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Effective Governance

Strategy for Australia’s aid investments

Purpose

Australia’s aid policy identifies ‘effective governance: policies, institutions and functioning economies’ as one of six priority areas for the Australian aid program.

The purpose of this note is twofold: first, to set out our approach to governance; and second, to provide guidance to operational teams on how to design, implement and assess governance programming. Australia prioritises investments in governance because ‘where governance is poor, development outcomes are also poor’. This is particularly evident in fragile and conflict-affected settings, where the quality of governance tends to be weakest. Governance is critical for improving aid effectiveness because it influences the extent to which governments develop and implement good policy, citizens have access to basic services and hold leaders to account, and businesses flourish. Governance also underpins programs in all other sectors, like education or health, and determines the extent to which they will achieve their objectives.

This note has five sections. Section one sets out our understanding of governance and development. Section two explains Australia’s approach to governance. The third section provides guidance for staff, including on governance programs (what type of ‘governance sector’ investments should be considered), and on how to take a ‘governance approach’ to development (ensuring that all aid investments are technically sound and politically informed). The fourth section sets out how we will track the progress of our governance work, and the final section outlines the resources available to support the implementation of this strategy.

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2 Ibid.
1. What is Governance?

There are many definitions of governance, but all refer to how power and authority are used to manage a country’s resources. Most definitions also refer to how power and authority are exercised by individuals and through institutions – institutions are the formal and informal rules that organise social, political and economic relations. They provide a structure for the way people live and interact – the way that people and groups of people agree and express their interests, and how competing interests are mediated.

The term ‘governance’ is also used to describe a sector. The governance sector includes public sector reform (including public financial management), economic management, political representation and accountability (including electoral reform and support), and law, justice and anti-corruption. Australia measures the size of its governance work by tracking expenditure in these areas.

2. Our Approach to Governance

Effective governance occurs when a state has the capacity, legitimacy and authority to deliver public services, regulate the economy, maintain order and the rule of law, collect and use revenue, and act in the public good. It reflects a state’s willingness or ability to implement appropriate policies, noting good policies can still fail if implementing institutions are incompetent, inefficient or corrupt.

Ineffective governance lies at the heart of most development challenges in Australia’s partner countries. It takes many forms. Politicians often work within distinct systems of accountability that are sometimes based more on the provision of material benefits to constituencies, than on more general policy outputs. Bureaucrats may appear under-skilled, disorganised and unmotivated when it comes to implementing laws or upholding basic standards of service delivery, but at the same time, display great skills and motivation in satisfying particular powerful actors (such as politicians, businesspeople, military officers or higher-level bureaucrats). Where powerful individuals or groups readily capture the institutions of the state, whether at the national or subnational level, civil servants similarly have many opportunities to act in their own interests, rather than for the public good. Justice systems tend to be inaccessible, and justice can be bought and sold. Economic growth is often hindered by poor policy choices, while private sector development and government-business ties are commonly shaped by weak regulatory systems. Poor people, women and minority groups are often excluded from the political process, which increases the prospect of instability within communities. These challenges are particularly acute in countries that are fragile or conflict affected – as is the case for 10 of Australia’s top 15 bilateral aid recipients.

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Economic growth is the primary driver of poverty reduction, but growth alone is not enough. Poverty and disadvantage can persist despite growth in the broader economy. For example, the Philippines’ economy grew at around seven per cent each year from 2006 to 2012, but it was not until 2013 that the incidence of poverty began to register a small rate of decline; and while Papua New Guinea has experienced average Gross Domestic Product (GDP) growth of more than seven per cent over the past five years, it is still not expected to meet any of the Millennium Development Goals. Persistent or increasing inequality of this kind means that people continue to miss out on development gains, and the prospects of instability and conflict are increased.\(^5\)

We therefore provide support to institutions that are good for sustainable economic growth and poverty reduction. Generating growth requires an appropriate policy and regulatory framework to be in place, as well as effective institutions to enable implementation. The particular institutions that generate growth and reduce poverty will vary from country to country. The World Bank tracks six core aspects of governance: government effectiveness, regulatory quality, voice and accountability, political stability and the absence of violence, the rule of law, and anti-corruption.\(^6\) These all have a direct impact on economic growth, but there is evidence to suggest that voice and accountability are more significant constraints in countries with higher per capita GDP, while in low income countries poor government effectiveness and regulatory quality are more limiting.\(^7\) The institutions which are most important can only be identified by examining the specific context of that country’s development, recognising that institutions both shape and are shaped by a country’s history, evolution and political culture.

