

FOR THE PAST SEVERAL DECADES THE CONVENTIONAL—and, until recently, the predominant—perspective on development in the international donor community has been that countries are poor because they lack resources, infrastructure, education, and opportunity. By this logic, if rich countries and international institutions could only transfer enough resources and technology, improve human capacity enough, and support health and education enough, development would occur. To be sure, greater public resources, better physical infrastructure, and stronger public health and education are essential for development. But they are not enough, and they are not the most crucial factor.

No amount of resources transferred or infrastructure built can compensate for—or survive—bad governance. Predatory, corrupt, wasteful, abusive, tyrannical, incompetent governance is the bane of development. Where governance is endemically bad, rulers do not use public resources effectively to generate public goods and thus improve the productivity and well-being of their society. Instead, they appropriate these goods for themselves, their families, their parties, and their cronies. Unless we improve governance, we cannot foster development.

Democracy—as reflected in free, fair, and competitive elections—is not strictly necessary for good governance. And it is quite possible to have bad governance under the formal structures of democracy. But when competitive elections are truly free and fair, they do provide an instrument for removing bad, corrupt, or merely ineffectual leaders. They thus provide an incentive for political leaders to govern more effectively in the public interest.

Democracy also gives citizens nonelectoral means—associations, movements, the media—to monitor the conduct of public officials and participate in policymaking. And leaders in a democracy have more incentives (and more institutional means and obligations) to explain and justify their decisions and to consult a broad range of constituencies before making decisions. Such participation and debate give the public a stronger sense of policy ownership. As a result policies are more sustainable, and government is more legitimate.

These are some of the reasons that promoting democracy and good governance is so profoundly in the national interest of the United States.

PROMOTING DEMOCRATIC GOVERNANCE

CHAPTER 1

*DEMOCRACY AND
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ARE MUTUALLY
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Democracy and good governance are mutually reinforcing: when they develop together, resources are used to advance the public good. Public institutions perform their designated roles. Social consensus supports and stabilizes the system of government. Disputes are settled peacefully. And investment flows in, attracted by the low transaction costs associated with government transparency and legitimacy and the rule of law. In these circumstances economies grow, human welfare improves, trade expands, political stability and capacity deepen, and countries become more responsible and resourceful members of the international community.

There can also be great benefits for the environment. Where the institutions of governance are strong, access to land, water, and forests is controlled, and private property rights are enforced. The management of natural assets also is much more effective.

By contrast, when governance is bad and undemocratic—or only superficially democratic—development pathologies inevitably have regional and global consequences. Poverty becomes entrenched through corruption and distorted, wasteful investment. Chronic fiscal deficits drain—and then drive away—international resources. The absence of the rule of law permits—and poverty can drive—wanton destruction of the environment. In the absence of state capacity and will to address public health problems, infectious diseases such as HIV/AIDS, tuberculosis, and new viruses proliferate, mutate, and spread across borders. The blatant venality and injustice of repressive regimes foster antimodernist and religious fundamentalist movements of rage against the West, especially the United States. In the fertile soil of a weak state and feckless legal system, organized crime networks take root, threatening the rule of law internationally through fraud, piracy, kidnapping, terrorism, counterfeiting, money laundering, and trafficking in arms, drugs, and people.

The more inept, lawless, corrupt, and predatory governance is, the more likely it is to descend into the violent conflict and state failure that intensify all these factors and produce humanitarian crises—civil war, famine, genocide, physical destruction of communities, and massive flows of refugees. Such crises destabilize entire regions and cry out for risky and costly international intervention. It is much safer and cheaper to build a well-governed, democratic state than to

rescue a failed one. Indeed, the only way to prevent or reverse the threats that flow from bad governance is to foster stable, effective democratic governance. Promoting democratic governance is therefore vital to the national security of the United States and must be a central objective of any development assistance program.

Advancing democratic governance is a huge challenge. Superficially, the global state of democracy appears encouraging. Over the past quarter-century democracy has steadily expanded around the world and is now the predominant form of government. But swirling beneath this expansion has been a dangerous countertrend—a growing disenchantment among populations that increasingly view their political leaders as corrupt, self-serving, and unable to address their countries' serious economic and social problems. In many developing and postcommunist countries people are losing confidence not just in elected officials but in democratic institutions.

The rising cynicism of disaffected populations has much justification. In many new democracies governance is simply inadequate to meet the challenges of economic and political development. And in the typical authoritarian regime governance is even more corrupt, arbitrary, and exploitative. Unless governance becomes more open, lawful, accountable, and responsive—and where formally democratic, more deeply so—it will not deliver sustained development. Transforming governance will require more investment in democracy and governance assistance. It will also require a new, more comprehensive strategy to generate the most crucial ingredient and the one most often missing: the political will of leaders to risk difficult reforms.

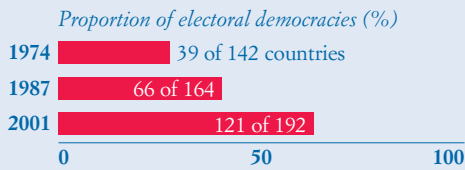
GLOBAL TRENDS IN DEMOCRACY

The last quarter of the 20th century witnessed the greatest expansion of democracy in history. If democracy is defined in the minimal sense—as a system of government in which the principal positions of political power are filled through free, fair, and regular elections—about three of every five independent states are democracies today. In the judgment of Freedom House, the world had 121 democracies at the end of 2001—the highest number in history.¹ Some of these regimes, possibly as many as 17, may be better

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Electoral democracies more prevalent

FIGURE 1.1



Note: Data for 2001 are for the end of the calendar year, from the Freedom House survey for that year. Data for 1974 reflect Larry Diamond's estimate of the number of democracies in April 1974, at the inception of the third wave. Data for 1987 are also his estimate.

Source: Freedom House 2002.

classified as “competitive authoritarian,” since elections, while competitive, either are not free and fair or do not confer full power to rule on those elected. But even by this conservative count, electoral democracy is now the predominant form of government. When the most recent, “third wave” of democratization began in 1974, only about 39 states (28 percent) were democracies.² Today there are about three times as many (figure 1.1).

With the growth in the number of democracies has come a parallel, though more gradual, expansion of freedom. The share of states rated “free” by Freedom House increased from 34 percent in 1985 to more than 40 percent in 1991, and today it stands at about 45 percent, nearly the highest ever (figure 1.2).³ The average freedom score (on the Freedom House scale from 7 as least free to 1 as most free) improved from 4.29 in 1985 to 3.61 in 1992. After deteriorating slightly, the score has continued to improve at a modest pace. The current average of 3.47 is a full point lower than in 1974, when the third wave of democratization began. In most years since 1990 the countries showing discernible improvement in political and civil liberty have outnumbered the countries showing a decline.

Democracy expanded particularly rapidly in the years immediately after the fall of the Berlin Wall in 1989 and the collapse of the Soviet Union in 1991. Within just a few years of the implosion of the Soviet communist empire, democracies increased from about 40 percent of all states to 60 percent. But since 1995 the number of democracies has remained fairly constant (particularly if marginal and dubious cases of democratization are excluded). Transitions to democracy have been largely offset by reversions from democratic to authoritarian rule.

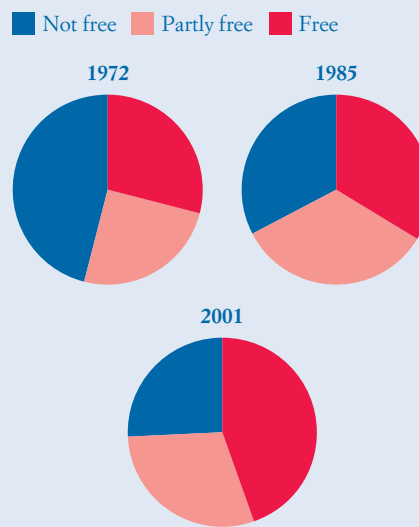
Still, democracy has scored strategically and symbolically important advances in the past few years. In 1999 democracy was introduced in Indonesia and Nigeria, two of the largest and most influential developing countries (and among those with the largest Muslim populations), even as it was breaking down in Pakistan. In 2000 Mexico completed a transition to democracy with the peaceful electoral overthrow of the seven-decade-long hegemony by a single party. In that same year one-party hegemonic regimes were also brought down at the ballot box in Ghana, Senegal, and Serbia, while Taiwan (already a democracy) moved to a more competitive system with the defeat of the long-ruling KMT. In each of these cases the victory of the opposition party signaled the arrival or deepening of democracy, with promising long-term implications for the regional status of democracy.

