



Foundation for Effective Markets and Governance

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Mr Sandy Hollway AO
Chair
Independent Review of Aid Effectiveness
GPO Box 887
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Australia

Dear Mr Holloway

Independent Review of Aid Effectiveness

Attached is a submission for the consideration of the Panel. Members of the Foundation would be pleased to elaborate on this submission should the Panel so wish.

Yours sincerely

(Robin M G Brown)
Director/Secretary

2 February 2011

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Independent Review of Aid Effectiveness Submission

Terms of Reference

1. Appropriate geographic focus

The main focus should continue to be South East Asia and the Pacific.

2. Appropriate sectoral focus of the program

The MDGs should guide sectoral focus.

MDG3 - Promote gender equality and empower women

We think the evidence warrants a much greater emphasis on MDG3. Whilst every proposed project should be assessed against this objective, MDG3 should be a major theme of Australia's Aid Programme.

Governance and Economic growth

We agree with AusAID that "Shared and sustained economic growth is the most powerful driver of poverty reduction and is critical to achieving development outcomes, including the Millennium Development Goals". We also agree that "Good governance is central to the operations of an effective state" and that this is "one of the most important factors determining whether or not development takes place." World Vision's submission says "reduce the total proportion of aid going to governance and provide a near 50/50 balance of funding between top down and grass roots and human rights governance activities. Focus especially on the rights of women, children and the most marginalized communities." We agree with WV on the balance, but disagree on reduction of the governance allocation. Determining which funds to count as governance expenditure is not straightforward. Any activity which contributes to citizens' capability to participate in the government of their

country could be counted. Clearly education is essential for good governance as it is for development in general. While we do think that a shift in emphasis to some greater grass roots effort is required to build good governance in the mid to longer term, we must work to maximise the quality of government in the shorter term especially in terms of accountability. Without this funding for education for example may be ineffective.

In addition, though, we believe that more can be done in the short term in what we might call the middle territory - the civil society space - and that this has the potential of accelerating progress toward good governance. We therefore strongly support the kind of work being undertaken in the Developmental Leadership Program (DLP). We believe that this work is likely to show ways of developing stronger interaction between government and civil society leaders and thus improvements in public policy and administration and in accountability.

FEMAG members have had considerable experience in developing countries in efforts to improve accountability institutions (ombudsman, auditors-general, leadership monitoring bodies etc). These institutions are now widely seen as the fourth arm of government and in our view work in this area has been very fruitful. An effective fourth arm of government is critical to civil society's being able to demand good government. We think increased assistance in this area is warranted.

We have also had a deal of experience in delivering technical assistance in public policy and administration concerned with making markets work more efficiently and equitably or consumer and competition policy and regulation. Amongst countries in the region there is a wide variation in levels of development in these areas. A current ASEAN project, with which we are assisting, is aimed at developing ways to bring member states to a common level of consumer regulation. One likely outcome is agreement on the need for a regional facility to share information and resources and deliver assistance as required. Such a facility would clearly make for greater efficiency and would mean that not all states would need themselves to build full policy and regulatory capabilities. The EU's arrangements in this area are analogous. It would of course make sense for such a facility to cover competition policy and regulation. Such a facility or perhaps sister facilities could be useful in other areas of public policy and administration. It seems to us that this approach makes even more sense for small Pacific nations. Besides the development benefits that would result, with increasing integration of markets in the region, Australia's assistance in establishing and operating such facilities would be in its own economic interest.

3. Distribution to low and middle income countries

The potential for poverty alleviation given Australia's capabilities should decide distribution of our aid. This could mean that substantial aid goes to a middle income

country which has a significant number of people living in poverty. That is, the GDP per capita of the country might be relatively high, but distribution of income might be poor. Political considerations may affect the calculation and the type of aid that is given.

4. Distribution channels

Multilateral organisations

Multilateral organisations have the potential to deliver assistance with much greater efficiency than national agencies. Provided that Australia can effectively participate in these organisations to ensure their work accords well with MDGs and is in fact efficient, a substantial proportion of our funds, especially increased funds, should be directed to them. The amount should increase proportional to the confidence we can have in these organisations. In the long term this could be half or more of Australia's ODA.

Budget support

Recognising that the aid dollar is highly fungible increased general budget support should be considered. In simple terms, our funding of, say, education in a particular country can simply mean a greater proportion of a government's revenue can be spent in ways we might not wish to see. General budget support with agreed and publicised expenditures could well be more effective.

Civil society organisations

Further to our previous comments, we believe the time has long since come for Australia to give far greater attention to supporting civil society organisations (CSOs) in developing countries. The importance of a strong civil society and strong civil society organisations for both good governance and economic growth has been recognised for many years. For example two decades ago the Independent South Asian Commission on Poverty Alleviation (of the South Asian Association for Regional Cooperation) recommended a strategy of "walking on two legs", one of the market, and the other of governments and civil society organisations.

