis on governance ‘outcomes’.[6]

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[5] Examples of ratings by experts are the International Country Risk Guide, Freedom House ratings, the Bertelsmann Transformation Index, or Polity IV. Examples of opinion surveys are the Executive Opinion Survey by the World Economic Forum or the World Governance Assessment, managed by ODI and researchers from the University of Florida.

[6] See http://www.moibrahimfoundation.org/the-index.html.

There has been considerable variation in the intensity to measure different aspects of governance: basic data about the levels of democracy is available for a long time period (and indices can be construed retrospectively), while data about perceived levels of corruption is more recent, but efforts to gather such data have been quite intense over the past decade. Other issues, such as the rule of law, government effectiveness or bureaucratic capacity, service orientation, or the quality of a country's public financial management system are only just beginning to be measured on a comparative basis.[7]

Alongside more general indices about 'governance' and/or 'corruption', a number of indices measuring more specific aspects of governance have been developed: for example, the International Budget Project has begun to measure budget transparency. The Danish Institute of Human Rights has developed Human Rights Indicators, and Freedom House not only rates a country's civil and political liberties (going back to the 1970s), but since 2002 also awards ratings of media freedom. The Global Integrity Index in turn measures a country's intensity of efforts at combating corruption (rather than corruption as such).

Alongside these efforts to measure governance, a whole literature has emerged criticizing the various indicators (Arndt and Oman 2006; Thomas 2007). Among the methodological problems diagnosed by this literature, an important one is that governance ratings tend to draw on each other (Knack 2006). As a consequence, the macro-level indices especially may pick up changes only with considerable time lags.[8] A problem that has been quite extensively discussed is 'margins of error' in the context of aggregate indicators. Margins of error essentially refer to the uncertainty of the rating and are expressed as a range – say a country rated 3.5 on the CPI may have a margin of error ranging from 2.3 to 4.1 – depending on the number of underlying indices that the aggregate draws on, and the

[7] The World Bank's CPIA is probably the best existing rating of such dimensions of governance, but CPIA data is only public for 2005 and not for previous years. Data about the quality of countries' PFM systems is captured by the PEFA assessments launched in 2005; however, only a handful of the 70-odd PEFA assessments conducted thus far have been published.

[8] Assessments that ask experts to rate something very specific ('has the budget been published last year?') are more likely to pick up change than those asking for a general appraisal (e.g. 'is the government committed to transparency?').

degree to which these give a more uniform or diverse picture.[9] However, as the number of underlying indices per country is growing, this problem diminishes.

A deeper problem, which has begun to attract more attention, is that the definition of concepts – and hence the validity of indicators – is not always sufficiently clear (Thomas 2007). For example, the WBI's indicator 'voice and accountability' really measures political freedom (or 'voice') rather than accountability, in the sense of the degree to which a government is actually accountable to citizens. As Thomas (2007: 10–11) has pointed out, the WGI fails to establish any clear links between its terminology and the conceptual social science literature on important governance aspects such as 'the rule of law' or 'voice'. This means that in principle, the designers of such indices should go back to the drawing board and develop conceptually better defined and rooted indices. However, there is a very understandable reluctance to do so, as a major methodological adjustment means that already existing data can no longer be used to track changes over time, and moreover, admitting the need for such a change threatens the validity of existing research about the drivers and effects of governance.

Donors meanwhile are putting increasing emphasis on the development of more qualitative assessments, which have greater value for the operational work on the one hand, and which are increasingly seen as important to justify aid allocations to Northern constituencies on the other hand. The EU has launched its Governance Profiles (for ACP countries only), the World Bank is piloting its Governance and Anti-Corruption Assessment for Country Assistance Strategies, DfID is producing Country Governance Assessments, the Netherlands is piloting Strategic Governance and Anti-Corruption Assessments, and CIDA is in the process of developing an assessment framework. While these are all new or very recent initiatives, DfID and SIDA have undertaken in-depth political economy analyses for some time (*Drivers of Change* and *Power Analyses*) (OECD 2005). Each of these assessments employs a somewhat different approach. DfID's CGA draws largely on existing assessments and indices. The EU's profiles –

[9] Consequently, larger and more open countries, for which many indices are available (e.g. India), tend to have narrower margins than those for which only few indices are available and for which these are more contradictory (e.g. Cuba).

similarly to the WB's CPIA – seek to rate countries based on the assessment of country teams; the World Bank intends to combine a desk-based review of the general governance situation with an inquiry into the political economy of the key sectors it operates in; and the Netherlands is implementing more qualitative 'quick shot' assessments, which are a condensed version of DfID's *Drivers of Change*.

