

# January blog digest: aid and governance – time to give up or change tack?

by Stephen Howes

31 January 2013



Aid and governance was a dominant theme of our blog in its first month for 2013. Our own Terence Wood got us off to a good start with a [masterful synthesis](#) of what we know, which is that aid has a poor track record in improving the performance of bureaucracies in recipient countries. As he writes, “In recent decades much aid has been devoted to curing broken bureaucracies in developing countries. This is a worthy endeavour: bureaucracies intersect with almost everything that matters in development. But while there’s a good case for making bureaucracies work, aid is often not very effective at eliciting sustained improvements.” This is because aid can provide technical assistance (AusAID [provided](#) [pdf, p. 24] training to 35,000 developing country public servants in 2011-12), but what really matters for bureaucratic performance are incentives and norms, and aid has limited traction on each.

Terence’s conclusion is a counsel of perseverance. We should lower our expectations and not aspire to transform governance, but to make “small incremental improvements.” To avoid staying on the floor, we should aim for the roof, not the sky.

Graham Teskey’s [blog](#) on PNG and what donors should do to improve governance there accepts much of Terence’s analysis, but reaches quite different conclusions about what should be done. He shows data which suggests that governance is worse now in PNG than it was in 1996. As he says, “[t]hese figures make grim reading for AusAID,” PNG’s primary donor, which has put so much effort into improving governance there. The 2006 Australian aid strategy for PNG had as its first goal “improved governance and nation building.” The current strategy talks about balancing “governance improvements with service delivery improvements.” Graham, who is AusAID’s principal governance adviser, suggests that what is needed is not a balance but a choice. More of the same won’t work. Since

improving governance is so hard, donors should instead prioritise “ensuring services are delivered to those that need them.” More funding should go outside of government systems. AusAID should work more with non-state providers and even with MPs, funding them to deliver development directly, and perhaps indirectly improving accountability along the way.

Tobias Haque from the World Bank and his co-authors take quite a different tack in their [post](#) on what should be done to improve public financial management (PFM) in the Pacific. Whereas Graham shares Terence’s analysis but draws different conclusions, Tobias and his colleagues have a different analysis, but reach the same conclusion.

Their post summarises research undertaken by the team (which includes Devpolicy’s Dinuk Jayasuria), and just published as a World Bank [discussion paper](#), about the determinants of PFM quality (or lack of it) in the Pacific. PFM standards can be compared across countries, using what are called the PEFA indicators, and this allows the authors to undertake some quantitative regression analysis. The results show that Pacific Island Countries have below-average PFM performance partly because they are poor, but partly because they are small: on average, everything else being equal, smaller countries have weaker PFM systems.

Why? The authors point the finger at capacity constraints. “Small countries with smaller public services find it harder to recruit and retain people with appropriate skills.” In support of this hypothesis, they show that small countries particularly suffer in relation to tasks which require technical skills in line agencies (such as internal audit). A country like Kiribati might be able (just) to staff its Finance Ministry, but is going to really struggle to skill-up its line ministries.

So, it’s not only, as per Terence’s argument, a matter of incentives and norms. Capacity also matters: small countries are going to struggle even if well governed. Tobias and his colleagues argue that efforts to improve PFM should be continued, but made smarter. More support should be provided to line ministries, continuing support should be provided (capacity supplementation rather than building), and expectations should be kept realistic: small Pacific countries should not be made to implement state-of-the-art PFM systems. All of this is very much in line with Terence’s overall recommendation that the aim should be incremental improvements rather than transformation.

So what should we do? Keep going with technical assistance, but lower our expectations and deliver it more effectively (Terence and Tobias) or try something different altogether (Graham)?

Given donor preferences, and our limited knowledge, the answer will, and probably should be: a bit of both. Donors are not going to stop trying to improve PFM. And a few good people can make a big difference: I've long argued that more use should be made of in-line positions. But technical assistance is a tough and difficult business and, however well designed, in a poor-governance environment it may be like water off a duck's back. I for one support the move within AusAID to de-emphasize governance in favour of service delivery.

But read the articles (and the provocative comments they have generated) and make up your own mind. More important than any attempt to stake out the middle ground is a recognition of the importance of this debate on aid and governance. It's a discussion that's long overdue. And what's especially pleasing is that it is one which has crossed the all-too-often impassable divide between policy makers and academics. Clearly donor agencies are grappling with these difficult issues just as much as any outside observer. And they are prepared to talk about it. Both are very promising signs.