The march of democratic progress was one of the defining developments of the late 20th century. By the mid-1990s democracy was the only broadly legitimate form of government in the world, and many nondemocratic regimes had liberalized their politics at least superficially. Indeed, today well over half the remaining nondemocratic states portray themselves as democratic, holding regular, multiparty elections.⁴ Few regimes explicitly condemn the basic principles of democracy. And most of the nondemocratic states have significant social movements or critics seeking democratic political change. Internationally, there has also

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Independent states becoming free

FIGURE 1.2



Note: Ratings refer to the status of the countries at the end of the calendar year. See text for an explanation of the basis of the ratings.

Source: Freedom House 2002.

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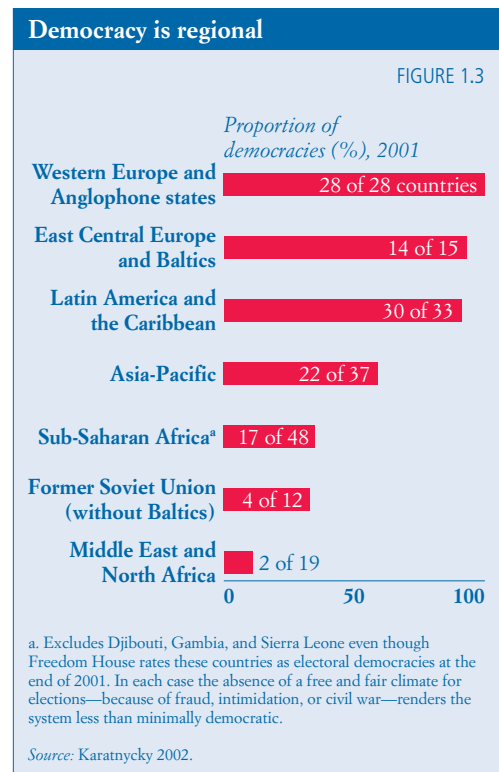
been a distinct trend toward affirming democratic principles, increasingly codified into international law through international and regional treaties and resolutions.⁵

Beyond the leveling off of democratic expansion since the mid-1990s, there have been four other major caveats to the trend of democratization.

- First, as democracy has spread rapidly around the world, it has become shallower. The quality of governance and the rule of law have deteriorated in some existing democracies, and the more recently established democracies have tended to be less liberal and more corrupt.
- Second, the spread of democracy has been far from uniform across regions and subregions. While some regions are now overwhelmingly democratic, others have been only partially touched by democratization. The Arab world remains without a single true democracy.
- Third, many of the regimes that once appeared to be in transition from authoritarian rule (particularly in Africa and the former Soviet Union) have settled into varying shades and forms of authoritarian rule that fall well short of democracy.⁶
- Fourth—and perhaps the greatest cause for concern—many of the democracies that have emerged in the past two decades exhibit growing problems of governance that are eroding their legitimacy among the public and undermining their stability. With the breakdown of democracy in Pakistan in 1999, the recent economic and political crisis in Argentina (which could spread to other Latin American states), and citizens' mounting disgust with corruption worldwide, the global trend of democratization is at greater risk of reversal than at any time since the end of the Cold War.

REGIONAL DISPARITIES

Democratization has been sweeping but far from universal. Significant regional disparities remain in its extent, depth, and stability (figures 1.3 and 1.4). The United States and Australia, Canada, and New Zealand, together with the 24 states of Western Europe, are all stable, liberal democracies. *Stable* means that they are *consolidated*: there is such deep and widespread commitment to democracy among major groups of the elite and among social strata, and major democratic insti-

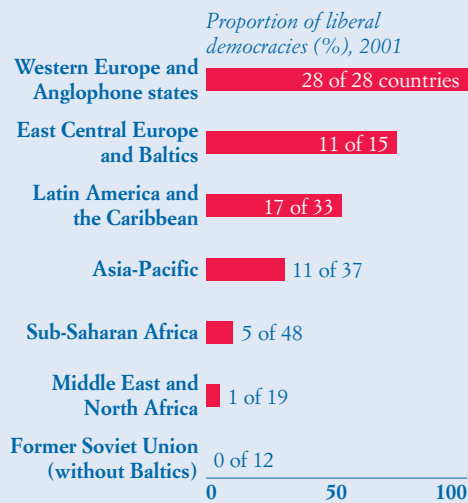


tutions have such strength, depth, and predictability, that there is no prospect of a breakdown of democracy.⁷ These 28 advanced industrial democracies are also *liberal* (with an average score of 2.0 or better—that is, lower—on the twin 7-point Freedom House scales of political rights and civil liberties).⁸ Outside Western Europe and the Anglophone states liberal democracy is much more uneven and less deeply rooted.

In Latin America and the Caribbean, Cuba remains the only country of significant size to completely resist democratization. Haiti has competitive elections but has increasingly reverted to its long historical pattern of autocracy and violence. There have also been important breakthroughs in recent years. As electoral administration in Mexico became fairer and more neutral, the country made a transition to democracy in the late 1990s, leading to the defeat of the long-ruling party in 2000. Peru returned to democracy in 2001 with the implosion of the autocratic, military-dominated regime of President Alberto Fujimori. About 9 of every 10 states in the region are democratic, but only about half are liberal democracies.⁹ And a few, such as Argentina, Jamaica, and Trinidad and Tobago, have seen the quality of democracy deteriorate in recent years. As in other regions, there is much variation among subsets of countries. Among Caribbean states, with their British, rule-of-law traditions,

Liberal democracy is also regional

FIGURE 1.4



Source: Karatnycky 2002.

two-thirds are liberal democracies (by virtue of a strong average freedom score).

Similarly, in the Asia-Pacific region 22 of the 37 states (59 percent) are democracies, and 11 (30 percent) are liberal democracies. But distorting these proportions is the fact that the small Pacific island states are much more democratic than other parts of Asia. Of the 12 Pacific island states, 11 are democracies, and 8 are liberal democracies. In Northeast Asia half of the 6 economies (Japan, the Republic of Korea, and Taiwan) are liberal democracies, but none of those in Southeast and South Asia is. Half of the 8 South Asian states are democracies (India and Sri Lanka almost continuously since independence). But only 3 of 11 Southeast Asian states are democratic—Indonesia, the Philippines, and Thailand—and Indonesia is only tenuously and ambiguously so. Beyond India, Japan, the Republic of Korea, and Taiwan (where democratic regimes confront serious challenges of economic and political reform), democracy in Asia tends to be shallow and insecure. Among the 25 states of East and South Asia, only about 2 in 5 are democracies. Moreover, the region is home to 4 of the world's 5 remaining communist regimes (China, the Democratic Republic of Korea, the Lao People's Democratic Republic, and Vietnam) as well as other highly closed authoritarian regimes (such as Myanmar).

The 27 postcommunist states that were part of the former Soviet bloc show a similar pattern of divergence. The first group consists of the 3 Baltic

states, which are more European in their outlook and pre-Soviet histories, and the 12 states of East Central Europe that were not part of the Soviet Union. Fourteen of these 15 states are democratic (Bosnia is still an international protectorate), and 11 are liberal democracies. Even such formerly autocratic postcommunist states as Albania, Croatia, and Yugoslavia (Serbia and Montenegro) are becoming more liberal and democratic. Overall, the region is moving steadily, if still unevenly, toward economic liberalization, democratic consolidation, and European integration.

By contrast, of the remaining 12 states of the former Soviet Union, only 4 are democracies, and 3 of these—Armenia, Georgia, and Ukraine—are only ambiguously so. In each case electoral fraud and obstacles to political pluralism and competition make it unclear whether it is really possible to change the national leadership through the electoral process. Russia, more clearly beyond this point, can be considered “electoral authoritarian.” There are no liberal democracies among the post-Soviet states, and the general trend in this region is toward less freedom. In the Kyrgyz Republic, once the lone functioning democracy in Central Asia, democracy has been undermined under the weight of corruption, electoral fraud, and the increasing centralization and abuse of power by the president.

Among the 48 states of Sub-Saharan Africa, democracies—or at least popular aspirations for and appreciation of democratic government—are more prevalent than at any time since decolonization. But many African “democracies” are hollow and ambiguous, and many other regimes stake a manifestly false claim to democratic status. Only two African states have been continuously democratic since independence, Botswana and Mauritius. Both have small populations (around 2 million or less), and both have achieved a pace of economic development that has eluded most other countries in the region.