Some qualitative assessments have been based on broad, relatively loose frameworks (e.g. DfID's first generation *Drivers of Change* studies). Others, such as USAID's Corruption Assessments are somewhat more rigorously standardized (USAID 2006). In order to deepen operational relevance of these assessments we see some development of specific assessment tools for different aspects of governance (e.g. types of corruption, the quality of the administrative and fiscal system, etc.) and to understand governance issues in specific sectors (e.g. transport, or health, or private sector development/investment climate).

A number of challenges are associated with qualitative governance assessments. Methodological development has started relatively recently, and there is still some way to go in order to make these assessments really useful – as well as to improve the understanding within aid agencies what types of assessments are well suited for what purpose. Furthermore, there are crucial questions about the harmonization of governance assessments. Qualitative assessments are interaction as well as labour intensive. Hence, they can put a real burden on recipient country governments. It seems to make little sense either from a recipient or a donor country perspective for several agencies to undertake rather similar general assessments of national-level governance. In-depth assessment of governance issues in sectors are costly, and hence especially benefit from a pooling of funds, as has happened in the case of PEFA (Public Expenditure and Financial Accountability Assessments) assessments.[10]

Still, harmonization on governance assessments is likely to be challenging. Firstly, different donors have different normative preferences: the Nordics may care most about

[10] See www.pefa.org.

human rights and gender, the US most about democracy, decentralization and free markets, the UK most about public financial management, and so on. Secondly, given that many types of qualitative, detailed governance and corruption assessments are only being developed now, it is still difficult to agree on common frameworks. An initial attempt to organize a joint corruption assessment for Cameroon (involving representatives from 7 donors plus the OECD/DAC) has been rather chaotic. Thirdly, governance assessments tend to be considered as 'sensitive' and hence there has been a reluctance to share them with other agencies – although this issue may diminish once many of the current 'pilots' become more established products. Finally, and possibly most importantly, governance assessments are serving the purpose of promoting greater governance sensitivity among operational staff; this is best done by keeping them 'in house' rather than doing them jointly with other donors. Nonetheless, there is a clear need to harmonize, and UNDP, the EU, and especially the OECD/DAC's GOVNET are seeking to move forward in this direction.

There are also still some big question marks about alignment and ownership: to what degree can and should donors undertake governance assessments together with partner country governments and/or other local stakeholders? What are the risks then that the analysis will become too much of a compromise rather than frank assessments; or that it becomes too politicized e.g. if donors decide to involve other stakeholders but not the government itself? Can opinion surveys on governance become a task that is carried out by in-country institutions – and National Statistical Offices in particular? Should results from governance assessments undertaken by donors generally be made public – and should the partner government have a veto-right over such publication? These are still a number of thorny issues that will be on the agenda for the coming months and years.

One purpose of undertaking governance ratings and assessments is to use them in decision-making about aid allocation and aid modalities. Thus far, only a relatively limited share of aid is systematically influenced by governance ratings. The most prominent examples are the World Bank's IDA allocations and the US government's Millennium Challenge Account (MCA). There are two important rationales: firstly some research shows that aid will be more effective in better governed countries, and secondly 'rewarding' better governance through aid increases could be a powerful incentive at the global level. The EU, for example, is following this latter logic by including a governance 'incentive tranche' in its 10th EDF.[11] There are good reasons for both these rationales: firstly, aid is a limited good, and should be invested where it can be best used. As some well governed countries succeed, they may eventually also pull less well governed neighbours along. Secondly, in so far as governance is based on a political dynamic, the international community should try to provide the 'right' incentives to do its part in shaping the dynamic.

