EFFECTIVE INSTITUTIONS AND GOOD GOVERNANCE FOR DEVELOPMENT
Evidence on progress and the role of aid
By Julia Betts and Helen Wedgwood

Recent years have seen governance reforms, including the building of stronger public institutions, move centre stage in aid effectiveness debates. States can only manage development properly, and achieve the sorts of results intended, when they are underpinned by effective and accountable institutions and systems.

The pace of change has been slow, however, and there has been widespread disagreement about the best ways for countries to manage reform. The role of external partners remains contested, with concerns about national sovereignty and the complexities of countries’ political economies often at odds with donor requirements for swift and tangible results.

To examine the evidence on progress in key areas of investment since 2009, donors and partner countries have jointly commissioned four major international evaluations. These studies report on themes of: Public Sector Governance Reform; the Paris Declaration on Aid Effectiveness; Budget Support; and Anti-Corruption. Combined, they cover 22 aid-recipient countries.

This Evaluation Insight synthesises the progress made in governance and institutional reform supported by Official Development Assistance as reported by these four major international studies. The following areas have been selected for current relevance to policymakers: improving accountability and transparency; efforts to tackle corruption; centre of government and public financial management reforms; and results management in governance. The Insight assesses the evidence to ask: what progress has been made so far; what are the contributions made by aid; and what – according to the evidence – still needs to be done?

This brief summarises a wide range of evidence. The full report on the synthesis exercise can be found at: http://oe.cd/goveval.
Improving accountability and transparency is a fundamental part of making states more responsive and accountable to their citizens. This includes external oversight mechanisms, which are necessary if governments are to produce and publish accurate information for citizens, reduce corruption, change the organisational culture of the public service and ultimately transform power relations in a country. In recent years, donors and partner countries have been increasing their attention to accountability and transparency issues, partly as a way of ensuring aid effectiveness, improving good governance and aiding economic growth, and partly as a foundation for the Paris Declaration Principle of mutual accountability.

What has been achieved?

The evidence from the 22 countries is that progress has been uneven but with a largely positive trend. Some tangible results are starting to emerge:

- There is generally improving transparency, supported by new legal frameworks underpinning and protecting information and transparency, and increased public reporting of aid and domestic financial and budgetary data.
- The accountability environment is improving in some (though not all) contexts, supported by improved national scrutiny mechanisms such as supreme audit and parliamentary institutions.

What Is An Effective State?

“An effective state is one that establishes an enabling environment for the delivery of high-quality and cost effective public services and the eradication of poverty in a manner that involves accountability to its citizens through both core state functions and processes. States can only manage development when these processes are underpinned by effective institutions and systems.” Manila Statement on Partnering to Strengthen and Support Effective States, 2011
Where and how has aid contributed?
Donor interest in accountability and transparency is often linked to concerns about ensuring accountability to taxpayers for aid funds. There is clear evidence of some consistently positive intermediate-level contributions across countries, as follows:

- **Building the capacity** of accountability organisations, notably Supreme Audit Institutions and Anti-Corruption agencies, which has improved transparency and scrutiny of public expenditures e.g. through web-based reporting (many countries)
- Using **international bodies and standards** to provide external incentives to the reform process (Cambodia, Indonesia, Mozambique and others)
- Developing **accessible information systems**, such as computerised integrated financial management systems, which have helped improve the transparency of accounting, recording and reporting procedures in Viet Nam, Nicaragua, Tanzania and Zambia
- Establishing **aid databases**, where donors’ individual aid commitments and disbursements are reported (Mozambique, Indonesia, Cambodia and others)
- Using **budget support** as a modality, which has had a positive influence on transparency both of donors financial commitments and partner country governments’ budgeting processes (Zambia, Tunisia and Mali)

What still needs to be done?