The DAC paper *Gender equality, women's empowerment and the Paris Declaration on aid effectiveness: Issues Brief 3 Innovative funding for women's organisations* is one of many that makes the argument. To quote "A bigger investment by donors in promoting such non-state institutions (civil society organisations) is well justified, and cannot be provided by traditional government-to-government channels, which tend to be the default option for many donors."

In our view MDG3 in particular is a goal that is well served by assisting civil society

organisations, that is women's organisations. There is a good example in Burundi. A few years ago the Burundi parliament passed a law requiring 30% of its number to be women. The status of women in Burundi was such that there were few potential women candidates. With a little funding from the US the Burundi Girl Guides Association, quite apolitically, gave a number of women the skills and confidence to stand as candidates in parties of their choosing. Now, most of the women MPs are women who had this training and, most importantly, the Girl Guides Association continues to support them.

What seems very important is that the Girl Guides movement is apolitical, is all about leadership development and is global. In fact it still is the largest global organisation of girls and women. It is characterised by strong, sound principles, high standards of governance and a global support network. Inevitably, it cannot avoid challenging aspects of local cultures which subdue the status of women, but otherwise it is not a vehicle for imposition of exogenous values. In particular it is truly interfaith. The numerically larger Scout movement has the same attributes though clearly not as well equipped as far as MDG3 is concerned. We believe that the Scout/Guide movement's potential in the development enterprise, particularly in the development of leadership, is very much unrealised.

There are of course a number of other global youth movements which have similar potential, though perhaps not quite as considerable.

There is a risk of political capture and corruption in civil society organisations, but this is much reduced if they are part of an international network. There are global organisations supporting indigenous member organisations in a number of other fields. Two with which we have had some experience are Consumers International (CI) and Transparency International (TI). The former is actually the organisation commissioned to run the ASEAN project mentioned earlier. Arguably, it is better placed than an official or commercial entity to succeed in this task. In their book *Global Business Regulation* John Braithwaite and Peter Drahos (2000, Cambridge University Press) suggest that the international consumer movement could be "an NGO powerhouse" of this century. It is the civil society movement, and the only one, that makes understanding and making markets work efficiently and equitably its business. However, its nature is such that it is severely limited in its ability to resource itself. We believe aid dollars supporting this movement have very great impact and it should receive the attention of the Australian Aid Programme. The argument for this is set out in *Developing Countries and the Market System: Toward Better Policy for Aiding the Contribution of Civil Society Consumer Organisations* (Brown R, 2002 - <http://dspace.anu.edu.au/bitstream/1885/40106/2/No96Brown.pdf>).

The paper makes the point that operating on the basis of a constant round of funding applications is very limiting for CSOs and that assured core funding over periods of years is needed. The DAC paper referred to above notes that many women's organisations "are struggling to secure funds and to sustain their core activities".

With public policy being made increasingly at the intergovernmental level, indigenous CSOs also need the resources to participate in international processes. In many cases they should be included in country delegations to intergovernmental meetings

Australian government agencies as long term partners

In our view greater use of the expertise available in Australian government agencies would be beneficial. Often it seems that good work is not maintained because an agency either does not have a clear statement of this function or funding is inadequate or both. Agencies in countries which are our development partners should be able to call on assistance from corresponding agencies in Australia as and when they need it. In addition Australian agencies should be able to lend very strong support to regional networks of officials. The Pacific Ombudsman Alliance which is strongly supported by the Commonwealth Ombudsman and funded under the Aid Programme is a model which could usefully be replicated in other governance areas.

Consultants/advisers

There is a move to reduce the use of consultants or advisers. We believe that technical assistance will continue to be a major need in many areas and it is difficult to see how this can be delivered without such personnel. In our experience sometimes such personnel are inadequately trained to work well in-country and many seem to be paid higher fees than necessary.

It is our observation, however, that in much of the work relating to governance and accountability, and anti-corruption, the expertise to establish effective mechanisms and institutions simply does not exist in many developing countries and, indeed, is pretty scarce within AusAID.

From experience in the Solomon Islands, we could say that many of the consultants were much more dedicated to interacting with Solomon Island government and civil society personnel, and learning from them, than were AusAID staff.

It is clearly an advantage to use local people wherever possible, but it is also our observation that in the South Pacific, there is often a critical and enduring shortage in areas of professional skills – for example accounting and law. Consequently, those with the necessary qualifications will get taken up by private sector organisations that can offer better salaries than government agencies such as Auditor-Generals or Ombudsmen.

Small projects

In our experience Aus AID has indicated little support for small scale projects and we recommend that the Review consider changes to systems to overcome this. This is especially important in small economies such as the South Pacific island states where a small project might well be well designed to meet a particular need or to trial a new mechanism, and be far more relevant to local need and ability.

