TRENDS IN GLOBAL DEVELOPMENT

Linking Growth and Governance for Inclusive Development and Effective International Cooperation

By: James Michel
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LETTER FROM OUR PRESIDENT

Creative has a long track record of working in city and community planning, and promoting responsive civic governance.

In 1979, we supported city and community electrification and public services in Bolivia, and implemented a post-war public services and reconstruction project in Guatemala. We facilitated cities and communities to identify their needs and to prioritize and stage the interventions required to re-establish their economic, political, and social fabrics, essentially rebuilding confidence in local and national government.

Today, our talented teams manage projects such as the Community Livelihoods Project in Yemen and the Community Cohesion Project in Afghanistan—two of the world’s largest city and community stabilization programs.

An evaluation of Creative’s implementation of the Community Based Stabilization Grants (CBSG) Program in Afghanistan showed that citizens became more confident in their local government’s ability to serve their needs. They became more connected to the government because they gained awareness of the planning processes. And a higher level of trust was developed between communities and the government.

Our experience tells us that community-driven approaches are critical to achieving sustainability. Creative excels in city and urban governance, improving public services delivery, and community-driven development.

This paper from U.S. Ambassador James Michel is part of a series that promotes thought leadership and sharing of knowledge in economic stabilization and growth.

The series will include articles by leading figures in their fields as well as experts from among our staff; examples are always drawn from project experience. We hope sharing this information and the more relevant policy and program research with the development community will improve dialogue and knowledge sharing in economic growth, ultimately helping communities to achieve the positive change they seek.

I hope you enjoy Ambassador Michel’s paper and continue to follow our thought leadership series.

Peace,

M. Charito Kruvant
President & CEO
Creative Associates International
INTRODUCTION

Economic growth has long been the central focus of the study of development. What we now regard as a multidimensional economic, social, and political concept was once commonly referred to as “economic development” and its study was dominated by economists and economic historians.

As the study of development continued in the latter decades of the 20th century, the multiple and intimate connections of economic growth to social and political aspects of development came increasingly to the fore. Development studies began to pay attention to the connections among a continuously expanding array of relevant topics.

Prominent among them were the development aspects of citizen security, conflict, corruption, demographic trends, education, the environment and natural resources, geography, health, human rights, justice, political and economic institutions, and the breadth and quality of participation in political and economic activity. The focus of development studies has become human development.

Economic growth remains a central theme. It is essential to all other aspects of development, such as those enumerated above. But economic growth takes place – or fails to take place – in the political context of governance: how societies organize themselves, how their leaders determine policy, how their institutions perform, and how their people behave.

The relationships between growth and governance in each society provide a distinctive background against which efforts are pursued to improve the human condition. These relationships are complex and they have important consequences. Human security, well-being, and dignity everywhere depend on inclusive economic growth and good governance.

This paper reviews a cross section of academic thought and practical experience in addressing the related challenges of growth and governance. It is intended to stimulate thinking about international cooperation’s potential to add value to developing countries’ efforts to achieve stability, prosperity, and justice. It explores the nature of development, describes broad policies that have been found to be conducive to progress toward the intertwined imperatives of inclusive growth and good governance, and reviews the current environment for international cooperation.

A principal theme in the following discussion is the importance of pragmatic strategies that are based on the realities of each country and that draw on local institutions, knowledge, and leadership for the design and implementation of specific policies and actions.

The paper identifies tools to facilitate locally-led efforts to identify and respond to constraints and opportunities. It examines promising approaches for achieving sustainable results in a manner appropriate to the local context. And it offers recommendations on how international experience and resources can contribute to developing countries’ capabilities to achieve and sustain inclusive growth and effective governance, and thereby advance human development.
WHAT IS DEVELOPMENT?

THE NATURE OF THE DEVELOPMENT PROCESS

There is general agreement that development is a complex and continuing long-term process by which societies become – and remain – stable, just, and prosperous, and people participate in and benefit from increased freedom, security, and rising standards of living.

This formulation describes development by referring to widely-shared societal goals (to be stable, just, and prosperous) and an improved quality of life for societies that achieve those goals.

Amartya Sen has expressed a broad view of development with elegant simplicity in his notion of “development as freedom.” Sen suggests that five distinct types of freedom are the primary ends as well as the principal means of development: political freedoms, economic facilities, social opportunities, transparency guarantees, and protective security. He acknowledges the complexity of the development process, observing that the “exercise of freedom is mediated by values, but the values in turn are influenced by public discussion and social interactions, which are themselves influenced by participatory freedoms.”

Mahbub ul Haq, founder of the Human Development Report, also captured the simplicity of the development concept along with its underlying complexity:

“The basic purpose of development is to enlarge people’s choices. In principle, these choices can be infinite and can change over time. People often value achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives.”

Sen and Haq combined their straightforward definitions of development (“freedom” and “enlarged choices”) with indications of its multidimensional nature, involving a number of economic, social, and political factors in a highly diverse array of local contexts.

Among these factors, frequently cited elements include sound economic policy frameworks, social investments, and broad participation in economic and political life with reduced social inequalities. They also include good governance characterized by competent public management, democratic accountability, protection of human rights, and respect for the rule of law; sustainable environmental practices; and attention to the root causes of conflict and violence.

The contemporary people-centered idea of development has evolved from a long history of international interest in expanding stability, justice, and prosperity. That history has included a growing realization that development means far more than economic growth, which in turn has given rise to a continuing debate about what national and international policies and actions will be most conducive to sustained human progress.
HISTORY AND THEORIES OF DEVELOPMENT

Many in the United States think of international support for development began with President Truman’s Point Four initiative, announced in his 1949 inaugural address as a call for “a world-wide effort for the achievement of peace, plenty, and freedom.” There were actually much earlier indications of interest in development and efforts to encourage and support it.

Adam Smith, the father of modern economics, was recommending policies for development in *The Wealth of Nations* and in his observation that “little else is requisite to carry a state to the highest degree of opulence…but peace, easy taxes and a tolerable administration of justice.”

Other European and American scholars and philosophers influenced thinking about development throughout the 19th and early 20th centuries. British colonial administration included substantial attention to development issues, which increased over time. United States foreign policy has relied on diplomatic and technical support activities in other countries since early in the 19th century.

During the first half of the 20th century, a number of philanthropic institutions and religious organizations, and to lesser extent government agencies, engaged in an extensive range of activities to support development. Government’s role increased in the period just before and during the Second World War.

The post-World War II evolution of development organizations took place in the context of Cold War rivalry and competition for “hearts and minds.” First, a multilateral framework of organizations was established to have a positive impact on development. Global organizations – the United Nations, the World Bank, and the International Monetary Fund – were followed by an array of regional organizations. The Point Four program elevated the role of development in US foreign policy through highly visible government agencies, operating under special legislation and with funds appropriated annually by Congress. Soon, the ranks of bilateral donors expanded, leading to the creation of multilateral arrangements to coordinate their efforts.

In this political environment, it is not surprising that analysis of the development process became closely associated with the donor community’s sometimes competing objectives. The question of what could be done by the people and institutions of a developing country to advance stability, justice, prosperity, and freedom tended to be seen as intimately related to the question of how external actors could best facilitate and accelerate local efforts.

Competing analyses and theories of development, while presented as insights into the development process, also appear to have been intended to influence the policies and practices of international actors. Donor preferences over time for different kinds of development assistance – from infrastructure, to balance-of-payments support, to technical assistance, to basic human needs, to policy reform, to institution strengthening – have been associated with the various theories and ideas of development.

In retrospect, popular 20th century theories of development often seem incomplete. We no longer think about development as a problem of gaps in savings and foreign exchange or as a linear process of passing through successive stages of growth. We no longer debate the relative merits of balanced and unbalanced growth. And we recognize that the market-friendly policy prescriptions of the Washington Consensus are not readily adapted and applied in widely different circumstances.

Today we are more inclined to begin our analysis with an examination of the local context and to be more accepting of what Timothy Besley and Torsten Persson call the “Anna Karenina principle of development”: “All prosperous countries resemble each other; every nonprosperous country is nonprosperous in its own way.”

During the post-World War II era, the world has experienced unprecedented development progress.
There has been no shortage of arguments about definitions, measurement, and causes of development, and substantial challenges certainly remain. But the magnitude of the change in the human condition cannot be questioned.

In 2002 USAID published a report setting out the Agency’s priorities, which included a brief section prepared by USAID economist James Fox, “50 Years of Development Gains.” It showed how many economic, social, and political indicators for developing countries at the beginning of the 21st century were superior to the levels of comparable indicators for the industrialized countries in the middle of the 20th century. The report cites impressive gains in rising incomes, longer and healthier lives, less hunger and better nutrition, more children in school, increased urbanization, more opportunities for women, and more people enjoying freedom.15

Subsequent reports, including the 2013 Millennium Development Goals report, confirm that the positive trends identified by Fox in 2002 have continued to enhance the quality of life in the 21st century. In particular, the goal of reducing the proportion of people living in absolute poverty by one-half from the 1990 level, once considered by some to be unrealistic, was achieved well ahead of the target date of 2015.16

Looking forward, there is reason to believe that further gains will be made, improving the lives of billions of people and enhancing the ability of humankind to manage common challenges such as global climate change, population growth, epidemic disease, and shortages of food, water, and energy.

However, optimism needs to be tempered by awareness that, despite the overall progress, many people and many countries have been left behind. The successful efforts to encourage and support development, applying many different theories and approaches, have too often been accompanied by similar efforts that produced disappointing results.17

The following section of this paper examines two broad factors that have been at the core of development progress: inclusive growth and good governance. All countries that have achieved sustained development have relied on those two factors, which are mutually dependent and mutually reinforcing.

**ECONOMIC DEVELOPMENT IS A HIGHLY multifaceted, non-linear, path dependent, dynamic process involving systematically shifting interaction patterns among different aspects of development and therefore requiring predictably changing policies and institutions over time.**

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~ Irma Adelman, Fallacies in Development Theory

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There is virtually universal agreement with the proposition that economic growth is necessary (but not sufficient) for sustained development. This proposition is supported both by logic and by evidence.

Logic tells us that resources are needed to improve living conditions and that the necessary resources can be obtained only by growth or by redistribution, with little potential for internal redistribution in poor countries.18 Evidence shows us that impressive reductions in poverty around the world are largely attributable to economic growth (subject to the important caveat that a country’s initial depth of poverty and degree of inequality significantly affect the pace of poverty reduction through growth).19

There is also broad support for the proposition that good governance is necessary (but not sufficient) for sustainable development. Heads of state and government from around the world pledged in the Millennium Declaration to promote human rights, democracy, and good governance. They boldly declared at the 2005 World Summit that “good governance and the rule of law are essential for sustained economic growth, sustainable development and the eradication of poverty and hunger.”20 This sentiment was echoed in the 2011 Framework for the OECD Strategy on Development: “Effective governance is a necessary condition for economic prosperity and social cohesion.”21
There are some who question the direction of causality, and views seem to depend, to some extent, on how various authors describe “governance.” But there is broad agreement that the interaction among political leaders, institutions, and civil society in pursuit of accountable, competent, and impartial governance is an integral part of the development process.

Growth and governance are deeply intertwined in academic thinking on development. Students of growth tend to recognize that the formulation and execution of economic reforms and the operation of economic institutions involve acts of governance. Students of governance tend to regard the fostering of economic growth as an integral dimension of governance.

GROWTH STRATEGIES

From 2006-2008, the Commission on Growth and Development brought together a remarkable group of 19 distinguished economists, current and former senior government officials, representatives of multilateral development organizations, and private sector leaders to examine the question of economic growth.

The Commission benefited from the broad experience of its members, who were mostly from developing countries, as well as the analysis of a capable staff, insights from a series of workshops and academic papers, and an extensive body of existing literature.

The point of departure was the success of the 13 economies that had achieved sustained high growth since the end of World War II. The Commission defined sustained high growth as annual growth of 7% or more for a period of 25 years, a rate sufficient to almost double the size of an economy in 10 years.

At the conclusion of its deliberations, the Growth Commission issued a report in which it acknowledged:

“We do not know the sufficient conditions for growth. Nonetheless, the commissioners have a keen sense of the policies that probably matter – the policies that will make a material difference to a country’s chances of sustaining high growth, even if they do not provide a rock-solid guarantee.”