The main requirement going forward is for a more consistent and systematic approach. The following gaps are identified (including some recommendations from the studies):

- Donor support to **parliaments, the judiciary, media and constitutional reforms** has been ad-hoc to date – a more systematic approach is needed
- Greater and more even investment in **evidence gathering and public dissemination** is needed in Anti-Corruption, where the importance of public reporting has been ‘systematically underestimated’ by donors
- Work to address public sector reform needs to also tackle the **political and constitutional frameworks** which underpin accountability and oversight
- In some countries, **donors themselves need to increase their own transparency** – its absence presents a major constraint to credibility
- Greater effort is needed on the **demand side**, including work with civil society to develop more inclusive dialogue, greater transparency, increased accountability and improved efficiency in policy design, implementation and service delivery

**Budget Support and transparency**

“Budget support contributes to improving accountability and transparency of budgeting processes and public expenditure, and is a valid support for implementation of reform whenever government and citizens are actively committed thereto.” **Budget Support Evaluation**
Corruption undermines democratic values and institutions, weakens efforts to promote gender equality, and hampers economic and social development. In recent years, the fight against corruption has been part of donor and governments’ wider governance reform agenda. The main international framework is the UN Convention against Corruption, to which most partner countries and donor agencies are signatories. Donor sensitivity to corruption often relates to concerns about domestic accountability for the use of aid monies.

What has been achieved?

All the evaluations, and in particular the Anti-Corruption study across five countries,¹ find that actual corruption levels have shown only very limited reductions so far (beyond some slight shifts in e.g. Transparency International indices). Results identified are therefore only at intermediate level. As follows:

- Most countries now have improved national architectures, frameworks and institutions to tackle grand corruption, particularly Anti-Corruption Commissions and Supreme Audit Institutions – though the effects of Anti Corruption Commissions in particular on reducing corruption are very mixed
- Some (though not all) countries are showing increased political commitment to tackling corruption. In some countries, legal frameworks are now in place - though problems remain with implementation
- There is generally greater and more open discussion of corruption, leading to increased awareness among the population – though people are yet to feel empowered or be given the tools to tackle it

Where and how has aid contributed?

The studies find that donor efforts to tackle corruption have been only partly relevant to country circumstances. Activities have largely focused on the analysis of grand, rather than petty, corruption. There has been insufficient attention to the impact of corruption on poverty reduction.

Aid’s main contributions to date have contributed to the following improvements:

- Developing an improved evidence base on corruption, nationally and internationally
- Strengthened capacity of Anti-Corruption agencies and Supreme Audit Functions – considerable effort has gone into the latter, which are associated with an improved accountability environment in several countries
- Improvements in legal frameworks and public financial management systems (e.g. Viet Nam, Zambia, Tanzania)
- An increased role of civil society organisations (CSOs) in service delivery monitoring (e.g. Bangladesh)
- To a more limited extent, examples of effective support to integrity and professionalism within law enforcement agencies (e.g. Nicaragua)

All these reforms have taken longer than expected to deliver results, however.

¹ Bangladesh, Tanzania, Zambia, Viet Nam, Nicaragua

Donor Support to Anti Corruption

In Zambia, donor support has been effective in building key Anti Corruption institutions in the country. ‘Progress has nonetheless been slower than expected and has necessitated higher than planned investment overall’... In Viet Nam, donor support, by being responsive to government wishes and opportunities has resulted in a constructive sequence of activities that have been greater in the whole than the individual actions. Three main strands that reflect this are: a cautious approach to build trust through good governance; efforts to develop the evidence base to inform and build on the dialogue process; followed by direct support to Anti-Corruption activities.

Donor Support to Anti Corruption Evaluation
What still needs to be done?

Based largely on the recommendations of the Anti-Corruption evaluation, the following gaps remain:

- The donor approach to Anti-Corruption needs to be more explicit, coherent, and evidence-based – e.g. through the development of an Anti-Corruption policy
- Good governance and Anti Corruption-specific interventions should be more joined-up and risk-aware e.g. by identifying how interventions in civil service and public financial management reforms can positively impact on reducing corruption
- A sectoral approach should be adopted with special emphasis on poverty and gender
- There is a need to promote inter-agency partnerships, with particular attention to ‘orphan’ sectors such as the police, justice, and private sector
- A more coordinated approach should be adopted e.g. by working towards a shared long-term vision on anti-corruption based on a mutual understanding and shared analysis between bilateral and multilateral agencies and working more in partnership on the ground

REFORMING CENTRAL GOVERNMENT FUNCTIONS

The central functions of government are those which make policy, plan, and oversee service delivery to citizens. These vary across countries, but comprise the organisations and structures within the central branch of government which manage and co-ordinate policies and strategies. Reforms to the central functions of government are thus typically aimed at changing the capacity of national government to make policy, to plan, and to maintain strategic oversight of service delivery.

