The Governance Report 2014 is the second in this annual series about the changing conditions of governance, the challenges and opportunities involved, and the implications and recommendations that present themselves to analysts and policy-makers.

Why the Governance Report?

In a world that seems to be changing fast and that seems to gain in complexity, how can we make sense of governance, i.e. how and how well those who are entrusted to do so manage public problems? What are the main issues and components of, and for, good governance? What governance innovations are taking place, what options emerge, how can we measure governance capacity and performance, and what policy recommendations come to mind?

Many initiatives have emerged over the past decades to attempt to grasp these phenomena. The various handbooks on governance might cover concepts and theories; others focus on innovations and improvements; indicators research seeks to elucidate one or another aspect of governance. None of these covers conceptual issues, examines current governance challenges and solutions, assesses innovations, and develops indicators and other data that illustrate and inform all under one umbrella—in a systematic way and over time—and focused on a central issue or topic. This is where the Governance Report comes in.

What the Governance Report Is

The Governance Report is an inter-disciplinary effort to examine the state-of-the-art of governance at the local, national, and transnational levels, and by looking at governments, public administration, business corporations, and civil society. In doing so, it enlists experts from the Hertie School of Governance but also from other institutions. Special attention is paid to institutional designs and approaches, changes, and innovations that state and non-state actors have adopted in response to the shifts that have been occurring. This applies to the profound geopolitical changes that are likely to gain momentum and become more entrenched in the future, as it does to the world's financial architecture and smaller, often more incremental developments at local levels, be it the spread of new approaches to public
administration, the role of information and communication technology, or the capacities of civil society to support municipal governance.

The results are available in an annual series that includes this compact report, an edited companion volume, both published by Oxford University Press, and a dedicated website at www.governancereport.org. Together, these various outputs and outlets are designed to provide both policymakers and analysts ideas, knowledge, and tools to consider and implement policies and programmes that lead to better solutions to public problems.

Each Report focuses attention on institutional changes and innovations that have been proposed or that state and non-state actors have actually adopted. We use critical policy fields and issues as a lens to see how different actor groups have adjusted and could adjust to new types of challenges. We look at constraints as well as opportunities that present themselves.

**Critical Policy Fields and Issues**

Launched in February 2013, the first edition examines the challenges of financial and fiscal governance, proposes a new paradigm—‘responsible sovereignty’—for tackling global issues, highlights selected governance innovations, and introduces a new generation of governance indicators.

The governance performance model, based on Juan Linz and Alfred Stepan’s approach to democratic regime performance, highlights the interplay of legitimacy (do the problem-solvers enjoy the trust of other stakehold-

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**Governance Performance Model**

- **Efficacy** of system and key actors
- **Legitimacy** of system as a whole and key actors
- **Effectiveness** in ways and means
- **Performance**: goal attainment

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T1  Time  T2

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direct relation
indirect relation, feedback
ers?), efficacy (do they know what they are doing?), and effectiveness (do they achieve acceptable results with acceptable means?) in addressing and solving public problems (how do they actually perform?). The four components of this model, as illustrated in the figure, guided the development of a new generation of governance indicators that began with the first edition. Indicators are prominently featured in this edition as well, as the Report analyses the modern state’s administrative capacity to find and implement solutions.

The first edition also introduced the framework of governance readiness, i.e. whether governance systems are ready to tackle the challenges confronting them. Inge Kaul introduced a set of six governance requirements that must be fulfilled in order to address public problems (see Box). While the requirements were developed with the provision of global public goods in mind, they are to a great extent also valid at the national and local levels and for state and non-state actors in governance systems, as we will see especially in this edition of the Governance Report. Averting the risk of dual failure, avoiding free-riding tendencies and moral hazards, for example, requires smart regulatory capacity, whereas promoting issue-focus requires significant coordination capacity.

The political economy lens highlights the practical and political trade-offs facing governance actors when presented with alternative solutions. In *The Governance Report 2013*, Mark Hallerberg and his colleagues used this lens to examine the financial crisis that began with the collapse of Lehman Brothers in 2008, among other financial and fiscal governance issues. Thus, for example, those involved in managing the crisis had to choose, or at least find a balance, between ensuring the liquidity of the financial system and the moral hazard that some actors might take greater risks knowing that they will inevitably be rescued. To understand where actors will come down on such trade-offs, we need information on their capacity to develop and implement innovative policies, the focus of this edition.

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### Kaul’s Six Key Requirements for Global Governance

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<tr>
<th>GR1:</th>
<th>Averting the risk of dual (market and state) failure</th>
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<tr>
<td>GR2:</td>
<td>Correcting fairness deficits</td>
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<td>GR3:</td>
<td>Strengthened externality management</td>
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<td>GR4:</td>
<td>Promoting issue-focus and result-orientation</td>
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<td>GR5:</td>
<td>Recognising and promoting synergies</td>
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<td>GR6:</td>
<td>Active acceptance of policy interdependence</td>
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Beginning with the first edition, we also sought to wade through the ‘cacophony’ of new approaches to governance to identify (and eventually track) a set of promising or exemplary governance innovations. Our sample, albeit non-representative, revealed greater efforts toward improved efficacy and effectiveness (rather than systematic change) and the pronounced presence of non-state actors, in particular civil society, most often in partnership with other actors. (See the table for selected examples.) In this edition, which expands our collection, the governance innovations highlight the administrative capacity addressed by the new approaches and, in turn, what capacities these approaches require.