The Commission’s list of relevant policies is a useful starting point. The next step will be to consider impediments to the adoption and implementation of those policies. The broad areas of similarity in the 13 sustained high growth economies were:

1. They fully exploited the world economy;
2. They maintained macroeconomic stability;
3. They mustered high rates of saving and investment;
4. They let markets allocate resources;
5. They had committed, credible, and capable governments.

The Commission also compiled a list of 15 specific policy areas that it found likely to matter over the course of 10 or 20 years. They are outlined below, with brief explanations from the report.

High levels of investment: Consumption needs to be deferred in order to permit overall public and private investment of 25% of Gross Domestic Product (GDP). Infrastructure investment is surprisingly low in most developing countries. By contrast, in fast-growing Asian countries it amounts to 5% or more of GDP.

In addition, all high-growth economies gave priority to investment in education, training, and health. Most other developing countries do not do enough in those areas. Education deepens human capital. Health affects economic performance in many ways. In particular, ill health and poor nutrition in early childhood impair ability to acquire skills, affecting both growth and equality.

Technology transfer: All high-growth economies have absorbed knowledge from the rest of the world. Policies that facilitate foreign direct investment and professional and educational exchanges can be important channels for the transfer of knowledge.

Competition and structural change: An expanding
“GROWTH IS NOT AN END IN ITSELF. BUT IT MAKES IT POSSIBLE TO ACHIEVE OTHER IMPORTANT OBJECTIVES OF INDIVIDUALS AND SOCIETIES. . . IN SHORT, WE TAKE THE VIEW THAT GROWTH IS A NECESSARY, IF NOT SUFFICIENT, CONDITION FOR BROADER DEVELOPMENT, ENLARGING THE SCOPE FOR INDIVIDUALS TO BE PRODUCTIVE AND CREATIVE.”

~ Commission on Growth and Development, 2008

Growth economy changes its shape and composition as well as its size. Governments should not resist the emergence of new firms and new industries, but should cushion the blow to those displaced in the process.

**Labor markets:** In many poor countries there is a surplus supply of labor. Creating gainful employment is a first step toward sustained growth. As the economy creates better jobs, a better educated and more mobile workforce is needed.

**Export promotion and industrial policy:** All the high-growth countries served global markets, and exports played an important role in their success. Many adopted policies to encourage investment in the export sectors. In some cases, those efforts were comparable to industrial policies favoring certain industries.

**Exchange rates:** Government efforts to influence exchange rates are controversial. Overvaluation taxes exports and subsidizes imports; conversely, undervaluation taxes imports and subsidizes exports. An export-led strategy should seek to increase exports while also increasing imports, employment, and faster growth.

**Capital flows and financial market openness:** Financial openness is beneficial in the long run. However, there is uncertainty about timing and sequencing. None of the high-growth countries was quick to open its capital accounts.

**Macroeconomic stability:** Fluctuations in prices, exchange rates, interest rates, or tax burdens deter private investment, which is the proximate cause of growth. High growth relies on export growth and rapid integration into the global economy. That process is affected by exchange rates, interest rates, and inflation.

**Savings:** Investment needed for growth depends on a country’s own savings or on its access to foreign sources of capital. Savings have three components: household, corporate, and government.

**Financial sector development:** The financial system can contribute to growth by mobilizing savings, allocating funds to investment, and redistributing risk. Inadequate savings channels and uneven access to other financial services are inefficient and inequitable. Access to credit is facilitated by property rights and the means to enforce them.

**Urbanization and rural investment:** Most growth is taking place in cities. Workers are leaving farms for factories and leaving the fields for cities. There are good reasons to invest in agriculture, which can yield high returns, provide needed employment for the poor in rural areas, and reduce poverty. However, urbanization is part of the transformation to a high-growth economy. In all the high-growth countries, manufacturing and services led the way.

**Equity and equality of opportunity:** Equity and equality of opportunity are essential ingredients of sustainable growth strategies. Equality of opportunity is best served by universal access to public services and meritocratic systems in government and the private sector. Popular capitalism – secure property rights and access to financial services as well as special efforts on gender equality – are also important.

**Regional development:** The impact of growth often falls unevenly across regions, in part because of the disparity of fiscal powers between the national government and local governments in many countries. Regional policies should promote national unity, but not seek uniformity among regions. Public investments in less developed areas can make them more competitive for private investment.
**The environment and energy use:** Most developing countries put growth ahead of environmental concerns. Developing countries need not always adopt the most advanced environmental standards. But they should plan for economic growth with environmental costs in mind.

**Effective government:** Government is policy maker, service provider, investor, arbitrator, and employer. The choice of policies and their implementation matter a great deal. Government effectiveness depends on recruiting talented people and giving them incentives to perform well. Corruption presents a special challenge.

The Growth Commission did not presume to specify how individual countries should apply these 15 policy elements, either individually or collectively. Instead, it offered the elements as general thoughts -- a list of ingredients rather than a recipe -- for consideration by a national team of policymakers and economists.

“This is because no single recipe exists. Timing and circumstances will determine how the ingredients should be combined, in what quantities, and in what sequence.”

The Commission’s report also recognized that developing countries often lack the capacities and institutions they need for growth and that these constraints will manifest themselves differently depending on the circumstances. Therefore, the Commission recommended a cautious, experimental approach to the design and implementation of economic policy.

The issue of equity and equality of opportunity merits special attention. This aspect of growth is directly related to the above-mentioned attitudes about poverty. The people-centered orientation of development thinking has been evolving for a long time. But the change crystallized with the adoption of the Millennium Declaration and the universal acceptance of the Millennium Development Goals as the principal agenda for development.

The search for growth has explicitly become a search for pro-poor growth, defined as “a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth.”

The World Bank regards pro-poor growth as growth that reduces poverty. Poverty eradication is now, and seems certain to remain, the principal development goal. Pro-poor growth is seen as the path for achieving it, even though research continues to confirm that the path will be hard to find and harder to follow.

A first reading of the Growth Commission’s long list of relevant policy considerations is likely to give rise to a sense of amazement that even 13 economies could succeed in attaining sustained high growth.

The number and complexity of the considerations to be addressed, and the uncertainty about how they may influence outcomes over time in many different and dynamic local contexts and constantly changing global conditions, are reminders of how very difficult it is to achieve and sustain high growth.

However, on further reflection, the Growth Commission’s formidable list of relevant policy considerations is also a reminder that, notwithstanding the difficulty, a number of countries have managed to combine the ingredients into recipes for sustained growth. While not many have met the Commission’s standard of 7% annual growth over 25 years, a growing number are making noteworthy progress.

For example, in 2010 Steven Radelet identified 17 African countries that had sustained annual growth averaging 3.2% over 12 years, producing a cumulative 50% increase in real income and substantial reductions in poverty. Vietnam has not had a single year of less than 5% growth in this century.

Notwithstanding this evidence that wider progress is possible, some countries remain mired in poverty, conflict, and human misery. Many of these are the countries identified by Paul Collier as the places where...
the “bottom billion” live, “countries at the bottom that are falling behind, and often falling apart.” They are the countries that persistently occupy the lowest rankings on the established indices of policy and performance.

Extreme poverty increasingly also is found in middle income countries, including places where encouraging initial progress has not been sustained, economic, social, and political conditions have become stagnant, and human development has stalled.

Dani Rodrik has identified a set of three “higher-order principles” of economic governance: property rights, sound money and fiscal solvency, and market-oriented incentives. He has found that no country has sustained rapid growth without adhering to those principles.

Like the Growth Commission, Rodrik rejects a priori formulaic policy recommendations, suggesting that successful countries have given effect to the higher-order principles in a variety of ways that often depart from orthodox prescriptions such as those of the Washington Consensus.

With some differences in emphasis, his list of seven common policies that all high-performing economies have adhered to is highly consistent with the five-point list that the Growth Commission later produced for the 13 sustained-high-growth economies.

Rodrik recommends an investment strategy to stimulate economic activity, complemented with an institution-building strategy that will enable growth to be sustained over time. This approach begins with a diagnosis of context-specific government failures and market failures in order to identify and address the most significant constraints on growth.

The central thesis of his approach is that the higher-

Common Policies of High-Performing Economies

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<td>They maintained macroeconomic stability.</td>
<td>They maintained macroeconomic stability.</td>
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<td>They relied on market forces to varying extents.</td>
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<td>They sought to integrate into the world economy.</td>
<td>They fully exploited the world economy.</td>
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<td>They protected the rights of investors and entrepreneurs to some extent and enforced contracts</td>
<td>They had committed, credible, and capable governments.</td>
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<td>They maintained a semblance of social cohesion and political stability.</td>
<td>They had committed, credible, and capable governments.</td>
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<td>They ensured adequate standards of prudential regulation and avoided financial crises.</td>
<td>They mustered high rates of saving and investment.</td>
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<td>They maintained productive dynamism and encouraged economic diversification.</td>
<td>They mustered high rates of saving and investment.</td>
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order principles “do not translate directly into specific policy recommendations. That translation requires the analyst to supply many additional ingredients that are contingent on the economic and political context, and cannot be done a priori. Local conditions matter not because economic principles change from place to place, but because those principles come institution-free and filling them out requires local knowledge.”

Familiarizing national leaders in poorly performing countries with research findings and generalized recommendations cannot be expected, in itself, to achieve positive results. Without improvements in the local environment and incentive structures, many developing countries will not be able to carry out the reforms needed to achieve sustained pro-poor growth.

Acemoglu and Robinson, in their impressive volume, Why Nations Fail, explain the difference between successful and unsuccessful societies on the basis of whether economic and political institutions are “inclusive” or “extractive.”

Their analysis, supported by extensive historical examples, is that sustained economic growth creates winners and losers, and that powerful forces in a society with extractive political and economic institutions often have reason to believe that they will be among the losers. Those forces tend to have both the incentives and the capability to preserve their advantages at the expense of the society as a whole.

Acemoglu and Robinson conclude that inclusive institutions do not emerge by themselves, but from a process of conflict between those who resist change and those who demand limits on elite political and economic power.

A key insight in this analysis is that change is a political contest. How the contest is resolved often turns on how history and current conditions shape the situation, with some degree of centralized order being necessary for change to prevail. They acknowledge the positive role of expanding knowledge, including through the media, but stress that there is no formula for building inclusive institutions.

Why Nations Fail provides strong support for the view that, while there may be other significant factors, the principal determinant of development is the performance of economic and political institutions. This view is well represented in a number of other scholarly analyses.

The logic is that sustained growth is important for human development, policies and capacities are necessary for growth, and inclusive institutions are necessary for effective policies and capacities. Identifying the factors that contribute to the evolution of inclusive institutions is a remaining challenge.

An important perspective for considering this question is provided by the work of Douglas C. North. North also draws upon extensive historical research in his analysis of “limited access orders” and “open access orders.” A concise version of this analysis is set out in a collaborative World Bank publication on limited access orders in the developing world.

Here, North and his co-authors offer the key premise that there is a fundamental difference in social dynamics between a society in which powerful interests control access to resources and services (limited access) and a society that operates through political and economic competition and the rule of law (open access).

The authors find that the incentives structure in a limited access order bases the delivery of government services on personal connections, which greatly impedes efforts to introduce competing notions such as reliance on impersonal competition, property rights, markets, or democracy. They conclude that donor efforts to impose open access order institutional arrangements on a limited access order value system therefore are likely to fail.

According to their analysis, the transition from limited access to open access is a two-step process. The first step is to achieve three “doorstep conditions”: rule of law for elites; support for “perpetually lived”

GROWTH DIAGNOSTICS” AND OTHER TOOLS are being used to identify key constraints and policies to alleviate them. At the same time, there is growing recognition that technically sound policy prescriptions can fail for lack of effective political support. What is needed therefore is a political economy approach, which can help identify how to overcome particular economic constraints given the prevailing political reality.

~ Department of International Development, Political Economy Analysis Note
elite organizations; and centralized and consolidated control of violence. Meeting those conditions, they say, creates the opportunity for the second step, actual transformation to an open access order.

They caution that the creation of institutional forms that are incompatible with the existing political, economic, and social structure can lead to a mere formal adoption of growth-oriented reforms, with results quite different from what the reformers intended. Rather than complain about a lack of “political will,” the authors conclude, we “need to appreciate more deeply the logic and power of the [limited access order] by which elites have incentives to subvert these reforms or, as they would see it, to adapt the institutional forms to local conditions.”