Representative, accountable and transparent government is not a pre-requisite for economic growth or poverty reduction.\(^8\) It is difficult to establish a clear relationship between regime type (authoritarian versus democratic) and developmental outcomes. Over the past 30 years, some ‘authoritarian’ regimes have delivered both development successes and failures.\(^8\) Similarly, some democratic governments promote economic growth, social harmony and the welfare of their citizens, while others breed recurring economic crisis and social conflict. However, evidence suggests that greater representation and accountability can build a political system that reflects the values and interests of communities, increases the state’s legitimacy, combats corruption and may contribute to long-term stability.\(^9\) Accountable governments are more likely to ensure that growth is equitable and inclusive – for example, sharing the wealth of natural resource extraction across communities, rather than concentrating it in the hands of powerful people.

Governance also shapes and is shaped by the politics and power of gender. Gender inequality is a critical constraint to economic growth and poverty reduction, as it perpetuates unequal

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6 World Bank (2013) *World Governance Indicators 2013*.
participation in, and access to, the process and benefits of development.\textsuperscript{11} For example, the Asia-Pacific is losing up to US$47 billion annually because of women’s limited access to employment, and up to US$30 billion annually due to gender gaps in education.\textsuperscript{12} Progress in tackling these issues requires a clear understanding of the different institutions, interests and incentives affecting and involving women and men, and how these are helping or hindering change.\textsuperscript{13}

**Conflict and fragility can reverse development gains.** In our region, fragility occurs where there are repeated cycles of political and economic instability, violence and crime, subnational conflict, stagnant human development, very low capacity, and vulnerability to natural and human induced shocks.\textsuperscript{14} Poverty and gender inequality are persistent features of fragile states, where change occurs slowly.\textsuperscript{15} States are less able to control their borders. Regional spill-over effects, such as cross-border health challenges and increased reach of violent extremist organisations, are common.\textsuperscript{16} Countries experiencing conflict lose on average 30 years of GDP growth\textsuperscript{17} and attract far less foreign direct investment.\textsuperscript{18} At best, a country recovering from conflict needs 20 years before its bureaucracies function at a basic level, and 41 years before key rule of law institutions are working effectively.\textsuperscript{19} In these settings, the goal of an investment may be to help maintain a basic level of stability and to prevent further loss of development progress, while creating space for reform opportunities to emerge over the longer term.

**Understanding how institutions work and how change can be achieved is essential for an effective program.** Programs must understand how the different institutions work – or don’t work. This also requires an understanding of the political process of development – knowing who will gain and who will lose, and identifying where there are powerful actors who can create momentum for reform and prevent others from disrupting change. This involves being clear about the reasons for an intervention, what will be achieved and over what timeline. This analysis guides which institutions will be targeted, and how investments in those institutions will be shaped.

\textsuperscript{11} World Bank (2014) *Voice and Agency: Empowering Women and Girls for Shared Prosperity*.  
\textsuperscript{15} World Bank (2014) *A Measured Approach to Ending Poverty and Boosting Shared Prosperity: Concepts, Data, and the Twin Goals*.  
\textsuperscript{16} DFAT (2014a) op. cit.  
\textsuperscript{18} Organisation for Economic Cooperation and Development (2014) *Fragile States 2014: Domestic Revenue Mobilisation in Fragile States*.  
\textsuperscript{19} World Bank (2011) op cit.
3. Guidance for practitioners

*This section focuses on practical guidance for operational staff.* It is not exhaustive – further advice is available from the Governance, Growth and Fragility Branch. It is divided into two parts: first, guidance on programs that are within the governance sector; and second, guidance on what we mean by a governance approach to development.

(i) Programming ‘Governance as a sector’

**Australia’s investment in governance as a sector is currently estimated to be 18 per cent of the total aid program.** It is expected that the level of investment will remain relatively stable in the coming years. There is flexibility for programs to adjust or refocus investments if appropriate.

