



Quality Assurance Series  
No. 30 April 2003

# Economic governance and the Asian crisis

## An evaluation of the Australian aid program's response



The Australian Government's  
Overseas Aid Program

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Australian Agency for  
International Development

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## ABBREVIATIONS AND ACRONYMS

ACCC	Australian Consumer and Competition Commission
ACF	Asia Crisis Fund
ACTF	Australian Consultants Trust Fund
ADB	Asian Development Bank
AMCs	Asset Management Corporations
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
ARIC	Asia Recovery Information Centre
ARRF	Asia Recovery and Reform Fund
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
ASIC	Australian Securities and Investment Commission
AusAID	Australian Agency for International Development
BAPPENAS	Badan Perencanaan Pembangunan Nasional (Indonesia's Central Planning Agency)
BIR	Bureau of Internal Review
BPKP	State Audit Agency
CIE	Centre for International Economics
CIMU	Central Independent Monitoring Unit
DANIDA	Danish Agency for Development Assistance
DBM	database management
DECS	Department of Education, Culture and Sports
DOH	Department of Health
FIAS APRO	Foreign Investment Advisory Service, Asia Pacific Regional Office
GDP	gross domestic product
IDLI	International Development Law Institute
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IT	information technology
LTO	Large Taxpayers Office
MIS	management information systems

## Abbreviations and acronyms

NEDA	National Economic Development Authority
NESDB	National Economic and Social Development Board
ODA	overseas development assistance
OECD	Organisation for Economic Cooperation and Development
PECC	Pacific Economic Cooperation Council
SIDA	Swedish International Development Cooperation Agency
SMERU	Social Monitoring and Early Response Unit
SOE	state-owned enterprise
SOMES	strengthening of macroeconomic statistics
TA	technical assistance
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNCTAD	United Nations Conference on Trade and Development
VWU	Vietnam Women's Union
WTO	World Trade Organization

## SUMMARY

Good governance is one of the key ingredients of economic growth, development and poverty alleviation. Australia has the expertise and capacity to deliver substantial beneficial assistance to South-East Asia through governance projects.

### **Governance and the Asia Crisis Fund**

Governance is now widely accepted in South-East Asia as an area for Australian assistance. The emergency response to the Asian financial crisis, particularly through the Asia Crisis Fund (ACF), was timely and helped established AusAID's credentials in this area.

The ACF was established in 1998–99. Initially it was a one-off, one-year fund with a budget of \$6 million but later became a three-year program with funding of \$12 million in 1999–00 and \$6 million in 2000–01 – making a total of \$24 million.

A diverse range of projects were undertaken under the ACF program, reflecting the diverse nature of governance itself. Funding was spread over crisis-hit developing countries in the region, with roughly half the money going to Indonesia in response to the depth of the crisis in that country and the governance challenges it faced.

### **Some challenges in governance projects**

Of some 55 projects undertaken under the ACF over three years, 30 per cent can be judged to have been successful or highly successful and 10 per cent unsuccessful. The remaining 60 per cent could not be judged by the review team. This means that, of those evaluated, 75 per cent were successful, which is in line with AusAID's targets reported to Parliament. The ACF was successful in establishing governance as a focus area of aid and the experience proved valuable.

While the ACF was timely given the crisis, the nature of governance issues means that success in these areas can be judged only over time. Governance projects are generally not suited to an emergency response. Other niche donor agencies such as DANIDA and SIDA take longer term strategic views of governance projects than has been the experience with the ACF. Even though the implication is that AusAID should consider selecting a few relevant areas of governance in each recipient country and concentrate on these for several



years, this does not mean that these longer projects cannot be broken down into several smaller short-term projects. Smaller projects allow progressive donor 'buy-in' or 'test drills' of an area – allowing progressive engagement as successes become apparent and early withdrawal if the experiment does not work. The issue is one of strategic focus.

Some of the most important governance projects are also likely to be politically sensitive – for example, state-owned enterprise reform. In these cases joint projects with strong backing from, say, the World Bank may be necessary for success. Some aspects of success with governance projects are similar to most other aid projects – good design, ownership by the partner government and good people.

The nature of governance projects, combined with contracting out to consultants for delivery, results in a tendency to monitor performance of projects by inputs rather than by outcomes. As difficult as measuring outcomes from improved governance might be, AusAID should move towards such measurement. Some of the projects examined met project-specific objectives but achieved little to improve country-level governance. For many projects it is hard to find evidence that key questions were asked at the outset: 'What is wrong with governance that makes this project necessary and what outcome for better governance can be expected from this project?' Asking these questions affects the mind-set for program designers and should enhance projects through better risk assessments. The long time it takes for governance projects to bear results implies regular but infrequent monitoring.

The overlapping nature and complex causal links in areas of governance make project evaluation dependent on qualitative judgments. In the case of the ACF, the emergency nature of response meant baseline surveys of governance were not available and so the contribution of ACF projects to good governance had to be assessed on their contribution to project-specific outcomes and qualitative judgments of the reviewers.

There is a tendency to believe that governance is just about capacity building in a government department. That is a mistaken view. There is no point in developing capacity to do low priority or negative things. AusAID is a niche donor and tends to leave policy development to the multilateral donors such as the World Bank, but policy failings were behind the crisis, not just the inability to deliver good policy. One ACF project (on Viet Nam's sugar industry) was aimed at policy development. One or two other projects did have a major *indirect* effect on policy through transparency and information, but they seem to have been the exceptions. There is a question about whether AusAID should be more involved in aid projects that also aim to develop policy.

In general, projects that had public disclosure, information and transparency aspects were successful. Projects aimed at enhancing open media are likely to help improve governance.

## Some lessons

To pick good governance projects requires a holistic view of government policy, 'nous' and an appreciation of the prevailing systems and culture in the countries involved. AusAID and its projects would benefit from a widening of in-house expertise in the area of governance.

A common comment on projects that did not go well was that 'more time and better design were needed'. But being able to move quickly was a distinct advantage for AusAID in a couple of cases that had a very high pay-off. Governance projects are risky – like drilling for oil. Even for 'dry holes', the information of where not to drill is important. Good design takes time, so sometimes risks have to be taken with trade-offs. It is not possible to be sure what will work in a particular area of governance and, as the World Bank notes, some experimentation may be necessary along with the courage to drop failed experiments. An implication for evaluation is that the lessons learned and knowledge gained from a failed aid project can also be important.

AusAID should be careful not to set up an internal incentive system that unintentionally biases project managers to risk aversion. One of the strengths of the ACF was that it provided a quick, flexible and innovative mechanism to establish a new focus of aid activity for AusAID.

Regional issues for governance activities will grow as trade and economic integration within the region grows. The people the review team contacted considered restoring growth, not regional governance issues, to be their priority. Nevertheless, there is value in regional activity to raise awareness of governance issues, thereby making bilateral aid development easier. The implication is that the development of regional governance projects may require a pro-active approach.

The bottom line is that good governance matters and will remain important. To do well in providing assistance in this area requires long-term commitment and in-house expertise.

# 1 WHAT THIS REVIEW IS ABOUT

Governance is one of the fundamental building blocks of sustainable development. It is now recognised as such by multilateral aid agencies and forms an integral part of the Australia's development assistance program implemented by AusAID.

The importance of economic governance was highlighted by the Asian financial crisis, which started with the loss of financial confidence in Thailand in 1997. It spread quickly to the Republic of Korea (South Korea), Malaysia, the Philippines, Indonesia and other parts of Asia. The crisis revealed weak financial systems with inadequate financial sector supervision and poor assessment and management of financial risk (IMF 1998). Other weaknesses in governance – such as inadequate bankruptcy and foreclosure laws and social safety net provisions – prevented quick resolution of the problems of banking failures, non-performing loans and inadequate protection for the poor.

Australia responded quickly and substantially to the crisis through several channels to address both the economic and social impacts. Loans were made to governments (under the 1998 amended *International Monetary Agreements Act*), parts of bilateral aid programs were refocused and a special fund, the Asia Crisis Fund (ACF), was established in 1998–99. The primary focus of the ACF was economic governance and it was designed to provide additional support to the existing bilateral and regional aid effort in the region. The experience with this additional support is the primary subject of this review.

The objective of this review is to assess the effectiveness of Australia's response to economic governance issues in the Asian region, particularly in relation to the financial crisis and the ACF, and to identify lessons learned for the delivery of future economic governance programs. (See appendix A for the full terms of reference.) This review is timely as economic governance remains an important component of Australia's aid program.

It is worth noting that the ACF and its economic governance projects do not represent Australia's total response to the financial crisis. It was much broader than this. Also, there are other substantial bilateral aid projects undertaken in the area of governance.

## 1 What this review is about

To evaluate the effectiveness of the ACF and Australia's response to economic governance issues in East Asia, it is important to appreciate three things:

- the evaluation methodology used for this study
- what economic governance is and why it matters, and
- the context of the ACF such as the emergency nature of the fund, the need to provide a timely relevant response to the financial crisis, the acceptability of governance projects by aid recipients, the ability to supply the assistance and what other donors were doing.

The evaluation focuses on seven ACF projects across the Philippines, Indonesia and Thailand plus one regional project as at January 2001. Differences across countries are noted along with outcomes, focus, program delivery, coordination and administration. Finally, major emphasis is given to the lessons learned for the delivery of future economic governance programs.

## 2 METHODOLOGY FOR THIS REVIEW

The objective of the review is to assess the effectiveness of Australia's response to economic governance in the Asian region, particularly during the Asian financial crisis. The purpose is to look for the lessons learned that can be fed into the development of future economic governance programs.

The methodology for the review listed in the terms of reference (appendix A) dictated a combination of a survey of literature on economic governance and consultations in Australia with relevant AusAID bilateral desks and other agencies, and with relevant AusAID posts and counterpart implementing agencies on aid activities. International development agencies were to be contacted as necessary.

Several other factors shaped the methodology for this review. One was that Australia's main response to economic governance issues during the Asian financial crisis – the ACF, which is the focus of this study – comprised some 55 projects either initiated or undertaken over three years, as detailed in chapter 4. This number of projects, and the timing and resources allocated to this review, meant the methodology adopted had two parts.

One part was to evaluate eight projects using field visits to determine the extent to which the projects achieved their objectives and how sustainable the outcomes were. Because eight projects were evaluated, the level of detail in the evaluation results is necessarily less than for an evaluation of a single project. But it is sufficient to allow for the development of thematic lessons for economic governance programs.

The other part was to briefly examine nearly all of the projects initiated under the ACF to gain a 'feel' for the mix, diversity and range of projects undertaken and outcomes achieved. These brief examinations were necessary to ensure that the seven ACF projects reviewed more intensively reflected the range of projects undertaken under the ACF. Also, relying on only the eight projects chosen could have limited the usefulness of any thematic lessons learned as the projects could have been either all successful or all unsuccessful.

The methodology for briefly examining all projects was to list project objectives and outcomes from project documentation and to make a judgment

about each project's success or otherwise in terms of contributing to better economic and social outcomes based on each project's report and interviews with key personnel involved. The summaries of the examinations (see appendix B) therefore reflect the judgments of the reviewers using the available source material in early 2001.

Another factor affecting the methodology adopted was the types of project undertaken and the criteria against which the projects were to be judged. As the AusGUIDELines note:

*... many factors contribute to judging a project's success. The primary factor is the extent to which the project achieved its component and purpose level objectives and the degree to which outcomes are likely to be sustained.*  
(AusAID 2000a)

The projects undertaken were in economic governance. The guidelines state that for economic sector projects 'the effect of the project on the national economy is a major basis for classifying overall performance and success' (AusAID 2000a). The point is also made in the guidelines that, when detailed economic analysis has not been undertaken during design or on completion, it is not normally possible to undertake it later. In these cases the best that can be done is to make a general assessment of the overall economic and social impact from project files, reports and interviews with key people involved locally and in the counterpart country.

Also, the AusAID guidelines on project evaluation note the difficulty of making objective assessments of projects on institutional strengthening (which many projects on economic governance tend to be) unless baseline surveys are conducted and followed up with competency testing. But the speed and severity of the financial crisis required a rapid response and this excluded baseline assessments. Also, having a cohesive program of aid activity in economic governance was new to AusAID, although the organisation had obviously undertaken components of governance activity such as institutional strengthening in the past. Therefore, without detailed analysis during project design or on completion, or baseline surveys of institutional capacity, the conclusions reached are necessarily weighted by the judgments of the reviewers relying on the source material of project reports and interviews with key people.

### 3 GOVERNANCE: WHAT IT IS AND HOW TO ASSESS IT

The renewed emphasis on the essential role that good governance plays in sustainable development came to the fore after repeated evaluations of aid projects. Some aid projects were spectacularly successful, while others were spectacularly unsuccessful. All too often the difference could be explained by the presence or absence of good supporting government policies.

The notion that aid was most effective in countries with good government policies found its expression in conditional loans during the 1980s. Development loans were made to countries on the condition that they introduced good government policies.

But, if good policies are essential for development, why can't various developing country governments see that it is in their own interest to introduce good policies? Perhaps they can. What is an issue is the capability and effectiveness of the state and the capacity of governments to implement change.

The issue of the role of the state and aid effectiveness exercised the minds of many researchers during the 1990s and a seminal piece of work was the World Bank's study, *Assessing Aid: What Works, What Doesn't, and Why* (World Bank 1998).

During this period, further emphasis was given to the role of the state in economic development by the collapse of the former Soviet Union and many central and eastern European states. Then the East Asian miracle – a phrase coined by the World Bank (1993) – collapsed in 1997 in what became known as the Asian financial crisis. That led to the present-day focus on the importance of governance in the Asian region.

Today, the concept of poverty is much broader than just a lack of income and embraces elements of governance such as 'participation' – where every citizen, including the poor, has a voice in the decision-making process. Hence, both social development and economic development are considered necessary to alleviate poverty. Crucial to such development is good governance, which itself is complex because of its many interacting elements.

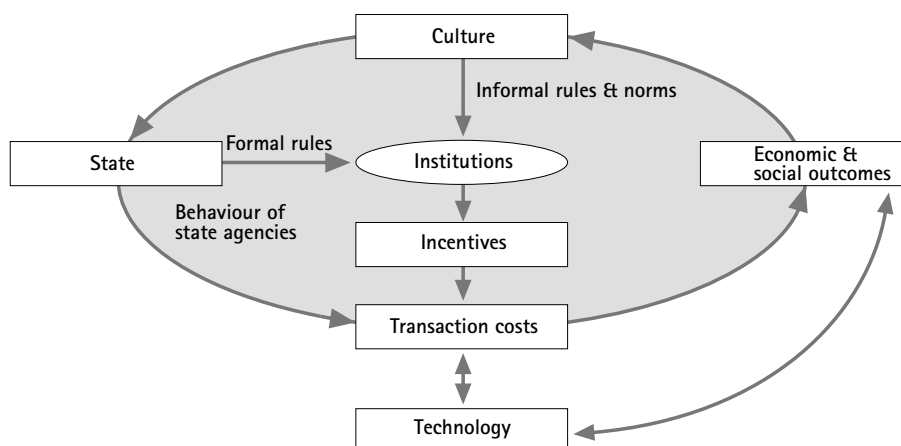
The Simons review of Australia’s overseas aid program (AusAID 1997) has focused Australia’s aid on a single objective: to assist developing countries to reduce poverty through sustainable economic and social development.

## Understanding governance

Understanding what good governance entails is essential if good aid projects on governance are to be chosen and designed. AusAID defines governance as the manner in which power is exercised in the management of a country’s social and economic resources for development (AusAID 2000b). But this one sentence definition hides an important point – that governance is a *dynamic* process.

According to Nobel prize co-winner Douglas North (1990), institutions are central to the way a country is governed. Institutions are the formal and informal rules in society. The formal rules are set by the state through laws and regulations. The informal rules come from the culture, history and experience of each society and are reflected in codes of conduct and belief systems. It is the interaction of the formal and informal rules that determine the institutions in society that shape the incentives people respond to and determine behaviour and therefore outcomes (see figure 1).

Figure 1 Institutions play a central role in economic development and social outcomes





Because each society is unique the economic and social outcomes and hence experiences of each are different. So for each society the best institutional structure will be different. There is no 'one size fits all' – a point emphasised by Leftwich (1994, p. 363): 'It is illusionary to conceive of good governance as independent of the forms of politics and type of state ...'.