However, there are also problems. For a start, as discussed in this section, there is still a good deal of uncertainty about the validity of governance ratings. Moreover, aid allocated purely based on governance ratings would leave too many 'aid orphans'. There are few well-governed countries particularly in the 'low income' range – which should come as no surprise if the basic assumption that governance matters for development is correct. Many people falling into what Collier has called the 'bottom billion' live in unstable and poorly governed countries. Thus, it probably makes more sense to use governance ratings – with some caution – on the one hand to allocate additional aid and guide the choices of aid modalities; and to invest more into improving governance on the other hand. In the next section, we turn to the challenges associated with effective donor support for improving governance.

4. Addressing governance and corruption: the known unknowns

The ultimate aim of the governance agenda is to enable and promote change. As 'governance' is a broad umbrella term, many types of projects are potentially pursued under this label – ranging from assistance to promote more effective and fair inter-governmental relations to working with political parties; and from working with tax

[11] The EDF is the EU's funding channel for African, Caribbean, and Pacific countries. The incentive tranche is additional financial support for countries 'adopting or ready to commit themselves to a plan that contains ambitious, credible measures and reforms'.

authorities to improve the investment climate to capacity building of anti-corruption agencies. Moreover, there can be important governance components in sector projects, such as promoting integrity in the health sector.

However, ongoing research carried out for ABIA indicates that despite a broad range of activities, we have as yet surprisingly little systematic knowledge about 'what works' to improve governance – let alone how this impacts on wider development objectives such as growth and poverty reduction. For example, decentralization has been promoted for a considerable time without very clear agreement under what conditions it is likely – or not – to succeed in terms of leading to functioning systems of local and central government, and whether and how it can contribute to wider goals such as greater accountability, greater responsiveness, and better local development (Crook 2003; Ndegwa and Levy 2004; Jütting et al. 2004; Olowu 2003).

Focusing on Uganda and Malawi, the research by Cammack et al. (forthcoming; for ABIA) suggests that neo-patrimonial structures can lead to decentralization being used as a political and patronage tool. This in turn negatively affects the development of effective and accountable local governance. Furthermore, at a more 'technical' level, different donors or even branches of the same donor agency can be at odds over the type of inter-governmental relations and divisions of responsibilities advocated. Thus, while 'democracy' promoters tend to seek greater decentralization, public financial management and health or education sector specialists often prefer a more centralized or even 're-centralized' approach to policy making and expenditure management in order to improve sector-wide planning and reduce the number of fiduciary risk points (Wunsch 2001; Steiner-Khamsi and Stolpe 2004). The issue of how to address the political and patronage logic present in many developing countries, as well as the question of how best to balance the rationales for more centralized and more decentralized systems are not yet sufficiently addressed either in development research or in the 'decentralization' projects that donors implement across the developing world.

Similar issues exist for other types of public sector interventions. Public financial management reforms have attracted considerable attention in recent years. Donors have promoted them as part of the effort to shift more aid towards sector and budget support. However, relatively little is yet understood about what makes reforms more or less likely to work in different countries, and what determines in which areas progress is being made (IDA and IMF 2005). Civil service reform in particular has remained a notoriously difficult area for achieving sustained reform (Polidano 2001). In many countries, the civil service is permeated by patronage that has undermined merit-based recruitment, and is deeply affected by corruption. More democratic governance has at times contributed to a more politicized civil service with staff in many positions being changed after each election. However, donors have been reluctant to discuss these repeated failures of civil service reform more frankly – which has also impeded the search for more viable and politically more 'attuned' kinds of reforms (Shepherd 2004).

Possibly the biggest challenge are presented by anti-corruption efforts (Kolstad et al. forthcoming for ABIA). Corruption has been a central dimension of the recent governance debate and it is attracting substantial public attention and is a crucial issue with regard to the provision of (more) aid. However, existing reviews of typical interventions – such as establishing anti-corruption agencies and adopting new anti-corruption laws – have had limited or no impact in most cases (Tisne and Smilov 2004; Heilbrunn 2004; Doig et al. 2005). Anti-corruption agencies cannot have an impact in highly corrupt environments, unless there is a very substantial political commitment. Politicians who campaigned on an anti-corruption platform, such as Mwai Kibaki in Kenya, often disappoint expectations once elected to office – be it because greed takes over, or because balancing political coalitions necessitates unsavoury deals. Moreover, anti-corruption campaigns can have complex political economy underpinnings and can be selective in their targeting of the political opposition, political predecessors, or individual dissidents.