Since 1990 most African countries have faced pressure for regime change and have at least legalized opposition parties and opened more space for civic organization. But only about a third of the states (somewhere between 14 and 20, and by this count, 17) have elections that are sufficiently free, fair, and competitive to meet the standard of democracy, and only five of these are liberal democracies. The most important liberal democracy in Africa is South Africa, which has sustained

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high levels of freedom despite political turbulence, economic hardship, and dominance by a single party. By contrast, Africa's other big states are all struggling politically. The effort to build democracy in Nigeria, the most populous African country, confronts corruption, religious and ethnic violence, and a weak and fractious party system. Sudan remains a highly repressive state unable to resolve its 19-year-old civil war. The Democratic Republic of Congo is struggling to overcome a debilitating legacy of predatory corruption, state failure, and civil war. While a few countries, such as Ghana and Mali, seem to be functioning reasonably well as democracies, most of Africa's new democracies and quasi-democracies seem to be slipping backward into less accountable, more abusive, and more personalized rule. Both democratic and authoritarian institutions are weak and open to change.

The Middle East (including North Africa) is the region least hospitable to democracy. Of the 19 states in this broad region, only 2—Israel and Turkey—are democratic (though in Turkey the military still retains a veto on many important issues). None of the 16 Arab states is a democracy, though several (Jordan, Lebanon, and Morocco) have at least some electoral competition and social pluralism. Bahrain is gradually exploring a possible opening of electoral competition. Yet not a single Arab state affords its people true political sovereignty, and the tentative movement toward greater political openness has been largely arrested and reversed by the growing fear of terrorism and the mobilization of radical Islamists in the wake of the September 11 attacks on the United States. The only liberal democracy in the region is the only Western-oriented state, Israel, and there freedom has diminished in recent years under the stress of terrorism.¹⁰

The prospects for developing democracy appear especially dim in the Arab Middle East, because of the strong possibility in some countries that a rapid opening to free and fair elections would bring the victory of antidemocratic, radical Islamist forces. The alienation and extremism of these radical Islamists have been stimulated by the mix of globalization and the development failures of their own societies. Now, even those Islamists pursuing nonviolent political struggle and social mobilization appear intent on using electoral competition merely as a vehicle to win power so that they can impose an Islamic fundamentalist order on society—and thus in many respects a

more rigidly repressive regime. Unfortunately, many authoritarian Arab regimes—such as those in Algeria, Egypt, and Syria—have deliberately played on this danger to delegitimize political opposition. This has created a more polarized political arena and a self-fulfilling prophecy in which the radical Islamists are the only viable opposition in the eyes of a growing share of the population.

The Arab Middle East, then, is the region with the strongest obstacles to democracy and the greatest near-term dangers for U.S. national security. Many strategically important authoritarian regimes that have been friendly to the United States and Europe—such as those in Algeria, Egypt, and Saudi Arabia—have become less stable. In these and other states in the region the old “ruling bargain,” in which society acquiesced to autocracy in exchange for economic and social resources, has broken down as resources have become scarcer and social problems and divisions have intensified. A growing number of observers believe that these regimes must begin now to construct a new ruling bargain based on better, more accountable governance, gradually increasing political freedom and pluralism, and serious reform of the economy and state. Otherwise, these regimes will face the prospect of deepening political instability and perhaps political breakdown.

THE RISE OF “ILLIBERAL DEMOCRACY”

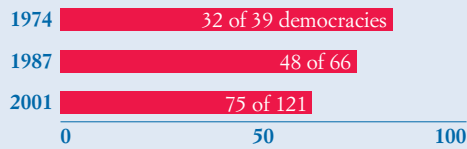
The third wave of democratization has seen a growing divergence between electoral democracy and liberal democracy. The second involves not only free, fair, and regular elections but also a strong rule of law buttressed by an independent judiciary and other institutions of accountability that check the abuse of power, protect civil and political freedoms, and thereby help foster a pluralistic and vigorous civil society.¹¹

Along with the dramatic growth in the number of democracies during the third wave came a marked increase in “illiberal democracy.” In 1974 more than 80 percent of the world's democracies were liberal, and all of them were rated “free” by Freedom House. Even in 1987 almost three-quarters of democracies were liberal. But as democracy exploded with the demise of communism, liberal democracies declined sharply as a share of the total (figure 1.5).

Liberal democracies less prevalent

FIGURE 1.5

Proportion of liberal democracies (%)



Source: Freedom House 2002.

By 1991 fewer than 60 percent of democracies were liberal, and that share continued to fall with the expansion of democracy through the mid-1990s. While the share has risen again since the late 1990s, the figures tell an important story. The presence of democracy around the world is broader today but also thinner than a decade ago. There has been a striking rise of illiberal democracy. Indeed, some democratic regimes are only ambiguously so, and many of these function poorly in protecting human rights, controlling corruption, and addressing economic and social problems.

The shallow and illiberal democracy in so many states is cause for concern for several reasons. First, human rights and the rule of law are ends in themselves, and many democracies (and all authoritarian regimes) fall far short of their obligations to foster and protect the basic rights of their citizens. Second, there is growing evidence of a strong association between the quality of democracy and its legitimacy in the mind of the public: citizens' support for democracy is more robust, and democracy is more stable, where justice, accountability, civil liberties, and restraint of power are greater.¹² Third, underlying this relationship is the strong connection between the quality of governance and the stability of democracy. Where democracy is less liberal, governance is poorer—more corrupt, wasteful, incompetent, and unresponsive. This entrenches poverty, obstructs economic development, opens the door to recurrent crises, and prevents poor countries from using international assistance effectively and can lead to state failure. Liberal democracy is a major building block of good governance, which in turn fosters and sustains broad-based development.

ELECTORAL AUTHORITARIAN (PSEUDODEMOCRATIC) REGIMES

After a decade of arrested and reversed political openings, it can no longer be said that such

countries as Azerbaijan, Cambodia, Cameroon, Egypt, Haiti, Kazakhstan, Kenya, and Morocco are in transition to democracy. There were transitions from authoritarian rule.¹³ But these imploded or went off course, leaving authoritarian regimes still largely intact. Most of these regimes did not completely close off political pluralism, however. Instead, they are *electoral authoritarian*: they allow multiple political parties to contest elections held at regular, constitutionally mandated intervals, but they do not allow opposition parties and candidates full freedom to campaign and a fair chance to win. Formal democratic institutions, like multiparty elections and parliaments, exist to obscure (and sometimes to soften) the reality of authoritarian domination. They are a façade designed to purchase acceptance from the international community and domestic constituencies (thus the term *pseudodemocracy*). Such regimes combine varying degrees of competition, pluralism, and repression.

Cambodia is home to one of the more hegemonic of these regimes. The ruling Cambodian People's Party, under the former communist autocrat Hun Sen, dominates power and political life through both corruption and extensive violence and intimidation. But the political opposition has a significant presence in parliament and in local government councils, and there is at least some space to question government policy and conduct.

In the more competitive of these regimes, such as that in Russia, alternative voices in politics, government, and civil society are stronger and more numerous. Russian President Vladimir Putin has largely eviscerated the main independent media. But opposition parties and leaders still win elections in some regions and challenge government policy in the Duma (parliament), and the resulting competition and pluralism inject some uncertainty into political life. With electoral reform, mobilization of civil society, and relative unity among opposition forces, such uncertainty can translate into the surprising defeat of once-hegemonic parties, as has happened in recent years in Ghana, Mexico, Senegal, and Serbia. But merely holding regular, multiparty elections does not put regimes on a path to democracy. Unless there are fundamental changes in the regimes, permitting free and fair elections and greater civic and political space, a transition to democracy is most unlikely.

THERE IS GROWING EVIDENCE OF A STRONG ASSOCIATION BETWEEN THE QUALITY OF DEMOCRACY AND ITS LEGITIMACY IN THE MIND OF THE PUBLIC

PROMOTING DEMOCRATIC GOVERNANCE

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SHALLOW DEMOCRACIES

Since the mid-1990s two global trends have been colliding, making for a more politically turbulent and unpredictable world. One has been the surprisingly robust and resilient third wave of democratization. The other has been a spreading democratic malaise in many parts of the world.

Three problems of governance underlie this malaise and obstruct the consolidation of democracy. Most urgent and pervasive is the weakness—and often the decay—of the rule of law. No problem does more to alienate citizens from their political leaders and institutions, and to undermine political stability and economic development, than endemic corruption among the government, political party leaders, judges, and bureaucrats. The more endemic the corruption is, the more likely it is to be accompanied by other serious deficiencies in the rule of law: smuggling, drug trafficking, criminal violence, human rights abuses, and personalization of power.