North and his colleagues appear to be in agreement with Acemoglu and Robinson and others who have found that institutions are the most important factor for a society’s ability to adopt and implement the policies necessary for sustained growth. They add the important caveat that societal values and dynamics are significant constraints on the evolution of effective institutions.

Some would agree with David Landes’ view that “culture makes almost all the difference.” But other research suggests that in some cases values have an effect on institutions while in others it is the institutions that affect values. The pioneering work by Irma Adelman and Cynthia Taft Morris, which examined the relationship over time between economic, social, and political factors in influencing economic growth, found that while economic, social, and political factors were all very important, “institutions mattered most.”

Some experts place less importance on institutions and give more attention to a variety of more immediate impediments to inclusive growth.

Jeffrey Sachs attributes failures of growth to factors such as low capacity to save, physical geography, low government revenues, governance failures, cultural barriers, geopolitics, lack of innovation, and demography. Unfortunately, his solution is a “global compact to end poverty” to be financed primarily with increased levels of development assistance. This approach seemed unlikely to prosper in 2005 when he proposed it and seems even less feasible in 2014. His pilot-testing efforts through the Millennium Villages project have been sharply criticized.

Paul Collier has usefully examined the special challenges faced by some of the poorest countries. He identifies traps from which escape is difficult but not impossible. The traps include vulnerability to conflict, political inability to manage revenues from natural resources, unfavorable geography of being landlocked with bad neighbors, and persistently bad policies and governance.

Collier provides well-researched analyses of the traps, reviews the international instruments for addressing them, and offers proposals for an action agenda. His work demonstrates that although specific country development paths will differ, there are some common types of challenges that have been formidable obstacles in many countries, especially in conflict-affected and fragile states. The section of this report on the contribution of international development cooperation addresses the need for special attention to those states.

Jared Diamond provides a valuable perspective on the influence of environment and history. The many contributors to the published work of Lawrence Harrison and Samuel Huntington offer additional insights about the impact of culture on economic and political development. And David Landes’ economic history is required reading for students of development.

There is much convergence in the academic literature. But there are also many differences. It is possible that only one of the views that scholars have advanced is correct and that the others are wrong. But it is also possible that Morris and Adelman’s extensive historical analysis was correct in concluding that, while institutions were the most important factor, there was no single set of appropriate institutions (either across all
strategies or over time within a single strategy) and no single economic theory that could explain the diversity of experience.52

Likewise, there is reason to believe that weak institutions are more the result of cultural traditions and political, economic, and social incentives than of a mere lack of understanding. As Daron Acemoglu has succinctly observed, “policy reform is necessary, in general, not because country governments do not understand basic economic principles. Few politicians, for example, ever thought that hyperinflation would be good for economic growth.”53

Rather than debate theoretical differences, it would seem the more practical course for those seeking to achieve sustained growth would be to identify the most significant constraints and to address them through strategies and actions that are appropriate to the local context, building on the institutions, values, and conditions of the country in question.

In this regard, the growth diagnostics and constraints analysis approach pioneered by Ricardo Hausmann, Dani Rodrik, and Andres Valesco54 offers an attractive methodology. This approach looks at a country’s history of growth and its proximate determinants – savings, investment, productivity, education, infrastructure, etc.—in order to identify one or two binding constraints where the country might feasibly take action that could be expected to have a significant positive impact on growth.

Each growth diagnostic involves a major undertaking and requires substantial expertise and resources.55 Before undertaking such an effort, the threshold question of whether it is likely to produce a result that will be accepted and acted on by the country in question needs to be addressed. In part, the answer to that question is likely to turn on the extent to which the country’s leaders and institutions are involved in and take ownership of the process.

Where there is sufficient demand for a diagnostic, along with local capacity to play a major role in its execution and sufficient commitment and capability to act on its findings, then the evidence-based focus on the most important identified constraints to growth is obviously superior to either trial-and-error strategies or unworkable comprehensive plans that attempt to solve all the problems. The growth diagnostics methodology has been widely adopted in the development community.56

Responsiveness to local context means combining an understanding of the economic constraints with an analysis of the political context. Reformers in developing countries would be well advised, while taking full advantage of the lessons learned from others’ experiences, to use that knowledge only as a guide, not as a model to be emulated, and to ground their efforts in the local realities of geography, history, societal values, institutional structures, incentives, and constraints.57

This would be responsive to the Growth Commission’s counsel of a prudent experimental approach in the implementation of economic policy. The Commission urged governments to proceed step by step and avoid sudden shifts in policy, following the principle “expressed well by Deng Xiaoping’s oft-quoted dictum to ‘cross the river by feeling for the stones.’”58

GOVERNANCE STRATEGIES

There is broad agreement about the core elements of good governance. The challenge has always been in learning how to bring those elements together in practice. These core elements can be largely derived from the Universal Declaration of Human Rights59 and are consistent with the contemporary people-centered view of development.

The Universal Declaration has been criticized on occasion as an ethnocentric document reflecting “western values.”60 However, over time, it has come to be recognized as an authoritative interpretation of the United Nations Charter and binding as customary international law.61

Virtually universal acceptance was manifested in
GOVERNANCE IS NOT THE PROXIMATE cause of growth. That role falls to the private sector, to investment and entrepreneurship responding to price signals and market forces. But stable, honest, and effective government is critical in

—Department of International Development, Political Economy Analysis

September 2000 when the Millennium Declaration proclaimed the unanimous resolve of the assembled leaders of more than 180 nations “to respectfully uphold the Universal Declaration of Human Rights.”

The 1993 World Conference on Human Rights, meeting in Vienna, declared that democracy, development and respect for human rights and fundamental freedoms are interdependent and mutually reinforcing. The Vienna Declaration and Action Program provided explicit international support for basing international cooperation to foster good governance on the protection of human rights. It emphasized that the Universal Declaration of Human Rights “constitutes a common standard of achievement for all peoples and all nations.” Accordingly, it called for “increased efforts…to assist countries which so request to create the conditions whereby each individual can enjoy universal human rights and fundamental freedoms.”

The declaration urged increased resources for programs “aimed at the establishment and strengthening of national legislation, national institutions and related infrastructures which uphold the rule of law and democracy, electoral assistance, human rights awareness through training, teaching and education, popular participation and civil society.”

In 1991, in the early days of the World Bank’s explicit consideration of governance issues in its programs, two of the Bank’s thought leaders, Pierre Landell-Mills and Ismael Serageldin, presented a paper at the World Bank’s Annual Conference on Development Economics in which they suggested the following characteristics of good governance, based on the Universal Declaration of Human Rights:

- The political rulers and government officials are held accountable to the ruled for their actions through clearly formulated and transparent processes, and more particularly, the legitimacy of a government is regularly established through some well-defined open process of public choice such as elections, referendum, etc.
- The safety and security of citizens is assured and the rule of law prevails such that contracts can be fairly enforced both among private operators and between a private operator and the state. Moreover, citizens should be legally protected from arbitrary or capricious actions by public authorities.
- Public agencies are responsive to the need of the public and social and economic development is promoted for the benefit of all citizens in an equitable manner.
- The ready availability of information…will permit accountability to be practiced, laws to be correctly applied, markets to function, and people to be creative and innovative.
- Freedom of association and expression of opinions [prevails].

Landell-Mills and Serageldin drew upon this list to advocate international support for good governance, with an emphasis on political accountability, freedom of association and participation, bureaucratic accountability, freedom of information and expression, and capacity building. They acknowledged the political dimension of the concept of governance.

Accordingly, they were careful to suggest different roles for different international actors, sensitivity to local conditions, and caution in proposing specific solutions. They considered it the responsibility of each sovereign state to determine its own solutions and the corresponding right of external actors to adjust their support according to their assessment of whether the chosen approach appeared credible.

They concluded by urging collaborative operational initiatives by development partners, accompanied by further scholarly inquiry into several complex issues: “the state-society relationship and the link between effective development process and questions concerning legitimacy, power, representativeness and participation, as well as human and civil rights, the rule
of law, political processes, patronage, corruption, etc.  

Like the list of economic policies developed by the Growth Commission, the characteristics of good governance compiled by Landell-Mills and Serageldin provided only a list of ingredients, not a recipe. And like the Growth Commission’s list, theirs was informed by the authors’ practical experience. In this case, their analysis reflected their familiarity with the impediments to economic growth in Sub-Saharan Africa, which they attributed to shortcomings in post-colonial governance. 

A parallel contemporaneous experience is the United States’ work in Latin America beginning in the 1980s to respond to the challenges of an ongoing widespread transition from authoritarian regimes to elected civilian governments. In a report to the OECD Development Assistance Committee in 1990, USAID described the objectives and component elements of its two-part program for the region, noting it sought to encourage:

- **First, the strengthening of competent civilian government institutions, in particular:**
  - Credible institutions carrying out the executive, legislative, judicial, and electoral functions, free from undue political influence, corruption, or intimidation that undermines their independence and integrity
  - Respect for and effective protection of individual rights, including security of person and property
  - Delegation to regional and local authorities of power to make decisions having primarily regional and local effects
  - The operation of adequate systems to foster and maintain professionalism, honesty, and continuity in public service.

- **And second, pluralism, tolerance of opposing views, and support for democratic values on the part of nongovernmental bodies, including the press, community organizations, labor unions, and business associations, in particular:**
  - Open, peaceful debate of controversial issues in public fora and the press, and tolerance for opposing views
  - Broad, unfettered participation in civic activities such as voting, and in recourse to governmental authorities and to the judicial system for the redress of alleged grievances
  - Formation of and broad and active participation in organizations, and communication between organized sectors of the society.

Like the World Bank, USAID expressed appreciation for the political sensitivity of this kind of activity and emphasized the importance of local initiative and commitment as well as careful coordination with all concerned.

These lists of characteristics of good governance, formulated by development professionals in the World Bank and USAID more than 20 years ago, still have resonance. In the intervening years an extensive body of empirical research and analysis has addressed a number of recurring themes and produced a voluminous body of literature, numerous definitions, and systems for analyzing various aspects of governance.

It is important to point out that the qualities of good governance, as set out in various definitions and lists, include democratic values and practices. Among those frequently cited are the protection of civil liberties and political freedom, political accountability of government officials to citizens, equal justice, and civilian control over the military.

For the most part, there is no meaningful distinction between good governance and democratic governance and there is persuasive evidence of the relevance of democratic governance to sustained economic and social development in the long run. Democracies have been shown to achieve superior results in the long term with respect to growth, stability, resilience in responding to shocks, and distributional outcomes.

While some scholars continue to debate issues
such as sequencing, the evidence suggests that, even though there is a strong and positive correlation between democracy and development, the historical trajectory of democracy will vary from country to country.72

The very different political histories among the 13 countries and territories that the Growth Commission identified as sustained high-growth economies illustrate the variety of national experience concerning the relationship between democracy and growth.

Just as there are many descriptions of good governance, there are many descriptions of democracy.73 And there are countries that meet the commonly understood formal standards of democracy but where the quality of governance is low, and other countries that are recognized as having good governance not yet matched by fully developed democratic institutions.

There is no doubt that good governance has both intrinsic and instrumental value.74 It increases happiness and satisfaction and it has a positive correlation with increased income, justice, sound fiscal management, and political stability.75

Over the years, the academic literature, the policies of development agencies and international bodies, and the practice of development cooperation have come to recognize good governance and democratic values as central to the development process. At the same time, there continues to be academic debate about the relative importance of governance and other factors for economic and social progress and about the relative priorities of different aspects of governance.76

The Millennium Declaration’s37 endorsement of democracy, human rights, and good governance is echoed in the United States development policy focus on countries “that promote good governance and democracy; the rule of law and equal administration of justice; transparent institutions with strong civil societies; and respect for human rights.”78 For its part, the European Union looks to its partners’ “commitment and progress with regard to human rights, democracy, the rule of law and good governance.”79

Capacity for good governance clearly requires competent and accountable institutions and effective states, capable of acting on the basis of what North, Wallis, Webb, and Weingast call “objective, impersonal, and impartial criteria” and Holmberg and Rothstein call “impartial” or “universal” treatment, meaning that all are treated alike without distinctions based on status or connections.80 Competent and accountable state institutions are important for creating an environment conducive to economic, social, and political development.

