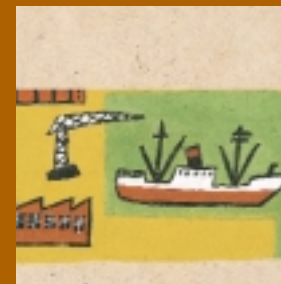


Good Governance



Guiding principles
for implementation



The Australian Government's
Overseas Aid Program

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'It is vital Australia's governance assistance activities are based on a sound understanding of local conditions and genuine ownership of reform processes within the partner country.'

Good governance: Guiding principles for implementation

Foreword

Good governance has long been a topic of discussion in the international arena, and particularly in the field of development assistance. Indeed, good governance is pivotal to the development process.

The Australian Government believes our country has a central role to play as an advocate of good governance. This was illustrated by member countries of the United Nations Commission on Human Rights voting almost unanimously in 2000 to support an Australian-led resolution on good governance. This was a ground-breaking resolution, heralding new international thinking on the connections between human rights and transparent, accountable and participatory government.

Australia joins this debate on governance as a strong, stable and significant regional power with a long and robust liberal-democratic tradition.

This is the context that underpins our policy dialogue and our aid programs.

Governance issues differ from place to place, and the solutions to governance problems must be tailored individually.

But although we will never have a 'one size fits all' solution to governance issues, there are clear priority areas – outlined in this paper – where Australian development assistance can foster good governance in partner countries.

Drawing from both Australian and international experience, we have identified some broad guiding principles for implementing the aid program's governance activities.

These recognise the need for a long-term, comprehensive yet flexible approach. Furthermore, it is vital Australia's governance assistance activities are based on a sound understanding of local conditions and genuine ownership of reform processes within the partner country.

I am confident that the priorities and principles identified here will help Australia implement an effective, high quality program of assistance in support of good governance in our partner developing countries.

A handwritten signature in black ink, appearing to read 'Alexander Downer'.

Alexander Downer
Minister for Foreign Affairs

August 2000



Under the Royal Papua New Guinea Constabulary Project the police force is trained to maintain and enforce the law in an impartial and objective manner.

Good governance and a good society

GOOD GOVERNANCE IDEALS FOR A GOOD SOCIETY

POLITICAL PRINCIPLES

- Good governance is based on the establishment of a representative and accountable form of government.
- Good governance requires a strong and pluralistic civil society, where there is freedom of expression and association.
- Good governance requires good institutions – sets of rules governing the actions of individuals and organisations and the negotiation of differences between them.
- Good governance requires the primacy of the rule of law, maintained through an impartial and effective legal system.
- Good governance requires a high degree of transparency and accountability in public and corporate processes. A participatory approach to service delivery is important for public services to be effective.

ECONOMIC PRINCIPLES

- Good governance requires policies to promote broad-based economic growth, a dynamic private sector and social policies that will lead to poverty reduction. Economic growth is best achieved in an efficient, open, market-based economy.
- Investment in people is a high priority, through policies and institutions that improve access to quality education, health and other services that underpin a country's human resource base.
- Effective institutions and good corporate governance are needed to support the development of a competitive private sector. In particular, for markets to function, social norms are needed that respect contract and property rights.
- Careful management of the national economy is vital in order to maximize economic and social advancement.

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

'Good governance' means competent management of a country's resources and affairs in a manner that is open, transparent, accountable, equitable and responsive to people's needs. Key elements of good governance are outlined at left.

Good governance and development

Good governance is an essential precondition for sustainable development. Various countries that are quite similar in terms of their natural resources and social structure have shown strikingly different performance in improving the welfare of their people. Much of this is attributable to standards of governance. Poor governance stifles and impedes development. In countries where there is corruption, poor control of public funds, lack of accountability, abuses of human rights and excessive military influence, development inevitably suffers.

A landmark study by the World Bank, *Assessing Aid – What Works, What Doesn't and Why* (1998), demonstrated the crucial role that good governance plays in enhancing the effectiveness of aid. The study found that where there is sound country management, an additional one per cent of GDP in aid translates into a one per cent decline in poverty and a similar decline in infant mortality – whereas in a weak policy and management environment aid has much less impact. Findings like this clearly indicate that the 'returns' from development assistance are generally greater in developing countries characterised by good governance.

One element of good governance that is needed for sustained development is an economy that operates in an ethical, accountable and appropriately regulated environment, which facilitates competition in the marketplace. Without this, there will be no driver for economic growth and sustainable development will not be possible. A dynamic private sector, operating in a properly functioning competitive market system, creates jobs and income, generates wealth and helps ensure that resources are used efficiently.