In society, economic and social outcomes change through growth, new technology, new rules, new thinking or different policies, leading to change in the 'culture' of a country. That evolution requires more change to rules, which begets yet more change and reform (figure 1). So the *price of prosperity is eternal reform*. (It should be noted that institutions and organisations are different. Organisations, such as government departments, often implement institutional arrangements. For instance, the Australian Taxation Office is an organisation that implements the institutional arrangements of taxation rules.)

Assistance to developing countries is usually most helpful when it increases their capacity to develop and refine their own formal and informal rules. Governance works well when the dynamic processes within a country let institutions evolve so that the formal rules line up with the informal rules and norms. That is where many developing countries fail (North 1990; de Soto 2000).

Innovation can be very important to building institutions that work. The World Bank (2001) makes the point that differences ranging from social norms to geography make it difficult to predetermine initiatives that will work.

Experimentation, which the World Bank (2001) acknowledges has costs that must be recognised, can help to identify new and effective institutions. The bank also notes the necessity to have the courage to drop failing experiments.

The World Bank and the Asian Development Bank (ADB) have distilled four pillars of good governance (box 1). The principles involve transparency, accountability, predictability (the rule of law) and participation. These principles are themselves linked to enable the free flow of low-cost, reliable, understandable and timely information. For example, the participation of every citizen in decision-making processes cannot happen unless there is transparency.

**Box 1 Governance: some terms and principles**

Good governance encompasses many elements and processes. It involves setting good policies, programs and regulations, which then have to be translated into legislation, implemented and enforced. Rules and regulations have to be predictable. They must be clear, known in advance and uniformly and effectively enforced. The capacity of organisations to implement and enforce policies and programs is an issue in itself. The government introducing the policies needs to be accountable to the people through a transparent and participatory process so that refinements to policies and programs can evolve and lead to progress and development over time. The important elements and processes of governance follow.

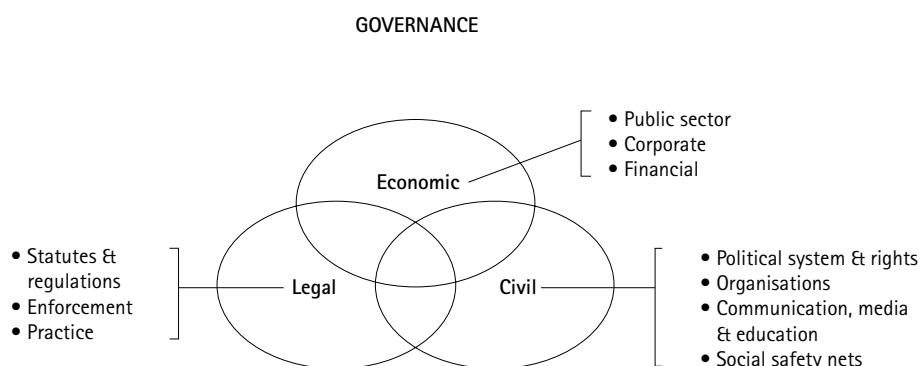
Policies	The objectives or desires set by government.
Legislation	The rules or laws that give effect to the policies.
Institutions	The formal rules (legal) and informal rules (culture, codes of conduct, etc) that determine the incentive structures in society that shape the behaviour of individuals and hence determine outcomes.
Organisations	The groups – either government or non-government – that implement and enforce the policies and rules.
Capacity building	Enhancing the capacity of organisations to discharge their responsibilities in an efficient and effective way.
Predictability	Results primarily from laws and regulations that are clear, known in advance, and uniformly and effectively enforced.
Accountability	The obligation to give answers and explanations covering one's actions and performances to those with a right to require such answers and explanations.
Transparency	The free flow of low-cost information that is understandable, reliable and timely.
Participation	Every citizen having a voice in the decision-making process, including the poor and the vulnerable.

Four of these – **transparency, accountability, predictability and participation** – are what the World Bank and the ADB describe as the four pillars of good governance. They argue that good governance involves three sectors – the state, the private sector and civil society – whose interaction is critical for achieving balanced socioeconomic development and for nation building.

Sources: ADB (1995); CIE; World Bank (2000b).

Governance can also be considered in terms of economic, legal and civil elements (figure 2). Sometimes different elements of governance are featured in an aid program, yet there is an enormous amount of overlap, which makes it difficult to give priority to one over another. For example, bankruptcy laws are clearly part of legal governance. But various credit markets and the economy cannot function well without sound bankruptcy laws, making them essential to economic governance. Another example would be social safety nets, which are part of civil governance. They have a large impact on incentives and hence economic performance.

Figure 2 Elements of governance overlap



The overlap and interaction of elements of governance mean that the real impediments to development can have deep roots. In the Philippines, for example, the lack of capital is not a development constraint (see box 2). It is the lack of clear property rights integrated into the financial system. This is also a factor behind corruption – not just the capacity of the legal system and the number of police – and limited tax collection, which is also influenced by culture, political leadership and commitment.

The solution to such impediments is to align the formal rules with the informal rules or the way society behaves. Both North (1990) and de Soto (2000) noted that it is the formal rules that have to align with the informal rules – not the other way round. Good legislation on its own will not always work if it does not conform to the way society works. And changing culture to fit the formal rules does not work well. Aligning formal rules with informal rules requires legal and regulatory reform and touches on some strong political forces and vested interests that block reform.

**Box 2 Governance issues can have deep roots**

Two problems often cited in the lack of development are corruption and the shortage of capital. But Hernando de Soto finds that even the poor save. The value of their savings is immense and is some forty times all the foreign aid received throughout the world since 1945 (de Soto 2000, p. 5). He finds the poor hold their resources in 'defective forms: houses built on land whose ownership rights are not adequately recorded, unincorporated businesses with undefined liability, industries located where financiers and investors cannot see them' (de Soto 2000, p. 5). The result? These assets cannot be put to use. They cannot be traded outside a limited circle or used to raise a mortgage. The titles – even where they do exist – are outside the integrated legal system with all its bankruptcy laws and so on. De Soto's estimate is that, in the Philippines, 57 per cent of city dwellers and 67 per cent of people in rural areas live in extra-legal dwellings. The value of this real estate is \$133 billion – four times the capitalisation of the 216 domestic companies listed on the Philippines Stock Exchange and 14 times the value of all foreign investment (de Soto 2000, p. 34).

The problem in the Philippines is not a shortage of capital. The problem is that the existing capital is 'dead capital'. The poor are not able to borrow against the limited capital they have because they do not have secure property rights that are integrated into the financial and legal system.

Because the poor are outside the formal legal system, they have to resort to informal rules to settle and protect their property 'rights'. They have to bribe bureaucrats and officials to protect their rights. What then happens to corruption in the country? It is a bigger issue than training more police or prosecutors or building the capacity of the courts. To be effective, agencies directing aid to those areas need to recognise that property rights need to be clearly defined and integrated into the economic system. This could be achieved through institutional building as well as training and capacity building of the courts if the governance issue of corruption is to be effectively addressed.

Source: de Soto (2000).

For AusAID, determining good governance projects and priorities will require some broad assessment of the governance needs of each recipient country. Sometimes this will be available from multilateral donors such as the World Bank. Because governance needs change over time, this baseline assessment will have to be updated from time to time.

## The importance of good governance in Asia

Good governance is multidimensional. It involves policy making (setting objectives), translating those policies into formal rules (passing legislation), and implementing and enforcing those rules (organisational capacity building). It also involves ensuring that outcomes are delivered and monitored, and that policies, rules and organisational capacity are amended to better meet society's demands (accountability, transparency, predictability and participation).

The World Bank (2001, p. 45) notes succinctly that:

*As countries become richer, on average the incidence of income poverty falls. Other indicators of wellbeing, such as average levels of education and health, tend to improve as well. For these reasons, economic growth is a powerful force for poverty reduction.*

But economic growth itself is not one-dimensional. It encompasses good governance as well as investment in physical and social infrastructure such as education. There is always the twin challenge of facilitating private sector development while ensuring that public goods and services are delivered efficiently and equitably. Both of these aspects are complex in themselves, the latter requiring effective mechanisms to intermediate people's demands. Some idea of this complexity can be seen in the latest *World Development Report* by the World Bank (2002), which concentrates on building institutions for markets.

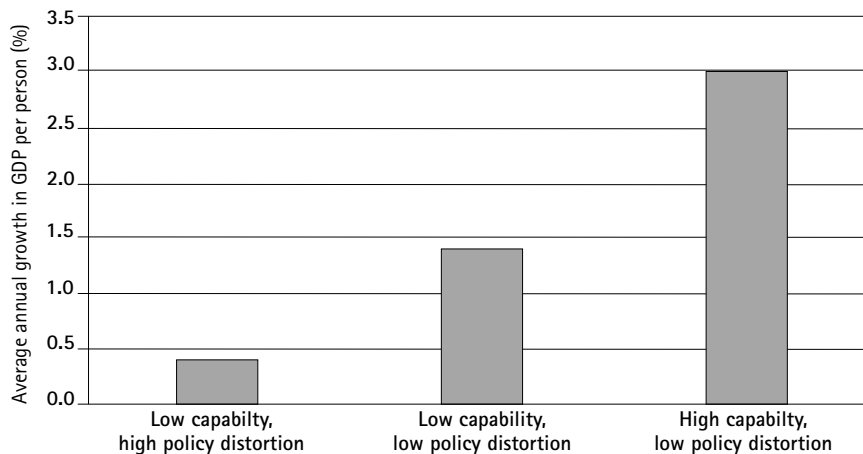
One reason the link between economic growth and poverty reduction has been studied empirically is that economic growth is *relatively* easy to measure compared with some other features of governance (such as the poor's participation in decision-making processes). Even though growth has many elements to it (openness, policies, institutions and infrastructure, for example) and the needs for enhancing different elements vary enormously by country, the empirical link between growth and poverty reduction is worth summarising briefly. AusAID, as part of its portfolio, will have to give priority to governance projects that enhance economic growth if they are to make inroads into their objective of alleviating poverty.

Research by the World Bank (Dollar and Kraay 2000) established the positive link between growth and reductions in poverty. The researchers found that the average income of the poorest fifth of society rises proportionately with the average income of society. That result arises with ‘empirical regularity in a large sample of 92 countries spanning the past four decades’ and they show that ‘it holds across regions, time periods, income levels, and growth rates’ (Dollar and Kraay 2000, p. 1). They also found that several determinants of growth, such as good rules of law, openness to international trade and developed financial markets, benefit the poor as much as everyone else.

The link between strong growth, good economic policy and governments with the capacity to implement that good policy is demonstrated by World Bank (1997) analysis over the period 1964 to 1993. Economies with high institutional capability combined with good policies grew nearly eight times the rate of economies with low capability and bad policies (figure 3).

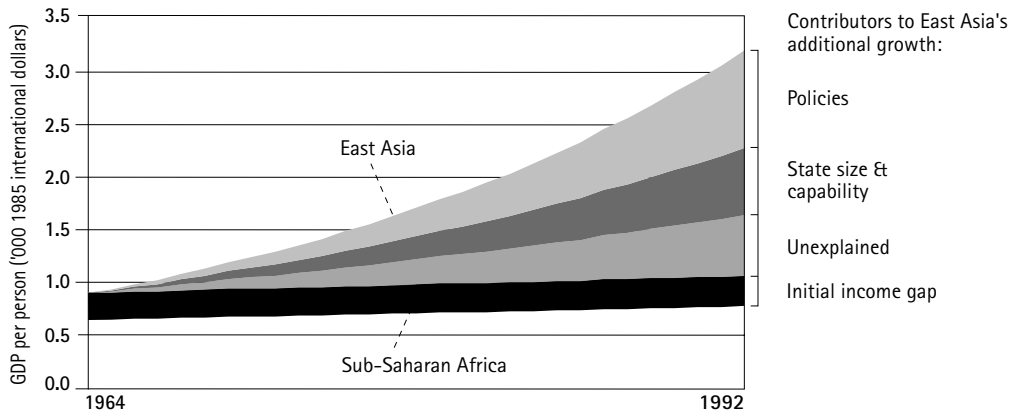
More relevant to East Asia is the research by the World Bank (1997) that shows some 60 per cent of the superior growth performance of East Asia can be explained by better policies and more capacity to deliver those policies (figure 4). Research by the OECD (1999) shows that openness to trade is one of the policies that enhances growth in developing countries (figure 5).

Figure 3 Economies with good economic policy and strong institutional capability grew up to eight times faster between 1964 and 1993



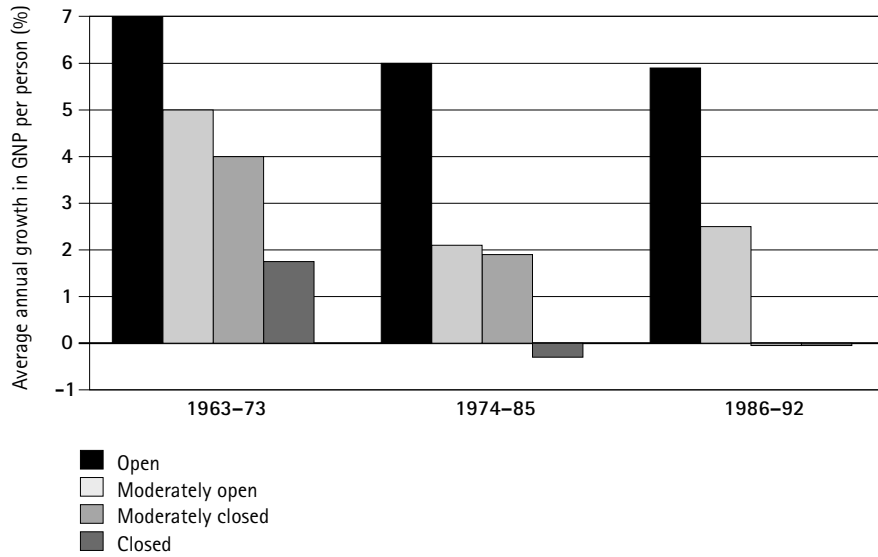
Data source: World Bank (1997).

Figure 4 Better governance helps to explain the income gap between East Asia and Africa



Data source: World Bank (1997).

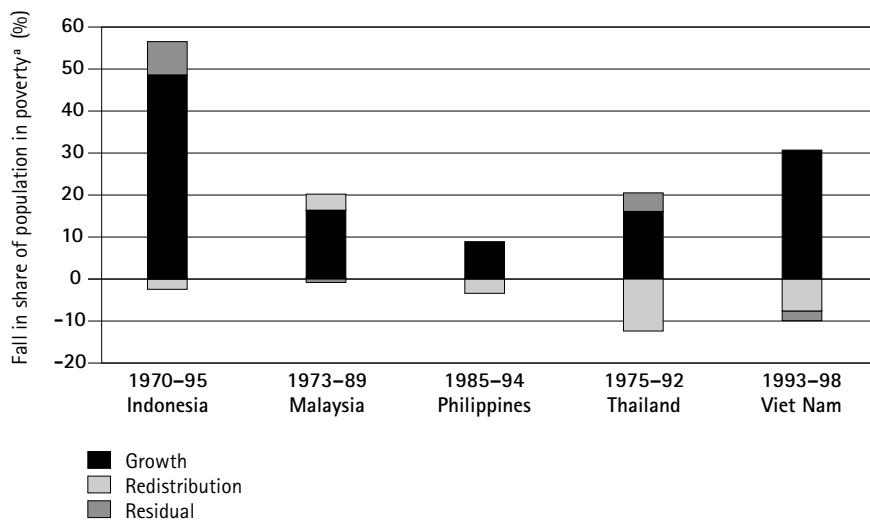
Figure 5 The rewards of openness in developing economies are higher rates of growth



Data source: OECD (1999).

Good governance is also essential for progress in social development. The provision of public health, infrastructure, social amenities and other public goods requires government to intervene either by directly providing the public good or service or by assigning property rights and creating a ‘market’ for private operators (APEC 2000). Important for social development are redistribution policies to alleviate poverty and policies to protect the environment. But World Bank research in East Asia shows that economic growth has been the driving force behind poverty reduction, not redistribution policies (figure 6). The result was an enormous reduction in poverty in East Asia between 1985 and 1995 (figure 7). Even so, there are still over 300 million people in poverty in East Asia and that remains a development challenge.