An effective state needs to be able to provide security, ensure the rule of law, raise revenue, manage economic development and the environment, and deliver basic services such as health care, education, water, and sanitation.81 A weak, fragile, or (in extreme cases) failed state is one that lacks the capacity to perform those functions.82

There is an undisputable correlation between effective states and human security, well-being, and dignity. The research shows that a state’s ability to develop competent and accountable institutions that will be effective in providing good governance depends in large measure on context-specific variables of history and culture and their influence on the contemporary political economy and incentives structures.83

As in the case of strategies for pursuing inclusive growth, these variables should influence strategies for engaging in the political contest to achieve good governance. Local conditions and local knowledge are crucial to judgments such as whether to emphasize formal or informal institutions, rights-based approaches or collective action, national or regional governance.

Many states have become stuck in a “capability trap,” and are unable to implement the policies needed to achieve sustained development.84 One cause of this stagnation may be the tendency of reformers to concentrate on internal functions of government, with inadequate attention to “the importance of voice
and external accountability mechanisms, political contestability, and transparency reforms.”85

The valuable body of research compiled and summarized by Holmberg and Rothstein in Good Government includes a lengthy review of “How to Get It.”86 That series of essays examines the relationships to governance of democracy, press freedom, bureaucracy, corruption, international organizations, state legitimacy, legislators, and gender. Its exploration of the extraordinary variety of experience in integrating these issues into governance strategies demonstrates the inadequacies of universal explanations. At the end, it is clear that country situations are so varied and the issues are so nuanced that there are no reliable generalized answers.

One is reminded of the wisdom of Speaker of the United States House of Representatives Thomas P. “Tip” O’Neill, who was known for the phrase “All politics is local.”87

The international community has broadly recognized the value of local knowledge and supported a movement away from a “best practice” approach of applying general guidance in disparate environments. Instead, the preferred course has become to encourage “asking the right questions” and seeking a “best fit” to local circumstances.

This approach supports active experiential learning in search of solutions that are “politically supportable and practically implementable.”88 However, as discussed below, a persistent gap exists between this policy view and the day-to-day practice of development cooperation.

The importance of institutions that enhance capacities for collective action is increasingly recognized.89 The generalized lists of “ingredients” of good governance described above are useful reminders of issues that have been found to be broadly relevant.

Useful general guidance also can be derived from the observation of Kaufmann and Kraay about the importance of voice and external accountability mechanisms.90 In a similar vein, a recent World Bank study of participation as a factor in development demonstrates the value of incorporating local knowledge and preferences into decision-making processes in an “exercise of voice and choice.”91

The development community has created a number of indicators and diagnostic tools for assessing and measuring various aspects of governance. For the most part, these tools are newer than those that have been in use to monitor economic and social progress. Issues of interpretation pose a continuing challenge and there are few universally accepted standards.92

However, due in part to the broad demand for evidence of results, we are seeing efforts to improve the quality of diagnostic tools for governance. Tools that have been designed in a collaborative manner are especially promising because developing countries can adapt them to the local context when deciding on priorities, formulating strategies, implementing reforms, and monitoring progress. These efforts bring international experience and expertise to the service of context-specific analysis by local institutions, thus enhancing relevance and local ownership.

Some collaborative tools and approaches for using them have originated with development agencies. Others have been developed by academic or research organizations or by private organizations that implement development cooperation programs. The United Nations Development Program’s Governance Assessment Portal93 includes examples of such tools and approaches.

Theoretical support for an emphasis on broad participation and empowerment in governance strategies is provided by the work of Nobel laureate Elinor Ostrom. Her analysis of sustainable economic governance models with multiple decision points is supported by extensive research. She documents the value of shared knowledge, communication, and incentives for collaboration and trust as distinguishing...
Ostrom placed her analysis in what she called the Institutional Analysis and Development (IAD) framework. The framework is based on eight design principles that promote cooperation for mutual benefit: clearly defined boundaries; proportional equivalence between benefits and costs; collective-choice arrangements; monitoring; graduated sanctions; conflict-resolution mechanisms; minimal recognition of rights to organize; and (for resources that are parts of larger systems) nested enterprises.

Ostrom’s framework has been adopted in a wide range of multidisciplinary efforts far beyond the field of development.

As previously mentioned in the section on growth strategies, and as the international community has acknowledged, some states face special challenges. Fragile and conflict-affected states are among those with the greatest and most persistent challenges. The Dialogue on Peacebuilding and Statebuilding, led by a group of 19 fragile states known as the g7+, has established goals “as stepping stones to achieve progress on development” in fragile states.

The international response to those goals is discussed in the section of this report on the contribution of international cooperation. It is worth mentioning here that governance issues feature prominently in the Peacebuilding and Statebuilding Goals set out in a document prepared in advance of the Busan High Level Forum on Aid Effectiveness in 2011. The goals included:

- Legitimate politics – Foster inclusive political settlements and conflict resolution.
- Security – Establish and strengthen people’s security.
- Justice – Address injustices and increase people’s access to justice.
- Economic foundations – Generate employment and improve livelihoods.
- Revenues and services – Manage revenue and build capacity for accountable and fair service delivery.

The Dialogue on Peacebuilding and State Building also recognized that “priorities to achieve these goals will be different in each country” and should be set “at a country level through a process that engages all stakeholders, especially women and civil society.”

The Dialogue mechanism has created additional diagnostic tools to facilitate fragile-country strategies, including a fragility assessment methodology, indicators, and related materials. This work provides an outstanding example of diagnostic tools designed in a collaborative manner for use by developing countries in ways adapted to the local context.

THE INTERTWINING OF GROWTH STRATEGIES AND GOVERNANCE STRATEGIES

The preceding discussion suggests that the struggle to escape from societal, economic, and political stagnation is ultimately a political contest. In that contest, the distinction between growth strategies and governance strategies is an elusive one. Indeed, it has been said that “successful policy reform is at its core governance reform.”

Extensive research as described in previous sections of this report confirms that those who resist reforms intended to enhance broadly shared economic and social progress act not out of ignorance, but out of perceived self-interest based on the existing local incentives environment.

Country-specific strategies need to take competing interests and incentives into consideration in making judgements about local priorities, sequencing, and methods. They need to be flexible and able to adapt to changing circumstances, including those that are beyond local control, such as the fluctuations in global markets and commodity prices.
It is also widely accepted that country strategies should include measures to broaden voice, knowledge, communication, and participation. But it is also recognized that “decisions about whether, when, and how to promote local participation are . . . never easy.”

Professors Besley and Persson have persuasively demonstrated the positive interaction among economic, social, and governance factors of development. Their research associates broadly-based income growth with strong common societal interests and peaceful resolution of disputes and also with state capacity, especially for fiscal management and enforcement of legal rights and duties.

In countries where powerful entrenched interests have strong incentives to preserve their relative advantages, we often see negative interaction: little or no income growth; divisive clientelism and privilege instead of a nurturing of common interests; resort to violence (with a confident expectation of impunity) instead of peaceful dispute resolution; and weak state capacity to impose taxes, to hold accountable those who abuse power, or to provide basic services that could advance equitable treatment and greater equality of opportunity. In the most extreme cases, a persistent state of open violence and civil conflict effectively blocks economic, social, and political development.

In any country setting, those who wish to foster policies, institutions, and practices conducive to sustained inclusive growth and good governance need to contend with the phenomenon of path dependence. As Douglass North reminds us, “history matters.”

Change means overcoming the cumulative weight of history, societal traditions and values, concentrations of economic and political power, and the strengths and weaknesses of existing institutional structures and incentives systems. The political contest between proponents and opponents of change is a continuing process, not a single event. The contending parties need to compete within a sustainable modus vivendi. As David Booth and Diana Cammack have pointed out, the “challenges... are not fundamentally about one set of people getting another set of people to behave better in the interests of development. They are about both sets of people finding ways of being able to act collectively in their own and others’ best interests.”

Mishtaq Khan offers thoughtful analysis of how existing conditions can produce a “political settlement” in which interaction between contending political and economic forces produces a combination of mutually supportive institutions that distribute benefits in a manner compatible with the existing distribution of power. Such a political settlement tends to be clientelistic and resistant to change.

This concept adds an explicit political economy analysis to North’s observation, discussed above, about the incentives for elites to resist institutional reform in a closed access order. For Khan, the distribution of power is a key factor in understanding the importance – for both growth and governance – of informal institutions (such as clientelism) and the constraints on institutional change in developing countries.

Successful reforms tend to involve positive interaction among three forces: multiple inspirational leaders committed to policy goals, key institutions with improved capabilities and integrity, and broad, active segments of civil society providing informed input. These forces need to be able to navigate a course that can deal effectively with evolving institutional capacities, power relationships, and incentive structures over time, while sustaining progress and avoiding destabilizing conflict.

A threshold challenge for reformers is often one of how to stimulate positive interaction when the starting point is one of generalized “low level equilibrium” in which leadership is not committed to change, key institutions are weak, and civil society has low expectations.

In such situations the best approach may be to
focus initially on improving threshold conditions within the existing institutional framework while deferring more ambitious but less feasible transformational reforms.

An analytical approach to managing change might begin with any of the thoughtful scholarly views described above: North’s distinction between limited access and open access orders, Acemoglu and Robinson’s distinction between extractive and inclusive institutions, or Khan’s typology of political settlements. It might then examine the power relationships that shape the relevant formal and informal institutions. Or it might simply begin with the recognition that existing conditions include various obstacles to change, many of them deeply rooted.

In any event, the challenge will be to set—and to adjust as circumstances change—ambitious but realistic expectations of what can be done to address the most serious obstacles in the circumstances of the particular local environment.

Instead of thinking a priori about stages that need to be reached before other stages can be pursued, the better course appears to be an opportunistic approach. Efforts might seek to build human and institutional capacity to identify and deal with priority constraints. That would include the capacity to increase awareness of the constraints and opportunities for overcoming them, respond to opposition, and seize pertinent opportunities, while remaining patient when actions must be deferred and maintaining an appropriate balance among the respective influences of leadership, institutions, and participation.

With luck and persistence, attitudes and expectations can change over time and, with that change, inclusive reforms can prove their value and thereby diminish resistance to them.

In a series of papers, Matt Andrews, Lant Pritchett, and Michael Woolcock have provided a useful list of recommended principles for such a context-specific, opportunistic approach to strengthening state implementation capacity. This approach, which they call “problem-driven iterative adaptation” (PDIA), suggests that reform activities should:

1. aim to solve particular problems in particular local contexts via
2. the creation of an “authorizing environment” for decision-making that encourages experimentation and positive deviance, which gives rise to
3. active, ongoing and experiential (and experimental) learning and the iterative feedback of lessons into new solutions, doing so by
4. engaging broad sets of agents to ensure that reforms are viable, legitimate and relevant—that is, are politically supportable and practically implementable.

PDIA begins with a focus on how local actors define a problem, thereby putting the emphasis on performance (rather than on compliance with some externally prescribed “solution”) and encouraging reflection and analysis by those who know the complexities of local conditions.

PDIA urges local openness to experimental, incremental, and novel ideas in order to encourage the emergence of contextually appropriate solutions. It endorses feedback and learning arrangements for testing ideas, learning about constraints, and identifying opportunities for refinement. And it favors broad participation by multiple agents—from government, business, and civil society—whose diverse perspectives enhance the feasibility of the reform effort and also broaden the base of support and improve the diffusion of learning.

The four principles of PDIA have much in common with the above-discussed recommended approaches for improving growth and governance, drawing from them as follows:

- from the Growth Commission for local formulation of specific ways to combine commonly found ingredients, taking into account local circumstances and...
"GROWTH OF 7 PERCENT A YEAR, SUSTAINED over 25 years, was unheard of before the latter half of the 20th century. It is possible only because the world economy is now more open and integrated. This allows fast-growing economies to import ideas, technologies, and know-how from the rest of the world."

~ The Commission on Growth and Development, 2008

Institutional capacities;

- from Rodrik for a focus on local conditions and reliance on local knowledge to identify constraints to growth;
- from the OECD and others for a shift from “best practice” to “best fit” to local circumstances;
- from Ostrom for broad participation and empowerment in polycentric governance strategies;
- from Khan for sensitivity to political settlements and the underlying factors that sustain them; and
- from the creators of various self-assessment and diagnostic tools designed to be useful to developing countries in conducting their own analyses that are adapted to the local context.

There appears to be considerable room for cross-fertilization within the large body of shared thinking on these interrelated themes.

