Institutions are the formal and informal “rules of the game” within which development takes place. So a decade ago we began to think that the answer was “good governance” institutions. We thought that institutional reform was akin to engineering. Because the institutional characteristics of capable and accountable states are well known (see Box), we thought that the challenge was straightforward: to redesign all facets of the governance system because strengthening each part was necessary for the performance of the whole. “A chain,” went the reigning metaphor, “is only as strong as its weakest link.” This became the “best-practice” approach to governance reform.

But politics makes the equation considerably more complex. Achieving best-practice means working backwards from a predefined end state. But politics—including stakeholders and their power, incentives, skill, and capacity to organize—gets in the way and inevitably shapes the dynamics of reform. A country’s economic, social, and political institutions cannot be re-engineered from scratch. A country starts from where it is, and evolves through search and learning. Changes in one part of the system call for adaptations in other parts, in an ongoing process. Effective policy making works with rather than against a country’s grain as it nudges forward this often nonlinear process.

Moving away from the best-practices model requires a different way of thinking about policy formulation and implementation. The reality is that many countries lack the institutions and capacities to implement otherwise desirable policies; or the policies may threaten the leaders’ power or the political stability. So the craft of policy making is about finding entry points that are feasible and that advance the development agenda, at least to some degree.

Simply saying that the answer is “country-specific” is not very helpful. For economic policy reform, Hausman, Rodrik and Velasco’s (2006) binding constraints
framework can help. For governance reform, we offer a new trajectories approach typology (Levy and Fukuyama 2010). This approach distinguishes between two sharply contrasting paths to good governance and growth, based on a country’s experiences and current socioeconomic position. Within each of these trajectories, countries can be in the early, middle, or later stages of developing sophisticated institutions and organizations. (North, Wallis and Weingast 2009) Knowing where a country fits in this model can shed light on how to approach reforms.

The table summarizes the two trajectories and presents their political features, governance challenges, and principal governance risks. We can see that the governance risks and challenges are very different in each.

### THE DOMINANT STATE TRAJECTORY

**IN THIS TRAJECTORY,** coordination among elites is relatively straightforward. Rulers base their claim to legitimacy on an implicit promise that their decisions will serve the broader long-run public interest. If they are successful, development will generate an increasingly sophisticated economy and a wealthier, more empowered citizenry—which in turn leads to rising pressure to create institutions that can support the increasing economic and political competition. Examples include the East Asian “tigers,” Ethiopia, Tunisia, and others. The Republic of Korea, for example, has gone from poor to rich—and from closed to open—along this trajectory. How? Rapid growth produced a strong private sector and a strong middle class that demanded more sophisticated and responsive political and economic institutions.

But failure is at least as likely as success: if a dominant party promotes only its own narrow interests; or when personalized leadership becomes increasingly self-seeking and predatory. Many examples exist, such as the former Zaire and the Philippines during the Marcos era.

#### THE COMPETITIVE CLIENTELIST TRAJECTORY

**IN THE ALTERNATIVE PATTERN,** the competitive clientelist trajectory, elite groups compete for power through elections. Where public institutions are already strong—normally in middle- and high-income countries—elections can be organized around different visions of suitable public programs (platforms). But where public institutions are weak, elites may, in return for continuing support, promise to direct public resources to favored clients rather than commit to governing for the public good. (Keefer and Khemani 2005). Bangladesh, Albania, and Zambia and, historically, Mexico (Haber and others 2003) demonstrate that competition and clientelism can attract private investment. But sustaining forward momentum is a high wire act: decision making is constantly contested; and narrow interest-seeking and even individual corruption are ubiquitous. Conflict continually threatens to spiral out of control. But as long as the momentum of continuing growth can be sustained, an expanding private sector, middle class and civil society will continue to reshape interests, incentives, and alliances, thereby feeding a groundswell for further rounds of institutional improvement.

### ALIGNING ACTION WITH “REFORM SPACE”

**SUSTAINING FORWARD MOMENTUM** and avoiding the ever-present risks of reversal depend on prevailing political

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and institutional factors. The best approach is to find ways of working with the grain. The figure shows a number of engagement options, ranging from being more modest in policy reform options, to small-g initiatives that enhance accountability at a micro-level, to far-reaching big-G governance reforms. Their feasibility depends on the “space” for reform.

**“JUST ENOUGH” POLICY REFORM**

**A FIRST-BEST** policy proposal presupposes a government with the ability and will to pursue the public good. But this is often not the case because (as in some examples of the dominant state capacity trajectory) leaders have narrower goals, or perhaps because (as in the competitive clientelist trajectory) coalitions succeed in blocking certain options. So we would choose policy options that do not confront directly the interests of powerful existing stakeholders who want to sustain the status quo. Though such options are generally not the best, they can achieve short-term gains, and potentially lay the groundwork for more far-reaching reforms down the road. Promotion of export processing zones rather than systemwide trade liberalization is an approach taken by Korea, Taiwan, Mauritius, and many others.

**SMALL-g REFORMS**

**EVEN WHERE POLITICAL LEADERS** may not be accountable for delivering results, there may nonetheless be opportunities for small-g initiatives such as creating strong, unambiguous incentives for stakeholders to foster participation in and oversight of the provision of public services. Examples include parental participation in schools; community oversight of local health clinics or road maintenance projects; coalitions of businesses and middle-class users of urban water, electricity, and other utility services seeking agreements with utility providers on how to improve services; and the independent oversight of public procurement practices.

In the short run, small-g initiatives can yield significant benefits. To give just one example: A Ugandan community-based monitoring project that provided residents in each of fifty communities with comparative information on how their village fared in the area of child mortality—and that spelled out all the health services to which each village was entitled—brought about a 33 percent overall reduction in child deaths in the space of a single year (Bjorkmann and Svensson 2009). Viewed from a longer-run perspective, the potential impact may be broader still. Initiatives such as these give people voice in their dealings with government officials, thereby encouraging the shift from “subject” to “citizen.”

**ORCHESTRATION**

**ORCHESTRATING stakeholders for policy reform** focuses on upstream rather than downstream processes. In contrast to approaches that work around incumbent stakeholders, the aim here is to pull those who have a stake in reform, and other advocates of change, into the discussion to build momentum for more far-reaching reform initiatives. Multistakeholder engagement is more likely in the open environment of the competitive clientelist setting than in the dominant state capacity alternative—although, even in the latter, reformist leaders sometimes encourage stakeholder orchestration as a way of in-

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**FIGURE: THE SPECTRUM OF REFORM SPACE**

- “Incremental” approaches adapting design given existing reform space
- “Transformational” approaches seeking to expand reform space
- Feasible policy reform
- “Small-g” governance reforms
- Orchestrate stakeholders for policy change
- “Big-G” governance reforms
Producing more conservative officials to embrace reform. The Philippine procurement law was reformed by building a broad coalition of champions from civil society, church and youth groups, and the private sector.

**BIG-G REFORMS**

SO WHAT ABOUT the most ambitious end of the spectrum: big-G governance reform to strengthen national institutions that hold government to account such as elected legislatures, the judiciary, centralized auditing authorities, ombudsmen, a free and vigorous media, and the like? In the early stages of development, leaders are unlikely to accept big-G institutions that will limit their discretionary powers. It may be that this conflicts with their legitimizing claim that they will use their unlimited power to pursue national development goals single-mindedly, or perhaps for more venal reasons. Results have been uneven. More hopeful however for big-G institutions is that sustained economic development can set in motion deep-seated socioeconomic changes that will, in time, create the kinds of with-the-grain pressures for better performance and enhanced accountability which will create an upward spiral, virtuous circle of change.

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**References**