Figure 6 Growth is the driving force behind poverty reduction

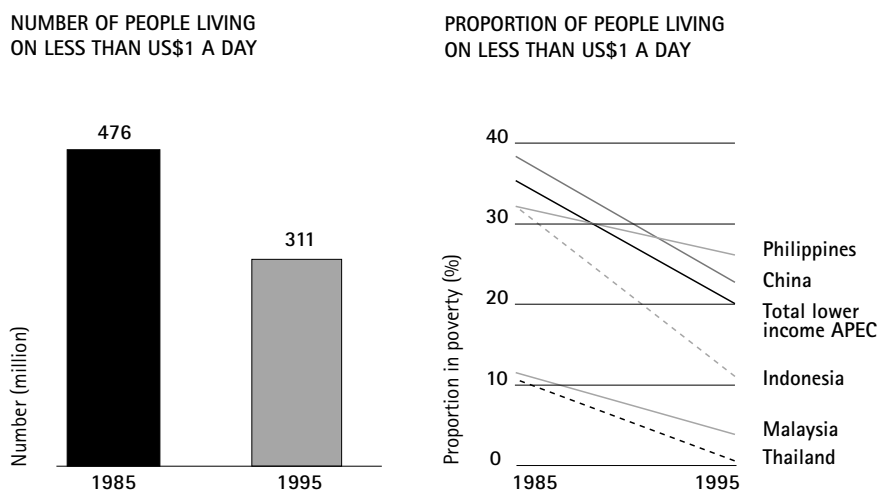


<sup>a</sup> Percentage of population living on less than US\$1 a day.

Source: World Bank (1999).



Figure 7 East Asian APEC members have been alleviating poverty



Data source: Ahuja et al. (1997).

## Understanding of governance needs by East Asian economies

How well do economies hit by the Asian crisis appreciate the importance of governance? Answering this question is central to aid design. If the recipient country does not 'own' the aid assistance, little progress can be made.

Before the financial crisis there was little recognition of the need for good governance in Asia for economic performance. Heady rates of consistent growth even lured the World Bank to believe there was an 'Asian way' and that democracy was not an essential ingredient in performance and development (World Bank 1993).

But civil society has to be involved if the formal rules (the laws and regulations) are to be aligned with what people want and how they want to live. Transparency, open media and democracy are now recognised as valuable 'tools' to gain greater accountability and better policies and regulations. Indeed, one aid project funded out of the ACF (discussed later) was directed at achieving transparency at a local level. It was highly successful in achieving accountability so that the target recipients of the aid received it.

Complacency in the development of better economic governance, especially in banking and finance, was not the *primary cause* of the onset of the financial crisis (McKibbin and Stoeckel 1999). Lack of progress in this area was behind the depth of the downturn, the contagion across the region and the time to recovery (World Bank 2000a).

Prior to the Asian crisis, AusAID had been developing governance as an area for assistance. But the reality was that the recipients of aid in East Asia did not recognise the relevance of governance. Also the natural political sensitivities involved in talks about issues such as corruption meant little aid was given in this area. Indeed, sometimes to get around sensitivities and the singling out of countries, regional programs were developed.

The Asian crisis changed all that. As the former Prime Minister of Thailand, Anand Panyarachun, put it:

*... at the core of our dark experience lies the ugly truth that there was an absence of transparency, accountability, public interest, and public responsibility. (ADB 1998, p. 15)*

Virtually all Asian leaders accepted governance as an area for reform, although it is not clear whether they understood why and precisely what to do to improve governance. But, with the greater acceptance of governance as an area for assistance, even if there was an element of ‘the need to be seen to be doing something in this area’, the time was ripe for a response by Australia that focused on economic governance and the ACF was born.

## **Assessing and designing governance aid projects**

Because governance involves many interrelated and interconnected elements – economic, legal and social, for example – measuring changes in these elements and attributing them to aid activity to evaluate project performance is practically impossible. Because so much is happening at any point in time in a country, it is not possible to attribute changes in economic and social outcomes to aid projects without detailed and sophisticated assessment. This is especially true for a niche aid donor such as AusAID, which makes relatively small contributions compared with agencies such as the World Bank.

What is required, therefore, is an appreciation of why a particular aid project will improve governance in a country and through what channel. An example is given in the following chapters where, under the ACF, aid was given to an agency that did not act in the best interests of the country even though project-specific outcomes were met. When designing the project the following question needed to be addressed: What is wrong with governance in the

country and how can assisting this particular agency help? If the answer had been tested against the principles of governance cited in box 1 (particularly transparency and accountability), the chances are the right agency could have been targeted for assistance, yielding greater positive effects.

Another reason for understanding governance is to avoid the danger of transplanting precepts and norms from one culture on another – a good example being law. Some Western legal constructs do not transplant at all well because of the incongruity with local cultures and with the overall approach to law. A good example can be found in Viet Nam.

A third reason for understanding governance is the need to adopt ‘whole of system’ perspectives when designing aid projects in governance. For example, developing bankruptcy law does not do much good if the courts are dysfunctional. An example is given in chapter 5 of an ACF project in the Philippines that met project-specific objectives but achieved little when assessed from a ‘whole of system’ perspective due to limitations in the court system.

For these reasons, an understanding of what governance is and an understanding of the complex and interrelated elements of the subject have been presented as a precursor to the evaluation of the ACF and predominantly ACF projects.

## 4 THE ASIA CRISIS FUND

The ACF was established in 1998–99 as a one-off, one-year fund with a budget of \$6 million. The intention was to provide a visible and tangible response to the Asian financial crisis and provide additional resources to Australia's aid effort in this area.

The fund was announced by the Minister for Foreign Affairs and Trade in May 1998 and highlighted that emphasis was to be given to providing assistance for economic governance and financial sector reform as well as employment generation.

The initial sum of \$6 million appears small relative to Australia's overall aid effort in the region, but two things need to be borne in mind. First, other assistance to the region was announced at the same time. Indonesia, which was also facing the adverse effects of a drought, received a \$30 million humanitarian assistance package. And Thailand, which was due to 'graduate' from Australia's assistance, received an additional \$10.2 million for 1998–99 and 1999–00 and further assistance past 2000–01. Second, as later learned, official reporting from the region seriously understated the economic and social problems emerging in affected countries. Part of the problem was a lack of reliable data. It was not until many months after the onset of the crisis that the word 'depression' was used by the World Bank to describe the situation.

Initially, when identifying and designing activities for 1998–99, it was clear that the fund was a one-off exercise with no expectation or guarantee for ongoing funding.

Early on, a survey of governance needs and initiatives under way was conducted in the crisis-hit countries of Thailand, Indonesia, the Philippines and South Korea. This exercise (Centre for International Economics 1998) was undertaken as an Asia-Pacific Economic Cooperation (APEC) study and identified the needs of countries in crisis as well as what other donors were doing.

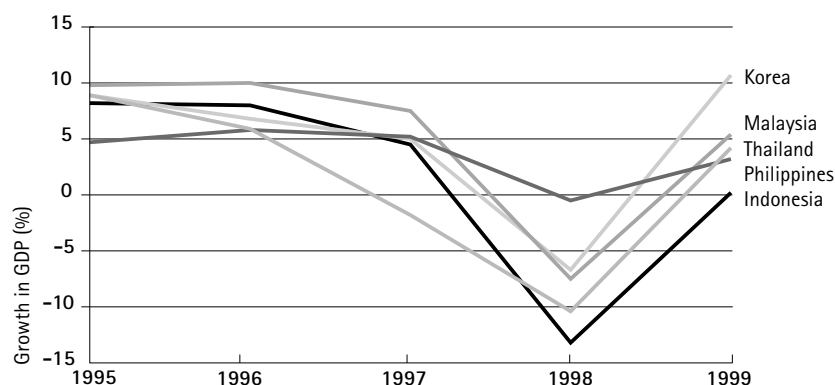
Although this survey did not have any immediate development objectives, it was well received by APEC and could be perceived as a precursor to the Asia Recovery Information Centre (ARIC). Some of the governance needs identified were picked up as part of the ACF. By late 1998 it was apparent that the crisis was worse than earlier anticipated and that the ACF was a useful and flexible instrument to target high-priority, crisis-related capacity-building projects and that it would be worthwhile continuing its funding in 1999–00.

Funding for 1999–00 was \$12 million. Five key objectives were proposed for subsequent funding:

- to deal with systemic problems in the banking/finance sectors
- to strengthen corporate legal, judicial and institutional frameworks
- enhance capacity to liberalise trade and investment
- improve public administration, and
- facilitate effective public policy responses to social impacts.

The region recovered strongly in 1999–00 in what became known as a ‘V’ shaped recovery (figure 8). This rebound led to support for the ACF being reduced to \$6 million in 2000–01 and the program was relabelled as the Asia Recovery and Reform Fund (ARRF).

Figure 8 APEC economies are rebounding from the Asian financial crisis



Data source: IMF (2000).

Of the total funding of \$24 million for the three years, Indonesia received \$12.4 million. A summary of the allocations by country and project is in table 1.

Projects varied enormously by the area of governance and the type and size. The dominant area of activity was in economic governance as indicated in the intention of the program, although several legal and civil studies were undertaken. There was slightly more emphasis on civil governance projects in Indonesia where the social problems from the crisis were more severe and exacerbated by drought. Projects spanned taxation (both systems and software), debt management, bankruptcy reform, state-owned enterprises, insurance and statistics.

Table 1 Allocations from the Asia Crisis Fund<sup>a</sup>, by country and project

	Area of governance	1998-99 A\$'000	1999-00 A\$'000	2000-01 A\$'000	Total A\$'000
<b>Cambodia</b>					
Public expenditure management (health)	Civil	-	280	34	314
FIAS law on investment activity	Legal	-	65	24	89
<i>Subtotal</i>		0	345	58	403
<b>Indonesia</b>					
Statistical software for the Central Bureau of Statistics	Economic	275	-	-	275
Technical assistance review of BAPPENAS information systems	Economic	20	-	-	20
BAPPENAS Padat Karya technical assistance	Economic	97	-	-	97
Bankruptcy reform assistance	Legal	113	-	-	113
Training on government bonds – Ministry of Finance	Economic	27	-	-	27
UNCTAD debt management system	Economic	-	-	376	376
ILO labour-based technology in infrastructure	Economic	349	-	-	349
International Conference on the Indonesia Economic Crisis	Economic	67	-	-	67
State-owned enterprises	Economic	197	-	-	197
International Conference on Bankruptcy Law and Implementation	Legal	210	-	-	210

State Audit Agency (BPKP) technical assistance	Economic	24	-	-	24
World Bank rapid social assessment of poverty programs	Civil	119	-	-	119
World Bank Foreign Investment Advisory Service	Economic	90	-	-	90
World Bank Social Monitoring and Early Response Unit (SMERU)	Civil	815	1 250	-	2 065
Back to school	Civil	-	3 439	-	3 439
Response to crisis basic education	Civil	-	231	-	231
Indonesia ACF activities	Economic	-	1 059	-	1 059
As yet unallocated to projects	Economic	-	-	3 624	3 624
<i>Subtotal</i>		2 403	5 979	4 000	12 382
<b>Laos</b>					
Support of integration into the international trading system	Economic	280	640	-	920
<i>Subtotal</i>		280	640	0	920
<b>Philippines</b>					
Fiscal management & performance monitoring technical assistance (DBM)	Economic	173	-	-	173
Audit enforcement – Bureau of Internal Revenue	Economic	259	-	-	259
Validation of export credit claims	Economic	160	-	-	160
Fiscal management and internal revenue allocation technical assistance	Economic	107	-	-	107
Technical support to WB project (DOH & DECS)	Economic	-	500	-	500
<i>Subtotal</i>		700	500	0	1 200

Table 1 Allocations from the Asia Crisis Fund<sup>a</sup>, by country and project (continued)

	Area of governance			Total A\$'000
	1998-99 A\$'000	1999-00 A\$'000	2000-01 A\$'000	
<b>Thailand</b>				
Financial institutions supervision	130	128	-	258
Strengthening of macroeconomic statistics (SOMES)	180	282	-	462
WB Trust Fund financial rationalisation plan	323	-	-	323
Securities & Exchange Commission: experts	-	155	-	155
IDL1 – Insolvency Law Thailand	-	70	-	70
Public sector reform	-	154	-	154
Insurance technical assistance	-	48	-	48
Crisis Response Grant Scheme	-	186	-	186
Large Taxpayers Office (LTO)	-	136	-	136
<i>Subtotal</i>	633	1 160	0	1 793
<b>Viet Nam</b>				
IFC pilot study of SOE equitisation	1 100	726	165	1 991
Diagnostic audit of state-owned enterprises	200	-	-	200
World Bank sugar study	-	185	-	185
Value added tax – ODA implications	-	102	-	102
VWU micro-enterprise development phase II	-	265	84	349
<i>Subtotal</i>	1 300	1 278	249	2 827



<b>Other (regional)</b>						
APEC economic governance survey	Economic	223	-	-	223	
PECC financial market workshop on economic monitoring & financial sector surveillance	Economic	37	-	-	37	
World Bank Australian Consultants Trust Fund (ACTF)	Economic	542	300	-	842	
ACCC-ASEAN competition policy technical assistance	Economic	-	175	-	175	
Enhancing regulatory regimes in Asia	Economic	-	300	-	300	
IMF-Singapore Training Institute technical assistance	Economic	-	450	-	450	
Treasury OECD insolvency workshop	Economic	-	235	204	439	
ASEAN economic surveillance capacity building	Economic	-	855	-	855	
ASEAN social safety nets	Civil	-	64	263	327	
FIAS APRO	Economic	-	250	-	250	
ASIC corporate governance	Economic	-	41	-	41	
Social protection facility design study	Civil	-	30	48	78	
Regulatory change – life insurance	Economic	-	-	240	240	
Sector strategy/economic governance identification	Economic	-	-	150	150	
East Asia Analytical Unit corporate governance initiative	Economic	-	-	85	85	
Social protection facility	Civil	-	-	500	500	
IDLI trade lawyers course	Legal	-	-	300	300	
<i>Subtotal</i>		802	2 700	1 790	5 292	
<b>Total</b>		<b>6 118</b>	<b>12 602</b>	<b>6 097</b>	<b>24 817</b>	

<sup>a</sup> Known as the Asia Recovery and Reform Fund in 2000-01.

Source: AusAID.

## 5 PROJECT EVALUATIONS

Seven ACF projects and a joint Australia–ADB regional project were identified for in-depth evaluations of the Australian aid program's response to the Asian financial crisis and economic governance needs. The ACF projects were chosen on the basis of the diversity of areas covered across the three countries targeted for field visits.

Since the emphasis of the review was lessons learned, there was a bias towards selecting projects that were initiated early in the program so that the outcomes to be judged were the results of a longer period of activity. The eight projects evaluated were:

- Indonesia:
  - Social Monitoring and Early Response Unit (SMERU)
  - Back to school
  - State Audit Agency (BPKP) technical assistance
- Thailand:
  - Financial institutions supervision – Bank of Thailand
  - Strengthening of macroeconomic statistics – SOMES
- Philippines:
  - Validation of export credit claims
  - Audit enforcement – Bureau of Internal Review
- regional:
  - Asia Recovery Information Centre.

The evaluations involved field visits and interviews with officials of the partner government, the World Bank and the Asian Development Bank, and so are based on information current in January 2001. Details of the people met in Manila, Bangkok and Jakarta are in appendix C.

### Indonesia

#### GOVERNANCE IN INDONESIA

Governance in Indonesia was in a state of flux. Charges of corruption against President Suharto had unsettled the political scene and widespread corruption among the courts and bureaucracy was openly discussed by senior officials inside government and by outside observers. Reform of the legal system,

extensive change in the bureaucracy as well as regulatory reform covering finance and corporate governance were all required. The consequence was that aid agencies were asking where to focus their efforts.

The real problem was that the system of governance under the President was an informal one. Simply, President Suharto was the 'institution' and everything happened with his consent. Without Suharto, public governance was weak. A lot of governance-building activity was required, taking considerable time. But which areas are the most likely to be sustainable and deliver benefits? The three ACF Indonesian projects evaluated, plus the reviews of other projects in appendix B, give some useful lessons for future directions in governance-related aid projects.