5. Performance of the aid program and lessons learned from Australia's approach to aid effectiveness

No comments

6. Program's approach to efficiency and effectiveness and whether the current systems, policies and procedures in place maximise effectiveness

In our view some significant shortcomings in the way AusAID operates and manages the programme need addressing to overcome limitations in effectiveness especially given the planned growth. With the proviso that our experience of the Aid Programme is less than comprehensive we offer the following observations:

- The delegation of principal responsibility to posts has been in many ways a good development. However, much of the time of staff in posts seems to be spent collecting, writing, honing and editing report after report for sending back to Central Office. We appreciate the risk management purpose, but frequently, by the time such reports are delivered, they are so condensed as to be of dubious value. We believe staff could be used more efficiently.
- The 'churning' of staff has meant that there is little – if any - in the way of corporate memory about particular programmes residing in the relevant areas of AusAID.
- Staff posted to some positions in country do not have the necessary background knowledge or qualifications to contribute to some programmes, to provide useful advice to the recipient government, or to effectively collaborate with technical advisers.
- Again, with staff turnover at posts in conjunction with changes in desk officers in Canberra, there is often little continuity of knowledge about a programme and its evolution.

We have seen cases of inappropriate and inefficient use of development companies in programmes, which seems to do little more than add an unnecessary management layer. Sometimes such companies, because of their limited knowledge of the content or purpose of a programme, do not add value commensurate with the fee they are paid.

7. Future organisational structure for the aid program and coordination with other donors

Apart from addressing some of the issues raised above, it is our strong view that, especially with the growth of the aid budget, the time has come for a separate department and minister.

Much greater co-ordination amongst donors is needed to minimise both overlaps and underlaps. Our common experience is that projects, especially governance/public policy technical assistance projects delivered by Australia are often duplicated by other donors. As has previously been proposed, including at a post Asian Financial Crisis meeting convened by Foreign Minister Downer, Australia should collaborate with other donors to operate a regionally based clearing house facility or facilities, which would require registration, at the earliest stage practical, of project proposals or significant changes to existing projects/programmes.

8. Review and evaluation of the aid program

AusAID's Office of Development Effectiveness (ODE) has conducted a number of major reviews of various programs, however it is not clear to what extent the recommendations for change are being implemented. The transparency of AusAID's performance could be substantially improved by implementing the recommendation of the recent ANAO audit to publish the management responses for all major ODE reviews.

Government programmes for the Australian Indigenous community are evaluated and audited by a special unit in the ANAO. Until recently this work was done by the Office of Evaluation and Audit (Indigenous Programmes) a body with a statutory officer attached to the Department of Finance and Deregulation. While the Office of Development Effectiveness appears to us to have been working well a clear separation from AusAID and perhaps attachment to the ANAO could be useful.

9. The management of fraud and risk in the aid program

From our observation the systems AusAID uses are generally best practice. Our earlier point on increased assistance for the development of accountability institutions and processes is highly relevant. A strong fourth arm of government and a civil society able to use it are ultimately critical to minimising misuse and fraudulent use of aid funding within the public sector. Unless there is continuing active support for accountability institutions in recipient countries, this risk will continue.

Our earlier point on civil society funding on the advantages of working with indigenous CSOs which are part of global organisations or networks that help to ensure their sound governance and accountability is also highly relevant here. In particular giving strong support to Transparency International and its country members obviously makes very good sense

One of our number served on the ACFID Code Committee as the donor representative for six years. From this experience we believe achieving good compliance with this Code is an important part of managing fraud and risk in relation to funds which go through code signatory organisations which includes Aid Programme funds. In our view the administration of the Code is not adequately resourced. As there is a benefit to the community at large additional funding from the Aid Programme budget should be provided. We also believe that there is potential to widen the scope of the Code and possibly to extend its coverage to other kinds of development agencies.

About the Foundation for Effective Markets and Governance (FEMAG)

Affiliated with the ANU based Regulatory Institutions Network, FEMAG is a not-for-profit organisation. Its members have backgrounds in governance and accountability, consumer and competition policy and regulation and other areas of public policy and administration and delivery of technical assistance in developing countries. Amongst the members are academics specialising in regulation, former officials of the Australian Competition and Consumer Commission and Office of the Commonwealth Ombudsman and former senior officers of other government agencies and people with civil society organisation leadership experience.

Leading or participating in projects funded by AusAID, UNDP, DFID and other agencies, members have provided advice and consulted widely to governments and their agencies and civil society organisations including in the following countries: Bangladesh, Egypt, Fiji, India, Indonesia, Mozambique, Papua New Guinea, People's Republic of China, Philippines, Samoa, Solomon Islands, South Africa, Thailand, Timor Leste, Tonga, and Vietnam.