The foregoing discussion identifies key policy issues that are important for inclusive growth and good governance. It also describes the impediments to putting appropriate policies and institutions into place and adapting them to changes that occur in the development process.

We can see that both economic and political reforms benefit from a stable environment, consistent policy direction, effective and accountable institutions, broadly inclusive stakeholder knowledge, communication, and participation, and decisions based on market forces and impartially-determined merit, rather than on privilege and patronage.

The analysis shows that the obstacles to adopting and maintaining policies and institutions that favor inclusive growth and good governance are shaped by context-specific historical and social characteristics that have multiple impacts on values, incentives, and capacities.

The myriad uncertainties involved in pursuing linked growth and governance objectives in widely differing and evolving situations leave no practical alternative but to rely on flexible, experimental approaches, including ample opportunities for feedback, learning, and course correction.

The extensive body of research and analysis on these themes can tell us a great deal about the ingredients that need to be considered and the importance of context-specific approaches to bring those ingredients together into successful recipes, country-by-country.

Both research and experience have supported the creation of useful tools for obtaining information, identifying the most significant constraints, and designing context-appropriate strategies for overcoming those constraints and measuring progress toward strategic goals of inclusive growth and good governance.

The accumulated knowledge provides some help for learning what policies and institutions are important and, in general, how improvements should be pursued. But we do not have answers to the fundamental question of why a society is motivated to pursue inclusive growth and good governance in a systematic way over an extended period of time: How can a well-conceived reform strategy be stimulated, formulated, and executed in ways likely to achieve and sustain desired results? A related question is: How can international cooperation play a positive role that contributes to the success of local strategies for inclusive growth and good governance? These questions are addressed in the following section of this paper.

The value of international encouragement and support for inclusive growth and good governance has long been debated. Proponents of development cooperation have contended, notwithstanding many expressed doubts, that “properly applied in propitious environments, aid works.”

But serious scholars have also contended that “foreign aid is not a very effective means of dealing with the failure of nations around the world today,” “aid agencies don’t help people learn to think about and change the structure of the situations they are facing,” and “it is difficult to give convincing evidence of the effects of aid on economic growth, and the same applies when we look at the effects of aid on democracy or on other institutions.”

Skeptics and critics have cast doubt with dramatic
statements like Senator Robert Taft’s famous suggestion that participation in the International Monetary Fund would be “pouring money down a rat hole.” The current trend of diminishing confidence in government may contribute further to public skepticism about investments in development cooperation.

The Contribution of International Cooperation

At the same time, the broad endorsement of the Millennium Development Goals and evident interest in the post-2015 development agenda make clear that development cooperation is expected to continue to play an important role. The evidence of human progress that can be associated with development cooperation and the commitments expressed by world leaders to shared responsibility for managing worldwide economic and social development (including in the Millennium Declaration in 2000 and the World Summit Outcome Resolution in 2005) combine to place the focus less on whether there should continue to be international cooperation and more on how that cooperation can best contribute to development results.

The International Framework

Over the past decade, the international community has achieved broad consensus on how to increase the effectiveness of development cooperation. This consensus has been achieved largely through a series of highly inclusive international conferences:

- The March 2002 International Conference on Financing for Development produced the Monterrey Consensus, in which heads of state and government pledged to engage in the common pursuit of growth, poverty eradication, and sustainable development through partnership based on good governance, sound economic policies, solid democratic institutions, and improved infrastructure. They agreed that developing countries have the lead responsibility, placing principal reliance on domestic resources, and that industrialized countries would support them with private investment, trade, and development assistance.

- In support of the Monterrey Consensus and following regional discussions in Ethiopia, Jamaica, and Vietnam, development partners met in Rome in February 2003 to discuss the harmonization of development cooperation practice. In the resulting Rome Declaration, participants agreed on good practice standards to be further refined. They described their work as “an important international effort to harmonize the operational policies, procedures, and practices of our institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs).”

- The March 2005 Paris Declaration on Aid Effectiveness was adopted at an event that brought together representatives of developed and developing governments and international organizations from around the world to join in a shared commitment to: local ownership and leadership; alignment of donor support with local strategies, institutions, and procedures; harmonization and transparency of donor actions; managing resources and improving decision-making for results; and mutual accountability of partners for development results. A notable feature of the Paris Conference was the adoption of specific commitments and time-bound targets to be met by the development community.

- A follow-up meeting on accelerating and deepening implementation of the Paris Declaration took place in September 2008 in Accra, Ghana, with even broader participation, including many civil society organizations. The resulting Accra Agenda for Action expressed commitments on three key themes of the Paris Declaration:
• strengthening country ownership over development through dialogue, robust capacity of local institutions and systems, and increased use of those systems;
• building more effective and inclusive partnerships through reduced aid fragmentation, increased value for money, engagement with all development actors and civil society, and adapted policies for countries in fragile situations; and
• delivering and accounting for development results through improved management, greater accountability and transparency with the public, changed conditionality to support ownership, and increased medium-term predictability of aid.121

These meetings led up to a conference in late 2011 in Busan, South Korea. Busan was extraordinary not only because of the substance of its conclusions, but also because consensus was reached by such a wide ranging gathering of participants. There were more than 3,000 delegates in attendance. The resulting partnership document has been endorsed by more than 160 countries and territories and by more than 50 international organizations and a large number of civil society organizations.122

Building on the Rome and Paris Declarations and Accra Agenda for Action, the Busan Partnership Declaration affirmed shared principles to form the foundation of cooperation within this diverse development community:

• ownership of development priorities by developing countries;
• focus on results;
• inclusive development partnerships; and
• transparency with and accountability to each other.

While it was officially called the “Fourth High Level Forum on Aid Effectiveness” (Rome, Paris, and Accra were the first, second, and third), Busan took the discussion beyond the effectiveness of aid. It broadened the goal from one of making aid effective to one of achieving effective development. And it established a new framework for collaborative efforts to help achieve that goal.

Paragraph 28 of the final resolution gave formal expression to this framework:

“Development is driven by strong, sustainable and inclusive growth.

Governments’ own resources play a greater role in financing their development needs. In turn, governments are more accountable to their citizens for the development results they achieve.

Effective state and non-state institutions design and implement their own reforms and hold each other to account.

Developing countries increasingly integrate, both regionally and globally, creating economies of scale that will help them better compete in the global economy.”123

It is noteworthy that the four elements of the above-quoted framework all address aspects of inclusive growth and good governance. Indeed, the overall Busan partnership model contains many features that academic research and field experience have found to be important for improving both growth and governance. These include an insistence on broad participation by public and private institutions in developing countries to strengthen gender equality, forge links between citizens and their government, promote rights-based approaches, improve public access to information, and foster sustainable growth and poverty reduction.124

Consistent with the recognized importance of effective institutions for locally owned development and local leadership of international development cooperation, Busan called for actions, led by developing countries, to support the implementation of institutional and policy changes, assess needs for capacity development, and...
USAID HAS MOBILIZED UP TO $2.3 BILLION in private financing for more than 100,000 entrepreneurs during the past 12 years through its Development Credit Authority, which uses partial credit guarantees to mobilize local financing and encourage private lenders to extend financing to new sectors and regions.


improve measurement of institutional performance. It also called for international efforts to “deepen our learning on the determinants of success for institutional reform, exchanging knowledge and experience at the regional and global levels.”

A group of 11 countries and 11 international organizations at the Busan meeting also adopted a brief complementary statement endorsing “a reinvigorated approach to supporting and strengthening institutions and policies.” This statement, called the New Consensus on More Effective Institutions for Development, endorses:

- A focus on factors that make reforms and capacity development happen, including political economy, country leadership, a focus on results, change management, sequencing of institutional and policy change, sub-national institutions, the role of parliaments, civil society, better domestic resource mobilization; and the strategic roles of public financial management, procurement and oversight functions;
- Partner-led joint assessments of country institutions, systems, resilience and capacity development needs, as well as enhanced collaboration on identification, analysis and monitoring of risks;
- Country-based partner-led evidence-gathering on institutional performance and capacity development to inform decision making, accountability, transparency and accessibility;
- Systematic regional and global knowledge-sharing, including south-south, international and regional organizations to facilitate learning on what works to make institutions more effective and reforms happen.

Busan provided for a new international coordinating mechanism to support the implementation of the undertakings made in the Partnership Declaration. This new international body, the Global Partnership for Effective Development Cooperation, was established in 2012. It has begun operations with a steering committee, and is chaired jointly by senior officials of Indonesia, Nigeria, and the United Kingdom. The steering committee has held several meetings in preparation for a high-level meeting to be held in Mexico in 2014.

Within that organizational structure, an Effective Institutions Platform has been created. Initially chaired by Ghana and the United States, the Platform includes about 70 members who are developing measures to support “institutions needed for transparent, effective and accountable states.” The Platform members have established priorities for their work, built around five pillars to address specific institutional effectiveness challenges:

- Change Management and Making Reform Happen: Development of country capacities for planning and implementing public sector reforms in order to improve public services delivery.
- Indicators for Success: Development of context-specific indicators that countries can use to assess the quality of their public sector institutions.
- Domestic Resource Mobilization: Complementing existing initiatives to strengthen domestic resource mobilization at the country level.
- Use of Country Systems: Facilitating the implementation of the Busan commitment related to the use of country systems.
- Accountable and Inclusive Institutions: Supporting the development of accountability institutions such as parliament and national audit institutions, as well as increasing the inclusiveness of reform efforts.

These initial priorities are based on the Busan Declaration and the New Consensus. The Busan Partnership Declaration looks at governance primarily through the lens of effective institutions. However, it is more explicit with respect to governance in fragile states. It expressly welcomed the New Deal for Engagement in Fragile States developed by the International Dialogue on Peacebuilding and Statebuilding in preparation for Busan.

As previously discussed, the acute challenges to
growth and governance faced by fragile states have been receiving attention from the international community for some time. The special attention paid to those states reflects the grave situation dramatically summarized at the beginning of the New Deal document:

- 1.5 billion people live in conflict-affected and fragile states.
- About 70% of fragile states have seen conflict since 1989.
- Basic governance transformations may take 20-40 years.
- 30% of Official Development Assistance is spent in fragile states and conflict-affected contexts.
- These countries are furthest away from achieving the Millennium Development Goals.

These facts also help to explain the extraordinary array of international efforts to address conflict and fragility in recent years. The complexity of the challenge and the range of issues being addressed are discussed in depth in the 2011 World Development Report.

NOTEWORTHY TRENDS IN DEVELOPMENT

COOPERATION

The international environment in which the new global partnership will operate includes several trends that will have a direct and significant impact on development cooperation. These include the growing diversity of the development community, the increasing complexity and changing composition of development finance, the emerging shape of the post-2015 development agenda, and the continuing challenge of addressing the political dimension of development within a context of developing country-led cooperation.

Diversity and Inclusiveness of Participants: In emphasizing the principle of developing country ownership, the Busan Partnership Declaration made clear that “country” means more than the national government. The Declaration mentions, in particular, the importance of the roles of parliaments, local governments, civil society organizations, and the private sector. External partners have responded with explicit policies and guidance to encourage and support broad participation within developing countries.

Busan also took note of the evolving complex architecture for development cooperation and welcomed the diversity of development actors. In the past, developing countries’ external partners were primarily the multilateral development agencies and traditional donors who were members of the OECD Development Assistance Committee (DAC).

Today, even with its expanding membership (the Czech Republic, Iceland, Poland, and the Slovak Republic all joined in 2013), the DAC represents only a small fraction of donors.

Many providers of development assistance were recently – and in some cases continue to be – aid recipients. Some have distinct independent policy views and they cannot all be expected to subscribe to the DAC reporting standards or policy guidance. Harmonization of efforts thus can be expected to become even more
complicated. In addition to state actors and multilateral development agencies, private donors such as the Bill and Melinda Gates Foundation and the Open Society Foundation are part of a new, diverse community of development actors.

Paragraph 14 of the Busan Declaration accepts that "we now all form an integral part of a new and more inclusive development agenda, in which these actors participate on the basis of common goals, shared principles and differential commitments."

Composition of Development Finance: The volume of official development assistance (ODA) expenditures recorded by the OECD declined in 2011 and 2012. The total of $125.6 billion reported for 2012 was down 6 percent from the 2010 level of $128.7 billion. However, it recovered in 2013 to a new high of $134.8 billion.