## PROJECTS EVALUATED

### *SMERU (Social Monitoring and Early Response Unit)*

#### Background and focus

SMERU was established in October 1988 when Indonesia was in the midst of its financial crisis, which was exacerbated by a crippling drought. At the time there was deep concern within the government, the donor community and others about the social impact of the crisis. The need was for independent, reliable, real-time monitoring of the impacts of the crisis so that policies and programs could be designed to target needy groups. SMERU has focused on measuring the incidence of poverty, labour markets and the effects of social safety net programs.

#### Role of AusAID

A multidonor initiative was set up under the auspices of the World Bank. The main initial donors were AusAID, USAID and Asia-Europe Meeting (ASEM). The World Bank provided the logistical support. Originally the exercise was a project, with AusAID funding just one part – the crisis impact team run by John Maxwell. The focus of this team within SMERU was on employment, health, education and the general effectiveness of a government social safety net.

SMERU is no longer a World Bank 'project'. It is a legal, independent, non-profit organisation under a foundation. One-third of the unit's funding now comes through AusAID, one-third from the Ford Foundation and the remaining third is as yet undetermined, but will come from other independent sources.

### Outcomes and effectiveness

Since its inception, SMERU has produced over 60 reports (nine special reports, 12 working papers, 30 field reports on a variety of topics and 14 reports on deregulation in individual areas). SMERU's reports have been widely distributed to non-government organisations, government agencies, donors and academic institutions, and are available free to the general public. The results of its work and other information about the crisis are also disseminated widely through the SMERU newsletter (with more than 2300 on the mailing list), seminars and workshops. In addition, its reports and other information are available on the SMERU website <<http://www.smeru.or.id>>.

SMERU has been highly effective. Its findings have been timely, useful and injected into policy making. For example, it has looked at how social safety nets such as small-scale credit and rice subsidies to the poor have worked. In these cases, its findings have had major impacts on policy. Its effectiveness comes from a rich mix of good people (including Indonesians), professional timely analysis and independent, transparent findings.

### Funding adequacy and coordination

SMERU seems to have been adequately financed. Indonesian experts have been hired and funded properly from the start. SMERU has plenty of issues to research, such as the decentralisation of government in Indonesia. It does not want to get too big, preferring to remain as a small, integrated unit producing professional reports.

Coordination between aid agencies seems to have been excellent, supported by professional guidance from World Bank staff and good staff at SMERU.

### Success factors and lessons

There are many factors behind the success of SMERU. There was an obvious real demand for its services – all donors and the Indonesians wanted good information on the crisis. There is a very high degree of ownership by the donor community. Another important factor is the competent people engaged – both local and expatriate – to undertake the tasks. SMERU's strength also comes from its ability to combine qualitative analysis with good quantitative field-based studies. Its work is relevant, timely and professional. Also critically important to its success is the independent nature of its work and the transparency of results.

The lessons here are clear: need, ownership, good people, professional timely work, independence and transparency of findings.

To keep this ongoing project successful will mean SMERU has to maintain the relevance of its work program (which is internally generated) and the

professionalism of its work. SMERU's independence is guaranteed now by its legal status and funding from donors, which helps to avoid conflicts of interest. Being independent and outside government, its work can be effective only if it is useful to others and therefore acted on. Hence, if this aid project is to continue to be worthwhile it must ensure that good-quality timely work is produced.

SMERU's success raises questions. What is wrong with statistical collection and analysis within Indonesia's institutions that made SMERU necessary in the first place? If there were deficiencies in the Statistical Bureau in Indonesia and other agencies, are these now being addressed? This line of questioning may point to worthwhile areas for additional governance activities in Indonesia.

### ***Back to school***

#### *Background and focus*

The back-to-school project arose out of deep concern for the impacts of the financial crisis on school attendance by Indonesian children. The education system in Indonesia was weak by world standards, but had been steadily improving. The fear was that these gains would be lost as children were kept at home because parents could not afford to send them to school. This fear was based on the experience in the 1980s when the price of oil collapsed, which caused a mild crisis compared with this financial crisis. The World Bank responded quickly with a US\$600 million loan program that had two components:

- scholarships to help needy children to stay in school, and
- a block grant to help schools.

A total of 4 million school children were targeted. Two requirements of this large loan were that a central independent monitoring unit (later called CIMU) be set up and payments be made 'directly' to children via local post offices. These two conditions were an attempt to 'break the mould' of previous aid flows that showed serious 'leakage', with the result that targeted beneficiaries received little help.

#### *Role of AusAID*

The World Bank, the ADB, the United Nations Children's Fund (UNICEF), Australia and the Government of Indonesia all contributed to this project. Australia was an important partner and its contribution through AusAID was to:

- fund CIMU, and
- fund part of the UNICEF 'Aku Anak Sekolah' (I am a student) program – a campaign to publicise the importance of basic education, the availability of scholarships as well as the right of parents to know how and where the money was allocated and how complaints should be resolved.

### Outcomes and effectiveness

The AusAID components of this project were very successful, especially the independent monitoring through CIMU. There was very little leakage of program funds. Enrolments did not drop as a result of the crisis, but how much of this was due to the scholarships offered and how much due to the publicity campaign is difficult for the program managers to determine. To answer what would have happened in the absence of the program is extremely difficult.

Some World Bank staff questioned the broad-brush nature of the publicity campaign and whether greater relevance could have been given to local radio and print media. But the fact that enrolments in some districts actually went *up* must have meant that the campaign reached some of the targeted poor groups who presumably would have been among those not already going to school. The effects of the publicity campaign were tracked and reports are available. However, this tracking was not used for the design of subsequent publicity.

This project showed just what monitoring can be achieved and for what effect in Indonesia. The exercise is relevant to other social safety net programs such as health. In short, there was a very powerful demonstration effect from the independent monitoring.

### Funding adequacy and coordination

The contributions by Australia were seen to be most helpful to the World Bank's overall program and the UNICEF publicity campaign. Indeed, the UNICEF director declared that the speed and amount of funding through AusAID was very important to the project's timelessness and effectiveness. Had AusAID not been in there, the program would not have started until after the school year began and would not have had the impact that it did.

There was some question as to whether the coordination mechanism with UNICEF could have been better, particularly with regard to different points of view being injected into the debate on the evolution of the program.

AusAID clearly managed to establish a lot of credibility in education with the World Bank and this should help further cooperative work in this area.

### Success factors and lessons

The real lesson from this project is just what independent monitoring can achieve and how powerful the demonstration effect can be. Accountability, audit and compliance were demanded from day one. However, independent monitoring has inadvertently pointed to another issue – the capacity of Indonesia to monitor such programs itself. The Dutch Government has since offered \$30 million of aid to the poorest schools, but insists on independent

monitoring. It would be a mistake for independent monitoring by foreign agencies to become the norm and to crowd out monitoring by Indonesians themselves. Indonesia needs to acquire the skills and institutions to monitor various education or other social safety net programs. The Australian assistance to CIMU – which was located in the same building as the Government of Indonesia’s own monitoring unit – together with efforts under way to strengthen Indonesia’s monitoring capability is the best way to go.

Ultimately, each department (of education, health, etc) needs its own monitoring and evaluation capacity. An inspector-general in the department should sign off on monitoring reports and the independent Auditor-General should report to the Parliament on the performance of the inspectors-general.

Other lessons were that ‘buy-in’ by the government was essential and the ability to act quickly can be very important.

### ***State audit agency (BPKP) technical assistance***

#### Background and focus

The financial crisis highlighted deficiencies in Indonesian governance, including sound public financial management. As part of its assistance in the area of public and private sector accountability, the ADB provided a US\$12 million loan facility to BPKP, the state audit agency, for developing and implementing an institutional strengthening project. The aim was to enhance BPKP performance auditing techniques and public sector accountability systems and to build the capacity of BPKP inspectors-general in the various ministries.

#### Role of AusAID

Australia funded a management team to support the development and implementation of the overall plan, providing \$1.5 million over two years. The project commenced in February 1999 and was due for completion in February 2001. AusAID provided the technical assistance of a long-term adviser and some short-term inputs. In the design of this project, it was assessed that BPKP’s main problems were institutional weakness and a lack of human resources. The project design addressed these issues. However, the problems of BPKP (as seen below) were much more deep-seated.

### Outcomes and effectiveness

The overall outcomes of this project were very limited. BPKP employed some 8000 staff and the training directly affected only 50–70 people. There may be a multiplier of 1:10 so, at best, AusAID's work may affect to some extent up to 700 people.

The project was unlikely to result in substantial improvements to BPKP's institutional capacity. Principal among the reasons for failure to achieve more was that there were delays in the disbursement of the ADB loan. The length and steps for approval were simply not known by BPKP. In a very narrow sense, AusAID's contributions were successful because without them the project would not have got as far as it did. AusAID's component got things going.

Another factor behind the failure of the project was the lack of ownership of the project by the seven or eight people at the top of BPKP. There was a new chairman at BPKP and the organisation was set up by presidential decree under President Suharto with the aim of auditing the public sector and state-owned enterprises.

Compared with the *external* independent auditor, BPPK, the *internal* auditor BPKP did not have the independence or transparency to be a fully effective audit agency. Moreover, there appeared to be too much emphasis on enhancing technical expertise. The real problem was the incentive system. People were paid for only the work they did, so deputies with the greatest budgets controlled the most resources with no incentive to produce a good outcome.

The aim of the project was to provide technical expertise, but this was in competition with the private sector. For example, there was some shift in emphasis to performance management auditing and some successful work was undertaken at a state-owned enterprise. But this work was 'won' in a competitive tender. The expertise to do this was already there. And BPKP, as an internal auditor, had to tread warily.

### Funding adequacy and coordination

This project would not have achieved much without AusAID's contribution and effort. The real problems were not lack of funding; they had to do with the lack of ownership and original conception, and the lack of expertise and efficiency in managing the ADB contribution.

### Success factors and lessons

This failed project highlighted the need to do homework on the organisation being helped. The wrong organisation was targeted with assistance of technical expertise when the real problem was the incentive systems and the nature, role and requirements of auditing in Indonesia.



Working with the ADB can pose challenges, and issues of timing and capacity should be addressed before projects with the ADB commence. In hindsight, a progressive engagement whereby aid dollars were committed only after successful milestones were reached may have resulted in more tangible outcomes.

## Philippines

### GOVERNANCE IN THE PHILIPPINES

The Philippines did not escape the Asian financial crisis, but it was not as badly affected as other East Asian developing countries, partly because it had already been underperforming as an economy relative to others in the region. There were fewer problems caused by speculative investments or 'hot money' being suddenly withdrawn. Nevertheless, the crisis in Thailand had an impact on the Philippines and exposed weaknesses in governance.

Perhaps the main problem with governance in the Philippines was that this country was strongly affected by 'dollar politics' – that is, the use of money to influence politicians. This corruption of due process – either in reality or perception by the public in the Philippines – was part of the reason for the 'grassroots' movement to oust former President Estrada. The remedies most frequently cited by commentators were constitutional change and governance improvement across many areas, especially the creation of an independent, professional judiciary.

Other areas of capacity building in economic governance in the Philippines identified by a 1998 survey of needs in the region (Centre for International Economics 1998) were:

- strengthening systems to maintain fiscal control
- promoting capital market development and strengthening banking regulation and supervision
- raising agricultural productivity as the central pillar of reducing rural poverty
- establishing a more competitive business environment, and
- undertaking strategic planning and training to promote public service reform.

Governance activities by AusAID in the Philippines are now mostly supported through the Philippines–Australia Governance Facility. It formally commenced operation in December 1999. The governance activities funded under the ACF in the Philippines were done so with the Philippines–Australia Short Term Training Program.

Some of the key areas in which the Philippines–Australia Governance Facility provides assistance are:

- continuation of economic, financial and administrative reform processes in the Philippines
- development of pro-poor regulatory frameworks
- development and implementation of sectoral policies for health, education, rural incomes and the environment
- improvements in the administration of justice, civil rights and democratic processes, and
- development of statistical monitoring, and program and project evaluation.

## PROJECTS EVALUATED

### *Validation of export credit claims*

#### Background and focus

The Philippines, like many countries, runs an export credit rebate scheme for duty paid on imports that are later exported as value-added goods.

Import duty, so the reasoning goes, penalises exporters and makes them less competitive than other world suppliers of goods who do not have to pay duty. Hence, the solution generally is to rebate the import duty back to exporters. This process is open to fraud – firms or individuals claim a credit for exports they never made or claim for duties paid on imports they never received. The Deputy Executive Director of the Department of Finance has estimated that this fraud costs revenue of US\$300–500 million a year. In 1998 it was estimated some 40 per cent of issuances were illegal. Many claims were bogus and these fraudulent claims clogged up the system causing large delays for legitimate exporters (up to five years). There were no manuals on procedures, no human resource development, ‘terrible’ file management and a lack of funds and resources to do anything about the problem.

#### Role of AusAID

An AusAID-funded consultant identified solutions that had worked elsewhere in the world and five areas were targeted for capacity building:

- a transparency or tracking system for documents
- a management data control system
- a computerised system to check fake documents
- a document storage and records system that included scanning documents, and
- a validation system to ensure that payments were made.

AusAID contributed \$160 000 to this project under the ACF.

### Outcomes and effectiveness

The AusAID project gave direction to the changes needed. With new management, the agency administering the tax rebate was ready for change. Moving to a process-based system with a number of people checking claims has cut out bogus payments and claims have dropped by 75 per cent. By April 2001 all transactions were encoded on the system and each document given a bar code and scanned into the system so that it could be traced.

The economic significance of the improvements to individual companies is enormous. For example, it is estimated that, for some Japanese export companies operating in Manila, half their working capital was tied up in government claims. The savings to government revenue have been enormous too. But not all of this is national economic gain since much of it is simply a transfer.

### Funding adequacy and coordination

Coordination and cooperation were good from the point of view of the Department of Finance. The limiting factor in implementing change in the agency administering the rebates was the capacity of the department to absorb an enormous amount of change.

### Success factors and lessons

A major lesson from this project was that, to implement rapid change, organisations need strong absorptive capacity. This is not a criticism of the project design since the pace of change was requested by the organisation itself. The Department of Finance was too optimistic.

Much of the success of this project reflects its ownership by the Government of the Philippines – the Department of Finance wanted the change. This desire for change was also assisted by a change of management in the agency administering the import duty rebates. The system implemented is sustainable and new performance appraisal systems have been put in place, but more needs to be done on human resource development to train staff in the new systems.

This project has been successful – at least in the narrow sense of the project's objectives. AusAID has helped an agency perform well, and savings to the budget and exporters have been made. But no one has asked whether the agency is needed at all. Import duties are a burden on exporters and make them uncompetitive, so the government rebates the import duty on imports that are directly used to make exports. Then an agency is required to make and 'police' those payments. But the direct burden of import duties is but a small fraction of the burden on exporters. Import duties on goods that are indirectly used in the production of exports are a far bigger burden. So why not rebate those as well? In other words, why have any import duties?

There is no need for import duties. Import barriers only impoverish the Philippines. Recent research (Stoeckel, Tang and McKibbin 1999) using the most comprehensive modelling of trade, investment and risk, allowing for adjustment costs, shows that if the Philippines removed tariffs its economy would grow some 10 per cent faster than otherwise would be the case. That is an enormous improvement. No other reform or capacity building could come close to yielding that gain. Of course, trade reform is never easy, but the political obstacles can and have been overcome in many other developing countries included in the findings cited in chapter 3. The question remains: are there even more effective governance activities in the trade area that should be considered by AusAID?

### ***Audit enforcement – Bureau of Internal Review***

#### Background and focus

A problem at the Bureau of Internal Review (BIR) was that there was a large amount of leakage from the tax revenue base. In November 1999 a large taxpayer service was set up with special auditors to service large taxpayers and enhance revenue collection by the BIR. The best people within the organisation were selected for the service. However, large taxpayers have computerised accounting systems and the staff at the BIR were not fully computer literate and had difficulties in interrogating the computerised accounts.