An official showing the ballot box is empty prior to polling in a mock election exercise in West New Britain.

FAIR ELECTIONS

THERE IS AN ESSENTIAL LINK between democratic and accountable government and the ability to achieve sustained economic and social development.

In collaboration with the Australian Electoral Commission (AEC), Australia's aid program has supported a number of elections in developing countries in recent years.

In 1993, an AEC team of polling officers worked closely with the United Nations in preparing for Cambodia's elections.

In 1999, with funding from Australia's overseas aid program, the AEC provided technical support for the Indonesian elections.

More recently, Australia played a major role in helping the United Nations oversee East Timor's referendum for independence.

By helping the Governments in developing nations such as Indonesia, Cambodia and East Timor to mount free and fair elections themselves, Australia benefits from the emergence of stable and democratic nations.

In effect, Australian aid is encouraging greater community participation in the nation's democracy. This promotes accountability, efficiency and effectiveness in the nation's development.

Good governance through development assistance

While good governance can enhance the effectiveness of development assistance, development assistance can itself play a role in enhancing governance in developing countries.

Specifically, donor assistance can support developing countries in:

- improving economic and financial management
- strengthening law and justice
- increasing public sector effectiveness
- developing civil society.

Priority Areas

The elements of governance are interdependent. Reforms in economic management have to be supported in mutually reinforcing ways. Efforts must be made to develop the institutional environment needed for the effective operation of a liberal market economy – the rule of law, a competent public administration and the development of democratic processes. Australia will need to make choices in the focus of its assistance efforts, but these choices must recognise the integrated nature of governance, and the need for mutually reinforcing initiatives.

Donor cooperation is also very important. There is a need for all parties concerned to work together in a coordinated manner, to achieve agreed goals. If partner countries are faced with donors whose priorities are in conflict, there is a risk that they will retreat from a wider reform agenda. Australia has provided leadership in donor cooperation, especially in the Pacific. It is important for this role to continue.

AIDING GOOD GOVERNANCE IN PAPUA NEW GUINEA

'WE ARE REACHING A POINT where the national conscience is being stirred and aroused ... everyone must cease to tolerate falsehood, dishonesty and pretentiousness in public life ...'

MR SIMON PETANU, CHIEF OMBUDSMAN PNG

SUPPORT FOR IMPROVING GOVERNANCE is a key area of the new 2000–2005 Treaty arrangements between Australia and PNG. Both governments agree the aid program should target PNG's structural and institutional problems by strengthening good governance across the spectrum of PNG institutions and civil society. The PNG program is:

- targeting the institutional capacity of executive government agencies to plan, allocate and manage resources
- reinforcing constitutional checks and balances by providing support to institutions such as the judiciary, the ombudsman and the police
- facilitating PNG's decentralisation process to make government more responsive to the needs of ordinary Papua New Guineans
- fostering the development of civil society by supporting community organisations like church and women's groups and the media
- introducing contestability into the aid program and rewarding high-performing government and non-government organisations, and
- supporting the PNG Government's significant economic reform program being undertaken in close consultation with multilateral agencies such as the World Bank.



Training to improve public sector effectiveness in Kiribati.

Possible targets for Australian assistance include:

- strengthening of key government agencies responsible for economic policy, planning and public sector financial management, including finance ministries, treasury departments and central banks
- helping partner country governments strengthen their trade policies and procedures, participate in regional and global trading arrangements, and promote trade and investment opportunities
- promoting more clearly defined property rights through legal and administrative reforms

DEMOCRACY FOR INDONESIA

INDONESIA'S GENERAL ELECTION IN 1999 was the first fully free election since 1955. It is a landmark in the nation's history.

The Australian Government provided a 25-strong team of election observers and a \$15 million electoral assistance package to help ensure a free, fair and credible election.

The Australian observers visited more than 120 polling stations and assisted Indonesian election monitors in their job of explaining the complex polling process and monitoring voting.

Australia's assistance included funding for the Australian Electoral Commission, which helped its Indonesian counterparts ensure the election was a success.

A priority for Australia was to help strengthen Indonesia's domestic monitoring capability. Australia also helped educate voters on the polling day, with a key message being the secrecy of the vote.

The significance of the elections for Indonesia and for our whole region cannot be stressed enough. The elections paved the way for Indonesia for the first time in more than a generation to be governed by a democratically elected government.

Australia is heartened by the commitment of the Indonesian people to exercise their democratic rights in a peaceful way.