Even in the wealthy, established democracies of Europe, Japan, and North America, scandals involving political party and campaign finance have eroded public confidence in parties and politicians. In the less established democracies political corruption scandals are much more likely to erode public faith in democracy itself and thereby to destabilize the entire system. This is particularly true where corruption is part of a general syndrome involving growing penetration of politics and government by organized crime, misuse of executive and police powers to intimidate and punish political opposition, and the politicization and inefficacy of key institutions of “horizontal accountability,” such as the judiciary, the audit agency, and even the electoral commission. In many countries today, democracy is weak and insecure because political leaders lack sufficient democratic commitment—the political will—to build or maintain institutions that constrain their own power. And civil society is too weak, or too divided, to compel them to do so.

The second broad source of malaise is economic. In many developing and postcommunist states economic reforms—where they have been implemented at all—have not yet generated rapid, sustainable economic growth. A few states have experienced rapid growth, and some at least modest growth. But in most new and troubled democracies economic growth is too slow, and too narrowly distributed, to lift large segments of

the population out of poverty. In many countries of Latin America, in some countries of Africa (such as South Africa), and in some Asian countries (Pakistan, the Philippines) the problem is compounded by extreme inequality in income and wealth. In these countries democracy cannot be consolidated until substantial progress is made in reducing poverty and inequality.

The third problem is the inability to manage ethnic, regional, and religious differences peacefully and inclusively. Cultural diversity is not an insurmountable obstacle to stable democracy. India has learned how to manage diversity through complex institutions of federalism. Spain largely contained its secessionist pressures with a system of asymmetrical federalism. And like Australia, Canada, and the United States, Europe has learned to adapt its democratic institutions to assimilate immigrants from a wide range of other countries and cultures. The problem arises when one ethnic or religious group seeks hegemony over others, or when minorities believe that they are being excluded from power, including any meaningful control of their own affairs.

These three problems—indeed, crises—of governance intensify and reinforce one another.

- Visible corruption sharpens the sense of injustice and grievance associated with poverty, unemployment, and economic hardship. Corruption has also hindered economic reforms, especially privatization.
- Poverty and economic stagnation reinforce the feelings of discrimination and political marginalization among indigenous peoples. Entrenched as the principal means of economic advancement, political corruption and clientelism exacerbate ethnic and regional conflict in Africa and Asia by raising the premium on control of the state and making politics a more desperate, zero-sum struggle for control of economic opportunity.
- Weak rule of law makes it easier for ethnic and sectarian leaders to mobilize violence at the grassroots in efforts to win power for themselves. It also facilitates electoral fraud and violence.

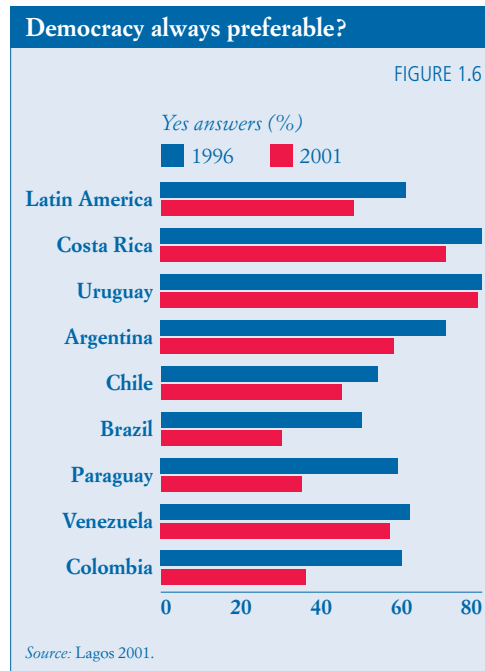
Underlying all this in many countries is a lack of commitment to the public good and to the rule of law. Citizens and elites have little trust in one another and in the future. Thus they devise strategies for taking from a stagnant stock of resources rather than for enlarging that stock. They focus on

ends rather than means—securing power and wealth by any means possible rather than in legal and constitutional ways.

These crises of governance are the main sources of democratic insecurity in the world today. All three contributed to the breakdown of democracy in Pakistan in October 1999. Poor governance and deferred economic reforms led to the implosion of Argentina’s economy and the resignation of its president amid public rioting and looting in December 2001. Each of the three crises is visible in Indonesia and Nigeria as well as in many other, smaller countries, including in the Andean region. Weak rule of law and continued economic stagnation and decay now also threaten the prospects for building democracy in Russia, Ukraine, and other post-Soviet states. In these and other countries not only do major political leaders have at best an ambivalent commitment to democracy, but democratic political parties and civil society groups lack the resources, the organizational strength, and the popular bases to promote successful democratic reform.

Failure to govern effectively takes a toll on the legitimacy and stability of democracy. The democratic malaise is particularly visible in public opinion trends in Latin America. The 2001 Latinobarometro survey recorded big drops in support for democracy in most of the countries it covered (figure 1.6). Between early 2000 and April–May 2001 support for democracy as “preferable to any other kind of government” declined from 60 percent to 48 percent across Latin America. In the 2002 survey, one year later, support for democracy improved slightly, and today about half of all Latin Americans believe that democracy is the best form of government. But support for democracy has declined or remained low in several key countries in the region since 2000—dropping from 50 percent to 39 percent in Colombia, from 64 percent to 57 percent in Peru, from 71 percent to 65 percent in Argentina, and from 39 percent to 37 percent in Brazil. These decreases are not always matched by increases in support for authoritarian rule. But they do reflect growing apathy toward democracy. Even in Costa Rica and Uruguay, the region’s most stable and clearly consolidated democracies, support for democracy has declined by 6 percentage points in the past two years.

Latin America’s democratic malaise is driven by accumulating problems of governance. In 2001 three in five Latin Americans rated their country’s



economic situation as “bad” or “very bad.” A growing proportion, now four in five, believe that crime and drug addiction have “increased a lot” in recent years, and the same proportion also give this response about corruption. Trust in major democratic institutions is low and continuing to decline: only around one in five trusts the national congress or political parties, and fewer than 30 percent trust the judiciary.¹⁴ While support for democracy appears greater in the postcommunist countries of Central and Eastern Europe, these democracies also suffer high levels of disaffection, with only 22 percent trusting parliament, and only 13 percent political parties, in 1998.¹⁵ And in the Republic of Korea support for democracy declined sharply after corruption scandals and an economic crisis in 1997, falling from 69 percent to 54 percent in 1998 and to 45 percent in 2001.¹⁶

The spread of democracy around the world is thus impressively broad but worrisomely thin. The demise of communism and other one-party socialist regimes, and the failure of the Islamic fundamentalist state in Iran to become an attractive, dynamic model, have left liberal democracy as the only system of governance with broad ideological and political appeal. Globally, democracy today is triumphant and dominant. But it is also under severe and growing strain from the intersecting crises of governance.

The next decade will thus be a time of both great danger and great opportunity for democracy. Without lasting reforms to improve governance—

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ARE MANAGED
AND EXPENDED*

by reducing corruption, professionalizing the state bureaucracy (especially economic management), and strengthening judicial, administrative, and political institutions—many more democracies are likely to disappear. Breakdowns may come through a military coup (as in Pakistan in 1999), through an executive coup (as in Peru in 1992), or through the slow strangling of democratic pluralism and competition by an overbearing president. But improvements in governance, even incremental ones, could buy time for democracy, allowing it to gradually sink deeper roots in political party life, in civil society, and in the national culture.

A STRATEGY FOR ASSISTING DEMOCRATIC GOVERNANCE

Thus the prospects for development, and for effective development assistance, depend on the quality of governance—the way in which public power is exercised and public resources are managed and expended. Poorly performing states—those mired in poverty and illiteracy for decades—will not achieve sustainable development unless they dramatically improve governance. Only when the rule of law ensures property rights and low transaction costs will domestic capital be invested productively and international capital flow in. But corruption and weak rule of law will persist until voters have the power to remove governments that fail to perform—politically as well as economically.

So, for the world's poor people, democracy is not a luxury. It is an indispensable instrument for securing accountable government and for ensuring that aid is used effectively. Governance has to be made more responsible, competent, efficient, participatory, open, accountable, lawful, and legitimate. Unless that happens, poorly performing states will not experience the kind of vigorous, sustained development that transforms human development, achieves economic growth, and permanently lifts large segments of the population out of poverty. And badly governed states will produce diffuse threats to global order and the U.S. national interest.

With time, and with thoughtful evaluation and assessment, USAID is learning more about what it takes to develop democracy and good governance. USAID's democracy and governance pro-

grams have evolved in important ways since they became a big part of U.S. development assistance efforts in the early 1990s. Early on, it became clear that the freedom, fairness, and meaningfulness of elections are shaped months in advance by the quality and integrity of electoral administration, the design of the electoral system, the rules on campaign and party finance, the capacity and openness of political parties, the political awareness of voters, and the level of freedom and security. Consequently, support for elections matured from a narrow focus on the voting and vote counting to a broader engagement with the political system and electoral environment, including extensive assistance for voter education, electoral administration, and earlier monitoring of electoral preparations and campaigning.