Australia responded with a training program. BIR staff needed to be skilled in auditing computerised tax records in order to successfully reduce the incidence of tax evasion by taxpayers using computerised accounting systems.

#### Role of AusAID

A position for a technical adviser was established within BIR Enforcement Services, initially for six months. The consultant worked with a BIR taskforce to undertake a review of current auditing systems and to identify current technical skill levels of personnel in the newly established Enforcement Services and Assessment Services. Specific achievable training strategies were recommended for immediate implementation.

#### Outcomes and effectiveness

A series of training programs on basic computer literacy were held during May and June 1999. The program was designed to give the 100 participants a comprehensive understanding of the software applications Microsoft Word 97 and Ms Excel 97 in a Windows 95/98 environment. To ensure the effective transfer of information and technology, participants were divided into five groups so that the course lecturers were able to closely monitor their performance. The training program was specifically designed on the basis of an earlier assessment to meet the requirements of the participants.

The evaluation of the training program indicated a high level of satisfaction with most components. The participants found the content of both the basic and advanced courses highly relevant. In addition, the participants expressed that the training methodology and the course materials were very effective, well organised and helpful. Additional hands-on experience was requested because some staff felt the training in Microsoft Word and Excel was too easy.

#### Funding adequacy and coordination

Initially, this training was not planned by the National Economic Development Authority. Now, NEDA coordinates the aid to the agency and the coordination is good. The BIR has requested more aid from AusAID for similar training activities, although nothing specific was nominated at the interview.

#### Success factors and lessons

The project achieved its narrow objective of giving BIR staff computer skills. However, it has not been ascertained whether this training has resulted in greater compliance with tax law. According to the BIR, it probably has not. The reason is that the BIR is responsible for only catching tax evaders. Prosecution and, ultimately, compliance with tax law depend on a well-working court system. The BIR openly admits that the court system in the Philippines is corrupt. It may well be that there is little additional revenue to be gained from training BIR tax auditors because of the deficiencies in the court system. If the right question about the economic benefits of this project is asked, it may result in aid being directed to areas where greater benefit could be achieved.

## Thailand

### GOVERNANCE IN THAILAND

At the time of the field visit officials and observers described the process of governance reform in Thailand as 'stalled'. It was too early to see the direction reform may take with (new) President Thaksin.

However, previous constitutional change means that corruption is being tackled at the highest levels of government. Governance issues are discussed openly by officials and there is recognition of the benefits of reform. This augurs well for ongoing governance projects in partnership with the Government of Thailand if it desires reform. The climate is conducive to donor discussions on governance.

Some of the pressing governance issues stem from the need to resolve the banks' problems of large non-performing loans and the need to pursue bankruptcy through the courts. Bankruptcy reform itself needs strengthening. To solve the problem of non-performing loans there is a great need to

strengthen capacities in the Bank of Thailand, the Ministry of Finance, the Ministry of Justice and other key financial agencies.

In 1999 AusAID established a Capacity Building Facility, a flexible mechanism to provide technical assistance to help government agencies to develop and implement economic and social policies. The facility builds on previous governance projects funded by Australia and its initial priorities are:

- the finance and banking sector
- public administration and management
- social sector programs and policy
- natural resource management and the environment, and
- democratic and legal institutions.

## PROJECTS EVALUATED

### *Financial institutions supervision – Bank of Thailand*

#### Background and focus

The Asian financial crisis, which began in Thailand in 1997, highlighted severe shortcomings in the prudential supervision of banks by the Bank of Thailand. Although the bank had a training centre, it did not appreciate the organisational deficiencies until the crisis hit. The style of supervision was the old-fashioned approach of scrutiny of records by surprise.

The aim of this project was therefore to enhance the capacity for prudential supervision and regulation in the Bank of Thailand. This required developing highly specialised skills within the bank. Australian input was technical assistance and training by personnel from the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of Australia. In governance terms, this project was aimed at capacity building to help an organisation implement the institutional rules and regulations governing supervision of financial institutions in Thailand.

#### Role of AusAID

AusAID contributed \$129 500 in 1998–99 and \$128 000 in 1999–00 from the ACF. Some personnel costs were absorbed by APRA and the Reserve Bank, and the Bank of Thailand provided facilities for training courses, and personnel for training and in-Australia placement.

### Outcomes and effectiveness

This project was judged by the Bank of Thailand to be highly successful. There was substantial 'buy-in' of the project by the bank. The project was something it needed and wanted, and it delivered what the bank required. The outcome was more highly trained and skilled personnel within the bank, which helped the management of the financial sector and ultimately led to greater economic stability. Partly in response to this project, the Bank of Thailand's current approach to prudential supervision of banks is to assess the ability of a bank's management to assess, appraise and manage risk appropriately. It now works as a partner with the banks it supervises.

However, the Deputy Governor of the Bank of Thailand indicated there were no estimates of the difference the training made to the performance of the banking system in Thailand or the performance of the economy. To measure this would be very difficult, but that measurement would indicate the overall effectiveness of this project. Over time the effectiveness of the project will become clearer if all objectives are met, which they have been to date (January 2001).

The outcomes of the project are sustainable in the sense that Bank of Thailand staff established a good rapport with staff from APRA and there is no reason to suppose this will not continue. The in-country visits were well received by Bank of Thailand course participants and they felt there was no substitute for face-to-face meetings with practitioners 'on the job'. APRA speakers and staff were judged to be good, with good assignments and case studies being given. Because the Bank of Thailand found the project most worthwhile and was pleased with the delivery by APRA, it is likely that the Bank of Thailand will continue the training.

A couple of minor issues were the length of courses and some participants' command of the English language. It was felt by some that a three-week course may have been better than the two-week course – especially for those not as familiar with the material. Because examiners of banks have only limited English, it is necessary to have Thai language manuals.

The courses were judged by participants to be good on the policy side and they felt they were given international best practice. It also seems that there was substantial change in their mind-set to one of examining bank managers' ability to assess risk and whether they have the right processes in place.

### Funding adequacy and coordination

It was clear from the Bank of Thailand that it would like this project to continue. It believes Australia is well placed to provide the expertise it needs. For example, Australia and Thailand have similarly structured financial sectors and, as APRA is relatively new, it has recently faced similar issues to those of the Bank of Thailand.

As expected, coordination between APRA and the bank has been excellent and the cooperative spirit between these two organisations has helped. One administrative problem occurred early in the project when prior approval from the Department of Technical and Economic Coordination was not obtained for Bank of Thailand staff to travel to Australia.

Coordination with staff in the Financial Corporation Section of the World Bank's Bangkok office was good, with senior staff being complimentary of AusAID's help to Thailand on financial regulation. Australia was able to respond quickly to needs.

#### Success factors and lessons

The factors behind this very successful project were the 'buy-in' by the Bank of Thailand and the cooperation and professionalism of staff at APRA. Another finding is that the visits to Australia were particularly helpful, allowing very good contacts to be made. Being able to respond quickly was an advantage early in the project.

Australia has expertise in the area of financial regulations and this project has focused on this area of expertise.

Future work may be in extending financial regulations to cover other aspects in the financial sector. As banks in Thailand move into other areas such as insurance and credit cards, the need for regulation in these areas becomes critical. Several insurance products can provide market-based social safety nets such as accident and sickness benefits and income protection.

### ***Strengthening of macroeconomic statistics – SOMES***

#### Background and focus

The financial crisis in Thailand meant that policy makers needed real-time up-to-date statistics on the country's economy. The crisis quickly highlighted deficiencies in this area. Early assistance by the International Monetary Fund and complementary World Bank loans focused on the need for better, more up-to-date macroeconomic statistics. The statistical agencies in Thailand recognised this too, which led to high ownership of this project by the Government of Thailand.

The aim of the SOMES project was to improve the reliability, comprehensiveness and timeliness of statistics production. This project was undertaken with the National Economic and Social Development Board (NESDB), the Bank of Thailand and the National Statistical Office (NSO). They were assisted in five areas:



- quarterly national accounts (NESDB)
- systems of standardised national accounts (NESDB)
- flow of funds (NESDB)
- foreign direct investment (Bank of Thailand), and
- enhancing skills for statistical analysis (NSO).

Assistance was provided by specialist advisers on short-term visits from the Australian Bureau of Statistics and a number of work attachments with the bureau by the three counterpart agencies (NESDB, Bank of Thailand and NSO). Improving Thailand's national account statistics, especially the development of quarterly national accounts, had the highest priority.

#### Role of AusAID

AusAID's role was to design, develop and manage the project in partnership with the three counterparts. The project, which began in mid-1999 and had a total cost of \$480 000, received ACF funding of \$282 500 over 18 months.

#### Outcomes and effectiveness

This project had good outputs, but was not easy to implement. Coordination among the agencies was poor, as was the capacity of these organisations to absorb change. To date (January 2001) the quarterly national accounts have been changed to better, survey-based estimates, an important part of the NSO core mandate. Still to be improved, however, are the quality of the estimates, their reliability and the statistical methodology. The monetary policy division of the Bank of Thailand relies on these estimates.

#### Funding adequacy and coordination

A difficulty implementing this project was overall coordination of economic statistical collections and analysis in Thailand. The problem was the decentralised system of statistical responsibility. The NSO should have been the central organisation for coordination and Thailand law reflects this. But agencies such as NESDB and the Bank of Thailand often did their own data collection. So, for example, if the Governor of the Bank of Thailand wanted a survey of external debt, the normal procedure would be to go to the NSO for approval. However, this did not happen. The weak point in the whole collection and compilation of national statistics was that surveys were done and statistics produced without NSO approval. Consistency and quality were therefore in question. This problem related to all statistical collections.

This lack of consistency and quality led to another problem of overall statistical collection. There is often a very low response rate from the vast number of small firms operating in Thailand. Inconsistent and numerous approaches to small firms for data lead to low-quality results, which leads to a low response rate.

### Success factors and lessons

Expertise provided by the Australian Bureau of Statistics was good, but the agencies asked why they did not have a long-term adviser. They argued that coordination would have been better. A long-term adviser is being considered in a possible second phase of assistance.

The ability of the organisations to absorb change and the coordination problems hampered this project's implementation. But over time these issues were addressed and it is likely the project's aims will be realised. Therefore, in time, this project is likely to be a success.

The Thai participants who came to Australia commented that the visits had a big impact on changing their thinking about statistical collections and methodologies for estimation. The trainees asserted that, 'It has enabled them to think "outside the box" and not to get distracted by their own on-line jobs at home'. In other words, they were open to improved methodologies and techniques to enhance the quality of the data they produce.

Many improvements in statistical collection are yet to be made in Thailand, particularly in the area of chain volume measures, retail data and a system for coordinating common data. One area where help is needed is in coordinating statistics between agencies to improve data. Some other areas for improving statistical collection are already being explored for a possible second phase of the project.

## Regional

### *Asia Recovery Information Centre (ARIC)*

#### Background and focus

In March 1999, following the Asian financial crisis, an Australian initiative was to host a meeting in Sydney to discuss development cooperation. Representatives from 27 countries and nine organisations attended. High priority was given to the need for accurate and timely information on the economic and social impacts of the crisis and progress towards recovery. It was agreed that one way to obtain this information was with an internet-based facility and ARIC was conceived. The objectives of ARIC are to:

- monitor the Asian economic and social impacts of the crisis and the recovery
- provide coordinating information on the responses by the donor community and civil society, and
- monitor and contribute to ongoing policy reform.

Initial coverage was for the five most affected countries: Indonesia, South Korea, Malaysia, the Philippines and Thailand.

#### Role of AusAID

AusAID funds ARIC, but the ADB is responsible for the technical development and management of the site. The cost of the facility is US\$1 million a year. The internet site was launched in November 1999.

#### Outcomes and effectiveness

The site provides a clearing house for information. Information on the site is gleaned from other sites around the world, so the reliability of information is only as good as that on source websites.

The website has had favourable reviews from groups such as *Forbes Magazine*. Tracking reveals the site is visited regularly and access to the statistical indicators has proved very popular as have the social recovery topics.

ARIC may receive 500 hits a day when there is an update. Other times – for example, when the latest edition of *East Asia Recovery Report* is released – there are 10 000 downloads in a week.

While the number of ‘hits’ and downloads to the site is impressive, there is still no indication of the effectiveness of the site to the welfare of Asian economies. When this field review was undertaken, no one outside the ARIC team who was contacted had used or visited the site. ARIC is reviewed periodically and some repositioning has occurred to ensure it is a useful tool over the medium term. AusAID has gone to some length to involve a range of stakeholders in decision-making to try to ensure ARIC’s relevance in a dynamic area. The right processes seem to be in place to ensure that ARIC evolves as a useful and relevant instrument.

The World Bank representative who was interviewed commented on the site, noting ARIC had done a good job, and regarded the clearing house nature of the website a core activity.

#### Funding adequacy and coordination

Funding has been sufficient to get a high-quality internet site operating in a technical sense. Once technical competence is achieved, funding effectiveness revolves around economic benefits. If the site is highly beneficial in an aid sense, with a large internal rate of return, it should be extended. If the project is beneficial in a more commercial sense, it might suggest alternative funding could be sourced. The ongoing reviews by AusAID and ARIC will address the future funding issue in more depth.

#### Success factors and lessons

ARIC seems more beneficial as a clearing house than as a coordinating mechanism for aid. Aid agencies do not always have an incentive to share information about their projects, especially in the development and design stage. Aid agencies are under pressure to deliver good projects. So why would they give these away to other donors only to see them 'snapped up'?

The fundamental question remains: who uses the site and why? Besides acting as a clearing house for information and the indirect benefits that confers, does it add any value to recovery in the region? These are important questions that are being examined in the ongoing assessment of the program.

## 6 OVERALL EVALUATION OF PROGRAM AND ECONOMIC GOVERNANCE

Here, we draw on the lessons from all ACF projects initiated or undertaken during the three years 1998–99 to 2000–01 and from ARIC. The lessons relate to outcomes, focus, delivery of the programs, coordination with other donors, the experience with partner government participation and Australian providers, as well as the responsibilities within AusAID.

### Outcomes of aid activities

The methodology and criteria for judging the success of projects in this review are discussed in chapter 2 and the difficulties in evaluating governance noted. The caveats made regarding reliance on judgments need to be borne in mind when making an overall evaluation such as this.

Of some 55 projects initiated or undertaken under the ACF over the three years (some 'projects' were in fact multiple small activities), roughly 30 per cent can be judged as either successful or highly successful. Ten per cent can be deemed unsuccessful but, as will be discussed, even these provided valuable lessons.

For the remaining 60 per cent of projects, it is not possible to be categorical about the degree of success without an enormous amount of work. The reason for this large proportion is that it is extremely difficult to measure what is a successful outcome from a governance project. The long lead times in governance projects mean that outcomes may occur some years later. For example, in Viet Nam some of the projects on reforming state-owned enterprises (which have, so far, not met with complete success when measured against all project objectives) might well turn out in five years time to have been a success. As an example, in the Viet Nam state-owned enterprise project, even though to date (January 2001) an auction in Haiphong has not occurred as intended, the project has clarified an array of policy and practical issues, and established a procedural framework for auctions in Dak Lak province.

In another cases, it is hard to judge success as the projects were delayed, albeit for good reason (such as the inability of the partner agency to manage change). In some cases, reviews by other organisations such as the International Labour Organization are still pending (as at January 2001).

Even in cases where projects were not successful in meeting their stated aims, the ACF projects generated valuable information. Aid projects are risky – like drilling for oil – but even the ‘dry holes’ convey some important information. The ACF was an emergency response in an area that partner governments had not previously accepted as an explicit area of aid. The ACF enabled AusAID to establish Australia’s credibility as a valuable donor in the important area of governance.

The difficulty in measuring outcomes from governance projects raises some powerful issues. Hard-to-measure outcomes combined with the need to monitor inputs to projects delivered by consultants mean that program monitoring tends to focus on the input side rather than outcomes.