At the same time, there are signs that incremental success in reducing corruption is possible. Some of the biggest improvements with regard to corruption have taken place in middle-income transition countries facing the huge incentive of joining the EU; although even there high-level corruption has often persisted (WB 2006). In some cases, very targeted interventions, such as reducing corruption in customs have also been quite successful. Even in low income countries, moreover, the picture is not all bleak: according to *Afrobarometer* public opinion surveys, in 8 out of 12 countries corruption among national government officials declined by more than 10% between 2000 and 2005 (Bratton and Cho 2006). Thus, positive change does appear possible – but the challenge remains to understand better what types of policies and interventions are most conducive to such outcomes.

Democratization is a further dimension of governance reforms being sought by donors, and moreover a type of change from which positive spill-over effects for the wider governance situation are expected. However, while multi-party elections have become increasingly common, there are still many difficulties. A large number of poor countries currently have ‘hybrid’ political regimes, rather than fully fledged democratic ones (Villalon and von Doepp 2005). The biggest challenges are around how to make democratic systems work well and to generate real accountability. As the research by Rakner et al. (2007) for ABIA shows, external democracy promotion has not been very successful at meeting these challenges: interventions are very fragmented, donor financing of civil society is fraught with problems, and the focus on elections is still too dominant and too narrow. Unfinished democratization processes can have negative spill-over effects for other dimensions of governance – especially corruption (via campaign financing and other channels) – but this has often been ignored by agencies dedicated to democracy promotion (see also Fukuyama 2005). Donor efforts to increase the transparency of policy-making processes or to facilitate the emergence of more programmatically based political parties have often remained rather half-hearted, and may at times miss the ‘real incentives’ at work (Carothers 2006; Randall 2007; Hudson and Wren 2007). Evaluations of ‘what works’ have either been missing altogether, or have been very piecemeal, reflecting the highly fragmented field of interventions.

Overall, for a range of governance interventions, the gaps in knowing 'what works' are substantial. For some types of interventions – such as promoting anti-corruption agencies – existing reviews indicate that they do not seem to have an impact, at least not in the short to medium term, and in countries where political commitment is less than perfect. Given the strong impetus to improve governance, it is essential to narrow these knowledge gaps. This is likely to require several strands: further conceptual thinking, much more comprehensive monitoring and evaluation efforts, as well as designing and piloting of new types of interventions.

Further conceptual thinking, for example, is needed to explore synergies and interactions. Some changes to governance may be possible 'on their own' while others may only come to fruition once a range of things have begun to improve. For example, sustained reductions in corruption may require greater civic awareness, combined with strengthened institutions of control, combined with some maturity of democratic political institutions. Another crucial dimension for further thinking is to integrate social and political economy dimensions into governance approaches. These are especially important in order to understand how 'good institutions' emerge, and are strengthened and sustained over time. The challenge is to find more and better ways for donors to engage with such underlying dimensions (Armon 2007).

Comprehensive monitoring and evaluation efforts are important to improve the evidence base, and to reduce the highly normative approach to governance reforms. At a basic level, efforts at cataloguing options can be an important first step. For example, International IDEA has begun to catalogue electoral and election management systems and their suitability for very resource-constrained contexts. Similarly, the World Bank has started to build databases of various types of laws – anti-corruption laws, budget laws, and others.[12] The U4 centre in Norway has become a useful hub for knowledge around anti-corruption. Cataloguing as such does not yet tell us 'what works', but it is an essential source of comparative information and can facilitate comparative investigation.

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[12] The database on budget laws is available at: http://www1.worldbank.org/publicsector/pe/countrybudgetlaws.cfm.