**The choice of institutions which Australia will support will depend on country context.** In some Pacific Island countries, Australia’s long-term role may be to help keep the state functioning. For instance, in Solomon Islands, a key driver of Australia’s assistance is to help maintain stability. In this context, our role may be to nurture stronger state institutions over the longer term, while assisting with basic service delivery in the short to medium term, thereby creating an enabling environment for growth to occur. Our role in South East Asia is likely to be very different. Increasingly, we will offer strategic and technical advice in complex areas of public policy and regulatory capacity, like public-private partnerships. For example, Indonesia is a middle income country with significant resources of its own. At the same time, inequality is growing and a combination of decentralisation and weak local government capacity is reducing the quality of health and education systems. Here, DFAT’s role may be to use our influence to shape policy and strengthen institutions that will facilitate economic growth that includes poor and vulnerable groups.

**It is important to understand which institutions will be able to promote sustainable economic growth and poverty reduction in each country we work, and why.** This includes understanding both formal and informal power structures, the differences in authority between women and men, and how legitimate institutions emerge over time. It requires aid investments that are highly flexible and politically aware, taking into account the way that political environments and vested interests can stop change. It also requires investment in staff – both developing existing staff and recruiting people who understand and can work in political environments.

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Box 1: Flexible and politically aware governance programming in Vanuatu

DFAT’s successful Governance for Growth program in Vanuatu (GfG) (2007-17) was designed to be a platform for policy dialogue, a means to support government-led programs resulting from that dialogue, as well as vehicle to allow for rapid responses to emerging opportunities. A GfG mid-term review found that the program ‘has had a number of high profile successes and is highly regarded by the Governments of Vanuatu and Australia’.22 One such success was playing a key role in supporting the Vanuatu Government’s decision to liberalise its telecommunications monopoly, resulting in huge increases in mobile phone subscription rates (from 5 per cent of Vanuatu’s population in 2004 to 71 per cent in 2011).23 This has made a big difference to the lives of ordinary people living across many remote islands, such as providing access to banking services for the first time. Part of GfG’s strength is that it built upon a strong historic base of support provided by Australian aid. Before GfG, the Ministry of Finance and Economic Management Institutional Strengthening Project helped stabilise fiscal management. In 2006 Vanuatu achieved its fourth consecutive year of surplus or neutral budgets. A Public Expenditure and Financial Accountability (PEFA) assessment, conducted by a European Union team, highlighted the impact of the Institutional Strengthening Project, especially on the budget function. The PEFA assessment scored Vanuatu’s financial management strongly, including As for credibility and comprehensiveness of the Budget.24 An Australian Independent Completion Report (ICR) found that, without Australia’s assistance, the country’s financial management would be worse and its civil service would be more politicised and corrupt as a result. The ICR endorsed the contribution of Australia’s aid in building greater capacity, particularly in the Ministry of Finance, while a DFID Drivers of Change analysis observed that Australia’s public financial management project ‘was the most successful capacity-building program’ in Vanuatu in recent times.25

Programming should consider:

1. **Supporting institutions that promote and facilitate sustainable economic growth.**
   
   Institutions that need to be in place for inclusive growth to take place include those that foster the rule of law, give effect to property rights and form part of an effective business regulatory environment.26 Our particular programming focus will depend on the context – in some parts of South East Asia, where growth rates are strong, we may focus on institutions that will help growth become more inclusive, while in some parts of the Pacific, where growth prospects are more limited, we may support institutions that can stimulate growth. Examples of how Australia might assist include:

   > Reducing opportunities for corruption in institutions and putting in place complaints processes;

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Curbing entrenched patterns of patronage politics that undercut the quality of the public service;

Strengthening the regulatory and legal environments so that businesses have greater certainty and predictability, as well as supporting public financial management reform;

Assisting partner governments to mobilise domestic resources by developing a broad and well-balanced tax base;

Helping partner governments pick the right policies, including those that strengthen the credibility of the macro-economic framework;

Helping fill critical infrastructure gaps through improved governance procedures for design, implementation and maintenance;

Addressing governance constraints to greater engagement with international trade, such as ineffective regulation of port facilities;

Supporting or enabling dispute resolution through state-based systems, alternative mechanisms or hybrid versions of both;

Expanding women’s opportunities to earn an income and own assets; and

Building coalitions and opportunities for discussion across government, business and civil society to improve public policy, build expectations for accountability, foster environments in which citizens and organisations can make legitimate demands of their governments, and increase demand for open and competitive markets.