- helping partner governments create an efficient and equitable taxation system – one that enables government to properly fund public services and income transfers to the poor but, at the same time, does not act as a barrier to private sector development
- strengthening the banking sector and financial markets
- improving corporate governance by helping to establish appropriate legal, institutional and regulatory frameworks
- supporting the development of micro-enterprises and small/medium enterprises. This can be done through a variety of means – for example, by helping government create an appropriate regulatory environment, by developing business skills and knowledge, and by promoting improved access to financial services and other business services
- improving delivery of basic services such as health, education, water and sanitation, through the public and private sectors
- strengthening the rule of law and improving legal systems, including central regulatory bodies
- promoting respect for human rights, and strengthening democratic processes, civil representation and participation, and
- improving public administration generally – a competent and effective public sector is needed to implement reforms effectively and to ensure efficient delivery of public services.

CENTRE FOR DEMOCRATIC INSTITUTIONS

THE AUSTRALIAN GOVERNMENT established the Centre for Democratic Institutions (CDI) in 1998. The CDI harnesses the best of Australia's democratic experience to support good governance initiatives in developing countries.

Working with Australian institutions, CDI provides support to developing countries through information exchange, training, placements and networking.

CDI oversees a number of governance activities, including:

- workshops for parliamentarians
- orientation for new judges
- non-government organisation leadership courses
- media courses for journalists
- support for Ombudsmen
- anti-corruption courses.

CDI focuses on four key sectors:

- the parliamentary process
- the judicial process
- the media
- civil society.

LEGAL REFORM IN INDONESIA

AUSTRALIA IS WORKING CLOSELY with the Indonesian Government to promote good governance through measures aimed at improving Indonesia's legal system. The newly established Indonesia Legal Reform Facility is developing functional, transparent, accountable and competent legal institutions and supporting measures to ensure the implementation of the rule of law. Other law reform initiatives in Indonesia include:

- **Training commercial court judges**

Australia has assisted the recently established commercial court by providing training for its judges and officials. Australia also arranged for an expert from Insolvency Trustee Service Australia to provide training for Indonesian bankruptcy receivers.
- **Strengthening the judicial system**

Indonesian judges are receiving training in Australia through a specialised academic course and attachment to Australian courts. The activity also includes Australian judges delivering short courses to Indonesian judges at Indonesia's Supreme Court Training Centre.
- **Specialised training**

Australia is training Indonesian officials in a variety of areas related to good governance, including:

 - intellectual property rights
 - human rights
 - environmental law and enforcement
 - district and provincial planning
 - international trade policy practice.

SUPPORTING COMMUNITY-BASED ORGANISATIONS IN THE PHILIPPINES

LIKE LEGAL SYSTEMS, CIVIL SOCIETY organisations can provide checks and balances on government power and monitor social abuses. Australia's aid program contributes to a stronger civil society by implementing innovative programs for community-based organisations and national institutions. Activities involve undertaking capacity building with non-government and civil society organisations, developing national human rights institutions, supporting electoral processes, supporting media and communications development, and providing assistance in post-conflict situations.

One example of Australia supporting capacity building for community-based organisations is the Philippines Australia Community Assistance Program (PACAP). PACAP is a program of direct assistance to non-government organisations (NGOs) or people's organisations in the Philippines. PACAP's aim is to raise the living standards of poor and marginalised Filipinos through funding community based self-help projects as well as strengthening the capacity of these organisations to carry out community development activities. It also establishes an effective working relationship between local NGOs and the aid program.



Improving economic and financial management through governance programs results in a vibrant small enterprise sector.

Making Australian assistance work

PUBLIC SECTOR REFORM IN THE PACIFIC

A MAJOR GOVERNANCE PROJECT IN THE PACIFIC has been the Policy and Management Reform (PMR) initiative.

PMR funds are allocated competitively to countries on the basis of demonstrated commitment to reform. Institutions interested in reform are helped to develop solutions to their problems and rewarded with technical and financial support. The focus is on increasing the efficiency and accountability of government.

Considerable assistance is given to support the Pacific island countries' shared 'agenda' for policy development and change in areas including government accountability, trade and investment policy, government involvement in business enterprises and private sector development.

In Samoa, for example, Australia is working closely with key government departments, including Treasury, the Public Service Commission, the Department of Trade, Commerce and Industry, and Customs, to progress the Samoan Government's economic and public sector reform agenda. Initiatives include:

Economic and Financial Reforms

- a harmonised system of tariffs, adopted under the Harmonized System Tariff Act 1997
- reduced tariff structure from an average of 20–25% to 10–15%, while maintaining the overall revenue base through improved management practices
- improved trade and investment promotion strategy, and
- improved quality and quantity of investment information.