A very important tool in improving our knowledge of 'what works' are more systematic evaluations. Assessing the efficacy and the impact of governance interventions and changes is not easy, as anyone ever involved in relevant evaluations or in designing monitoring frameworks will sorely be aware. However, far too little has been tried, in particular with regard to undertaking more comprehensive as well as more comparative work. Some important efforts in this direction have recently been initiated (EC 2006; WB/IEG 2006 and WB/IEG forthcoming) but far more work is still needed.

Evaluations should also help giving a more prominent profile to what people in developing countries think about what works and what is needed as further efforts to improve governance. Their views may differ from those of donors, but they may have a much better sense of viable entry points and priorities for the country. Evaluations are essential in order to spend money, time and effort more effectively. They can also help generate the kind of knowledge that reformers in developing countries need when they design and pursue strategies for reform. Moreover, they are important in order to prevent 'doing harm' rather than good.

Last but not least, trying new things, or trying to do things differently is important. We are still quite uncertain whether politically more 'attuned' interventions by development donors are possible, and what these would look like. Trying out different options, and learning from such pilots, is going to be important in order to develop more effective governance interventions. One example of seeking an innovative approach is DfID's *Coalitions for Change* programme in the health sector in Nigeria – an intervention that has been designed based on findings from an in-depth *Drivers of Change* analysis.[13]

5. Conclusion and looking forward

[13] See http://www.dfid.gov.uk/pubs/files/nigeria-factsheet.pdf. The Coalitions for Change programme has an initial time horizon of 4 years (2007–2010).

Governance is crucially important for development; and it is surprising how long it has taken the development world to fully acknowledge this fact. Part of the reason may be fears: the fear to acknowledge a problem that we are not sure whether we can do something about, possibly combined with the fear that pursuing better governance will be seen as neo-colonial interventionism. However, the problems have kept mounting: while in the 1970s quite a few developing countries had relatively well functioning civil services, this asset has since been squandered in most. Corruption has become extremely wide-spread. Today, even in remote corners of the earth people are aware of what money can buy – and want to buy it. The sharp rise in prices for natural resources offers new opportunities for many poor countries, but it also poses risks of the 'resource curse' that are closely linked to governance.

Now that development agencies have put governance high on the agenda, it is more important than before to 'get it right'. To do so, it is crucial to acknowledge and tackle areas of uncertainty, rather than glossing over them. As this article has argued, a number of important questions are still 'unsettled'. First and foremost, we have to get a clearer grip on what it is about governance that matters most. Good, advanced regulatory and legal systems are costly (as Khan (2006) and others have emphasised), and when advising developing countries on governance reforms we have to think carefully about the balance of likely costs and benefits.

Furthermore, substantial further work remains to be done about the pay-offs of governance improvements in terms of other development goals such as growth, poverty reduction and equity. To assist in designing policy and interventions, this line of inquiry needs to become more specific in distinguishing between different dimensions of governance and their effects. This is a challenging area that will require serious cross-disciplinary efforts to yield results.

Recent months and years have seen a surge in activity to measure and assess governance. Donors – bilaterals as well as multilaterals – have been busy designing and piloting governance assessments, while a range of institutes and foundations are producing an ever wider set of governance indices. As argued in section 3, measuring and assessing governance is important, but there are also risks. Measuring abstract concepts is challenging and there are problems of validity, as well as more technical ones with regard to adjusting methodologies over time, aggregation techniques used in composite indices, and so on. Users of governance data need to have greater understanding of such uncertainties and problems, which often also implies being more cautious about conclusions based on such data.

Governance assessments have the potential to yield greater in-depth understanding of constellations and possible pathways of change in country. However, the label 'governance assessment' is a broad one. 'Quick-shot' macro-level assessments will provide information about broad governance issues in a country, and can give some guidance for questions such as aid allocations, overall governance trends, and issues for political dialogue. More in-depth and focused governance assessments are necessary to guide the operational work of donors around seeking to improve governance, as well as to integrate a governance dimension into sector work – e.g. in health or infrastructure.

A further issue with regard to governance assessments is harmonization. It is rather striking how little of the initial outputs of governance assessments have been shared even across donor agencies. Governance is a sensitive area, and development bureaucracies seem to want to 'get it right' before going public. However, there is clearly a sense of duplication of efforts. Furthermore, there is a risk that multiple, uncoordinated governance assessments will result in uncoordinated demands on recipient country governments to pursue governance improvements. Donor agencies have some good reasons to pursue governance assessments separately, but these still leave considerable room for greater harmonization.