Measuring outcomes, or at least asking the question ‘what are the expected outcomes’, focuses attention on the broader question ‘what is wrong with governance in the country or organisation’. A good example of the importance of addressing this question is the project that provided technical assistance for training auditors in the Bureau of Internal Review in the Philippines. On an inputs basis, and even on the basis of its purpose, this project was successful. The people were trained and the technical assistance was delivered. But the ultimate reason for the training was to increase taxation revenue collected by the government and a fairer and more efficient tax system. Has this occurred? As yet (January 2001) no evaluation of that outcome is possible. The answer is probably ‘no’, because the BIR is the organisation that catches tax evaders; it is up to the courts to do the prosecuting. The BIR alleges that the courts as they currently operate are corrupt and not working well. Hence, for the BIR project to be successful from an economic outcomes viewpoint, some improved capacity building of the court system is also needed. The value of looking at outcomes is as much in the question as it is in the answer. Posing the right question puts the right perspective on a project and assists in risk assessment.

Many of the factors contributing to the success of ACF projects come as no surprise. Even so, these factors are worth repeating because they reinforce points made previously. Successful projects rely on ownership by the partner government whereby a clear need is met. Successful projects are also based on good design as well as good implementers.

One trade-off that was apparent, however, was between good design and speed. Good design takes time. The speed with which the crisis developed and the emergency nature of the response required meant that for many ACF projects there was little time for design. Speedy response, however, was clearly a success factor in some projects, particularly those in Thailand and Indonesia. AusAID was able to move much more quickly than UNICEF. Indeed without AusAID’s rapid response, the successful back-to-school project in Indonesia

may not have even got under way in that school year and the entire program would have been jeopardised.

Regarding sustainability, many of the projects have continued under bilateral programs. And many projects have also led to lasting relationships being developed between Australian agencies supplying the technical assistance and those receiving it, such as the Bank of Thailand's relationship with APRA developed during the financial supervision project.

## Focus

The ACF was established to deal with issues of governance, particularly economic governance. Notwithstanding the comments in chapter 3 about the difficulty of classifying a project to one area of governance or another, it seems as though some 90 per cent of projects were in the economic governance area. Five projects related more to legal governance and eight related to civil governance, particularly social safety nets.

In Indonesia, more projects targeted social safety nets. This emphasis is understandable given the large social crisis that emerged in that country because the impact of the financial crisis was exacerbated by the very severe drought. In the Philippines, more emphasis was given to training exercises, which largely reflects the use of the Philippines–Australia Short Term Training Program to implement ACF governance projects.

There was really little choice in the focus of the program and the selection of projects. AusAID wanted to avoid any overlap with the many other bilateral and multilateral donors in the region supporting governance. It also needed to find projects quickly in which there was also some ownership by the partner government. And Australia's ability to supply 'aid services' at short notice meant that there was a very small set of projects from which to select. Even with hindsight, it probably would not have been possible to design a more appropriate balance of projects. Because governance was a new area of focus in program aid, it was appropriate to develop a large, diversified portfolio of projects.

For Australia, a niche aid donor with limited resources, focus is a real issue. While it is likely that the best pay-off will be from concentrating on just one or two areas of governance in each partner country, there is also merit in being opportunistic and choosing select governance projects as they arise. Also, while there are worthwhile short-term projects in governance that can be undertaken, governance is a long-term issue and needs a long-term (several years) commitment of resources focused on achieving a particular end. The limited evidence from the ACF seems to indicate that concentrating resources and

effort in an area and being very good at what is required pays dividends, as in the case of the financial supervision project with the Bank of Thailand. Australia has established a track record here with substantial buy-in by the Bank of Thailand. The project is evolving into financial supervision of other broader areas such as insurance.

Looking to the future focus of governance programs in the region, the following observations from the ACF are germane. Financial supervision is going to be an area of reform for some time yet. In January 2001 the banking systems were still 'near crisis' with either high non-performing loans on their books or defunct assets still being 'worked out' through asset management corporations. Financial reform occupies the agenda of other regional organisations such as APEC, and international agencies such as the OECD are playing various roles in this reform. Capacity-building demands will be high in this area. Insurance markets are still rudimentary in the region and the regulation and supervision of these markets have obvious links to financial market supervision. The development of insurance markets offers an important element of civil governance: market-based social safety nets. Income protection, accident insurance and sickness benefits are all potential components of social safety nets in developing countries and assistance in insurance may be an area where Australia could help. Whether Australia has expertise in the area of insurance regulation needs to be carefully evaluated.

The difficulty of finding an appropriate balance in governance activities to undertake in Indonesia was noted in the previous chapter. The flux in Indonesia's governance situation means that it is difficult to ascertain where the high pay-off areas will be. However, one activity that did work well in Indonesia was promoting transparency. Both SMERU and the back-to-school project involved large amounts of information and transparency and both projects worked well. In Indonesia today, one of the areas of governance that is working is civil society – that is, open media – and, so far, democracy has taken root. Projects that foster transparency and good journalism could prove beneficial in Indonesia in the interim and longer term.

## **Program delivery**

The funding for program delivery seemed adequate and added resources to areas needing attention. The task was really one of finding worthwhile projects rather than having to ration scarce funds among many competing claims. The reasons were noted earlier. The rapid onset and spread of the crisis, the need for ownership and the activities of other donors meant it was not easy to find and develop good projects in the nominated areas.



The real issue with the delivery of programs in the area of governance is in designing performance measures by which performance can be monitored and evaluated. As noted previously, there are several difficulties with measuring outcomes in the area of governance – the definition of governance is poorly developed, governance projects have a long gestation, and at a time of crisis there are so many things going on that it is very difficult to attribute an outcome to a particular reform or a capacity-building initiative.

The lesson is that there has to be a broad appreciation of what the governance issue is and the right questions need to be asked so that the right projects are designed and right aid programs delivered.

### **Coordination of AusAID programs and other donors**

Several of the ACF projects involved considerable coordination with other agencies and donors – the World Bank, the ADB, the International Labour Organization and UNICEF.

In some cases, such as in the back-to-school program in Indonesia, the World Bank led the coordination and AusAID funded a substantial portion of the work of the overall program. In that particular case, the program helped to establish the credentials of AusAID as an agency capable of delivering valuable assistance in education.

Some difficulties were experienced in coordination with the ADB, however. This was mostly attributable to the lack of technical ADB staff in partner countries. Where coordination did work well, it often reflected the ability of the people concerned.

Two of the ACF projects undertaken by AusAID directly contributed to coordination. One involved a survey of governance requirements in APEC members hit by the Asian financial crisis. This project was a precursor to the implementation of the broader ACF program. The survey itself, intended as a coordinating tool, led to another project. That project was the development of the Asia Recovery Information Centre, the web-based facility run by the ADB, but funded by AusAID. However, as was noted earlier, the coordination role of ARIC has not worked as well as its role as a clearing house of information.

## **Partner government participation**

The rapid development of the financial crisis and the realisation that good governance was a priority meant that partner governments became more amenable to undertaking activities that focused on fundamental issues of governance and reform. Traditional coordinating agencies for foreign aid were not heavily involved with ACF activities because they did not have the expertise to evaluate governance projects. Also, the rapid response and flexibility of the ACF allowed projects to be undertaken in consultation with governments, but outside the formal bilateral aid mechanism and in addition to bilateral funds 'earmarked' for particular projects.

ACF projects tended to be more successful when there was ownership by the partner or target agency.

## **Australian service providers**

A wide range of Australian service providers were used to help deliver ACF projects. Key agencies that contributed successfully and with good coordination were the Australian Prudential Regulation Authority, the Australian Bureau of Statistics, the Treasury and the Australian Securities and Investment Commission. For some government agencies, however, the extra demands of assisting a foreign country were a substantial burden. If Australia is to continue providing governance support, Australian government agencies should factor the potential extra resource demands into their own work programs and budgetary requirements.

## **Responsibilities within AusAID**

AusAID posts were heavily involved in preparing the ACF projects. The emergency nature of the initial response to the Asian financial crisis and its rapid spread placed additional pressure on the posts that was difficult to manage and placed pressure on relationships with partner governments.

Since that time, AusAID has established governance facilities to undertake projects in Thailand, the Philippines and Indonesia to address aid programs in the area of governance. These facilities – which are outside the scope of this review – offer a flexible mechanism to respond to new issues of governance while taking advantage of the well-established rapport with partner governments.

## 7 LESSONS FOR AUSAID

When looked at as projects to aid recovery and development, some ACF projects were highly successful, some were unsuccessful and a large number either could not have their impacts assessed or were too difficult to assess, even with hindsight. But a crisis is never a neat situation. The ACF was an opportunistic response to establish governance as an area of aid in recipient countries following the crisis experience.

### Context

The ACF provided quick assistance in the aftermath of the crisis to the more willing recipients. It provided a 'pilot' program and kick started governance as an area of major aid activity for AusAID.

Even so, there was an inherent risk to establishing a fund for a short term (one year initially) in the area of economic governance. Improving economic governance by its nature is long term and, in hindsight, had it been known the crisis would be as deep and the program extended to three years, more dedicated resources could have been allocated at the start to support management of the fund.

Technical assistance in governance can give big leverage and potentially big returns to income and poverty alleviation in recipient countries. The lack of good governance cost crisis-affected countries dearly and the challenge of improving governance to enhance development will remain for years to come.

### Lessons on governance

The ACF experience demonstrated several things.

- Aid projects that aim to make a difference in the area of governance inevitably touch on politically sensitive areas. Alliances with a multilateral aid agency may reduce the risks associated with this sensitivity.
- Reform is never easy and usually happens because a small group of key reformers have the courage to push ahead to implement reforms that are often unpopular. Finding and supporting these people is important to ensure that the reforms are sustainable in the longer term.

- By its very nature, improving governance is a long-term process. Governance aid programs therefore need to be significant and sustained for, say, five years. Institutional development requires a long-term commitment by all parties: the donor, the implementing agency and the recipient.
- Because governance projects must be long term and many other related things can change in that time, these projects often have hard-to-define outcomes. Monitoring and evaluating the success of projects in this area is a challenge.
- The success of aid projects on institutional building should not be judged solely on their objectives. A project judged a failure on the basis of its objectives might prove to be valuable because of the knowledge gained about the challenges of governance in a particular country.
- The World Bank and the ADB have significant expertise and good leverage in the area of governance. Alliances with these agencies while mobilising Australian expertise should be worthwhile. Coordination and timeliness of action need to be factored into any assessment of in-country technical skills.
- Governance projects need to incorporate training on cultural and institutional issues. This training should be tailored to specific social and organisational contexts. Regional forums can play a role in increasing awareness of new issues of governance and in increasing information exchange.

## Lessons from projects

Some lessons come as no surprise.

- Ownership by the host government is as important as good project design.
- The human resource skills and technical capability in trainers and trainees make a difference to the success of a project.
- Sustainability is a key issue. Too often the recipient government fails to commit resources to sustain the reforms of system changes. There is a concern about donor dependency. Under the ACF many projects will be sustainable because excellent working relationships have been established with service suppliers from Australia.
- Politically sensitive projects are risky, so risk minimisation strategies are needed (such as tying in closely with a World Bank program where there is strong commitment and policy framework for reform). Those projects with a high statistical, information and transparency content were successful. By contrast, those projects in state-owned enterprises ran into political trouble and were largely unsuccessful.
- There are problems of donor coordination that are not being solved by ARIC because donors do not want to fully disclose their pipeline projects.

## Lessons on the supply of Australian expertise

Australia has expertise in some areas of governance. Statistics, transparency, audit, tax, finance, corporate governance, trade, investment and privatisation are all areas in which Australia has expertise that should be ‘transferable’ to recipient countries.

## Future directions in support for governance

Because projects on transparency, monitoring and provision of information were successful these should be encouraged. Projects that train journalists and encourage open media are likely to strengthen governance. (The relatively open media in Indonesia today are probably the best performing part of governance in that country.) By contrast, projects on reforming state-owned enterprises will remain political as long as the chief executive officer or equivalent is appointed by the government. Due weight should be given to this fact in risk assessments.

The important role that insurance markets can play in social safety nets and the need for financial supervision mean that projects in the area of financial–insurance regulation could have high pay-offs, provided appropriate expertise is available from Australia.

Training within AusAID to develop a greater understanding of the institutional rules and the interconnections of incentives involved in governance is essential if the right projects are to be designed and implemented. One ACF project – the assistance to the internal auditor in Indonesia – helped to build capacity in probably the wrong agency; it may have been better to channel funds to the external auditor rather than the internal auditor.

Regional issues for governance activities will grow as trade and economic integration within the region grows. All people interviewed as part of this review considered that regional governance issues did not loom large at the moment – the priority being to get the economies growing strongly. The implication is that regional governance projects may require a proactive approach in the short term. Regional activities can be most useful in raising awareness of the interrelationship of governance frameworks and the dependencies that effect good governance where trade and other links between countries are concerned.

# APPENDIX A

## TERMS OF REFERENCE

### Introduction

Governance is one of the key result areas of the Australian Government's overseas aid program and is a focus of AusAID's regional and bilateral programs. The importance of governance issues, particularly economic governance, was highlighted during the Asian financial crisis.

The Asian crisis highlighted some systemic shortcomings in the prudential regulation of the corporate sector in the region, particularly the banking sector. Many economies were highly vulnerable to speculative investments and capital movements. The loss of investor confidence in Thailand in 1997 quickly spread to South Korea, Malaysia, the Philippines and Indonesia. The result was the Asian financial crisis.

The international community responded with substantial financial assistance to help countries worst affected by the crisis. Australia responded quickly and substantially through its overseas aid program to address both the economic and social impacts.

The Australian Government established the ACF in 1998–99 with a budget of \$6 million as a major initiative in response to the East Asian financial crisis. The ACF complemented aid responses under bilateral programs, both in terms of providing additional funds and in responding at a regional level. In 1999–2000, the allocation was increased to \$12 million. The ACF has been replaced with a \$6 million ARRF in 2000–01 in recognition and support of the recovery process.

The Australian Prime Minister announced a three year (1998–2001) \$50 million Economic and Financial Management Initiative at the APEC Leaders Meeting in Kuala Lumpur in November 1998. The initiative targets priority economic governance needs identified by a survey of most affected countries commissioned by AusAID in mid-1998. The ACF formed the basis of regional activities supported under this initiative. Other activities were funded by bilateral programs.

## Asia Crisis Fund response

The Australian Government's aid response to the crisis focused on the systemic economic governance issue in the region, through both the ACF and bilateral programs. The ACF targeted priority countries under the Australian aid program affected by the crisis, namely Indonesia, Thailand and the Philippines. It gave priority to Indonesia; \$6 million of the \$12 million allocation in 1999–2000 was directed to Indonesia. It did not exclude other Asian countries and specific activities in China, Viet Nam, Cambodia and Laos were funded. Malaysia and South Korea, which were not eligible for bilateral aid, but were affected by the crisis, did benefit from regional initiatives supported under the ACF.

The ACF contained a high degree of flexibility and responsiveness, especially given that technical assistance had to be mobilised within a very short timeframe. The nature of the crisis, like any emergency, necessitated timely responses in order to be effective. Furthermore, politically, it was very important for Australia to be perceived to be providing tangible support for Asian countries during the crisis period.

Activities funded were both regional and bilateral in nature, and involved various delivery modalities, including Australian AMCs, consultants and multilateral organisations.

## The objective of the review

It is timely to undertake a review of Australia's response to economic governance issues in the region, particularly during the Asian financial crisis, as any lessons learned can be fed into the development of new programs in this area. There is an intention to review the AusAID contribution to the Asian Reform Facility. The objective of the review is to assess the effectiveness of AusAID's response to economic governance issues in the region, particularly in relation to the East Asian financial crisis and with a focus on the ACF, and to identify lessons learned for the delivery of future economic governance programs.

## Key outputs and scope

Specifically, the review will assess and draw conclusions on the following key issues, with a focus of drawing lessons learned.