In the mid-1990s an evaluation found that technical assistance to judicial systems could not build a rule of law without political will for reform and a civil society that is aware and engaged.¹⁷ USAID decided to generate the political demand for reform, and the capacity to use the justice system, through wider programs of assistance to civil society organizations working for human rights, legal assistance, justice reform, and the like. Similarly, USAID—and every other major international donor—have become much more aware of the harmful consequences of corruption for democracy and development. Thus the priority given to addressing this problem has increased substantially, along with analytic insight into the conditions for genuine reform.

In recent years much more assistance has gone to nongovernmental organizations (NGOs) and business coalitions working for greater transparency and accountability, and to efforts to strengthen government institutions to monitor and combat corruption. The surge in complex humanitarian emergencies during the 1990s was met with a better capacity to respond, particularly to the political dimensions of postwar recovery, and with a new ability to move in quickly to assist political reconstruction after violent conflicts. Gradually, democracy and governance programs have been guided by a more nuanced understanding of the political context in each country, and methods of strategic assessment for country programs have been honed.

How can the United States foster stable, effective democracies in the coming decades? First, the objective must be clear. The goal is not simply to

advance democracy around the world. As the collapse of democracy in Pakistan in 1999 showed, a country can have vigorously competitive national elections with frequent shifts in power and still have governance that fails to generate development and loses public confidence. Nor is the goal simply to promote more capable and transparent government. Few leaders can deliver and sustain good governance—with its commitment to promoting the public good and restraining the abuse of power—without the institutional accountability to other branches of government and to the people that democracy provides. Even when nondemocratic leaders are sincerely committed to reform, the absence of institutional mechanisms to monitor and restrain power eventually degrades the quality and legitimacy of governance.

In almost every country good governance—responsible, accountable, public-spirited—must go hand in hand with democracy. First, democracy provides the people with an indispensable instrument of electoral accountability—the opportunity to remove leaders who perform poorly. Second, when this opportunity is denied—through obstacles to fully free, fair, competitive, and neutrally administered elections—the incentive of incumbents to restrain themselves and serve the public good withers. Corruption seeps through the financial and political system, as in Indonesia. Rulers become not only venal and distant from public concerns, but also increasingly abusive of human rights, as in Zimbabwe. Third, democracy provides the public with the freedom and the institutional means, between elections, to scrutinize the conduct and policy decisions of public officials and hold them accountable. Fourth, leaders in a democracy thus have more pressures, means, and incentives to explain and justify their decisions and to consult a broad range of constituencies before passing laws and making decisions. Fifth, wider public dialogue and participation in policymaking produce decisions that are more legitimate and sustainable.

Free, fair, and competitive elections are the essential factor for democracy. Moreover, other institutions of good governance are much more likely to be vibrant and effective in a democracy than in a nondemocracy. These include an independent judiciary that enforces clear and predictable laws, an elected parliament that is autonomous and capable of checking the power of the executive

branch, and a civil society with the freedom and resources to monitor, evaluate, question, and participate in making and implementing policy. When governance is open to the scrutiny and involvement of a wide range of NGOs, interest groups, think tanks, and mass media, it is more likely to be transparent, public-spirited, and thus legitimate.

There is no guarantee that electoral democracy will deliver such transparency and inclusion. But it is illusory to imagine that “liberal autocracy” is a development option in today’s world. There are precious few well-governed autocracies, and those that exist (such as Singapore) have sustained good governance for highly idiosyncratic reasons that are not broadly transferable. To develop truly good governance, the typical recipient of U.S. foreign assistance needs the openness, competition, and broad and free public participation of democracy.

The pursuit of stable, effective democratic governance will involve different sequences of political reform in different countries. In some cases the basic framework for multiparty democracy is in place but needs to be deepened and made more effective and accountable. Some emerging democracies suffer from more specific obstacles to consolidation—such as lack of the institutions of rule of law. And in repressive, corrupt, and closed regimes, multiparty competition—if it exists at all—is largely a façade. In these states, reforming the economy and strengthening civil society might be more viable in the short term than making an immediate transition to electoral democracy.

Where democracy is completely absent, one plausible—though more gradual—path of transition is to phase in electoral competition beginning at the local level and then moving up to higher levels. This is the path that Taiwan followed over several decades.¹⁸ It is also the path by which many observers believe that China could become a democracy—by extending competitive elections from the village level to the township, county, provincial, and then national level while also eventually allowing competing parties. In other highly authoritarian countries, such as Myanmar and Saudi Arabia, introducing free and fair municipal elections might allow the gradual accumulation of political trust and mutual restraint between regime and opposition, and between competing opposition forces, lowering

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the risks of transition. The one essential condition for progress along such a path: when competitive elections are held, they must be fairly and credibly administered.

Such variation makes it impossible to offer a general strategy or sequence of political reform. That is why democracy and governance must be carefully assessed in each country receiving assistance, especially when resources are limited and strategic choices must be made. That is also why assistance for democracy and governance needs to be pursued with patience and an open mind. No one sector holds the key to fostering democracy and good governance. No one solution fits all cases. And no shortcuts exist. In most countries that lack stable and effective governance today, the United States must be prepared to work on many fronts over long periods.

Even so, countries that need assistance for democracy and governance tend to share a few priorities. These involve ensuring that democracy advances development and responds to the needs of society—generating capacity for and commitment to using public resources to promote the public good. Such efforts are not new. The foreign assistance community has worked on most of them, particularly over the past decade. What is needed now is not invention but innovation, adaptation, refinement, elaboration, deeper commitment, and an expansion of activity in some areas.

Strategic priorities for assistance include:

- Controlling corruption and strengthening the institutions of horizontal accountability.
- Strengthening the rule of law and the way it affects individual citizens—not only through the judiciary but also through more professional, vigorous, and democratic policing.
- Strengthening and democratizing political parties and deepening their roots in society.
- Helping NGOs committed to democracy and good governance broaden their domestic constituencies while using more traditional interest groups to strengthen democracy.
- Developing stronger, more professional states better able to respond to growing demands for better governance.

Pursuing these priorities requires strengthening links:

- *Across government agencies.* U.S. efforts to improve democracy and governance most often fall short because they lack unified, vig-

orous support from the entire U.S. government. Specific programs of assistance for democracy and governance cannot succeed if they are inconsistent with U.S. objectives and priorities. It is always difficult to persuade corrupt, undemocratic, or only partly democratic regimes to adopt serious governance reforms. But there is no chance of doing so if the regime perceives mixed messages from the U.S. government, whether across agencies or over time. And inconsistency within a region can generate resentment, confusion, and ambiguity about U.S. aims.

- *Across donors.* Development suffers when different donors work at cross-purposes or fund overlapping objectives at the expense of unmet needs. Credible, effective diplomatic pressure for better governance requires that all major donor countries express similar expectations of badly governed states. A government is much more likely to pursue serious reform if these donors deliver similar messages about what it must do if it is to receive significant aid and debt relief.
- *Across sectors.* Among the most important lessons learned by USAID in the past decade is that establishing cross-sectoral links—connecting program activities intended to achieve two or more goals—enhances development and amplifies the impact of a given investment.¹⁹ Linking programs for democracy and governance with other programs can produce a triple effect. It advances specific aspects of democratic governance. It achieves a more traditional development objective (such as improving health care). And it generates additional benefits that neither program could have achieved alone. Moreover, investments in other sectors can help build the economic, social, and cultural foundations for sustainable democracy and good governance. For example, supporting the development of small and medium-size enterprises (in part by reducing obstacles to their legal existence and protection) does more than stimulate and diffuse economic growth. In building up a large class of producers independent of the state, it crystallizes new interests in better governance, provides new bases of support for political parties, and generates new resources to support autonomous interest groups and NGOs.
- *Across borders.* Cross-border links enable government agencies, civil society organizations, thinkers, and practitioners to share experience

and learn from one another. Each takes something back from the other, and a new type of international pressure may gather in the form of regional solidarity and commitment to democracy and good governance. Several types of regional programs can promote democracy and good governance. When regional organizations such as the Organization of American States, Inter-American Institute of Human Rights, and Southern African Development Community (SADC) seek to establish regional norms of democracy, human rights, and good governance, the United States should support their efforts financially. And when they fail to rise to urgent challenges, as SADC has with Zimbabwe recently, the United States should engage them diplomatically and support civil society organizations within the member countries that seek a more consistent, forthright, and active regional posture.