### Summary of posts

Since our December digest was dedicated to our most popular posts for 2012, we've included December as well as January posts in the list below. Don't forget our expanded set of buzzes. We provide monthly wraps (buzzes) on [Australian aid](#), [global development](#), [education & development](#), and [aid & Asia](#), as well as fortnightly wraps on the [Pacific](#).

### Development

[Is civil society advocacy revolutionising public financial management in the Philippines?](#) By Björn Dressel.

*Citizen participation and a commitment to accountability and transparency have become common in the 'good governance' discourse globally, but the extent of the changes the Philippine government has initiated in terms of how it manages and spends its money is remarkable by any standard.*

[Sustainable urbanisation, sustainable urban health](#) by Matilda Nash.

*A proactive approach to urban health will provide opportunities for both the public and private sector while working to mould our growing cities into sustainable, inclusive and healthy environments.*

Careers in development: an interview with Amanda Jupp on private contractors, AYAD and MSF by Amanda Jupp.

*My background in business, administration and management goes across all sectors. So it's a really good foundation to move around with.*

Careers in development: an interview with Jo Spratt on careers in the NZ development sector, public health, nursing and consulting by Joanna Spratt.

*Perseverance, door knocking, networking. Showing a mixture of being proactive and engaged. Also, don't ever turn up and not know anything about the organisation.*

Climate finance at Doha: what's the damage? By Frank Jotzo and Jonathan Pickering.

*Many developing countries and **commentators** had called for wealthy countries to extend their concrete financing pledges beyond the fast-start period, for example, through a collective pledge covering 2013 to 2015. Such a pledge did not materialise, with the US and other countries citing ongoing fiscal problems.*

Participation for development: a good time to be alive by Robert Chambers.

*... [D]evelopment professionals are increasingly isolated from poor people. This applies especially to senior people in governments, aid agencies and NGOs. Many are caught in 'the capital trap' – capital cities in which they are imprisoned, held tight by meetings, visitors, internet and the digital tyranny of email, skype, webinars and the like.*

What went on at the Challenges for Participatory Development conference? By Colum Graham.

*Over 470 people (academics, students, NGO workers, Government officials, and freelance development practitioners) attended this year's conference, and packed the Manning Clark Centre.*

### Aid

Fowl or a Fish? A Submission to the ACIAR Review by Stephen Howes and Robin Davies.

*The Farmer Review should recommend an overarching goal for ACIAR's work, to be adopted as government policy after whole-of-government consideration, which would provide full consistency with the existing goal of Australia's aid program. The focus should be on development benefits, not mutual benefits.*

The effectiveness of Australian aid to Afghanistan: our thoughts on the Senate's tough evaluation task by Stephen Howes and Jonathan Pryke.

*Given the usefulness, yet infrequency of Parliamentary reviews of aid, and the rapid expansion of the aid program, Parliament should establish an Aid Committee ... Whatever the Committee finds about Australian aid to Afghanistan, we hope this is one recommendation they endorse.*

**Making bureaucracies work** by Terence Wood.

*... while there's a good case for making bureaucracies work, aid is often not very effective at eliciting sustained improvements.*

**2013: a year of aid uncertainty?** By Stephen Howes and Robin Davies.

*Perhaps the oddest thing about aid in 2012 was its almost complete absence from the Government's Asian Century Report, released in October. The Report stays away from the debate between those who claim that Asia should be graduated from aid, and those who argue that Asia still needs aid. In fact, aid hardly rates a mention in the entire report.*

**Aid effectiveness and the scale-up: the price of asylum-seeker cost shifting** by Stephen Howes.

*... [E]ven if one acknowledges the right of the Government to count these costs as aid, the manner and timing of the decision raise important questions about its commitment to both scaling up aid and to aid effectiveness.*

Do NGOs make a difference, and how would you know? By Andrew Rowell.

*Instead, we took the case study approach noted above to see what we could learn, piloting a modified form of the Social Return On Investment (SROI) approach. In themselves, the results were encouraging – a social return of between \$7 and \$42 for each dollar invested.*

AusAID and transparency: good progress and a way to go by Jonathan Pryke.