Public Sector Reform

- increased accountability of departments in managing their human resources
- improved policies to enhance fiscal management
- improved budget management policies and systems
- introduced performance budgeting and output management
- a new legislative financial management, governance and accountability framework, and
- improved reporting systems.

The first thing that Australia will undertake in developing a program of governance support to partner countries is to carefully assess the situation on the ground. The assessment should include the state of governance in the key priority areas, the partner government's own reform agenda and actions, other donor activities and Australia's capacity to assist. Some types of governance reform are more difficult to implement than others. Political reform, for example, can be very difficult, because it can threaten powerful vested interests. A careful examination of these issues is necessary to ensure Australia's assistance will be productive and will best contribute to an integrated program of cooperation between all players.

Once priority areas have been determined, international experience indicates the following principles provide valuable guidance in developing aid interventions in this area.

Sustainable Reform

Governance reforms should be seen as a lengthy process of continuous improvement, which goes beyond introducing new systems, but requires new skills, attitudes and organisational cultures. Sustainable institutional change requires careful selection of desired interventions, a gradualist approach to implementation and long-term support.

Leadership

Leadership of the reform process is indispensable. Without institutional champions who actively support reform implementation, it is difficult for reform efforts to succeed.

Ownership

Promotion of local participation and ownership of governance reforms is crucial to the credibility and sustainability of reforms. It is important to take into account the political and administrative culture and traditions. An informed understanding of the broad institutional environment is necessary and expatriate advisers need to be sensitive to the local situation, to ensure that the pace of change is appropriate and that local ownership is not lost.

STRENGTHENING ACCOUNTABILITY IN THE PRIVATE SECTOR

THE NEED FOR GOOD GOVERNANCE is not limited to the public sector. Sound management practices in the private sector are equally crucial to a nation's development. Australia supports a number of programs aimed at improving the effectiveness, efficiency, accountability and transparency in the private sector.

These programs often involve courses for directors of public companies, statutory authorities, management committees and chief executive officers. Courses cover corporate governance, general business knowledge, and financial and corporate management issues. Some of the topics include:

- the law and directors
- conflict of interest and ethics
- duty of care and due diligence
- the role of stakeholders
- following paper and audit trails
- monitoring financial and non-financial performance
- board effectiveness, and
- statutory duties.

The main benefit of these initiatives are continuing improvement in the management capacity of private sector enterprises, especially in the areas of financial skills, company direction and compliance with company laws. The ultimate outcome is to facilitate private sector development.

Comprehensive approach

A comprehensive approach to reform in collaboration with other partners is preferable to fragmented, piecemeal activities.

Realistic targets

Realistic targets need to be set. It usually pays to be modest rather than over-ambitious. An appreciation of the extent of local capacity to support reform is also essential. If capacity is low, rapid reform will not be sustainable. Assessing this capacity can often be difficult. Australia should work closely with partner countries to develop methods for doing this.

Expert advisers

In an area as sensitive and important as governance, it is important to use high-level, very experienced senior advisers who are the best in their field.

Flexibility

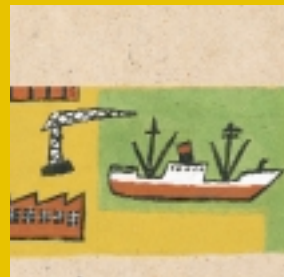
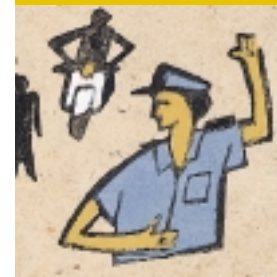
A flexible approach is needed. The means for reaching identified objectives, and even the objectives themselves, may need to be modified or adapted quickly to changing circumstances.

Balance

Australian principles and values need to be balanced carefully with partner country circumstances and needs.

Inclusiveness

It is important to involve the private sector, the community sector and the general public in governance initiatives. A substantial proportion of Australia's efforts to improve governance will be aimed at reforming government policy and practice – because the role of government is a crucial one – but it is important not to neglect the other sectors of society.



Good Governance

Guiding principles for implementation

Australia's overseas aid program helps developing countries reduce poverty and achieve sustainable development. Support for good governance is pivotal to these objectives. Four key areas in which development assistance can enhance governance in developing countries are:

- improving economic and financial management
- strengthening law and justice
- increasing public sector effectiveness, and
- developing civil society.

This publication outlines priorities for Australian development assistance within these four areas. Drawing from both Australian and international experience, a number of broad guiding principles for implementing the aid program's governance activities are also identified.

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