Box 2: A focus on public sector management

There is strong evidence to suggest the positive impact which public financial management (PFM) reforms can have on improving governance and reducing corruption. PFM assists with the management of money throughout the budget cycle, and includes a range of reforms such as budget planning and management, procurement, auditing, and monitoring and evaluation. It can also include reforms that strengthen key budgetary accountability institutions such as public accounts committees of the legislature and supreme audit institutions. Budget management is one type of PFM reform that has been found to have a positive impact on curbing corruption. Studies have found that countries with strong budget management systems and greater participation of external stakeholders (through participatory budgeting) in public spending have lower scores in the Transparency International Corruption Perception Index.27

2. **Maintaining an investment in core public sector institutions that support healthy and educated populations.** Economic growth and poverty reduction will only be achieved if essential services like maternal health care and basic primary education are being delivered, ensuring a healthy and educated workforce. In the Pacific, the challenges of getting services to small and dispersed populations may mean we directly support service delivery and consider whether assistance can be provided on a regional basis. In South East Asia, where the populations may be larger and more resources may be available, it is important not to subsidise or replace local spending, and our focus may be on influencing

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policy and supporting local initiatives that can increase the quality and accessibility of services to those who remain hard to reach. In all contexts, we will need to have a clear understanding of the relative performance of, and relationships between, the ‘upstream’ policies and systems that shape the core functions of government, and the ‘downstream’ institutions and mechanisms responsible for service delivery.

Box 3: Influencing policy and supporting local poverty reduction efforts in Indonesia

The Poverty Reduction Support Facility (PRSF) ($46m over 2011-2014) provides financial, technical and logistical support, helping to shape the process of evidence-based policy-making within the Government of Indonesia (GoI) through its National Team for Accelerating Poverty Reduction (TNP2K). TPN2K acts as an internal think tank within GoI, with a mandate of consolidating and improving Indonesia’s social assistance and poverty reduction programs. Through PRSF, Australia has been able to contribute to the shape of TNP2K and its activities including recruitment, organisational structure and the terms of reference for the working groups. Also, Australian aid staff had almost daily interaction with their Indonesian counterparts, engaging in influential formal and informal policy dialogue. Through its support to TNP2K, Australia has been able to play a catalytic role in the development of an evidence-based dialogue on social protection in Indonesia, which will ultimately through TNP2K make a fundamental contribution to sustainable poverty reduction in Indonesia.28

3. How to make capacity development more effective. Capacity development is often used by programs aiming to strengthen organisations, systems and processes as part of a broader reform effort. However, it may not be the most effective approach and too often individuals or groups of individuals are expected to bring about organisational transformation. We have learned that turning individual skills and competencies into organisational capacity requires institutional change. Training and skill development is important, but this won’t by itself transform organisational performance. Even the most highly trained person is not going to achieve change unless there are other incentives for them to do so. We need to understand the nature of institutional frameworks and incentives that influence, if not determine, individual and organisational performance, and how, if at all, we might support local efforts to bring about change. Our experience suggests that technical assistance is more effective when delivered by a combination of local experts (with local knowledge and networks) and international specialists (with comparative knowledge and subject expertise). It is important to be explicit and realistic about what a program is trying to achieve – particularly being clear if a program is substituting an in-line role to maintain state functionality or deliver a short-term project, such as delivering surge capacity to an electoral commission ahead of an election - or, alternatively, is trying to help with catalytic change that transforms an institution. For example, in the Philippines, the aid program balances capacity development efforts to support state functionality with coalition-building work to foster change.

4. **Focusing on function rather than form.** There is a tendency for donors to want to replicate the systems and institutions they have at home. While it may be easy enough to create something that looks like a Ministry of Health, it is much harder to create an organisation that delivers health services effectively, working through local social and political structures. We need to focus on which existing local structures serve the desired function, and be flexible about the form or structure. Focus less on what the organisation looks like, and more on what it delivers. Stable institutions often emerge as hybrids, merging traditional forms with those introduced by donors or others.  