- *Over time.* Successful work on democracy and governance requires patience, steadfastness, and a long-term perspective. The more intractable a country—that is, the longer its history of poverty and weak governance—the longer it will take to turn things around. Development assistance cannot succeed unless it remains engaged in pressing for democratic reforms and assisting forces of reform in the state and society over long periods, possibly decades. Significant improvements in governance also require political will. In intractable cases this will take time to generate, and even as it accumulates, it is liable to erode. Thus assistance for democracy and governance requires a strategy for engaging the key actors in state and society to develop and sustain the will to reform.
- *Across national and local levels.* The local dimension must connect with the national. Reform of state structures must proceed in tandem with promotion of civic participation—and vice versa. USAID strategies for strengthening local government generally emphasize stimulating local political participation. This not only develops active citizenship but also helps make government more responsive to citizens' needs and concerns. But if government is to respond, it must have the resources and capacity to do so. This requires training local government officials to enhance their capacity to govern effectively and accountably. But it also requires supporting national initiatives (laws, administrative

regulations, even constitutional reforms) to transfer more power, authority, and resources to the local level. Thus providing effective support for local democracy may involve assistance to national executive agencies, parliamentary committees, and even political parties—to identify institutional models and policy lessons from other countries, to help draft administrative regulations and laws on decentralization, and to address the funding constraints of local governments. In short, decentralization (from the top down) must work in tandem with efforts to improve local governance (from the bottom up).²⁰

- *Between the supply and demand for political reform.* Among the major lessons emerging over the past decade is the need to balance the demand and supply sides of the political reform equation. Assistance for democracy and governance cannot succeed if it works on only one side or the other. Even if state elites propose reforms—for example, to privatize state industries, improve the tax system, or crack down on smuggling and bribery—these reforms may not be sustainable unless society is educated about the need for them and mobilized to support them. Urgently needed reforms are often undermined in implementation by a failure to develop broad constituencies for reform among stakeholders. State officials who want to undertake reforms need technical assistance in their ministries or agencies. But sustainable reform also requires programs targeted to interest groups (such as trade unions and chambers of commerce), advocacy NGOs, think tanks, and the mass media. The momentum for systemic reform of governance often begins with the formation and mobilization of such groups.

Cutting across all these priorities are lessons about what it takes to foster stable and effective democratic governance: political will and clear and unambiguous leadership by the U.S. government.

ASSESSING AND CLASSIFYING COUNTRIES

Countries are not entirely unique. Their political regimes can be roughly grouped into categories according to their democratic development. Strategic priorities overlap across categories, but a country's place in a typology of regimes begins to tell something about what needs to be done.

*PURSUING THE
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PROMOTING
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At one extreme is the consolidated democracy, which, because of its level of economic and political development, has “graduated” from assistance. Botswana and Mauritius, Chile and Costa Rica, and the Czech Republic, Hungary, and Poland fall into this group. These countries can play an important role in U.S. assistance for democracy and governance to their neighbors, by providing institutional lessons and human resources through cross-border links. But with the possible exception of Botswana, now in the grip of a catastrophic HIV/AIDS epidemic, they no longer need significant external assistance.

Some countries that, because of their middle-income status, either never received or have long since graduated from development assistance—such as Argentina, Thailand, Turkey, and Venezuela—continue to face serious governance problems. These countries are not consolidated democracies (or if they once were, no longer are). Limited, focused assistance could help them remove obstacles to improving and consolidating their democratic institutions. At the other extreme are repressive, closed regimes, such as the Republic of Congo, Iraq, and North Korea.

Between these extremes are some 75 countries, a group that includes almost the entire former Soviet Union, the politically lagging countries of Eastern Europe,²⁵ African countries, and most of Latin America. Few of these countries have a consolidated democracy. Indeed, about half are not democracies, although they fall short of democracy in varying degrees and ways. These countries can be roughly grouped into four categories:

1. *Electoral democracies with problems of democratic performance.* These countries—such as Bangladesh, Benin, Brazil, Ghana, Mali, Mexico, Namibia, the Philippines, Senegal, South Africa, and most of Central and South America—have relatively free, fair, and competitive elections that are more or less institutionalized. In some of these countries not even that basic element of democracy is secure, but in most the threats to democracy arise from other shortcomings: corruption, an ineffectual judiciary, weak political parties, human rights abuses, an incapable state, and, in a few cases, one-party dominance.
2. *Ambiguous, quasi-democratic regimes.* In these countries—most prominently Indonesia, Nigeria, and Ukraine—it is not clear whether

elections are free and fair or whether elected authorities have full power to govern. These countries have competitive, multiparty elections, but the contests are marred by significant fraud and manipulation or insecurity. All the formal institutions of democracy are in place, but most function poorly or with constraints. To the extent that their elections are not democratic, the regimes in this category are “competitive authoritarian,” a subtype of the following category.

3. *Electoral authoritarian regimes.* These countries have multiparty elections, and the elections may even be quite competitive, but they are so tainted with fraud and biased toward the ruling party (and typically the incumbent president) that they cannot be considered free and fair. Some of these countries—such as Georgia, Jordan, Kenya, Lebanon, Morocco, Tanzania, and Zambia—allow serious competition and pluralism not only in elections but also in legislative and judicial systems, which may take prudent steps to break free of executive domination. The mass media may also act to erode constraints and induce accountability.²¹ But other countries—such as Azerbaijan, Belarus, Egypt, and most of the Central Asian republics—merely maintain the façade of multiparty elections while allowing little real pluralism or freedom. When these regimes are seriously challenged (as in Zimbabwe), they can become brutally repressive. Other countries in this category include Cambodia, Guinea, Haiti, Liberia, and Uganda.
4. *Closed authoritarian regimes.* These countries do not conduct multiparty elections and generally exhibit the greatest political repression and closure. There is little space for opposition or dissent in civil society or the political system. The state executive and the security apparatus are thoroughly dominant, at least within the territory they control. Countries that fall into this category include Angola, the Democratic Republic of Congo, Eritrea, Rwanda, Sudan, and Turkmenistan.

This categorization is not an arid academic exercise. It helps organize thinking about strategic priorities. Within these four categories, different countries will need different mixes of programs. Even so, common strategies and priorities can be identified for each group of countries.

1. *Electoral democracies* face one overriding challenge: to improve the quality of governance and political representation. Securing free and fair elections may be important in some of these countries. But in most it is no longer a major problem or it is one that domestic political actors have learned to manage through their own organizations and resources (or can be helped to manage with modest additional aid). In the countries where democracy is not yet consolidated and major governance problems persist, a nearly universal priority is controlling corruption and enhancing the rule of law. Nearly all these countries need significant help in strengthening and professionalizing their judiciaries, their other institutions of horizontal accountability (such as anti-corruption commissions), and their political parties. The main goal must be to make politics more transparent, accountable, and responsive. In all these countries civil society has an important role to play in educating and mobilizing citizens in support of systemic reform and deeper democracy.

2. *Ambiguous, quasi-democratic regimes* share the program priorities of the first group but also require electoral assistance. These countries still often need all three types of electoral assistance: to develop the technical capacity, independence, neutrality, and professionalism of electoral administration; to educate and inform voters; and to empower domestic monitoring efforts in civil society. In a few countries, particularly Indonesia, civilian authorities need help in developing their capacity to manage the military and subordinate it to their constitutional authority.

3. *Electoral authoritarian regimes* vary widely. Some allow considerable competition and pluralism and could become democratic if elections became free and fair. For these more competitive regimes, electoral assistance is a major priority, as is assistance to civil society to strengthen demand for reform. A country assessment might determine (as for Egypt) that it may be possible (or strategically wise for the United States) to open elections to genuinely free competition only after making other improvements in governance. But in many electoral authoritarian regimes—such as Belarus, Cambodia, Haiti, Kenya, Liberia, Zambia, and Zimbabwe—improving

the credibility and fairness of the electoral process is vital to prevent violent conflict and to advance governance on other fronts. Without the uncertainty and incentives generated by truly democratic competition, the political will for reform is unlikely to emerge.

4. *Closed authoritarian regimes* fall into two categories: failed states, struggling to reconstruct a viable political order, and very repressive regimes in which political opposition is banned. In failed states, rebuilding state capacity (even in very elementary aspects of administration) is essential for improving governance. But unless some means of political accountability, participation, consultation, and power sharing emerge, the state is unlikely to gain the legitimacy needed to consolidate peace and establish effective governance. The same is true for states still plagued by civil war or violent conflict, such as Angola, the Democratic Republic of Congo, and Sudan.