*AusAID certainly has a lot to be happy about since launching the Transparency Charter in November last year ... That said AusAID can, and no doubt will, certainly do a lot more.*

### Pacific

Fiji's 2013 budget: on the road to growth? By Matthew Dornan.

*The biggest weakness of the budget is its failure to contain government spending. The FJ\$2.3 billion budget represents a twelve percent increase in expenditure on last year, and will increase the fiscal deficit to 2.8 percent of GDP (or FJ\$219 million).*

2013 Fiji budget: an analysis by Biman Chand Prasad.

*The 2013 budget is bold and has built on the direction set by the 2012 budget. I am particularly encouraged by the emphasis of the budget on capital expenditure and a focus on roads.*

Small isn't always beautiful: how smallness undermines public financial management in the Pacific and what to do about it by Tobias Haque, David Knight and Dinuk Jayasuriya.

*The primary lesson to be gained from our analysis is that the scope and ambition of PFM reform needs to be appropriately calibrated to the context of small PICs.*

Pacific predictions 2013 – Fiji falters, and more by Tess Newton Cain.

*In 2013, while the Pacific region as a whole is expected to slow, Melanesia will continue to leave the rest of the Pacific behind in terms of economic growth.*

What constitutes donor dependence? Health financing in the Pacific by Joel Negin.

*Given the size of PICs and their state of economic development, some level of ongoing support from partners is to be expected but the question that arises is what level of donor support is considered “safe” and at what level does the support become dangerous “dependence.”*

Shifting fiscal terrain in the Pacific? By Christopher Edmonds and Emma Veve.

*Even with the progress we are seeing in terms of improved fiscal management in the Pacific, budget support is expected continue to play a significant role in the Pacific public finances.*

Pacific Leaders Gender Equality Declaration: an empty commitment or a real opportunity? By Sean Mackesy-Buckley.

*... direct support for civil society (particularly women's groups), should be given equal priority to that of efforts to reform government policy and legislation.*

### PNG

Governance in PNG: what can donors do? By Graham Teskey.

*The Executive is often not very interested in execution. We may need to accept that supporting the structures of the state may not contribute effectively to poverty reduction.*

PNG in 2013: politics, economics, PNG-Australia relations, and Ross Garnaut by Stephen Howes.

*The new Government has decided to spend big, increasing expenditure by almost 30 percent. It's not altogether a credible strategy, as the projections which return the budget to balance by 2015 assume real cuts to government salaries. But the bigger issue is whether the big increase in funds will be well spent.*

Strongim Gavman Program in PNG reviewed by John Evers.

*As for political-level debate, if it is missing because SGP is not perceived as unduly intrusive and an affront to PNG sovereignty, as its predecessor ECP was by more than a few, that can be welcomed. But if SGP is less contentious because the threat it*

*represents to scams of the larger kind in PNG government agencies has been contained, that would be a different and troubling story.*

**Growing the future, but can government manage the risks? PNG's 2013 Budget** by Aaron Batten.

*Increasing the control and execution of development funding by sub-national government, and away from national departments, constitutes a significant decentralisation in the Government's approach to allocating and planning development expenditure in rural areas.*

**Service delivery realities in Gulf Province, PNG** by Colin Wiltshire.

*While experiencing the predictable dysfunction of a system struggling to implement new reforms in incredibly difficult circumstances, we also met some of PNG's less-talked-about heroes operating at the end of a long service delivery chain that continue to teach many classes and provide basic health care to isolated communities.*

**Planning for a more productive informal economy in PNG** by John Conroy and Busa Jeremia Wenogo.

*In PNG there is evidence of both positive rural change and increasing rural-urban links, as well as some of the socially undesirable phenomena noted above. Movements of produce to urban markets have greatly increased over time, and new roadside markets have emerged spontaneously at strategic*

*places in the countryside. Meanwhile, the producer-sellers who used to dominate marketplaces are giving way to specialised traders and distributors.*

*Stephen Howes is Director of the [Development Policy Centre](#).*

### **Author/s:**

#### **Stephen Howes**

Stephen Howes is Director of the Development Policy Centre and Professor of Economics at the Crawford School of Public Policy at The Australian National University.

Link: <https://devpolicy.org/january-2013-blog-digest-20130131/>