The third crucial issue raised in this article is how to address governance. There are multiple knowledge gaps about 'what works'. At the same time, some of the lessons that have been learned – e.g. about problems related to reforms of the civil service or to reducing corruption – have often not systematically been taken on board and/or their concrete operational implications have not been explored. Furthermore, there is an urgent need to include the perspectives of local stakeholders more prominently: sustainable change to governance has to be pursued from 'within', and therefore it is important to understand what local stakeholders see as most pressing problems, as well as where they perceive a potential for change.

The knowledge gap has also resulted in an innovation gap: what could we do differently? In recent years, donors have advocated a range of legal and institutional reforms in developing countries, but these have not always had the desired effects, as their impact was diminished in the face of ingrained neo-patrimonial structures on the one hand, and 'missing pieces' in the equation – such as a strong, independent judiciary – on the other hand. In many countries, the 'easy' fixes such as adopting anti-corruption laws or new procurement laws have been done, but implementation is disappointing. However, there is a range of options to do things differently. Donors can design interventions that take political economy constellations more squarely into account. DfID's *Coalitions for Change* programme in the Nigerian health sector is a major example. The African Peer Review Mechanism – despite its weaknesses – still has some potential to re-enforce reform in a regionally and country-owned way (Grimm 2007), and there may be opportunities to replicate locally owned assessments also at sub-national levels.

In addition there is considerable scope to support innovation at regional and global levels. Modern networks and modern technology can facilitate bringing social pressure from different publics – both Southern and Northern – to bear at different points, for example, in reining in governance risks related to natural resource exploitation. The 'World Ethics Forum' in April 2006 was a unique event, emphasizing the need for leadership with integrity and a public service ethos (WEF 2006). The Mo Ibrahim Prize for good leadership in Africa – with Kofi Annan acting as chairman – has attracted considerable international attention. It reflects the fact that successful businesses in the South share a concern about the quality of governance. None of these initiatives may have a huge impact on its own, but the need is for persistent agenda setting, learning, and the promotion of a new standard of acceptable behaviour. Donors can do more to support and develop innovative approaches to improving governance.

Advancing the governance agenda very much needs to be complemented by a further evolution in how aid is provided to countries (see also the associated article by David Booth in this issue). Particularly in highly aid-dependent countries, using and strengthening country systems still needs to become much more a primary way of managing aid. Furthermore, donors and INGOs (international non-governmental organizations) have been employing large numbers of the most able professionals in developing countries (Knack and Rahman 2004) – a practice that needs to be reduced. For any such employment, for example, external agencies could be required to undertake 'off-setting' actions such as providing extra funding for local training institutions and allowing some of their aid to pay for recurrent costs of government.

Corruption surrounding aid needs to be addressed more seriously, to reduce the negative governance impact of aid. Donors need to focus less on pushing money out of the door and on controls centred on paper-trails, and instead need to invest more in real output monitoring, and in becoming more open to complaints from people on the ground. This may make the delivery of aid more costly, but will reduce the ways in which aid itself has harmed governance – which is something that in turn Northern public and parliaments need to understand and accept.

Finally, it will be important to develop 'holistic' approaches to governance and overall development. Building roads and railways, employing people, improving sanitation, building liveable cities, making agriculture more productive, and spreading quality education and healthcare, are the crucial outcomes. Working on improving governance needs to contribute to these goals. This requires effective working across professional boundaries and fields.

In sum, we wish to propose the following for action by donors and the wider development community: first and foremost, to support advancing the governance agenda further along the lines set out in this article. Secondly, to pursue a set of changes in current practice: (i) translating more rigorously into practice those lessons and policy insights that have been learned to date; (ii) listening more to views of local stakeholders about governance priorities and reform opportunities; (iii) supporting innovative approaches for reforming governance; and (iv) developing an agenda that holistic, linking the concern for improving governance very closely with efforts to achieve results (both analytically and in designing interventions).

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