- a. Outcomes of the aid activities
  - The sustainability of economic governance and ACF projects. Are they still ongoing? Have capacity-building activities impacted on individual, program or organisational effectiveness? Are systems and procedures introduced still in place?
  - Did bilateral programs carry ACF-funded activities on and why/why not?
  - In what activities and/or subsectors did we achieve the best outcomes? What characteristics made these projects more successful than others?
- b. Focus
  - Did the bilateral and ACF projects target the key priority areas critical for dealing with the economic and social impacts of the crisis?
  - The appropriateness of the balance between ACF activities targeted at dealing with the crisis (for example, ARIC) and more systemic economic governance issues.
  - Correlation between identified needs of regional governments in response to the crisis (as set out in key documents including capacity needs assessment and World Bank reports) and the activities supported by AusAID.
  - The balance between regional and bilateral responses.
- c. Program delivery
  - The effectiveness of bilateral and ACF programs in meeting the priority needs of the region during the crisis.
  - ACF and economic governance activity identification and design methods.
  - Quality and performance measurements.
  - The effectiveness of approaches adopted in mobilising and delivering technical assistance within a one-year funding timeframe (for example, projects had to be completed within one financial year).
  - The consistency of ACF program delivery with AusGUIDE procedures.
  - The adequacy of funding guidelines for the ACF.
  - The appropriateness of the balance between ACF flexibility and responsiveness and forward programming. Should the ACF have taken a more programming approach in identifying projects? Were there implications for program quality?
  - The level and effectiveness of monitoring.



- d. Coordination among AusAID programs and other donors
  - The level of complementarity between ACF-funded technical assistance and country program funded technical assistance. Was coordination sufficient?
  - The level and effectiveness of donor coordination.
  - The role and value of formal cooperation (for example, co-financing) with other donors.
- e. Partner government participation
  - The level and adequacy of consultations with partner governments during project identification and implementation.
  - The level of partner government ownership of ACF and other economic governance projects.
  - The adequacy of counterpart contribution for ACF projects vis-à-vis AusAID bilateral projects.
- f. Australian service providers
  - The challenges in sourcing and mobilising consultants with relatively short times. How well did organisations respond in mobilising projects and consultants?
  - The role of ‘new players’ for AusAID in delivering the assistance (for example, ASIC, APRA and ACCC).
- g. Responsibilities within AusAID
  - The level of AusAID post involvement in the identification and implementation of ACF projects, including monitoring.
  - The relationship between regional and bilateral program staff.
  - The involvement of policy and sectors staff.

## Methodology

The review will involve a survey of literature and information on the ACF and bilateral economic governance projects. In Australia, consultations, either by meetings or requests for comment or advice, should include relevant AusAID bilateral desks, the relevant experts and advisers in the Sectors Branch and the Office of Program Review and Evaluation, relevant Australian managing contractors, the Department of Foreign Affairs and Trade, and the Department of Treasury (including relevant agencies such as ASIC and APRA).

Relevant AusAID posts and counterpart implementing agencies should be consulted as considered necessary. Review of a selection of projects should form part of the field component of the study. International development agencies should also be consulted as necessary, especially those that received ACF funding, including the ADB.

The review team consists of an external consultant supported by the part-time involvement of some staff from the AusAID Office of Program Review and Evaluation, the Asia Regional Section and the Governance Section of the Sectors Branch. The external consultant will undertake the main report writing, including amending the draft overall report as required.

Specific outputs to be supplied are:

1. a report (or reports) on a review of relevant literature and an in-Australia review of project documents on the ACF and selected bilateral economic governance projects
2. a report on the field study following overseas consultations
3. an overall report, and
4. a concluding seminar.

## **Duration**

It is intended that the review will take about 28 working days. It is envisaged that seven days will be for a desk review of around four projects in each of the three countries to be visited and consultations in Australia, 14 days for field consultations and seven days for report writing.

## **Reporting**

Reporting should focus on identifying lessons learned for improving the effective delivery of future regional economic governance or capacity-building initiatives.

A draft overall report will be circulated for comment and peer review. A final report will be prepared after comments have been received.

## **Timeframe**

The literature review and in-Australia review should be substantially under way by the end of December 2000 with a preliminary report on the literature and document study to be made available early in January. The field consultations should be undertaken in January if possible and the draft report of the review should preferably be completed by mid-February 2001.

## APPENDIX B

### SUMMARY OF ACF PROJECTS

The following summaries are for the ACF projects accessible at the time of the review and within its scope. Where possible, the summaries include the project funding over the period 1998–99 to 2000–01, a brief description, the outcome and some comment.

#### **Cambodia**

##### ***Public expenditure management (health)***

**FUNDING:** \$314 000

**DESCRIPTION:** To enhance the financial management systems and capabilities of provincial health departments in Cambodia by providing computers, financial accounting software, training, support and an accounting manual.

**OUTCOME:** Completed. The installation of accounting systems in seven provincial health departments has contributed to the introduction of Cambodia's Priority Action Program, a program for streamlining budget disbursement for the social sectors.

**COMMENT:** Successful.

##### ***FIAS law on investment activity***

**FUNDING:** \$89 000

**DESCRIPTION:** To assist the Royal Government of Cambodia to tighten its concessions for foreign investors through revision of its law on investment.

**OUTCOME:** Under way. Following a six-month delay, a workshop is taking place in Phnom Penh in January 2001. The workshop will be attended by the Foreign Investment Advisory Service, the Ministry of Finance and the Council for Development of Cambodia with the aim of developing drafting guidelines for a revised law on investment. AusAID is also providing a legal draftsman to participate in the workshop and to assist the government to implement these guidelines.

**COMMENT:**

## Indonesia

### ***Statistical software for the Central Bureau of Statistics***

FUNDING: \$275 000

DESCRIPTION: Software for the Central Bureau of Statistics.

OUTCOME: Started under the ACF and since moved to bilateral funding under Government Sector Linkages Program.

COMMENT: Successful.

### ***Technical assistance review of BAPPENAS information systems***

FUNDING: \$20 000

DESCRIPTION: To assess BAPPENAS's management information system requirements for strengthening its capacity to assess the crisis impact, track and coordinate donor activities and direct appropriate resources to the most needy areas.

OUTCOME: The review concluded that it would be premature to continue developing the information systems until donor coordination and an overall coordination mechanism were worked out.

COMMENT: Successful in that it prevented money being wasted until coordination systems are worked out.

### ***BAPPENAS Padat Karya technical assistance***

FUNDING: \$97 000

DESCRIPTION: To help BAPPENAS stocktake and coordinate the large range of donor support directly into labour-intensive work programs being implemented at national, provincial and district levels.

OUTCOME: Completed. Monies channelled directly to recipients, bypassing normal bureaucracy to get a quick response. Report to BAPPENAS for consideration.

COMMENT: Successful. Project was not sustainable but was never intended to be anything but a short-term response to a crisis.

***Bankruptcy reform assistance***

FUNDING: \$113 000

DESCRIPTION: To provide short-term assistance in the area of bankruptcy reform and establish a commercial court in Jakarta including an internet home page and associated IT.

OUTCOME: Limited outcomes. The website is already out of date due a lack of ownership by the Ministry of Justice; there are shortcomings in the bankruptcy law; and the Australian consultant appears to lack interest.

COMMENT: Unsuccessful against project objectives, but valuable lessons include the need to get ownership by the recipient agency, use local IT people and ensure what is being monitored makes sense. Lessons were used in follow-on activities.

***Training on government bonds – Ministry of Finance***

FUNDING: \$27 000

DESCRIPTION: To provide technical assistance to help the Central Bank with its capacity to issue bonds. The marketing of bonds to state and private banks is an integral part of the proposed recapitalisation of the banking sector – a critical factor in the recovery of the Indonesian economy.

OUTCOME: AusAID held an introductory workshop for staff from the Indonesian Ministry of Finance on the theoretical and practical issues surrounding government bonds, which has helped establish a debt management unit in the Ministry of Finance.

COMMENT: Unsuccessful. Area is highly specialised. Also the recipient agency was not used to dealing with donors.

***UNCTAD debt management system***

FUNDING: \$376 000

DESCRIPTION: To install UNCTAD's Debt Management and Financial Analysis System. It included upgrading the computerised system from version 4.0 to version 5.0. The project also involved training and some support activities.

OUTCOME: Project going according to schedule.

COMMENT: Successful but there is a question of whether UNCTAD software is world class and crowds out the use of better systems and software. (Australia does not use this software.)

***ILO labour-based technology in infrastructure***

**FUNDING:** \$349 000

**DESCRIPTION:** To develop and finalise an ILO project addressing the technical, financial, training, monitoring and organisational aspects of an effective labour-based technology project.

**OUTCOME:** Completed. Outcome unknown until ILO provides its final report.

**COMMENT:** Success not known. The ILO is running late with its review.

***International Conference on the Indonesia Economic Crisis***

**FUNDING:** \$67 000

**DESCRIPTION:** To hold a conference (at the Australian National University, 23–25 November 1998) to contribute to an understanding of the causes of the economic crisis and the policies required for recovery. It sought to build a consensus among Indonesian and international economists on a strategy for Indonesia's economic stabilisation and reform.

**OUTCOME:** A statement of a coherent economic policy framework was released publicly by the Indonesian team leader, Professor Nasution, and presented to the Government of Indonesia. The publicity on the directions Indonesia should take was intended to help shape public policy.

**COMMENT:** Successful. It is impossible to judge what influence the conference had on the course of recovery in Indonesia.

***State-owned enterprises***

**FUNDING:** \$197 000

**DESCRIPTION:** To provide technical assistance to help with strategic planning for state-owned enterprises in Indonesia. AusAID provided input to this project by the World Bank and also provided the consultant.

**OUTCOME:** State-owned enterprises are rife with corruption and nepotism, and privatisation was proceeding on the wrong basis. The going got tough and the World Bank lost interest. Also the consultant's knowledge about the project went with the parting of the relationship.

**COMMENT:** Unsuccessful. Lessons are that reform of state-owned enterprises generates powerful politics anywhere in the world; consultant selection is important; and careful design is needed in this area. But in a crisis, there is need to follow opportunities. Despite the early promise, this project did not work.

***International Conference on Bankruptcy Law and Implementation***

FUNDING: \$210 000

DESCRIPTION: To hold a conference in Indonesia on bankruptcy and reform. This project was integrated with the World Bank and involved a large number of international speakers.

OUTCOME: The conference was successfully held. There was a dire need to do something on bankruptcy given that it is so important for Indonesia's recovery.

COMMENT: Successful. The outcome for bankruptcy and reform is too difficult to determine.

***State audit agency (BPKP) technical assistance***

FUNDING: \$24 000

DESCRIPTION: To provide technical assistance as part of a major project to enhance public financial management by strengthening BPKP performance, auditing techniques, public sector accountability systems, and capacity.

OUTCOME: Suboptimal outcomes due to a lack of effective counterpart support and sustainability. The project was taken up from the ADB but two agencies are involved in audit and the one worked with was going to be shut down.

COMMENT: Unsuccessful. Inadequate research on what the agency was and its future.

***World Bank rapid social assessment of poverty programs***

FUNDING: \$119 000

DESCRIPTION: To strengthen the management and evaluation of social safety network programs. These programs were implemented to address the impact of the crisis.

OUTCOME: Enhanced ability to assess poverty programs.

COMMENT:

***World Bank Foreign Investment Advisory Service  
(streamlining investment regulation)***

FUNDING: \$90 000

DESCRIPTION: To look at ways foreign investment in Indonesia could be simplified.

**OUTCOME:** Obstructions to foreign investment were identified and recommendations were made to the government but these have not been acted on.

**COMMENT:** Successful on identifying constraints but unsuccessful on take-up because no attention was given to national sensitivities and recommendations were unrealistic for the Government of Indonesia to act on.

***World Bank Social Monitoring and Early Response Unit (SMERU)***

**FUNDING:** \$2 065 000

**DESCRIPTION:** To establish a research unit to provide rapid and current information and assessments on crisis-related conditions in urban and rural Indonesia. Users are government, external support agencies, non-government organisations, and civil society.

**OUTCOME:** SMERU was created with funding from several donor agencies. It has attracted a strong reputation for producing quality research products that have proved invaluable to the social and poverty policy debate in Indonesia. SMERU is ongoing. Its focus is on the social impacts of the crisis.

**COMMENT:** Highly successful. Reasons were the foresight and timeliness, the successful genuine partnership between donors (the World Bank, AusAID and the Government of Indonesia) as well as good people (local and external) being involved.

***Back to school***

**FUNDING:** \$3 439 000

**DESCRIPTION:** To encourage children to complete nine years of basic education and prevent an increase in the number of children who may drop out as a result of the crisis. The Australian input to the US\$400 million UNICEF program over five years with the Government of Indonesia, the World Bank and the ADB was to ensure effective monitoring of scholarship funds (the bulk of the US\$400 million).

**OUTCOME:** Very good public awareness of the need for parents to keep their children in school despite the economic crisis and of the support available to help them to do that. The potential disaster for education did not eventuate. The Australian component of the program ensured effective monitoring of scholarship funds to ensure the people who needed the funds received it.

**COMMENT:** Very successful. The Australian component was especially successful given what could have happened to the money if effective monitoring was not in place.



### ***Indonesia ACF activities***

FUNDING: \$1 059 000

DESCRIPTION: To provide training and technical assistance in economic governance, financial sector reform and social safety nets with the aim to strengthen public institutions to implement reforms to restore the economy.

OUTCOME: The well-targeted technical assistance in support of the government's economic reform program is considered to be among the most effective contributions to Indonesia's economic recovery.

COMMENT: Ongoing activities.

## **Laos**

### ***Support for integration into the international trading system***

FUNDING: \$920 000

DESCRIPTION: To provide technical assistance to facilitate Lao's accession to the World Trade Organization and promote the Lao Government's capacity to deal with trade policy issues and to pursue its trade interests in the forthcoming multilateral trade negotiations.

OUTCOME: Ongoing under bilateral program. Memorandum for accession to the WTO has been prepared for the Lao Government to send to the WTO. Emphasis is now needed on training, legal work and trade studies.

COMMENT: Successful. Some time slippage. This project is being implemented through United Nations Development Programme Vientiane over three financial years. ACF funding is 70 per cent of Australia's funding in the overall UNDP project. Coordination with UNDP appears to be good.

## **Philippines**

### ***Audit enforcement – Bureau of Internal Revenue***

FUNDING: \$259 000

DESCRIPTION: To enhance auditing capacity and stem leakage of tax collections.

OUTCOME: Training programs held and abilities of auditors enhanced.

COMMENT: Successful. Met purpose-level objectives but not clear whether tax leakage has been stemmed due to failings in the court system outside the control of the Bureau of Internal Revenue.

***Validation of export credit claims  
(Department of Finance and Bureau of Customs)***

FUNDING: \$160 000

DESCRIPTION: To enhance validation of export credit claims.

OUTCOME: Bogus payments have dropped by 75 per cent and delays in processing legitimate claims have been reduced.

COMMENT: Successful. Better management systems are in place and the government is realising savings.

## **Thailand**

***Financial institutions supervision***

FUNDING: \$258 000

DESCRIPTION: To strengthen the Bank of Thailand's capacity to effectively maintain prudential supervision of financial institutions. The failure of financial institutions has been a significant factor in the financial crisis in Thailand. The project involved technical assistance and training by the Australian Prudential Regulation Authority.

OUTCOME: Improved capacity to undertake prudential supervision by the Bank of Thailand.

COMMENT: Successful. Lot of ownership of project by Thai counterparts. World Bank fully appraised of what is happening. Sustainability ensured by training Bank of Thailand trainers to continue technical training.

***Strengthening of macroeconomic statistics (SOMES)***

FUNDING: \$462 000

DESCRIPTION: To strengthen the capacity of key government agencies to provide accurate and timely macroeconomic data for analysis and use by stakeholders in economic policy and decision-making. The project involved a series of study visits by Thai officials and on-site training by staff of the Australian Bureau of Statistics.

OUTCOME: Enhanced ability to produce quarterly national accounts that comply with international standards, produce flow-of-funds data and conduct surveys of foreign direct investment. Ongoing relationships between Thai and Australian statistical agencies have been established.

COMMENT: Successful. Timing slipped a little but this contributed to the project's success.

***WB Trust Fund financial rationalisation plan***

FUNDING: \$323 000

DESCRIPTION: To develop a detailed time-bound action plan to reform the roles, scope of activity, institutional strength and fiscal position of the specialised financial institutions with the goal of enhancing credit expansion.

OUTCOME: Completed. The Ministry of Finance requested technical assistance from AusAID in the form of two financial experts and one legal expert to assist in effectively implementing the action plan. The Department of Technical and Economic Coordination and the post endorsed the proposal.

COMMENT: Assistance was in the form of a grant to the World Bank, which administered the project under the framework of the memorandum of understanding between Australia and the World Bank.