Finally, the Governance Report series seeks to provide the necessary evidence base for these various ways of looking at governance by developing a new generation of indicators. The dashboards in which we present data on a variety of variables either taken from existing sources or collected by our indicators team provide a wealth of information for policy-makers and researchers that can be extracted and analysed according to the issue or question at hand.

In the first edition, we offered the rationale for introducing a new set of indicators into a veritable ‘indicators industry’ and a sampling of the kinds of useful analyses that could be performed. In this second edition, Piero

### Selected Governance Innovations 2013

<table>
<thead>
<tr>
<th>Case</th>
<th>Challenge</th>
<th>Basic proposition</th>
<th>Key insight</th>
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<tbody>
<tr>
<td>Chiang Mai Initiative</td>
<td>Providing liquidity to prevent financial contagion</td>
<td>Creating regional fund and ensuring surveillance via link to IMF</td>
<td>Two-tiered financial architecture to create nested institution to solve trade-off between liquidity and moral hazard</td>
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<tr>
<td>Multilateralisation</td>
<td></td>
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<tr>
<td>Hybrid Organisations: the L3C business entity</td>
<td>Stabilising co-producing, hybrid organisations that seek to combine social and economic returns</td>
<td>Providing a for-profit form with internal non-profit governance structure</td>
<td>Allow for diversity of incentives but create checks and balances to avoid goal displacement</td>
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</tbody>
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<table>
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<tr>
<th>Debt brake</th>
<th>Finding more effective ways and means for sustainable public finances</th>
<th>Recreating legal requirements and disincentives</th>
<th>Effective ex post control mechanisms via compensation accounts to take away incentives to overspend</th>
</tr>
</thead>
<tbody>
<tr>
<td>mySociety</td>
<td>Promoting greater citizen engagement</td>
<td>Citizen-led creation and use of public websites</td>
<td>Increasing transparency on how public sector deals with ‘everyday problems’ reduces citizen-government gap</td>
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</table>
Stanig not only expands the set of dashboards, this time focusing on administrative capacity, but also again provides analysis to illustrate the many possible applications and uses of this new generation of governance indicators.

*The Governance Report 2014,* produced in large part by Kai Wegrich from the Hertie School and Martin Lodge from the London School of Economics and Political Science, sets the focus on administrative capacity in OECD countries. To be sure, much is expected of governments and their public administrations. How can they meet these demands? Specifically, how can they coordinate various branches of the state, regulate markets, deliver services and implement policy, and make sense of increasingly complex tasks through the use of knowledge and analysis? How much ‘muscle’ is left during the current ‘age of austerity’ after waves of reforms that have changed the architecture of the state? How can states usefully draw on non-state actors to act upon and address the pressing problems of our time?

By posing these and other central questions, and by addressing them in five of this Report’s chapters, the authors summarise their findings with a set of recommendations in a concluding section. Among these are:

- Calls for a new realism in what actual capacities bureaucracies need to ensure governance readiness given resource levels;
- Attention to demand and supply mismatches and capacity bottlenecks in optimising administrative capacity;
- A move beyond checklists and scoreboard exercises toward adaptive learning approaches, combined with ‘smarter’ performance measures that include peer reviews;
- A debate on governance innovation that considers existing and future capacity when calling for, and implementing, new approaches, ways, and means of public administration.

While the 2014 edition carries forward the framework for studying innovations in policy solutions and governance institutions across a range of OECD countries, there are certainly many lessons that can be drawn for emerging market economies, even for developing countries in the Global South.

**Onwards to 2015**

The Hertie School’s Mark Dawson, Henrik Enderlein, and Christian Joerges have already begun work on the 2015 edition, which will focus on Europe: The promise of an ever-closer union that has guided Europe from the Treaty of Rome to the present time rests on the evolution of democratic governance to meet the many challenges that European communities have faced in the past, are facing today, and will, undoubtedly, have to address in future. Like the American promise of ‘more perfect union’ and ‘government of, for,
and by the people’, the distinct purpose of European governance of a closer union of and in Europe requires visions and innovations of many kinds; it requires new institutions and organizations and ways of doing things, and necessitates changes in the mind and hearts of citizens; it requires commitment and active participation across member states; and above all, in ways large and small, it requires the contributions of many actors. What can make Europe succeed, fail, or muddle through from a governance perspective? Is the European project a model to the world; should it be? Where are its limits and borders, both internally and externally?

As in previous reports, we will apply the governance frameworks for readiness and performance, identify innovations, track indicators, and make recommendations. And as before, we invite your comments and suggestions at www.governancereport.org.

Helmut K. Anheier and Regina A. List
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