



Australian aid: Approaches to supporting governance

A FAR GREATER INFLUENCE ON REDUCING POVERTY THAN ANY BASIC RESOURCE TRANSFER IS THE QUALITY OF GOVERNANCE AND EFFECTIVE ECONOMIC, LEGAL AND SOCIAL STRUCTURES.

THE FACTS

Governance is the exercise of authority – political, economic, administrative or otherwise – to manage a country’s resources and affairs. It includes institutions, mechanisms and processes through which citizens and groups state their interests, exercise their legal rights and mediate their differences.

Countries with poor governance generally lack leadership at the political level, experience political instability, have weak parliamentary systems, are unable to hold government to account, are open to corruption and have a politicised public service, failing institutions and ineffective media. Improving any one of these factors may not in itself lead to higher levels of economic growth and reduced levels of poverty. However, when other conditions for growth are in place, any change that strengthens institutions can help growth to be sustained and ensure that the benefits of growth are distributed fairly.

The 2005 World Bank publication *Economic Growth in the 1990s: Learning from a Decade of Reform* found that the countries that achieved the greatest reduction in poverty maintained their growth levels over decades. This suggests that factors such as a government’s ability to manage the macroeconomic environment to smooth the business cycle and maintain stability are important. Also important is the absence of conflict or civil unrest, as both of these can have devastating impacts on growth.

The World Bank report also noted that it was not sufficient to focus on increasing the efficiency of the economy (for example, by privatising government agencies or businesses, or liberalising the financial sector). Governments may need to adopt policies that actively pursue economic growth. For poor people to benefit from this approach, it is important that they have a voice in decision-making about policies and can argue for a share of the benefits of growth. Good political and economic governance can ensure that pro-growth approaches are appropriately designed and benefit the poor.

AUSTRALIA'S APPROACH TO GOVERNANCE

Australia's approach to supporting governance recognises that sound policies and institutions are central for growth and development and that better governance can have a positive impact on the effectiveness of aid. It also recognises that working on governance issues is a long-term commitment and that often it is difficult to measure progress.

Australia's current approach focuses on several basic areas:

- > enhancing economic management
- > strengthening the rule of law
- > promoting public sector reform
- > strengthening democratic institutions and processes
- > strengthening civil society.

The White Paper on the Australian Government's Overseas Aid Program, released in April 2006, reaffirms the Government's focus on governance. Under the White Paper's new strategic framework Australian assistance will focus on fostering functioning and effective states. This approach will be enhanced by:

- > focusing on political governance by targeting leaders from all facets of society through a Pacific Leadership Program

- > building demand for better governance
- > providing incentives through allocating additional funds (up to 10 per cent of the aid program over time) to those countries able to achieve agreed improvements in areas such as governance and addressing corruption, and
- > undertaking an integrated approach to law and justice support.

Australia's approach to technical assistance will also change towards being more selective in targeting reform.

Examples of approaches adopted in AusAID-funded activities that have been successful or innovative in a country or regional context follow. These are preceded by lessons learned from international literature and AusAID's own experience in governance assistance.

IMPROVING ECONOMIC AND FINANCIAL MANAGEMENT

Economic policy that aims to smooth the business cycle is a prerequisite for the long-term growth required to reduce poverty.

The economic crisis experienced in **Indonesia** in 1997–98 gave rise to a new approach to economic technical assistance. By developing a responsive mechanism – the Technical Assistance Management Facility (TAMF) – the governments of Australia and Indonesia were able to identify priorities for assistance and mobilise resources rapidly.

TAMF I was particularly successful in the area of bank restructuring. Help was required to restructure banks so that they could be sold, reducing the call on Government of Indonesia funds for liquidity support. Further work in economic governance is helping to strengthen Indonesia's capacity for managing the economy and collecting revenue. For example, an activity of TAMF II increased revenue collection by an estimated A\$573 million.

The failure of financial institutions due to poor management and lending practices was at the heart of the Asian financial crisis in 1997. The liberalisation of the

financial sector, promoted earlier in the decade, resulted in large numbers of banks operating in an environment that lacked sufficient prudential supervision.

In recognition of this, the Government of **Thailand** consolidated responsibility for prudential supervision in its central bank, the Bank of Thailand. Support delivered by the Australian Prudential Regulation Authority (APRA) involved assistance for the Bank of Thailand Training Institute, work placements and training, a study of the Australian regulatory environment, and short-term technical assistance. A recent evaluation found that the Bank of Thailand's capacity to undertake prudential supervision had improved and that it had maintained its links with APRA and the Reserve Bank of Australia, providing an avenue for information exchange and advice.

Poor management of government expenditure can be a source of macroeconomic instability. An inability to control government expenditure can lead countries into high levels of debt that can burden future generations and crowd out private sector activity.

In **Vanuatu** Australia has provided assistance to improve the capacity of the Ministry of Finance and Economic Management. A recent evaluation of the activity found that it had supported the Government of Vanuatu to greatly improve budgetary reporting and expenditure controls.

The activity introduced a systematic annual budget cycle and improved accounting and financial controls. Departments now face a budget ceiling, and expenditures are limited by controls incorporated into the Financial Management information system (FMIS) introduced by the activity. The FMIS has



ABOVE: Education and awareness raising campaigns in Aruligo, Solomon Islands, strengthen civil society by helping the people demand accountability of those in political and bureaucratic power. PHOTO: Lorrie Graham

allowed the government to track expenditure through recording all financial transactions and has increased transparency as financial accounts are now produced shortly after the end of each month.