5. **Addressing conflict and promoting stability.** Australia’s development policy emphasises support for activities that promote peace and stability. Support for peacebuilding can reduce the risk of lapsing or relapsing into conflict by strengthening communities to deal with political and social conflicts constructively, without violence. It is critical that peacebuilding initiatives are sustainable, appropriate to context and support women’s participation. Support for electoral processes that ensure a peaceful transfer of power between leaders can also be considered.

(ii) A ‘Governance approach’ to development

*As well as delivering specific governance investments, governance analysis and principles should be applied across all development programs.* This approach recognises that teachers not getting paid or girls not having equal access to education are as much governance issues as education challenges. Adopting a governance approach will mean all of our investments are both technically sound and politically feasible.

*There are eight principles to apply to ensure we are working in a politically informed way:*

1. **Understand the political and institutional environment.** Governance is about how power is produced and reproduced. Development programs try to change how things work, which means engaging with existing power structures. Before intervening, we need to understand the relevant social, political and economic context as well as the domestic priorities of partner countries and how Australian assistance can contribute to them. This requires using political and development staff to gain an understanding of how different tiers of government work and interact, as well as how islands of effective governance can emerge. It also requires an understanding how power is accessed and used in a country, including any role that corruption plays, and particularly how women, men and particular groups (such as people living with a disability or ethnic minorities), interact with, or are marginalised by, formal and informal power structures.

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Box 4: A governance approach to infrastructure

The Provincial Road Management Facility in the Philippines ($95m over 2009-2016) is an infrastructure program with a strong governance aspect, and was designed as part of DFAT’s governance portfolio in the Philippines. The program encourages provincial governments to invest in and change the way they do road maintenance and make local government more accountable in providing basic service services, using a substantial suite of incentives to encourage reform. In addition to rehabilitating and maintaining more than 1000km of road in up to 10 provinces in Mindanao and the Visayas, the program aims to strengthen and improve the financial, fiscal and administrative management capacity of provinces and where possible, develop a vertically integrated road maintenance plan linking provincial, municipal and barangay road. While the program has areas for improvement – for example, there has been relatively limited assessment of demand-side issues, particularly with regard to women and particular social groups – it is notably in its efforts to leverage the learning experience from the development of road networks into improvements in the overall system of local government operations.30

2. Make sure your program uses analysis. It is challenging to translate high quality analysis into the way aid is delivered. Most aid remains technically focused and inflexible. Once you’ve decided on what you want to achieve, working out how you are going to do it requires drawing in colleagues. At post, this means engaging with the Head of Mission and across all teams to ensure strong political management of the program. Private sector input into analysis and, if appropriate, the way the aid investment is delivered, is also essential.31 A program that reflects analysis in its delivery contains:

- An understanding of power dynamics. Across different sets of relationships, it is critical to know who holds predominant power and why (for example, between women and men, government and business, national and local politicians, executive and judiciary), and how effective the mechanisms of countervailing power, whether from the media, civil society or other organisations and groups. Care should be taken not to exacerbate any underlying causes of conflict or further entrench unequal power relations. This involves and appreciation of the nature of the state and the character of state-society relations. It should be clear what institutions, incentives and interests are at play.

- Continuous problem solving. A program should start with a development problem and respond from there, while being very clear about what the investment intends to achieve. New problems will emerge, and change might be unpredictable. Analytical problem solving should continue to be applied as the program is implemented.

- Local leadership. This means working on issues that are important locally, and where local leaders play a central role. It also means understanding the diversity of local interests that may come into play, and recognising that Australia may need to take a back seat.

\begin{itemize}
\item **Relationships and common interests.** Brokering or facilitating coalitions of people with similar interests can be very powerful. This includes a range of development and non-state actors (including domestic and international civil society organisations, other bilateral donors, multilateral organisations, the private sector, chambers of commerce).
\item **Flexibility and tolerance for risk.** Partners should have the space to experiment and improvise, and be explicit when a new approach is being trialled that may not have immediate results or may not be successful. This does not reduce the need for accountability, but requires careful management and a balanced approach to risk.
\item **Open dialogue with partners.** Effective partnership requires open dialogue, mutual trust and respect.\textsuperscript{32} Country-level performance benchmarks and mutual obligations present new opportunities to engage with partner governments on development issues. This is sometimes called policy dialogue. Refer to the DFAT Aid Programming Guide for guidance.
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**Box 5: A governance approach to health**