The future for ODA remains uncertain in light of the budgetary constraints faced by many traditional donors. Moreover, aid flows tend to be concentrated on sectors and countries of particular interest to donors, for example the multi-donor global health, food security, and global climate change initiatives supported by the United States. Two conflict-affected countries, Afghanistan and the Democratic Republic of the Congo, were the top two recipients of development assistance in 2011. Together they accounted for 9 percent of total ODA. This pattern of concentrated sectoral and geographic allocations limits flexibility in responding to other priorities, especially in a time of shrinking resources.

Private flows of capital, workers’ remittances, and assistance from non-OECD donors are playing a much larger role. More than two-thirds of non-ODA flows are from the private sector, although these private flows tend to be concentrated in countries considered to be good prospects for private investment.

As encouraged in the Monterrey Consensus, there has also been a substantial increase in public expenditures by developing countries for their own development, with domestic resources now exceeding external flows by a wide margin. Innovations in development finance are being introduced rapidly. Official development assistance is now less than 20 percent of the resource flows to developing countries. This changing finance structure suggests there is a greater need for partnerships with shared responsibilities by public and private sources in both the industrialized countries and the developing countries. The Partnership for Growth initiated by the United States, initially with El Salvador, Ghana, the Philippines, and Tanzania, is a positive example of such an effort to harness the increased diversity of development finance in a coherent effort to support sustainable development.

The Post-2015 Development Agenda: The target period for the Millennium Development Goals will expire in 2015. The international community is giving increased attention to the next phase of international efforts to improve the human condition. Reports from various sources have offered suggestions, notably the May 2013 report of the high level panel appointed by the Secretary General of the United Nations and co-chaired by the President of Indonesia, the President of Liberia, and the British Prime Minister. The panel recommended a universal post-2015 agenda, to be driven by what the panel called “five big, transformative shifts:”

1. Leave no-one behind.
2. Put sustainable development at the core.
3. Transform economies for jobs and inclusive growth.
4. Build peace and effective, open and accountable institutions for all.
5. Forge a new global partnership.

After considering the various recommendations, the Secretary General submitted his own report for consideration at the 2013 meeting of the General Assembly. This report accepted the panel’s recommendations for universality (not limiting the goals to only developing countries) and included the proposed transformative shifts, enumerated in the Secretary General’s “key elements of the emerging vision for
the development agenda.” With respect to inclusive growth and good governance, the Secretary General recommended the following goals:

- Promote inclusive and sustainable growth and decent employment. This can be achieved by economic diversification, financial inclusion, efficient infrastructure, productivity gains, trade, sustainable energy, relevant education and skills training. Labor market policies should focus in particular on young people, women and people with disabilities.

- Build peace and effective governance based on the rule of law and sound institutions. Peace and stability, human rights and effective governance based on the rule of law and transparent institutions are outcomes and enablers of development. There can be no peace without development and no development without peace. Lasting peace and sustainable development cannot be fully realized without respect for human rights and the rule of law. Transparency and accountability are powerful tools for ensuring citizens’ involvement in policymaking and their oversight of the use of public resources, including preventing waste and corruption. Legal empowerment, access to justice and an independent judiciary and universal legal identification can also be critical for gaining access to public services.146

On September 25, 2013, heads of state and government and delegation heads at the General Assembly participated in a special event on the Millennium Development Goals. They welcomed the ongoing processes by the Open Working Group on sustainable development goals as well as the Secretary General’s report and launched a process of intergovernmental negotiations to achieve agreement on a post-2015 development agenda that will be focused on poverty eradication and sustainable development.

The outcome document from their meeting endorsed the idea of universal recommendations for all countries. It anticipated the completion of a synthesis report in 2014 to guide final negotiations and a summit in September 2015 for the adoption of the new development agenda.147

**The Political Dimension of Partnership:**

Development cooperation has always been intended to have mutual benefits. In that sense, it is intrinsically political in character. When development cooperation is directed at facilitating political and economic reforms, it is unavoidably dealing with political contests, often involving multiple factions of the proponents and opponents of change. Aid agencies have traditionally considered it prudent to proceed in a transparent manner that seeks to be effective without being unduly intrusive. Within a broader framework of international relations, development cooperation programs have helped to expand access to information, enhance institutional capacities in the public sector and in civil society, foster dialogue, and help create incentives. However, for the most part, development agencies have understandably sought to maintain cooperative relationships with their local partners.

Many international development agencies believe they cannot retain their credibility and their partners’ trust if they seek to displace local stakeholders or act as if they were a part of the local society, taking sides in short-term disputes or political campaigns and becoming enmeshed in local politics. On the other hand, their effectiveness will suffer if they do not adequately address political aspects of the local environment in program design and execution.148

In seeking a balance appropriate for the local context, development agencies are paying closer attention to political economy and change management considerations in the formulation of their strategies and the design of their programs. They also are being more proactive in integrating democracy, human rights, and governance components into socioeconomic programs.149 However, even though the political aspect of development has long been recognized, this realization has not been reflected consistently in the practice of development cooperation. The same concerns are repeatedly expressed, especially about an apparent failure of development agencies to take politics fully into account. The persistence of the gap between declared
policy and historical practice is illustrated by the similarity of the conclusions about approaches to donor support for good governance (taking into account differences of purpose and emphasis) in the 2011 Carothers/de Gramont report and a 1997 OECD/DAC report, as set out below.

It is clear that development cooperation must pay careful attention to the political dimension of development. That means different things in different circumstances. The appropriate emphasis might be on strengthening core government institutions, supporting civil society, working at regional, municipal, and community levels, or integrating the political dimension across the entire program of development cooperation. In all cases, it means carefully observing the distinction between political awareness and political action. Perhaps even more than in other aspects of development cooperation, the path will have to be found by “feeling for the stones.”

**THE NATIONAL FRAMEWORK**

The international emphasis on institutions that will support inclusive growth and good governance is consistent with the strong academic support for the primacy of institutions in development (perhaps most boldly asserted by the title “Institutions Rule” chosen for one well known persuasive analysis).

This emphasis is consistent with the United States global development policy announced by President Obama in September 2010. As stated in the White House Fact Sheet describing this policy, “the United States will…foster the next generation of emerging markets by enhancing our focus on broad-based economic growth and democratic governance.”

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**Conclusions About Approaches to Donor Support for Good Governance**

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<td>Recognize that governance deficiencies are primarily political.</td>
<td>Democratization and good governance are central to the achievement of development goals for the 21st century.</td>
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<td>Give attention to demand for governance, not just supply.</td>
<td>Strengthen the strategic role of civil society.</td>
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<td>Go local.</td>
<td>Take local ownership seriously.</td>
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<td>Take informal institutions into account.</td>
<td>Develop better country-level policy dialogue and coordination.</td>
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<td>Mainstream governance.</td>
<td>Base partnerships on a common understanding of development-governance linkages.</td>
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<td>Don’t ignore the international dimension.</td>
<td>Operate in a long-term strategic framework.</td>
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<td>Reform thyself.</td>
<td>Address donor-side problems in public management and accountability.</td>
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TO INVEST IN SUSTAINABILITY, THE AGENCY must have a greater capacity to nurture lasting institutions, systems, and capacities in developing countries that enable them to confront development challenges effectively...Through a set of implementation and procurement reforms, we will strengthen local civil society and private sector capacity and make more extensive use of partner government systems.


It will do so, in part, by elevating “broad-based growth as a top priority” and in part by placing “greater emphasis on building sustainable capacity in the public sectors of our partners and at their national and community levels to provide basic services over the long term.”

A new operational model for implementing the national strategy encourages sustainable capacity building by assuring: “Where our partners set in place systems that reflect high standards of transparency, good governance, and accountability, the United States will...empower national governments to drive development and sustain outcomes by working through national institutions rather than around them.”

In July 2009, in furtherance of the President’s global development policy initiative, the Secretary of State launched the first quadrennial diplomacy and development review (QDDR). This collaborative undertaking by the Department of State and USAID resulted in a final report in December 2010 that focused on the coordination of diplomacy and development roles at both agencies.

A section of the report on comparative strengths of the United States with regard to economic growth, democracy and governance, humanitarian assistance, and empowering women stated:

With respect to economic growth:

“Economic growth is the single most powerful force for eradicating poverty and expanding opportunity…. Economies thrive when governments are accountable, grow when capital is available based on merit—not patronage—and expand when countries cultivate and draw on the talents of all their people. Government policies and regulations should be designed to optimize economic choices of individual economic actors and firms, while minimizing administrative costs, uncertainty, and the potential for abuse….The State Department and USAID will support these development efforts by using their diplomatic and development tools to help countries enact policies that support economic growth.”

And with respect to democracy, human rights, and governance:

“Accountable, democratic governance is a universal value and a founding principle of our nation. The U.S. is committed to advancing democracy, human rights, gender equality, and sound governance to protect individual freedoms and foster sustainable economic growth.

“The United States has a range of tools to support reform-minded women and men in other countries—in and out of government—as they build democratic societies that protect the basic rights of all citizens....State bureaus directly integrate human rights considerations into our security and economic cooperation with other governments....USAID will elevate democracy, human rights, and governance as a critical development goal for the 21st century by increasing our investment in three critical areas: developing policy, strategies, and tools to support the human rights movement; working with local partners to make fragile democracies more responsive to their citizens; and creating, together with the broader donor community, new strategies to advance sound governance.”

Reforms within USAID, under the heading of “USAID Forward,” are a major part of giving operational effect to the global development policy and the QDDR. Collectively, these reforms are seeking to: strengthen capacities of developing countries to lead their own development; tailor programs to different country contexts through collaboratively designed country development cooperation strategies; learn from experience through rigorous evaluation of what works and what doesn’t; improve results through innovation; and adapt to the growing diversity of development finance through increased public-private partnerships.

Importantly, USAID Forward also includes components to strengthen USAID’s own internal capacity, especially with regard to policy formulation, budget management, analysis of political economy and resiliency considerations, country and sector strategy formulation, and workforce development.

In his foreword to the 2013 progress report on USAID Forward, USAID Administrator Rajiv Shah called attention
to the connection between these agency reforms and international trends, observing that the “principles behind these reforms reflect the global discourse on development that has evolved over the past decade.”

The Millennium Challenge Corporation (MCC) has also put into place policies and practices to respond to the United States’ global development policy. In particular, MCC has published thoughtful guidance on its approach to promoting country ownership.

Other countries and development agencies are also adapting their development cooperation programs in light of the Busan principles and commitments. As previously noted, the United Kingdom Secretary of State for International Development is a co-chair of the Global Partnership for Effective Development Cooperation’s steering committee. Other major donors, such as the European Commission and Korea, are represented on the committee.

Greater emphasis is being placed on the political dimension of development and on the nature of policy change in the guidance materials published by various development organizations and in academic research and analysis.

THE WAY FORWARD

This paper has summarized many aspects of development policy, practice, and capabilities that are important for inclusive growth and good governance. It has explored the incentives, analytical tools, and impediments that can influence change. And it has reviewed the contemporary framework, current trends, interconnections, and approaches for effective international development cooperation.

Several points stand out:

- Development is complicated. It has many economic, social, political, environmental, and security dimensions, all of which are simultaneously interacting and influencing one another. None of these can be ignored, but development strategies need to prioritize the most important and most feasible areas for achieving sustainable results.
- Development is complex. Similar efforts in apparently similar contexts are likely to produce highly dissimilar results. This is because capacities and commitments will vary in different countries and at different times. Progress is also influenced by distinctive considerations of geography, history, and shared values, all of which influence incentives and shape both support for and resistance to change.
- The contests between reform proponents and those who would preserve the status quo are essentially political. Success depends on consistency of policy direction, growing institutional capacity, and ability to adapt to changing circumstances and demonstrate results over an extended period of time. Equally important are increased public knowledge, improved communication, and growing participation to build trust and expand the range of shared interests, exercise the public voice, and demand accountability from political leaders and from economic and political institutions.
- The diversity of country contexts precludes reliance on a priori formulae or notions of “international best practice” to determine the specific content, pace, or sequence of actions. Developing country-led incremental and experiential approaches, informed by awareness of what has worked or not worked elsewhere but based primarily on knowledge of the local environment, accompanied by good communication, and openness to stakeholder input, are more likely to find the right fit.
- International experience and research, shared in a spirit of partnership, provide valuable information and analytical tools that can be useful to developing countries in pursuing their own paths to sustainable development. These tools include participatory constraints analysis, support for self-assessment of local institutions, and collaborative evaluation of the impact of development programs and activities.
- International cooperation in support of locally led efforts can be effective in accelerating and increasing
positive development outcomes. Effectiveness should be pursued on the basis of the agreed principles, frameworks, and priorities set out in the Busan Partnership. Each country’s specific focus and content should be determined on the basis of shared interests, capacities and commitments of the development partners, and progressively expanded reliance on implementation by local partners using local systems. Partners should set goals and measure results in a manner consistent with the amount of time and level of resources invested.