Support to these sorts of reforms has absorbed significant aid volumes over the past decade. Efforts have largely focused on improving the policy-making capacity of the Executive, as well as enhancing the central oversight and management of strategic programmes. Reforming these functions, and strengthening their capacity, are critical building blocks for an effective, accountable and responsive public sector.

What has been achieved?

There have been some successful examples of reform in individual countries, but the evidence is scattered and does not allow for meaningful aggregation of results. For those reform processes which have ultimately been successful, there are other examples of public sector reform where changes have been either insufficiently comprehensive, or proven unsustainable in the face of political change. Where successful examples exist, as below, it is too soon to say whether they will ultimately impact on improved service delivery for citizens.

Examples of relatively ultimately successful individual reform efforts – though which have all encountered obstacles at various points - have been:

- Reforms in poverty reduction co-ordination (Indonesia)
- Rationalisation of government commissions (Mozambique)
- Strengthened mechanisms for development co-operation management (Cambodia)
- Development of a National Integrated Monitoring and Evaluation System (Uganda)

Reforming Social Protection in Indonesia

Indonesia’s National Program for Community Empowerment is an example of a reform aimed at increasing whole of government coherence and minimising transaction costs by co-ordinating multiple poverty reduction programmes run by different Ministries. It provides cash transfers to communities and facilitates them to conduct participatory planning and decision making processes to determine their preferred projects and investments. The programme is supported by the Government of Indonesia and a Multi-Donor Trust Fund. Its success has been seen in its popularity with both the public and development partners, and it now reaches 80,000 villages across the country, benefitting at least 35m people. It is the largest community social protection programme in the world.
Where and how has aid contributed?

Most aid contributions so far have provided technical inputs to largely government-led reform programmes. There are three main contributions identified:

- **Strengthened institutions and improved management systems** e.g. through technical support to enhance macro-economic management, planning and monitoring, or aid mobilisation and aid coordination; the provision of secretariats or technical units
- **Increased technical capacity and ability to plan for reform** e.g. through the funding of posts and embedded technical assistance or exchange or twinning programmes
- **Increased ability to analyse, monitor and report on reform** again, largely supported by technical assistance or support for key national institutions

In this area, however, there is clear evidence that the aid partnership has found itself under strain from the mismatch between donor pressure to demonstrate swift and tangible results, and the medium-term timeframes needed for these often very complex reforms. In several cases, donors have invested prematurely ahead of required pre-conditions, and subsequently withdrawn in disappointment when change has proven slow to materialise.

What still needs to be done?

The Public Sector Governance Reform study stresses that the main drivers of change must be endogenous, and that the only effective levers of external parties are information and analysis. A long-term commitment from development partners carried high value, as does a willingness to be responsive to change as it arises. The study makes the following recommendations for donors engaging in public sector governance reform more generally, which also apply to specific reforms aimed at improving central government functions:

- **Intervention design needs to be more flexible, responsive and enduring**, and aimed at building a close relationship with the organisations involved, recognising the value of embedded technical assistance
- **Donors need to have and promote an outcome oriented reform vision**, and remember the importance of good communication with a wide range of stakeholders
- **A two-phase approach for some types of reforms** could be adopted, including a preliminary lighter form of engagement aimed at building trust and increasing mutual knowledge about the context and possible solutions. Depending on the learning from this, and on the quality of the relationship, a second phase could be a heavier investment in organisational development and the development of key systems
- **In the absence of demand from the central government for public administration reforms**, donor attention could shift more to the **demand side** using a three-pronged approach of: support for reform-minded administrations at regional, provincial and district level; strengthening civil society’s capacity to demand greater transparency, increased accountability and improved efficiency in policy design, implementation and service delivery; and working with line ministries in efforts to de-regulate human resource management
Public Financial Management institutions and systems cover all phases of the public resource management cycle for good financial governance. These take different forms across countries, but are core to governments’ ability to allocate resources to national priorities and deliver public services. As such, they are a critical ingredient in fiscal and macro-economic stability. They also make possible the transparency and scrutiny of public funds.