In Timor-Leste, DFAT is taking a governance approach in our health program by using a window of opportunity to gain trust and help fix a constraint to reliable maternal healthcare. Maternal deaths in Timor-Leste are the highest in the region, partly because women do not seek or receive emergency obstetric care in time. In early 2014, 11 of the country's 25 ambulances were not running, meaning women and children couldn’t get to health care quickly enough. Parliamentary and media interest put pressure on the Ministry of Health, which approached Australia for support. DFAT agreed to repair the ambulances on the basis we would work with the Ministry to find longer term solutions to transport management. This work has identified other issues to solve—poor accountability of ambulance use and overlapping mandates between departments—and DFAT has provided technical assistance to solve these and other practical problems, like keeping up with basic vehicle repairs. The team is now working to build longer term sustainability within the Ministry of Health.

3. **Be realistic about what can be achieved, and make your intervention flexible from the start.**

The aid program operates in complex places. Building effective institutions takes decades. Change may take a long time and can be non-linear, particularly where there is or has been conflict. It is important to be clear about what you want to achieve, but keep programs flexible. This allows you and your partners to take advantage of opportunities that present themselves, and change the direction of the program if it isn’t having the impact you wanted it to. Particularly, be clear when humanitarian or stabilisation support is the most appropriate intervention, when and how longer-term development is the right approach, and when economic development can realistically take hold. Manage risk by adopting a balanced portfolio within a country program – where the mix combines a significant proportion of low-risk investments with a number of more experimental programs.

\textsuperscript{32} Drawn from: Overseas Development Institute (ODI) (2014) *Politically smart, locally led development.*
4. **Make an informed decision about how to approach any conflict dynamics.** The aid program should operate in a conflict-sensitive way as part of core business. Where possible, opportunities should be sought to actively promote peace and stability. Development assistance can play an important role in creating conditions where capable and accountable states, as well as durable peace, can develop. Where relevant, these efforts can form part of global efforts to address conflict and fragility, such as the New Deal initiative in Timor-Leste (see Box 6).

**Box 6: The New Deal in Timor-Leste**

Australia is lead donor for piloting the ‘New Deal for Engagement in Fragile States’ with Timor-Leste. The New Deal is a global agreement for moving beyond fragility, agreed at the High Level Forum on Aid Effectiveness in Busan in 2011. This is the first time fragile states have collectively advocated on the challenges they experience and the assistance they need. The New Deal recognises that the challenges of fragile states have political underpinnings and global significance. At its heart are mutual accountability and advancing political and development approaches in parallel, in order to break cycles of fragility and conflict. Aligning Australia’s assistance to the New Deal framework through Timor-Leste’s own Strategic Development Plan is helping to build a shared understanding of the development context through joint assessments. It has built trust between our development staff and the relevant local ministry. Internationally, Australia learns from global best practice and through contributing its experience, influences the directions of globally relevant challenges.

5. **Take gender equality into account.** In most places we work, women’s opportunities are still very constrained. Where there is slow progress towards equality, think about when and how your program may be able to encourage:

- women’s voices in decision-making, leadership, and peace-building;
- women’s economic empowerment, through improved access to livelihoods and financial services; and
- ending violence against women, increasing access to support services and justice for survivors of violence.

Our Women’s Empowerment Strategy provides more guidance. Currently, only 64 per cent of Australia’s governance programs effectively address gender during implementation. This puts governance towards the bottom of sectoral performance for a gender equality benchmark in the department’s new performance framework.

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33 The New Deal Peacebuilding and Statebuilding Goals are: legitimate politics; security; justice; economic foundations; and revenues and services.

34 DFAT (2014) *Performance of Australian Aid 2013-14*.

35 The gender equality target is that “more than 80 per cent of investments, regardless of their objectives, will effectively address gender issues in their implementation”.

6. **Engage early with other Australian government departments.** In 2014-15, sixteen per cent of governance development programs is delivered directly by, or in partnership with, other government agencies. These agencies, which include the Australian Federal Police, the Attorney-General’s Department, the Treasury and the Department of Finance, are important delivery partners. Each brings valuable experience, expertise and perspectives, and should be engaged across the aid management cycle.