For the most part these are not new ideas. They have been advocated by scholars and development practitioners for many years and have remained in the forefront of current deliberations about development policy. In particular, for some time there has been wide recognition of the need for “modesty about the blessings of good practice standards and a better search for ‘good practices that make a good fit’” in development cooperation. That recognition has been accompanied by appeals that development agencies “shift from providing what we believe are the ‘right answers’ to asking the ‘right questions’ that can help both donors and partner countries find specific contextualized responses that work.” Many international programs have helped developing countries produce durable results. But over the long history of development cooperation there has been a pattern of divergence between declared policy and actual practice.

There are many examples of programs and activities that lacked sufficient grounding in local responsibility and knowledge, disregarded local priorities, were overly technocratic, failed to take political considerations appropriately into account, overestimated local or international commitments or capacities, or did not allow sufficient time or effort for local leadership and ownership to take hold.

Those examples and others have been the subject of extensive criticism and have generated expressions of concern that the consensus reached at Busan may not significantly change for the better the practice of development cooperation.

The impressive consensus represented by the Busan Partnership – and its influence on national policies and capacities for effective development cooperation – provides an opportunity for reshaping international cooperation and its potential contribution to development and inclusive growth and good governance. The Busan Partnership Declaration is far more than a statement of shared aspirations. Its framers were very successful in capturing sound theories as well as practical realities of effective development cooperation.

These include the recognition that development must be based on local responsibility and international partners should facilitate this; effective economic and political institutions are essential; and international support for efforts by developing countries to strengthen their institutions, including those that fulfill core state functions, needs to be appropriate to the local context.

As discussed above, the role of institutions is widely regarded to be the most important factor – certainly one of the most important – in achieving inclusive growth and good governance. The development community has made major investments for decades in institution strengthening, but there is widespread disappointment with the limited impact of those efforts.

The independent evaluation of the Paris Declaration, completed in 2011 and made available to participants in the Busan meeting, found that “capacity constraints are the most prevalent source of difficulties in completing aid reforms and, even more important, for carrying out the essential functions that aid is intended to support. ‘Capacity development’ has been recognized as an urgent priority for decades, but progress has mostly been slow and difficult.”

The broad theme of institutional capacity is now prominent on the post-Busan international agenda. The Global Partnership for Effective Development Cooperation established under the Busan Declaration has given renewed emphasis to this critical aspect of development...
EFFECTIVE PUBLIC INSTITUTIONS CARRY OUT the policies and investments that mobilize domestic resources efficiently, fight corruption, promote competitiveness, strengthen human capital and improve infrastructure—thereby stimulating private investment, job creation, and productivity gains. Robust private sector institutions, such as banks and capital markets, are critical to improve the private sector’s capacity to generate growth.


through its Effective Institutions Platform. The World Bank’s new strategy also stresses the importance of both public sector and private sector institutions. The African Development Bank is giving institutions prominence in its proposed new governance strategy. An informal Network on Learning for Capacity Development and a southern-led Capacity Development Alliance are carrying out activities and publishing materials that emphasize local ownership and context-specific approaches for increasing institutional capacity. The United Nations Development Program is also engaged, supporting an alliance of organizations working on capacity development.

One aspect of this adaptation by development agencies to the Busan principles and commitments has been an active reexamination of how to help strengthen developing-country institutions and systems.

For example, USAID has sponsored research by the Overseas Development Institute on the contribution of “localized aid” to sustainability and is preparing guidance on the importance of local systems for sustained development. The United Kingdom’s Department for International Development (DFID) has financed the influential work of the Centre for the Future State (CFS) at the Institute of Development Studies, Sussex University, and, more recently, the research program of the Effective States and Inclusive Development Research Centre (ESID).

The Danish Institute for International Studies recently completed an examination of capacity development of state institutions in fragile states, focusing on positive experiences with international cooperation in five countries: Afghanistan, Liberia, Rwanda, Sierra Leone, and South Sudan.

The Institute’s cogent policy recommendations for donors, set out in its report and in an accompanying policy brief, are listed below. They have broad relevance extending beyond the context of fragile states:

- Find a good and strong fit for the given context and situation.
- Build on good relations with a recipient country and existing partnerships.
- Base support on commitment, motivation, and leadership.
- Support ad hoc evolution, and do so on a long-term basis.
- Pay attention to the external environment and support changes in public perceptions.
- Ensure initial bold symbolic changes that break with previous ways of doing things.
- Prioritize regional South-South capacity development.

All of the aforementioned research efforts are intended to empower locally-led development. They demonstrate a recognition by the international community that developing countries need to build and sustain effective institutions in order to exercise ownership over the development process, and that international actors need to contribute to this essential aspect of achieving both inclusive growth and good governance.

Matt Andrews has reviewed evaluations by the World Bank and other development agencies which confirm that many externally-supported reform efforts have failed to improve institutional performance. He found that poor results were frequently associated with disregard for the very factors enumerated at the beginning of this section as fundamentals of effective development cooperation.

In particular, he found a pattern of activities with similar content and objectives being implemented in quite dissimilar country contexts, as well as indications that the proposed reforms were based on notions of “international best practice” rather than individualized analysis of local environments. This finding obviously conflicts with the dominant view in current literature and development agency guidance that rejects “one-size-fits-all” solutions and emphasizes context-specific “best-fit” with maximum reliance on local leadership and use of local systems.
It is possible that some of the data from the evaluation reports that Andrews studied are outdated and do not capture recent changes in international practice that might indicate increased consistency with the Busan principles. But his troubling findings do seem plausible in light of expressed doubts about the effectiveness of past external support for capacity building and the history of divergence between declared policy and everyday practice in development cooperation.\textsuperscript{175}

Andrews’ research is consistent with the finding in \textit{An Upside Down View of Governance} that although donors have recognized “the need for more politically intelligent, context-specific approaches, and more local ‘ownership,’…overall there is still a big gap between donor rhetoric and actual behavior, and for the most part development practice remains donor-driven and aid-centric.”\textsuperscript{176}

To some extent, the findings of poor results in the evaluations of institutional strengthening efforts imply overly ambitious or inappropriate objectives in internationally supported initiatives. It is not unusual to see projects with high aspirations that appear to be disproportionate to the capacities or commitments of local or external actors or that seem inappropriate for the policy and operating environment. Researchers have attributed such misalignment, in part, to desires by developing countries to please donors and, in part, to tendencies by donors to provide “solutions” that are not responsive to local political, economic, and social realities.

Some critics have gone so far as to label overemphasis on formal institutions in development cooperation programs as being representative of support for “good governance,” with the implication that good governance, as thus defined, is something to be avoided.\textsuperscript{177} But, nomenclature aside, there is a growing chorus of support for the view that international cooperation should focus “less on the long-term destination of rules-based governance, and more on incremental ways of making progress in the short-to-medium term through coalitions and relationships between key actors.”\textsuperscript{178}

Andrews proposes increased use of the problem-driven iterative adaptation (PDIA) approach developed in his collaboration with Lant Pritchett and Michael Woolcock.\textsuperscript{179} That approach is offered as an alternative to what the PDIA proponents have called “isomorphic mimicry” in which a donor proposes an external “solution” based on “best practice” and the developing country is motivated to accept the proposed reform as a way “to ensure ongoing flows of external financing and legitimacy.” Then, when the reform is not implemented and performance is not improved, the cycle is repeated.\textsuperscript{180}

As previously noted, the PDIA principles have much in common with other current ideas that also emphasize local ownership and responsibility and urge that international support should be responsive to each country’s distinct economic, social, and political conditions.

The goals of sustained, inclusive growth and participatory good governance would be well served by improved performance of political and economic institutions, both formal and informal, in developing countries. This holds true for institutions in the sense of “the rules of the game” as well as in the sense of organizations that manage the rules.

For example, a system of land ownership can include governing laws and customs; entities (typically in the public sector) that record transactions, maintain authoritative registries, and resolve disputes; and other entities (typically in the private sector) that provide services such as financing and insurance. These can all be called institutions.\textsuperscript{181}

Given the renewed emphasis on institutional capability, it seems an especially propitious time for a concerted international effort to depart from inappropriate past practices and bring development cooperation into greater harmony with the Busan effectiveness principles.

Andrews suggests that favorable conditions exist for changing the system at a global level as a result of current disruption in the field (awareness of the need for change), accompanied by weakness of the dominant logic (questioning of the existing structure), evidence of viable
alternative (emerging locally based “right fit” approaches), and the existence of potential change agents (broad engagement). In this environment, a development assistance focus on institutional capabilities could contribute greatly to enabling developing countries to exercise effective ownership of their own development, while also empowering international partners to rely progressively on local systems capable of implementing development cooperation programs. Some developing countries and their international partners might agree to engage in activities such as proactive data collection and analysis, experimental use of the PDIA approach, research into specific issues, collection of experiences, joint evaluation of institution-strengthening efforts, and the broad sharing of lessons learned.

Drawing on what we know about international support for inclusive growth and good governance, collaborative efforts to increase institutional capabilities should seek to have defined goals with clear allocation of implementation responsibilities, designs based on local knowledge and participatory analysis, participation of multiple actors and support networks, flexible implementation with room for experimentation, and transparent communication.

Developing countries and their international partners will need to examine their own respective issues of perverse incentives and path dependence that might inhibit the realization of needed systemic changes. The international coordination structure (including a possible role for the Effective Institutions Platform) can usefully support such an effort by stimulating action, facilitating the sharing of information, and monitoring progress. But the principal responsibility for such an effort should be on those whose behavior is expected to change – in the developing countries and in their international partner organizations.

The prospective partners in country-based efforts to increase institutional capability should take into account the usual considerations about the sufficiency of motivation for reform, social receptivity to change, availability of threshold implementing capacity, the existence of adequate leadership in key positions, and the means to address the concerns of those opposed to change. Continuous review of these factors on a case-by-case basis will be needed to help keep partnership objectives compatible with the priorities, capacities and commitments of both the local and the international partners.

This review of academic thought and practical experience has found much convergence in international support for economic, social, and political development and, in particular, in support for growth and governance. Development cooperation has evolved in ways that have broadened the agenda from an emphasis on economic progress to concern for human security, well-being, and dignity. With that orientation a consensus has emerged that development comes primarily from within a society; outsiders can add value by supporting local efforts but they cannot replace local responsibility, initiative, or knowledge.

Over the past decade there has been an improving and increasingly nuanced understanding of the meaning of local ownership and its implications for international development cooperation. This understanding has influenced international cooperation to support inclusive economic growth and participatory good governance. Both of these basic elements remain at the core of the development agenda. They are mutually interdependent and mutually reinforcing. Both are considered necessary to advance the other aspects of human development.

International support for economic growth has become increasingly attentive to the importance of developing country leadership in integrating important elements for growth policies into country-specific strategies. International experts have urged developing countries to give priority to identifying and addressing the most significant constraints on growth, and have supported such efforts. Support has included diagnostic tools that...
can facilitate context-specific analysis by developing countries to identify and respond to those constraints.

Likewise, support for good governance has come to recognize the political nature of reform and, therefore, the importance of detailed local knowledge. There is a trend toward self-assessment and political economy analysis to help shape governance strategies that integrate broadly accepted standards (such as those in the Universal Declaration for Human Rights) into context-specific local approaches that build on local realities. As in the case of growth strategies, international experts have helped to make flexible diagnostic tools available for use by developing countries in formulating and carrying out their own governance policies and strategies.

The development cooperation paradigm of partnership with local leadership and international support has numerous variations because each partnership needs to be compatible with the local economic, social, and political context and with the extent of the shared interests and respective commitments of the partners. In these differentiated partnerships, there is an inevitable tension between the desire for local ownership and the limitations of local capability. There is a need to reconcile the sometimes conflicting realities that local ownership is needed to build local capability but local capability is needed to achieve effective local ownership.