Public Financial Management has received considerable investment from donors and partner governments in recent years – not least because of donor sensitivity about the risks of putting aid monies through partner government financial systems.

What has been achieved?

Change here has been slow. As for corruption, above, results remain inconsistent, and progress often less than tangible – for example, there is no evidence yet of consistently improved Public Expenditure and Financial Accountability scores across countries. Results identified are at the intermediate level only, as follows:

- Improvements in the quality of dialogue between donors and partner governments on reform (if not tangible results delivered)
- Some evidence of improved financial accountability
- Some evidence of improved capacity for budgetary planning, management and oversight

Where and how has aid contributed?

The intensive focus on public financial management reform by donors reflects their own sensitivities to the risks surrounding misuse of aid monies (fiduciary risk). Aid contributions, as above, have been mostly at the intermediate level, helping to reform systems, structures and processes. The major contributions found across countries – including Tunisia, Mali, Viet Nam, Zambia, Mozambique, Nicaragua, Cambodia and others - are:

- Improvements in policy and legislative frameworks;
- Improved capacity for budget planning and management;
- Better and more streamlined accounting and reporting procedures;
- Improved capacity to manage technical assistance;
- Increased budget transparency and improved expenditure controls;
- Procurement improvements to meet international standards;
- Enhanced external auditing functions;
- The implementation of integrated financial management systems

“...We, representatives of partner countries, multilateral and bilateral development organizations, parliaments and civil society note that strengthening Public Financial Management (PFM) is essential for effective and sustainable economic management and public service delivery. We recognize that weak PFM systems can be detrimental to development outcomes. States can only be effective and accountable when they are underpinned by good PFM institutions and systems.”

Manila Consensus on Public Financial Management – Partnering to Strengthen Public Financial Management for Effective States
All three Budget Support evaluations conclude that the modality has been instrumental in improving public financial management, including aggregate fiscal discipline and macroeconomic management (e.g. external debt), the prioritisation of expenditure and transparency.2

What still needs to be done?
The studies find the following areas where more needs to be done (including recommendations for action):
- The need to strengthen **internal audit** and **external budget oversight functions**, which have not advanced as far as expected
- Public financial management and broader reforms of the public administration are **interdependent** in terms of their capacity to improve public services – and consequently need to be addressed in tandem, with particular attention paid to capacity development
- Country governments may have greater incentives to reform public financial management systems when donors are emphasising this as part of conditionalities, but donors need to **situate reforms within the local political environment** – and be willing to sustain critical functions if political conditions turn adverse
- Reforms need to be **properly sequenced and co-ordinated**, with a clear and agreed plan at the outset

**MEASURING AND MANAGING FOR RESULTS**

Both the landmark Paris Declaration of 2005, and subsequent Accra Agenda for Action in 2008, focused attention on results management as a pre-requisite for achieving effective and accountable states. Under this commitment, partner countries commit to work to establish results-oriented reporting and assessment frameworks that monitor progress against key dimensions of the national and sector development strategies.

A results-based approach to governance and institutional reform is especially important as part of accountability – reporting to citizens and partners how change and reform in government structures and institutions is, or is not, resulting in tangible benefits to improve people’s lives.

What has been achieved?
The evidence finds generally poor progress in this area. Despite some efforts to develop ‘actionable governance indicators’ for public sector management, very few countries have robust and comprehensive results-oriented frameworks or monitoring systems in place for public sector or governance reform. Those which do exist are task focused and short term, leading to an incremental reform approach rather than assessing overall progress and needs.

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2 Tunisia, Mali and Zambia: Budget support is also cited as a major driver for PFM reforms in the Zambia Anti-Corruption study
Specific weaknesses include:

- Weak underlying theories of change or results chains for public sector reform
- A high number of indicators within joint assessment frameworks, meaning cumbersome reporting processes for country governments
- Inconsistent, unreliable, unmeasurable or poorly specified indicators, meaning that donors and government have different interpretations around progress
- Indicators or goal posts which change from year to year
- Monitoring which focuses on intermediate level capacity building, rather than results and impacts
- Stand-alone monitoring, usually required by donor procedures, which operates separately from performance assessment systems in-country, imposing high burdens on government and reducing the impact of joint response on strategic development
- A lack of integration across systems, with monitoring mechanisms insufficiently linked into planning or capacity development processes
- Very limited disaggregated data collection, analysis and use, particularly that related to gender and exclusion

Where and how has aid contributed?