7. **Partner with other international actors.** Our impact can be maximised by understanding and coordinating the interests, influences and approaches of other development partners. Agreed priorities across different groups offering assistance can reinforce development outcomes (a lack of coordination can undermine results). DFAT currently invests a significant portion of its governance portfolio through regional and global programs, largely through multilateral partners and mechanisms.

### Box 7: Governance approaches in regional contexts

Applying a governance approach is equally important for DFAT’s engagement in regional contexts, as it is in national and sub-national contexts. As at the country level, governance and power structures at regional levels reflect their own institutional context and drivers, which need to be carefully understood. Development challenges which typically lend themselves to regional aid investments and approaches include:

- regional consensus building, cooperation and/or economic integration (for example, Australia’s support for key regional organisations, such as the Pacific Islands Forum, that coordinate and represent the views of Pacific Islands internationally and assist Pacific Islands to meet their obligations to international treaties);
- establishment of regional norms or standards (for example, the Australia-Asia Program to Combat Trafficking in Persons supports safe and productive labour mobility in the region through the adherence to international treaties and standards);
- overcoming national capacity constraints through regional economies of scale (for example, Australia’s support for the establishment of the ASEAN Community, including efforts to strengthen institutional capacities to deal with challenges to regional stability and harness regional trade opportunities); and
- delivery of regional public goods (for example, Australia’s support for regional fisheries organisations—the Forum Fisheries Agency and the Secretariat of the Pacific Community’s Division of Fisheries, Aquaculture and Marine Ecosystems—recognises that fisheries are a key economic driver and make a major contribution to food security in the Pacific region).

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36 DFAT (2014b) op cit.
37 See, for example, Pacific Islands Forum Secretariat (2014) *The Framework for Pacific Regionalism*. 
It is important to distinguish between initiatives that seek to address regional development challenges, and those that provide multi-country aid based on efficiency grounds. Some programs are a combination of both, and assessment of an aid investment in light of the key governance principles outlined in this strategy remains important.

8. **Learn from experience:** Many development agencies fail to learn from the experience of other countries facing similar problems, or to share the insights of their own practitioners on-the-ground. Regular ‘review and reflect’ exercises, such as those built into the Timor-Leste Governance for Development program, or ongoing ‘action research’ processes, such as those included in the Philippines Coalitions for Change program and Pacific Leadership Program, are ways to address this issue.

4. **Performance**

**Performance of the governance portfolio and approach**

The Governance, Growth and Fragility Branch will review the overall performance of the governance approach and portfolio each year. Performance will be monitored against relevant targets for the aid program outlined in *Making Performance Count: Enhancing the accountability and effectiveness of Australian aid*. For example:

- rigorous governance analysis underpins all major Aid Investment Plans (AIPs),
- the proportion of governance investments which address gender equality issues,
- Fraud and Anti-Corruption Strategies include a robust summary of governance related issues in the major programs,
- new ways to engage with the private sector in governance investments are considered and taken forward.

Funds spent on governance programs will also be monitored, covering a breakdown of expenditure by geographic region and by the following governance sub-sectors: political representation and accountability; public sector reform; law, justice and anti-corruption; and economic management. This will also include a breakdown of bilateral, regional and multilateral investments. Qualitative data, drawn from relevant governance program performance assessments, will also be considered.

**Performance of country and regional programs**

The majority of Australia’s governance investments are made bilaterally. This variability means that most of the aid program’s qualitative governance results will be delivered at the country level. Program areas are encouraged to draw on the *Aid Programming Guide* and the *Governance Performance Assessment Note* (PAN) when designing governance investments and monitoring and evaluation frameworks.
Measuring results for governance is challenging and there is no internationally-recognised standard approach. Progress is highly context-dependant, can be unpredictable and may only be seen over a long period of time. Measuring results is not just about reporting what you achieved. It is also way to identify and help explain why an investment is or is not having the expected impact, which could lead to a new approach.

The **Governance PAN** provides a range of indicators and evaluative questions to draw from as you design governance investments and associated monitoring and evaluation frameworks. It also provides guidance on how to monitor and measure a governance approach across all sectors, summarised as follows:

- **Pick indicators that suit your context and program.** Your choice of indicators will be informed by the problem you are trying to address, what solutions have been identified, and what data you can collect.