A related area of tension is the persistent gap between what is known about development effectiveness and the actual practice of development cooperation. The broad recognition of the importance of local leadership and contextually appropriate approaches conflicts with a continuing reliance in practice on notions of “best practice” and donor-proposed “solutions” that are not responsive to local political, economic, and social realities. This conflict between declared policy and actual behavior undermines the effectiveness of development cooperation.

For all the progress that has been achieved over the past half-century, one area of persistent disappointment has been the limited capacity in many countries of public and private institutions that are necessary for an effective state and a growing, inclusive economy. The traditional forms of technical assistance, which have accounted for a significant percentage of assistance expenditures over the years, have often had only limited success in helping developing countries to overcome this impediment. As a result of this constraint, the freedom and the opportunities of millions of people are diminished. And external partners’ desire to rely more on local institutions and systems to formulate and implement development strategies is often frustrated.

The Busan Partnership Declaration calls for a framework in which “effective state and non-state institutions design and implement their own reforms and hold each other accountable” and “developing countries will lead in efforts to strengthen these institutions, adapting to local context and differing stages of development.” Under the Global Partnership for Effective Development Cooperation, structural arrangements have been established to help coordinate efforts toward realizing those aspirations and to share information and ideas within the development community. Development agencies are investing in new research in this field, in many cases with the participation of collaborators from developing countries.

Renewed attention to institutional capacity in the post-Busan environment creates an exceptional opportunity to mount a concerted effort to overcome historic impediments to achieving local ownership and building local capacity. Existing frustration over the disappointing results of past efforts enhances the favorable environment for such an approach. With confidence that increased responsibility will be exercised responsibly and effectively, developing countries and their international partners have incentives to rely increasingly on local institutions and local systems.

A growing body of research is providing valuable knowledge about the risks and opportunities associated with new approaches. As a result, alternatives to traditional…

“ABOUT 1.5 BILLION PEOPLE LIVE IN conflict-affected and fragile states [and] about 70 percent of fragile states have seen conflict since 1989.”

~ International Dialogue on Peacebuilding and Statebuilding
models of international cooperation are being proposed. The current trend is toward locally-led collaboration to identify problems, preserve the value of existing institutions and collective action frameworks, formulate specific solutions that provide a good fit in the local circumstances, and assure broad participation in the design and implementation of strategies. This trend has potential for changing the thinking of development actors as well as the practice of development cooperation in ways that can enhance and sustain inclusive growth and good governance.

The international community should seize this moment of opportunity.
BIBLIOGRAPHY


ENDNOTES


The difficulty of attempting social change and growth simultaneously in the conditions of the 1950s…led to an emphasis on increased GNP as a measure of success in development. This…has now been replaced by a more complex statement of social objectives, which recognizes that economic growth is a necessary but not sufficient condition for social progress and that more direct attention should be given to the welfare of the poorest groups.


14 Besley and Persson, note 6 supra, page 30. The Tolstoi novel begins with the sentence “All happy families are alike; each unhappy family is unhappy in its own way.”


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52 Ibid, at page 55.


56 Ibid, page 42.


Adelman and Morris first published findings involving the application of 41 indicators to 74 poor countries over the period 1950-1965; they then extended that research over more than 20 years of effort to produce an analysis of economic and institutional changes in 23 countries from 1850-1914. See Adelman, Irma, and Cynthia Taft Morris, *Society, Politics and Economic Development*, The Johns Hopkins Press, 1967, and Morris, Cynthia Taft, and Irma Adelman, *Comparative Patterns of Economic Development: 1850-1914*, The Johns Hopkins University Press, 1988. The quoted reference to the primary importance of institutions is at page 221 of the latter volume. The same volume, on pages 37 and 38, contains an interesting summary of the most significant types of 19th century institutional changes: laws defining property rights and their enforcement; reduction in costs of economic transactions; lowered trade barriers between regions; patent protection; limited individual liability for business debts; insurance; large infrastructure such as public transport; and increased presence of capitalist enterprises and wage labor.

See Sachs, note 4, supra. See also Munk, Nina, *The Idealist: Jeffrey Sachs and the Quest to End Poverty*, Doubleday, 2013.


See Hausmann, note 47, supra, pages 209-222.


Millennium Declaration, note 20, supra, Part V. “Human rights, democracy and good governance.”


Ibid, pages 6-7 (citations to specific Articles of the Universal Declaration of Human Rights omitted).


There are many other lists of the qualities of good governance, and they tend to be highly consistent. The Office of the United Nations High Commissioner for Human Rights concludes that “there is a significant degree of consensus that good governance relates to political institutions and processes and outcomes that are deemed necessary to achieve the goals of development,” citing with approval the work of the former Commission on Human Rights in identifying as key attributes of good governance: transparency, responsibility, accountability, participation, and responsiveness to the needs of the people. http://www.ohchr.org/en/Issues/Development/GoodGovernance/Pages/GoodGovernanceindex.aspx. For a list of definitions of governance and good governance, see Grindle, Merilee, “Good Enough Governance Revisited” in Development Policy Review, Vol. 25, Issue 5, pages 533-574, at 556.


See “Measuring Democracy” in Committee on Evaluation of USAID Democracy Assistance Programs, Building Knowledge through Evaluations and Research, National Research Council of the National Academies, The National Academies Press, 2008, pages 71-98. This report proposed avoiding definitional questions by disaggregating the concept of democracy into the following 13 dimensions, to be assessed on a country-by-country basis: national sovereignty, civil liberty, popular sovereignty, transparency, judicial independence, checks on the executive, election participation, election administration, election results, leadership turnover, civil society, political parties, and subnational democracy.

See the discussion of governance as an end and of governance as a means in Rodrik, Dani, “Thinking about Governance,” in Governance, Growth, and Development Decision-making, note 23, supra, pages 18-20.

Holmberg, Soren, and Bo Rothstein, note 72, supra; Besley and Persson, note 6, supra.

Note 20, supra.


See the review of the academic literature and varying points of view it contains in “The Unresolved Debate on Political Goals” in Carothers and de Gramont, note 72, supra, pages 198-223.


OECD, “Functions of the State,” in Do No Harm: International Support for Statebuilding, OECD, 2010, pages 87-118, http://www.oecd.org/development/incaref/44409026.pdf. The 2011 Manila Statement on Partnering to Strengthen and Support Effective States, subscribed to by representatives of many countries, development organizations, parliaments, and civil society organizations, added that core state functions need to be performed with accountability and transparency and observed that states “can only manage development when these processes are underpinned by effective institutions and systems.” http://www.oecd.org/dac/effectiveness/49080411.pdf.


Note 72, supra, pages 105-273.


Ostrom, Elinor, expressed a developing country perspective: “We support ‘best-fit’ approaches to development, which will of course differ from one country to another. We believe that there is no ‘one size fits all’ development model and best practices must be adapted to the local context.” The Global Partnership for Effective Development Cooperation published her letter at http://effectiveco-operation.org/2013/07/07/message-from-ms-armida-alisjahbana-
minister-of-state-for-national-development-planning-indonesia.


86 Note 85, supra.


92 See, e.g., Wilson, David Sloan, Richard A. Kaufman Jr., Miriam S. Purdy, A Program for At-Risk High School Students Informed by Evolutionary Science, PLoS ONE, Vol. 6, Issue 11, e27826, November 2011, http://www.plosone.org/article/info%3Adoi%2F10.1371%2Fjournal.pone.0027826. This source interprets Ostrom’s eight design features as: strong group identity, benefits proportional to costs, consensus decision making, low-cost monitoring, graduated sanctions to correct misbehavior, fair conflict resolution, sufficient group autonomy to permit group decisions, and intergroup relations that embody the principles for relations among individuals within the group.


94 Dili Declaration, supra.


97 See generally Levy, Brian, and Francis Fukuyama, note 24, supra. The quotation is from Mansuri and Rao, note 91, supra, page 80.

98 See the Pillars of Prosperity Index in Besley and Persson, supra, note 6, pages 310-317.


101 Booth and Cammack, note 89, supra, page 15. While directed specifically at governance in Africa, their observation has universal relevance.

102 See text accompanying note 43, supra.

103 Khan, Mishtaq H., Political Settlements and the Governance of Growth Enhancing Institutions, 2010, http://eprints.soas.ac.uk/9968/1/Political_Settlements_internet.pdf. Khan suggests there are several kinds of political settlements which can be organized in a typology: Capitalist Political Settlement, Clientelist Political Settlements, Pre-capitalist Political Settlements, and Political Settlements in Crisis.

104 The quotation is from Andrews, Matt, Lant Pritchett, and Michael Woolcock, Escaping Capability Traps Through Problem-Driven Iterative Adaptation (PDIA), Center for Global Development, June 2012, http://www.cgdev.org/files/1426292_file_Andrews_Pritchett_Woolcock_traps_FINAL.pdf. For analysis of the critical factors of capacity and commitment see Hickey, Sam, Thinking about the

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108 North, Wallis, Webb, and Weinglass, note 43, supra; Acemoglu and Robinson, note 41, supra; Khan, note 107, supra.


122 Busan Partnership for Effective Development Cooperation, December 1, 2011, http://www.oecd.org/dac/effectiveness/49650173.pdf. This broadened focus (in paragraph 2) was accompanied by an appeal for coherence in all public policies – not just development policies (in paragraph 9).

123 Ibid, paragraphs 20, 21, 22, 23, and 32.

124 Ibid, paragraph 29.


127 See the Effective Institutions Platform website, http://www.effectiveinstitutions.org


129 New Deal for Engagement in Fragile States, note 97, supra.

130 Ibid.


Busan Partnership Declaration, note 123, supra, paragraphs 21, 22, and 32.


Busan Partnership Declaration, note 123, supra, paragraphs 14 and 25.


147 Ibid, pages 87-90. See also the March 2012 addendum to the State-USAID Strategic Plan, http://www.state.gov/s/dmr/qgdr/185613.htm, which reflects these QDDR themes in its third objective: “Expand and sustain the ranks of prosperous, stable and democratic states by promoting effective, accountable, democratic governance; respect for human rights; sustainable, broad-based economic growth; and well-being.”


154 The OECD estimates that “about a quarter of publicly funded aid, or more than USD25 billion a year, has been spent on technical assistance, mainly targeted at capacity development. Yet much of this money has had relatively little impact.” http://www.oecd.org/dac/capacitydevelopment.htm.

155 The Evaluation of the Paris Declaration, Final Report, note 120, supra, page 66.
Note 128, supra.


http://www.lenec.org/home.


The CFS website, available at http://www2.iids.ac.uk/gdr/cfs, provides links to an informative policy briefing on the Centre’s research as well as its landmark 2010 publication, An Upside Down View of Governance.

ESID is an international consortium of six organizations based at the University of Manchester. Its other members include the Institute for Economic Growth (India), BRAC Development Institute (Bangladesh), University of Malawi, Centre for Democratic Development (Ghana), and the Center for International Development in the Kennedy School at Harvard University (United States). Major ESID research papers are available at http://www.effective-states.org.


An Upside Down View of Governance, note 89, supra, page 69.


An Upside Down View of Governance, note 89, supra, page 70.

See the several papers cited in note 110, supra.

Andrews, Pritchett, and Woolcock, Escaping Capability Traps through Problem-Driven Iterative Adaptation (PDIA), note 88, supra, pages 5-7; see “Viewing Reforms as Signals Helps Explain Puzzling Evidence” in Andrews, note 173, supra, pages 33-34. This dynamic seems much like the valid criticism of policy conditional-ity from an earlier era in which developing countries often only pretended to fulfill donor-imposed conditions in adjustment programs and donors pretended not to notice their deficient performance. See Killick, Tony, with Ramani Gunatilaka and Ana Marr, Aid and the Political Economy of Policy Change, Routledge, 1998, pages 160-197, for an analysis of the failure of conditionality and a suggested alternative approach based on local ownership, selectivity, support, and dialogue.

23. Elinor Ostrom provides a definition in *Understanding Institutional Diversity*, note 95, *supra*, (at page 3): “Broadly speaking, institutions are the prescriptions that humans use to organize all forms of repetitive and structured interactions, including those within families, neighborhoods, markets, firms, sports leagues, churches, private associations, and governments at all scales.” Trebilcock and Mota Prado, in *What Makes Poor Countries Poor*, at pages 27-28, define institutions to mean “organizations (formal or informal) that are charged or entrusted by a society with making, administering, enforcing or adjudicating its laws or policies.”

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