GENERATING (AND ASSESSING) POLITICAL WILL

In most countries where development has failed or stalled, the most important missing ingredient is the political will of the nation's leaders to improve governance—the commitment to follow through on a particular policy course. At its most resilient, political will involves a broad consensus among ruling elites, cutting across parties and sectors of government, in favor of democratic and good governance reforms. But consensus is always imperfect, and will is most important at the top levels of government, among major political leaders and senior civil servants. There, political will must be robust and sincere. That is, leaders must be committed not only to take actions to achieve the objectives of reform, but also “to sustain the costs of those actions over time.”²²

Without a robust commitment to fundamental reforms—to control corruption, open the economy, enhance the rule of law, respect basic civil and political rights, and allow independent centers of power both within and outside the government—foreign assistance will fail to ignite sustainable development. It may attain limited sectoral objectives, but these will not add up to development, and they may be highly reversible. Children may be inoculated, only to find that they have no access to education or, later, to jobs that lift families out of poverty. Schools may be

POLITICAL WILL INVOLVES A BROAD CONSENSUS AMONG RULING ELITES, CUTTING ACROSS PARTIES AND SECTORS OF GOVERNMENT, IN FAVOR OF DEMOCRATIC AND GOOD GOVERNANCE REFORMS

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built, only to be destroyed in civil war. Clinics may be constructed, only to fail because they lack access to medicines. Local participation and local governance may be improved, only to be undermined by a predatory national government. Opposition political parties may be strengthened, only to be marginalized by electoral fraud. Judiciaries may be helped by technical assistance, only to be corrupted and intimidated by national leaders.

Country experience underscores the importance of political will in mediating the impact of foreign assistance. A study of three countries with sizable democracy and governance programs in the 1990s (Bolivia, Bulgaria, and South Africa) concluded that USAID's investments produced substantial returns precisely because the political leadership was so committed to reform. The broader and more sustained the elite consensus in favor of governance reforms, the greater the impact democracy and governance programs tend to have. Modest investments go much further where there is broad will to reform among political elites, and large investments are wasted where there is none.

Political will is not an either-or phenomenon. In the typical country receiving assistance, the will to reform is mixed and ambiguous. Within the state and ruling party some elements favor reform (or would if reform gained momentum), while others work against it. Different officials may favor different kinds of reform. Some may favor economic reform but only if it does not involve surrendering political power or protected monopolies. Others may favor democracy but only of the "neopatrimonial" kind, driven by patronage. A president or prime minister may promise international donors a package of governance reforms but then grow cold when he realizes the political risks. Or he may promise anything to get aid with no serious intention of ever delivering (box 1.1).

In the worst cases (often countries with some strategic importance to one or more donors) international development assistance takes on the appearance of a mutual con game: intractable countries pretend to be developing, and international donors pretend to be helping them. No one faces up to the reality that development is not occurring because governance is rotten. The most urgent challenge for U.S. foreign assistance in the coming years is how to engage such poor performers.

How can the political will to bring about basic, systemic reform be generated? Such political will is generated from three directions: from *below*, from *within*, and from *outside*. Organized pressure from below, in civil society, plays an essential role in persuading ruling elites of the need for institutional reforms to improve governance. There may also be some reform-minded elements within the government and the ruling party or coalition who, whether for pragmatic or normative reasons, have come to see the need for reform but are reluctant to act in isolation. Finally, external actors in the international community often tip the balance through persuasive engagement with the rulers and the society and by extending tangible rewards for better governance and penalties for recalcitrance.

U.S. foreign assistance can help develop the first two forms of pressure and has done so in a number of countries in the past decade. Where political will for systemic reform is lacking, the main thing that foreign assistance can do is strengthen constituencies for reform in civil society, including NGOs, interest groups, think tanks, and the mass media. Assistance can enhance these actors' understanding of reform issues, their knowledge of experiences in other countries, their coordination with one another, their capacity to analyze and advocate institutional and policy reforms, and their mobilization of support and understanding in society.

International efforts to stimulate governance reform have shown that fundamental reform can be sustained only where there is homegrown initiative. If governments merely promise changes in policies and institutions in response to international pressures, they will not implement the reforms seriously and consistently. "Imported or imposed initiative confronts the perennial problem of needing to build commitment and ownership; and there is always the question of whether espousals of willingness to pursue reform are genuine or not."²³ International engagement will therefore fail if it simply requires a government to sign off on a package of dictated reforms, as has often been the case with assistance from the international financial institutions. Its goal must be deeper and more procedurally democratic: to generate public awareness and debate and to induce government leaders to sit down with opposition and social forces to fashion a package of reforms unique to and owned by the country.

Box 1.1. Doing the donor dance in Kenya

The international donor community and the government of Kenya have been engaged in a dance over macroeconomic and governance reforms since the mid-1980s. The donors have conditioned assistance on the Kenyan government's agreeing to and implementing a broad range of reforms—liberalizing the economy, pursuing prudent macroeconomic policy, downsizing the public sector (including privatizing state industries), ending corruption, and increasing democracy. President Daniel Arap Moi and his government have repeatedly promised reform but rarely delivered.

In November 1991 the donor community suspended more than \$250 million in balance of payments and budgetary assistance to Kenya, stating that the government had failed to follow through on promises to liberalize the economy, reduce corruption, and improve its human rights record. Kenya thus became the first African country to have its aid suspended for bad governance.

In response, President Moi announced that he was lifting Kenya's constitutional ban on opposition political parties, paving the way for the first multiparty elections in 26 years. Kenya also liberalized its economy, including abolishing fixed exchange rates. At the same time senior cabinet members engaged in a phony export scheme that bilked the Kenyan treasury of an estimated \$350 million, while the Central Bank printed money to finance the president's reelection campaign. The result was a 40 percent spike in inflation and an interest rate hike that brought the Kenyan economy to a halt.

Although most bilateral assistance agencies, including USAID, reduced their programs in Kenya and ended balance of payments assistance, the World Bank and the International Monetary Fund renewed quick-disbursing aid

to Kenya in 1993 and 1994 when the Moi government promised to follow through on the reform agenda. Further World Bank lending followed. But in mid-1997, on the eve of another election, the international financial institutions again concluded that aid should be halted, citing the persistence of massive corruption. They returned in June 2000—the Bank with a \$150 million program to reform the civil service, the Fund with \$200 million. Given their experience, they conditioned these loans more tightly on performance than they had earlier loans, and scheduled disbursement in a series of tranches. Yet by December, after only one disbursement, both agencies suspended assistance when it became clear that the Moi government—having received the down payment—was not serious about delivering on its promises.

The lesson from the donor dance with Kenya is clear. The donor community must tightly condition and closely monitor any direct assistance to the Kenyan government, bypass the government entirely by disbursing funds directly to NGOs and private contractors, or limit its programs to food aid and humanitarian relief. USAID has chosen the second option. But the Bank and the Fund—as required by their programs and bylaws—disburse funds only to the Kenyan government.

A comprehensive USAID strategy for dealing with such cases as Kenya must also consider the role of the international financial institutions. Their programs dwarf those of the U.S. government and represent the “big money” sought by the Kenya government. Unless these programs are tied more closely to performance, USAID's efforts to nurture broad-based reform will be undercut.

Source: Barkan 1998.

*A BETTER APPROACH
IS TO DISPENSE AID
SELECTIVELY TO REWARD
AND DEEPEN REFORMS*

FROM CONDITIONS TO SELECTIVITY

To be successful, international engagement must shift from *conditionality* to *selectivity* in foreign assistance. In many cases—international lending, for example—conditionality has been *ex ante*, with governments promising policy reform in exchange for aid. As a result donors, not the governments, “own” the reforms. A better approach is to dispense aid selectively to reward and deepen—and thus preserve and consolidate—

reforms that a country has already begun to implement according to its own design. Selectivity focuses aid on good performers—countries that have reasonably good policies and institutions—and on serious reform efforts, already under way, by governments and societies that have taken responsibility for designing their own policies and institutions.²⁴

Helping to generate authentic, homegrown political will for better governance takes patience, intelligence, coherence, consistency, and dexterity.