- **Combine quantitative and qualitative indicators.** When using quantitative indicators, having a meaningful baseline against which to compare data over time is crucial. Using quantitative indicators simply because they are available can distract from the longer term outcomes sought and provide perverse incentives for program implementers. Qualitative measures help reflect the more complex story of governance progress. They will, for example, help tell if an increase in the number of crimes reported means an increase in crime (a negative result) or improved community confidence that police will act on reports (a positive result).

- **Disaggregate data as much as practicable** by gender and, ideally, disability. Disaggregate in a way that makes sense in the local context (for example, geographically, by ethnicity or religious group), to enable more nuanced analysis and reporting of program results.

- **Consider contribution, rather than attribution.** Results in governance rely on many players and interacting elements. This makes identifying the aid program’s contribution difficult, and is especially true of results beyond activity-level outputs. The evaluative questions, qualitative indicators and using a range of indicators that are able to tell a more nuanced story will help address this.

- **Feedback loops.** Ongoing testing of assumptions and feeding back lessons to inform and, if necessary, adjust investments leads to increased legitimacy and sustainability. Ongoing assessment also gives you confidence that intermediate changes are supporting long-term results.

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38 High level composite indicators, such as the World Bank’s Worldwide Governance Indicators (WGI), provide some guidance, however, like all measures of governance work, also have their limitations. Country ratings against the WGI, for example, do not assist in understanding which aspects of governance are changing or why and what the contribution of any one donor may be.
5. Resources Available

The DFAT Aid Programming Guide includes an outline of thematic, sectoral and aid management expertise in Canberra that you can draw upon.\textsuperscript{39} A useful place to start is DFAT’s own in-house expertise, which provides an important base of knowledge and analysis across aid, trade and foreign policy issues and geographic contexts.

“Australia’s diplomatic and aid program efforts will foster country-led reform initiatives and assist local champions implement workable solutions to local development problems, recognising these will be more legitimate and durable than solutions introduced from outside.”\textsuperscript{40}

The following resources may also be helpful:

**Internal resources – the Governance, Growth and Fragility Branch**

- **Political economy analysis.** Analysis can be undertaken in political economy, constraints to growth, conflict dynamics, gender, and poverty and social analysis. This should inform your program’s AIP.
- **Attend governance and fragility and conflict training.** Training can be provided to you, colleagues or external stakeholders in Canberra or at post on political economy analysis, governance, capacity development and conflict-sensitive approaches.
- **Ask for assistance when designing, implementing, monitoring or evaluating investments.** DFAT has significant experience and expertise in capacity development, law and justice, anti-corruption, and other governance investments that you can draw on.
- **Request assistance to make your program more flexible and politically informed.** Examples can be provided of how other programs work in politically aware, flexible and adaptive ways, while also reducing aid fragmentation and activity proliferation. Help can include assistance to conduct political economy analysis at key points in the programming cycle, including AIPs and Investment Concepts.
- **Join the Governance, Law and Justice, or Conflict and Fragility networks** to receive updates on the latest international thinking, insights from the Principal Governance Specialist and the DFAT-led International Thinking and Working Politically Community of Practice, and learn what other practitioners are doing in these areas.
- **Consider pre-posting immersion.** If you have been posted to a development role, you might like to spend some time in the governance, law and justice, or conflict and fragility teams before you leave. This can help build subject matter knowledge and relationships prior to departure.

\textsuperscript{39} DFAT (2014) *Aid Programming Guide* (internal DFAT document).

\textsuperscript{40} DFAT (2014a) *op cit.*
External resources

› **Governance and Social Development Resource Centre (GSDRC)** – a helpdesk service you can use to commission quick research on issues of governance, social development, humanitarian and conflict issues. Visit the [GSDRC website](#).

› **U4 Anti-Corruption Resource Centre** – a research, help desk and training provider which can help improve understanding of corruption, and improve the effectiveness of investments. Contact the Governance, Growth and Fragility Branch, or visit the [U4 website](#).

› **Aid Advisory Services Standing Offer** – governance, law and justice, and conflict and fragility expertise is available on [relevant standing offers](#).