STRENGTHENING LAW AND JUSTICE

An effective legal sector supports accountability, investor confidence, certainty, the promotion and protection of human rights, and a strong democratic framework.

Donors recognise the vital role of the legal sector in **Indonesia's** transition to democracy and its economic reform. There is widespread support for reforming the legal sector in Indonesia. However, the Indonesian legal system is complex and reform champions within it can be overwhelmed by excessive donor demands.

Given this, Australia has adopted a long-term strategic approach to assistance for this sector. This approach aims to support key institutions, such as the Supreme Court and the National Human Rights Commission, with carefully targeted assistance provided in a coordinated and strategic way through a Legal Development Facility.

The assistance offered builds on relationships established with these institutions over a long period (10 years in the case of the Supreme Court) and provides AusAID with the opportunity to develop a greater understanding of the legal sector, its champions and how best to support reform efforts, while providing practical assistance.

INCREASING PUBLIC SECTOR EFFECTIVENESS

An efficient and effective public service is essential to provide goods and services to the community, without which sustainable development is not possible.

In **Solomon Islands** Australia is supporting a program aimed at improving governance in the post-conflict environment. The

Machinery of Government Program aims to strengthen five elements of governance – the public service, accountability institutions, Cabinet processes, the Parliament and the electoral system.

Assistance through RAMSI – the Regional Assistance Mission to Solomon Islands – will provide advice on possible ways to build capacity within the machinery of government. A Program Advisory Office coordinates efforts and collaboration between donors as well as prioritising and sequencing assistance. It is anticipated that this approach will result in achievable reform targets that address whole-of-government issues for Solomon Islands.

Activities to improve service delivery can be an entry point for governance reform.

In the **Philippines** Australia is working to build the capacity of communities and local government units to provide services to meet community-identified needs. To maximise the impact of the activity, FOCAS – the Focused Community Assistance Scheme – was developed in a cluster of municipalities. The scheme aims to bring together a suite of strategically linked, but separately funded activities to improve livelihoods, increase local appreciation of the community's impact on the environment and improve community advocacy.

The approach adopted involves local government, national government agencies, non-government organisations and the private sector. In each community the parties work together to develop a strategy with priorities for activities, and are responsible for managing and evaluating the scheme. This approach has led to greater cooperation between all parties and stronger community groups, with greater mutual accountability between these groups and local government units.

DEVELOPING CIVIL SOCIETY

The media can be a powerful tool in encouraging more responsive and accountable government.

In **Papua New Guinea** Australia has an initiative aimed at developing the capacity of the PNG media. The initiative is unique in that it involves a charter between the PNG Media Council, the Government of Papua New Guinea and AusAID. Decisions on the scope and focus of the initiative are taken jointly by all partners, and a Management Board comprised of representatives of the three partners oversees the initiative.

The initiative has two components. The first supports activities through a flexible and competitive funding mechanism. These activities focus on four areas – improved program content, rural networks, media research and analysis, and learning and development of media personnel in government, civil society and the media industry. The second component will strengthen the national broadcaster.

STRENGTHENING DEMOCRATIC SYSTEMS

Unstable government with frequent changes in party political allegiance impedes the function of parliament and can stifle development and reform.

In **Vanuatu** Australia supported the workshop on Stable and Effective Parliamentary Governance Forum in May 2005. It was organised by the Centre for Democratic Institutions and brought together 60 participants for two days of training and discussion about parliamentary governance in Vanuatu. Parliamentarians, political staff, public servants, members of community groups and the National Council of Chiefs participated, the aim being to improve their understanding of parliamentary procedures.

All Forum participants agreed that the cost of government changes, floor crossings and party splits had become too high for **Vanuatu** to sustain, and the issue of political reform was raised. Participants gave unanimous support to initiating a process of investigating possible options for such reform.

Embedded democratic processes are essential for effective representation and governance.

In **Africa** Australia is supporting democratisation in a number of countries through the Africa Governance Facility. Support is provided to the Institute for Education in Democracy, based in Kenya, which focuses on strengthening electoral processes and voter education, backed by research and information dissemination.

The Institute for Democracy in South Africa is implementing the Enhancing Democratic Processes program in Africa, which will establish public participation forums and local government centres in nine countries in east and southern Africa. Its aim is to increase citizens' participation in decision-making and to strengthen governance. The program builds on an AusAID-funded project that developed two toolkits for piloting ways in which community service and non-government organisations can participate effectively in legislative governance in the Eastern Cape and Gauteng.

FURTHER INFORMATION AND RESOURCES

RESEARCH AND ADVICE ON GOVERNANCE

www.undp.org/governance

www.transparency.org

www.developmentgateway.com.au

www.worldbank.org

www.adb.org

www.imf.org



MORE INFORMATION ABOUT AUSTRALIAN AID

Further information about the Australian Government's overseas aid program is available online at www.aid.gov.au

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FRONT COVER IMAGE: *The media plays an important role in encouraging responsive and accountable government.*

PHOTO: *Mathias Heng*

BACK COVER IMAGE: *Working inside Parliament.* PHOTO: *AusAID*

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