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Toward this end, the following principles should guide U.S. foreign assistance and the policies of other international donors:

1. *Levels of foreign assistance must be more clearly linked to a country's development performance and to demonstrations of political will for reform and good governance.*
2. *Good performers must be tangibly rewarded.* Reform should be encouraged through predictable and meaningful rewards. When political leaders demonstrate respect for democratic procedures and freedoms, and willingness to follow through on difficult political and economic reforms, they should receive steady increases in aid from the United States and other donors. In addition, good performers—democracies getting serious about controlling corruption and strengthening the rule of law—should be rewarded in other tangible ways: with debt relief, with incentives for foreign investment (including publicity about their good governance), and with trade liberalization—such as the bilateral free trade agreement recently concluded with Jordan.
3. *Rewards must be granted for performance, not for promises that may be repeatedly made and broken.* The only way to exit from the “cat and mouse” game of international conditionality is to make increases in development assistance and other economic rewards contingent on what governments actually do (and keep doing), not on what they say they will do. Rewards should be structured to lock into place the institutions and practices of democracy and good governance. For example, the European Union requires that democracy and respect for human rights be institutionalized before a country can be considered for admission, and these conditions are included in the accession agreements. The United States might adopt a similar standard as a requirement for free trade agreements (whether bilateral or as part of a multilateral arrangement). And there should be clear and credible procedures for suspending countries that depart from this standard. For heavily indebted poor countries, debt relief should be granted only to those that have demonstrated a basic commitment to good governance by allowing a free press and civil society, ensuring an independent judiciary, and establishing a serious anti-corruption commission. Even in these cases the debt should not be forgiven in one fell swoop, but suspended and retired incrementally (for example, at 10 percent a year), creating incentives for sustaining good governance.
4. *If there is no political commitment to democratic and governance reforms, the United States should suspend government assistance and work only with nongovernmental actors.* The only exceptions should be humanitarian relief and responses to global public health threats, and even then minimal reliance should be placed on poorly performing states. USAID has often used such selective suspensions, which can have important symbolic and practical effects. The United States typically provides only a small share of the foreign assistance to a government, but a highly visible one. When the United States ceases development assistance to a government, other donors take notice (and should be lobbied to follow suit), as do political and social actors in the country. To be effective, this approach must have substantial consequences. Political leaders must learn that they will pay a heavy international price for bad governance, forfeiting material resources and becoming more isolated diplomatically.
5. *The United States should use its voice, vote, and full influence within the World Bank and other multilateral development banks to terminate development assistance to bad governments and to focus on countries with reasonably good governance.*²⁵ The United States should extend the principles of its foreign policy into international development, persuading the international financial institutions to stop financing grossly corrupt, wasteful, and oppressive governments. Much progress has been made on this front over the past decade, and the United States should continue to press for greater accountability and logic in international lending. Where there is no demonstrated commitment to reform, development assistance should go to nongovernmental actors. Beyond humanitarian and public health assistance, the aid should be aimed mainly at empowering civil society to change the regime or improve governance in other ways. Otherwise, even if aid funds are spent directly by aid agencies or through NGOs, they will simply substitute

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for what corrupt officials are stealing from the national budget and so will do little to reduce poverty.

6. *The United States must work more closely with other bilateral donors to coordinate pressure on bad, recalcitrant governments.* Reductions in U.S. aid will do little to change the behavior of political leaders if their governments continue to receive funding from other donors that far exceeds the U.S. aid. Leaders will be most likely to change if they perceive a coherent message from international donors.
7. *Where committed reformers can be identified within the state, donors should work with them.* The United States should identify and try to strengthen the hand of reform-oriented ministers, agency heads, and provincial governors. “Assistance can be provided to reformers to help identify key winners and losers, develop coalition building and mobilization strategies, and design publicity campaigns.”²⁶ Often, nodes of reformers or even majorities favoring reform can be found in branches of the state outside the executive, such as the legislature, the judicial system, and other agencies of horizontal accountability that may be deprived of resources and authority. Even when reformers lack the power today to effect far-reaching change, training and technical assistance may enable them to expand public constituencies for reform. Such assistance may also represent an investment in the future, when a political shift gives reformers real power.
8. *State capacity must be enhanced, but it makes no sense to strengthen the capacity of state structures that lack the political will to govern responsibly.* Building effective state structures must be a major goal of assistance for democracy and governance, but not until state leaders are serious about governance. Large investments in the infrastructure and technical capacity of judiciaries and legislatures will be largely wasted if there is no political will to use the enhanced capabilities for more honest, responsive, and accountable governance.
9. *Donors should encourage the global private sector to accelerate efforts to incorporate judgments about the quality and transparency of*

governance into investment decisions. To continue pressing this agenda, donors should institutionalize support for Transparency International and other global anti-corruption efforts. An important priority is to improve comparative measures of the quality of governance and then widely publicize them, to encourage the private sector to invest in countries that are governing well and adopting promising reforms. Credible (independent) and publicly disseminated measures of governance are particularly important for smaller, more peripheral developing countries, on which reliable information is slower to reach investors. The United States might also introduce incentives (such as through the Overseas Private Investment Corporation and the negotiation of free trade agreements) to encourage investment in better-governed countries.

10. *International donors must strengthen the global rule of law, particularly the capacity to track down and close off corrupt flows of money in the international banking system.* The United States must work to institutionalize rigorous global standards and procedures for rapidly identifying and recovering corruptly acquired assets. It must also work vigorously to ensure that member states of the Organisation for Economic Co-operation and Development (OECD) enforce the new OECD convention against bribery. The anti-money laundering tools used to combat terrorism and drug trafficking can also be applied to fight international crime and corruption.

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“TOUGH LOVE” FOR DEVELOPMENT

Only if governance becomes more democratic and accountable will development occur in the poorly performing countries. And only with a comprehensive, consistent, “tough love” approach from the international community is political will for governance reform likely to emerge and to be sustained. Once there is evidence of such political will, assistance for democracy and governance must work on many fronts to develop the institutions that fight corruption and defend the rule of law, to strengthen and democratize political parties, and to improve the functioning of representative and administrative institutions. Where political will for decent

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governance is lacking, there is no higher priority for development than to generate it and probably no way to do so except through aid to civil society. But where democratic governance reforms do take place, the international community must back them with more than words and more even than assistance for democracy and governance.

Countries and leaders that improve governance must realize rapid, tangible rewards for the progress they make and the risks they take. Good performers—and these will be mainly democracies fighting corruption—must see their countries move onto a different path, one where average incomes rise, where the quality of daily life visibly improves, and where resources flow in to improve health, education, and public infrastructure.

Although some democracy and governance programs have been in place for some time, sustained efforts to promote democratic governance are still at a relatively early stage. But some lessons are clear. Strategies for promoting democracy and good governance must focus relentlessly on generating and sustaining political will for systemic reform, with diplomacy and aid working hand in hand. Donors must work with one another. Experience must be shared across borders. And democracy and governance objectives must inform and inspire development assistance in every sector. To have an impact on the difficult and seemingly intractable cases, the United States and other donors must do more, more coherently, across a range of objectives, and must sustain the effort (with periodic assessment and adaptation) over a long period. This will require a patience and long-term perspective to which Americans are unaccustomed and which does not come easily in a democracy with short electoral cycles.

NOTES

1. Karatnycky 2002; Freedom House 2002.
2. The first long wave of global democratic expansion ended with the breakdown of many democracies between World Wars I and II, and the post–World War II wave of democratization ended with the “second reverse wave” that began in the early 1960s. See Huntington 1991.
3. Freedom House rates as “free” the states with an average score between 1 and 2.5 on the combined 7-point scale of political rights and civil liberties. See Karatnycky 2002.
4. Of the 71 regimes not rated as democracies by Freedom House, 46 have regular multiparty elections and only 25 are politically closed in this respect. See Table 1 in Diamond 2002.
5. Franck 1992; Rich 2001.
6. Carothers 2002.

7. For theoretical perspectives on democratic consolidation, see Linz and Stepan 1996; Diamond 1999; Schedler 2001.
8. For details on the twin scales, see Freedom House 2002.
9. The classification of countries as democracies in this discussion follows the Freedom House’s annual survey. See Freedom House 2002.
10. For more discussion of the “democracy gap” in Muslim majority (especially Arab) countries, see Karatnycky 2002.
11. Civilian control of the military is also necessary. For a more detailed conceptualization, see Diamond 1999.
12. See Diamond 1999 for a summary of some of the evidence from public opinion surveys in developing and postcommunist countries.
13. This term (rather than “transitions to democracy”) was carefully chosen to capture the indeterminacy of the process. See O’Donnell and Schmitter 1986.
14. *The Economist*. 2001. “The Latinobarometro Poll: An Alarm Call for Latin America’s Democrats.” 28 July.
15. Lagos 2001.
16. Chu, Diamond, and Shin 2001.
17. Blair and Hansen 1994.
18. Chao and Myers 2001.
19. Lippman 2001.
20. USAID 2000.
21. Levitsky and Way 2002.
22. Brinkerhoff 1999; Brinkerhoff 2000.
23. Brinkerhoff 2000, p. 242.
24. Collier also calls this conditionality “an agency of restraint.” See Collier 1999, p. 327.
25. For a similar approach, see Collier 2002.
26. Brinkerhoff 2000, p. 249.

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