***Securities & Exchange Commission: experts***

FUNDING: \$155 000

DESCRIPTION: To provide short-term technical assistance to promote investor confidence and provide protection for investors by improving fairness and transparency in the operations of the market.

OUTCOME: Completed.

COMMENT:

***Public sector reform***

FUNDING: \$154 000

DESCRIPTION: To help the Government of Thailand to achieve its public sector reform objectives. Australian assistance will complement a larger World Bank public sector reform program.

OUTCOME: A senior study group attended Australia for an overview of Australian experiences of public sector reform, conducted by the Public Service and Merit Protection Commission.

COMMENT: The total cost of the approved activities is around \$620 000; only \$154 000 will come from the Asia Crisis Fund.

***Insurance technical assistance***

FUNDING: \$48 000

DESCRIPTION: To strengthen the regulation of the Thai insurance industry, including advice on the draft Life Insurance Act and existing regulations, and setting priorities and plans for regulatory improvement.

**OUTCOME:** Completed.

**COMMENT:** Short-term technical assistance was useful to recipient agency. Possible small-scale follow-on technical assistance is still under consideration.

### ***Crisis Response Grants Scheme***

**FUNDING:** \$186 000

**DESCRIPTION:** To provide supplementary funding to the Bangkok post to manage and finance accountable cash grants to suitable projects that are not able to be funded under the specific guidelines of the Small Activities Scheme. The post manages the Small Activities Scheme, which provides accountable cash grants, normally not exceeding \$50 000, for small development activities.

**OUTCOME:** Provided small-scale technical assistance and capacity building for public sector organisations.

**COMMENT:** Successful. The scheme was considered a useful instrument for flexibly responding to short-term needs for technical assistance.

### ***Large Taxpayers Office (LTO)***

**FUNDING:** \$136 000

**DESCRIPTION:** To build the technical capacity of the Large Taxpayers Office to improve compliance by the large corporate taxpayers with all their tax obligations.

**OUTCOME:** Ongoing under bilateral program.

**COMMENT:**

## **Viet Nam**

### ***IFC pilot study of SOE equitisation***

**FUNDING:** \$1 991 000 (Australia's contribution to this 18-month IFC/World Bank project is \$1.1 million from the Asia Crisis Fund.)

**DESCRIPTION:** To undertake a pilot equitisation of state-owned enterprises in Haiphong as a model for further equitisation, to establish an auction system in Haiphong as a pilot method for disposal of state-owned enterprises elsewhere, and to contribute to improving the investment climate in Viet Nam (equitisation being an indicator of serious financial reform).

**OUTCOME:** The Haiphong People's Committee has a strong public commitment to conducting an auction, though there is opposition from employees. An auction system is now in place in Haiphong, and is the model for other areas, eg Dak Lak province. The project has assisted in the consideration of state-

owned enterprise reform and upgraded the knowledge of those involved. As a catalyst for equitisation and divesture in other areas of Viet Nam, it has been closely monitored by senior party officials.

**COMMENT:** Although unsuccessful as yet in achieving an actual auction, due to a range of mainly political factors, the project has caused a rethink in Viet Nam circles about equitisation issues. It is conceivable that the project could turn out well.

### ***Diagnostic audit of state-owned enterprises***

**FUNDING:** \$200 000

**DESCRIPTION:** To perform diagnostic audits of Vietnamese state-owned enterprises, building up the Ministry of Finance's capacity to manage auditing procedures.

**OUTCOME:** Owing to procedural difficulties with the World Bank through which this activity was to be managed, audits of state-owned enterprises have been pursued instead under the bilateral program (\$3 million for 9–12 audits) in cooperation with Danida. The first round of audits is now under way.

**COMMENT:** Project has clarified an array of policy and practical issues and a procedural framework has been established.

### ***World Bank sugar study***

**FUNDING:** \$185 000

**DESCRIPTION:** To assess the outlook and competitiveness of the Vietnamese sugar industry and what are the best policies to optimise the resource.

**OUTCOME:** Under way. Two workshops have been held in Viet Nam outlining international benchmarks for Vietnamese sugar production.

**COMMENT:** Vietnamese sugar investments are a waste of money. This study should show that centralised planning investments can waste money and that markets work best in this area.

### ***Value added tax – ODA implications***

**FUNDING:** \$102 000

(anticipated cost of technical assistance and advice \$250 000)

**DESCRIPTION:** To assist the Ministry of Finance – General Department of Taxation to clarify implications of the Law on Value Added Tax on Overseas Development Assistance and prepare appropriate guidelines for implementation of Vietnamese legislation.

**OUTCOME:** Amendments to the decree governing overseas development assistance VAT requirements have been passed.

**COMMENT:**

***Vietnam Women's Union micro-enterprise development phase II***

FUNDING: \$349 000

DESCRIPTION: To provide the Vietnam Women's Union with the capacity to provide micro-enterprise assistance to rural women throughout Viet Nam.

OUTCOME: Preparation of training books, model business plans, micro-enterprise counselling, workshops and field staff training.

COMMENT: Independent evaluation due in June 2001.

## **Other (regional)**

***APEC economic governance survey***

FUNDING: \$223 000

DESCRIPTION: To undertake a survey of crisis-hit countries to identify needs in economic governance capacity building, programs under way to meet those needs, and possible gaps that could be filled through cooperative activities by APEC economies and/or through assistance from relevant international institutions.

OUTCOME: The survey was used to develop a package of activities in the area of economic governance capacity building, known as Australia's Economic and Financial Management Initiative, which was announced by the Prime Minister at the APEC Leaders meeting in Kuala Lumpur, 17–18 November 1998. The results were well received.

COMMENT: Successful. Study had a huge political profile in APEC and gave Australia a 'seat at the table' in APEC on policy debate. Its success led to a survey of social safety nets. There is a question as to its impact on the long-term development of the region (survey was quickly out of date) but could be seen as precursor to ARIC (see chapter 5).

***PECC financial market committee workshop on economic monitoring & financial sector surveillance***

FUNDING: \$37 000

DESCRIPTION: To establish a mechanism for economic monitoring and financial sector surveillance, which includes participation of government, business and academia. The workshop aims to assist the reform process currently under way in the corporate and industrial sectors throughout the region.

OUTCOME: Initial agreement was reached on a process to implement a mechanism for economic monitoring and financial sector surveillance.

COMMENT:

***World Bank Australian Consultants Trust Fund***

FUNDING: \$842 000

DESCRIPTION: To develop a funding mechanism to support responsive economic governance technical assistance carried out by the World Bank.

OUTCOME: Fund provided a flexible and more rapid method of cooperation, and enhanced Australian access to information on the reform process.

COMMENT: Useful. The World Bank has a central role in donor coordination and reform assistance. The Australian Consultants Trust Fund provided a readily identifiable mechanism for Australian technical assistance in support of crisis-related World Bank activities in relevant countries.

***ACCC–ASEAN competition policy technical assistance***

FUNDING: \$175 000

DESCRIPTION: To hold a five-day regional workshop for ASEAN on competition policy to build a network of key reform agents through awareness raising, to build capacity in competition policy development and implementation, and to explore the need for and viability of a regional resource centre on competition policy.

OUTCOME:

COMMENT:

***Enhancing regulatory regimes in Asia***

FUNDING: \$300 000

DESCRIPTION: To establish systems of sound supervision and regulation in the life insurance industry in two phases: an international symposium to examine issues confronting the life insurance industry in the region; and an intensive training program for middle-level supervisors and regulators of insurance companies in Asia.

OUTCOME: Completed. The symposium was held and findings used to frame recommendations for regional reform and capacity-building programs.

COMMENT: Successful.

***IMF–Singapore Training Institute technical assistance***

FUNDING: \$450 000

DESCRIPTION: To assist recovery through support for the institute’s training and advisory services, the objective being to provide crisis-affected countries with high-priority advisory services and support in the areas of economic governance and institutional strengthening.

OUTCOME:

COMMENT:

***Treasury OECD insolvency workshop***

FUNDING: \$439 000

DESCRIPTION: To assist in intensifying policy dialogue related to the design and implementation of insolvency systems, with a view to assisting with future design of insolvency reform mechanisms.

OUTCOME:

COMMENT: The OECD had responsibility for organisation of the project overall.

***ASEAN economic surveillance capacity building***

FUNDING: \$855 000

DESCRIPTION: To provide capacity-building assistance to the ASEAN Surveillance Coordination Unit located in the ASEAN Secretariat as part of a larger multidonor project.

OUTCOME:

COMMENT: The ASEAN Surveillance Coordination Unit was responsible for coordinating all aspects of the ASEAN surveillance process.

***ASEAN social safety nets***

FUNDING: \$327 000

DESCRIPTION: To develop capacity for rapid social micro-impact assessments to identify localities and population groups most affected by the crisis, and to increase the design capacity for social protection measures appropriate to the region to address unemployment and poverty.

OUTCOME:

COMMENT:



***FIAS APRO (Foreign Investment Advisory Service,  
Asia Pacific Regional Office)***

FUNDING: \$250 000

DESCRIPTION: To provide policy and operational advice to International Finance Corporation member governments in relation to the attraction of foreign direct investment and the establishment of appropriate frameworks and policies.

OUTCOME:

COMMENT:

***ASIC corporate governance***

FUNDING: \$41 000

DESCRIPTION: To give participants an overview of the different roles that government, regulators, industry associations, professional bodies, courts and others play in promoting good corporate governance practices.

OUTCOME: Regional experiences were exchanged and a network of contacts in the region was established.

COMMENT: Useful in both furthering lessons learned and in developing future corporate governance initiatives in the jurisdiction.

***Social protection facility design study***

FUNDING: \$78 000

DESCRIPTION: To assist developing economies in East Asia to improve social programs and safety nets through technical assistance and general capacity-building measures.

OUTCOME:

COMMENT:

***Regulatory change – life insurance***

FUNDING: \$240 000

DESCRIPTION: To support long-term financial stability in the Asia-Pacific region by improving information flow and the knowledge and skills of individuals with responsibility for regulating and managing Asia's life insurance systems.

OUTCOME:

COMMENT:

# APPENDIX C

## ITINERARY OF MEETINGS

Dr Andrew Stoeckel, Centre for International Economics (CIE), and Mr Michael Jacobs, Office of Program Review and Evaluation, AusAID, undertook a field study from 16 January to 29 January 2001. The study incorporated visits to AusAID posts in Manila, Bangkok and Jakarta. During the course of the field trips they interviewed the following people.

### Meetings attended during the field trips

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Date	Meetings attended
<b>Philippines</b>	
<i>Wednesday, 17 January 2001</i>	
8.00 am	AusAID <ul style="list-style-type: none"> <li>• Peter Leahy, First Secretary</li> <li>• Vanessa Zuleta, Project Officer, Development Cooperation</li> </ul>
10.00 am	Department of Finance <ul style="list-style-type: none"> <li>• Ernesto Hiansen, Deputy Executive Director</li> <li>• Napoleon R Cajukom, Head of MIS Division</li> <li>• Director Deputy Commissioner Estellita Aguirre, One Stop Shop Tax Credit and Duty Drawback Center</li> </ul>
2.00 pm	Bureau of Internal Review <ul style="list-style-type: none"> <li>• Attorney Percival Salazar</li> </ul>
4.30 pm	Philippines–Australia Governance Facility <ul style="list-style-type: none"> <li>• Christine McMahon, Deputy Facility Director</li> <li>• Tess Maglaya, Project Officer, Governance–Infrastructure</li> </ul>
<i>Thursday, 18 January 2001</i>	
8.30 am – 5.30 pm	Asian Development Bank (separate interviews) <ul style="list-style-type: none"> <li>• Ziba Farhadian-Lorie, Senior Economist</li> <li>• Ayumi Konishi, Programs Manager, East Asia Division</li> <li>• Richard Ondrik, Head of Philippines Section</li> <li>• Yushu Feng, Programs Economist</li> <li>• Pradumna Rana, Manager, Regional Economic Modelling Unit</li> <li>• Yoshihiro Iwasaki, Head of Regional Economic Monitoring Unit</li> <li>• Zuzhong Zhuang, Task Manager</li> <li>• F Alburo, ARIC Team Leader</li> <li>• Peter Pedersen, General Auditor</li> <li>• Laura Walker, Governance Specialist</li> <li>• Stephen Baker, Alternate Executive Director</li> </ul>
<i>Friday, 19 January 2001</i>	
10.00 am	NEDA <ul style="list-style-type: none"> <li>• Director Rolly Tungpalan</li> </ul>
12.00 noon	Ambassador John Buckley
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<b>Thailand</b>	
<i>Monday, 22 January 2001</i>	
8.30 am	AusAID <ul style="list-style-type: none"> <li>• Michael Pilbrow</li> <li>• Helen Williams</li> <li>• Mark Johnston, Program Manager, Thailand and Australia Capacity Building Facility</li> </ul>

11.00 am	NESDB <ul style="list-style-type: none"> <li>• Khun Apinan Patiyanon, Director of External Cooperation</li> <li>• Khun Pak Tongsom, Director of National Accounts</li> <li>• Arkhom Tempittayapaisith, Policy and Plan Analyst</li> <li>• SOMES training participants (including in-Thailand and in-Australia training)</li> </ul>
<i>Tuesday, 23 January 2001</i>	
10.00 am	Bank of Thailand <ul style="list-style-type: none"> <li>• Khun Tarisa Watanagase, Deputy Governor</li> <li>• Chatwaruth Musigchai, Analyst, Economic Survey Team</li> <li>• Nat Tapasanan, Senior Executive, Special Projects and Analysis Department</li> <li>• Phong-Adul Kristnaraj, Specialist, Supervision Group</li> <li>• Jason George, World Bank Adviser to the Bank of Thailand</li> </ul>
2.30 pm	World Bank <ul style="list-style-type: none"> <li>• Michael Markels, Senior Financial Sector Specialist</li> <li>• Mario Reyes Vidal, Senior Operations Officer, Special Financial Operations</li> </ul>
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<b>Indonesia</b>	
<i>Thursday, 25 January 2001</i>	
9.00 am	Australian Embassy <ul style="list-style-type: none"> <li>• Susan Wilson, AusAID</li> <li>• Vanya Sumolang, AusAID</li> <li>• Natasha Smith, AusAID</li> <li>• Matt Stevens, AusAID</li> </ul>
11.00 am	BPKP <ul style="list-style-type: none"> <li>• Soekardi Hoesodo, Deputy Chairman, Planning and Analysis</li> <li>• John Vong, Team Leader</li> <li>• Bambang Setiono, Project Director</li> </ul>
<i>Friday, 26 January 2001</i>	
9.00 am	SMERU <ul style="list-style-type: none"> <li>• John Maxwell, Senior Adviser</li> <li>• Sudarno Sumarto, Executive Director</li> <li>• Asep Ssuryahadi, Coordinator, Data Division</li> <li>• Syaikhu Usman, Coordinator, Decentralisation and Regional Autonomy Division</li> </ul>
3.30 pm	World Bank <ul style="list-style-type: none"> <li>• Jerry Strudwick, Education Specialist</li> </ul>
4.30 pm	Rob White, British Council
<i>Monday, 29 January 2001</i>	
9.00 am	World Bank <ul style="list-style-type: none"> <li>• Jacqueline Pomeroy, Economist</li> </ul>
11.00	H Supriano, Project Manager, Scholarship and Block Grants Program
<i>Monday, 29 January 2001</i>	
1.30 pm	Centre for Strategic and International Studies <ul style="list-style-type: none"> <li>• Tabagus Feridhanusetyawa</li> </ul>
2.30 pm	UNICEF <ul style="list-style-type: none"> <li>• Yoshiteru Uramoto, Planning and Advocacy</li> <li>• Perseveranda So, Project Education Officer</li> <li>• Daradjat Natanagara, Program Coordinator, Advocacy</li> <li>• Claire Blenkinsop, Donor Liaison Officer</li> <li>• Aris Boediharjo, Communication Officer</li> </ul>
4.30 pm	SMERU <ul style="list-style-type: none"> <li>• Kusumastuti Rahayu, Coordinator, Social Monitoring and Qualitative Analysis Division</li> </ul>
5.30 pm	World Bank <ul style="list-style-type: none"> <li>• Sharwar Lateef, Senior Adviser, Governance</li> </ul>
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