Overall, the evidence finds very limited donor support to improving results-based management for governance and institutional reforms, beyond wider performance assessment frameworks for budget support or programme-based aid.

- Joint monitoring processes have improved through the use of such frameworks, but these changes have not necessarily supported or addressed governance and institutional reforms. They are also critiqued for being overly process-oriented.

- In many cases, development partners continue to use their own systems. This undermines the use of local systems and contributes to fragmentation, particularly within sectors.

Examples of poor quality Performance Assessment Frameworks

Analysis of the Zambia joint Performance Assessment Framework found it to be overloaded and with indicators of varying levels – some relatively unambitious and others overambitious to the point of being unrealistic. The Mali Budget Support evaluation also finds that indicators and targets are not always realistic, and some indicators are barely measurable. The Paris Declaration Evaluation cites a move to reduce and harmonise the use of indicators in one general budget support framework in Senegal from 85 to 30, reducing monitoring and reporting burdens for the government significantly. Budget Support and Paris Declaration Evaluations

Uganda’s National System

The National Integrated Monitoring and Evaluation System (NIMES) in Uganda is the most ambitious attempt among the countries studied to collate information from a wide variety of sources, analyse it and present the results to senior policy-makers on a regular basis. In 2008, the system was simplified and the format of certain key products was changed. As a result, Government Annual Performance Reports are now discussed at Cabinet Retreats at which Permanent Secretaries are held to account for the performance of their Ministries. However, the various management information systems established to support different, but related public sector reforms are weakly linked and lack close connections to NIMES itself. Public Sector Governance Reform Evaluation
What needs to be done?

The studies identify the following gaps:

- There is a need to firstly build the capacity of national performance monitoring systems for governance and institutional reforms, and secondly to join up the links between these and wider reform planning processes. There is little or no evidence as yet that national monitoring and evaluation systems and performance assessment frameworks have affected policy or strategy development on anti-corruption, for example.

- Performance monitoring systems for public sector reform also need to be integrated into existing government systems for assessing development performance overall (beyond aid) – something that is yet to occur systematically.

- To ensure sustainable long-term monitoring and evaluation of reform, ultimately the demand for governance data and other impact information must be permanently increased via strengthened democratic institutions and processes. These demand side issues have not been sufficiently addressed by donors, perhaps because the appropriate role for external partners is often unclear, and partly because donors are often less comfortable working in such explicitly political areas.

- Donors and partner country governments need to recognise that different functions of government often need to be monitored and evaluated in different ways. Systems therefore have to apply a broad portfolio of methods, which implies capacity development needs.

- Donor expectations need to be realistic and coherent in their approaches; performance assessment frameworks need to be streamlined and manageable for country governments.

Further reading

- “Principal elements of good governance” OECD Directorate for Public Governance and Territorial Development (consulted 2011)
  [http://www.oecd.org/document/32/0,3746,en_2649_33735_1814560_1_1_1_1,00.html](http://www.oecd.org/document/32/0,3746,en_2649_33735_1814560_1_1_1_1,00.html)

- Manila Statement on Partnering to Strengthen and Support Effective States: Statement of Principles and Recommendations (June 2011)


- Cusco Declaration of the OECD DAC Task Force on Effective States (2011)

The full reports for this study can be found at [http://oe.cd/derec](http://oe.cd/derec).

The full evaluation reports can be found at:

- Budget Support [http://oe.cd/dacbudgetsupport](http://oe.cd/dacbudgetsupport)
- Paris Declaration [http://oe.cd/parisdeclarationeval](http://oe.cd/parisdeclarationeval)
- Public Sector Governance Reform (Forthcoming-January)
- Anti Corruption [http://oe.cd/goveval](http://oe.cd/goveval)
Evaluation Insights are informal working papers issued by the Network on Development Evaluation of the OECD DAC. These notes present emerging findings and policy messages from evaluations and share insights into the policy and practice of development evaluation. This brief synthesises the findings of recent joint evaluations in the area of aid effectiveness and governance.

The work was carried out and financed by Denmark, the Netherlands, Sweden and the United Kingdom on behalf of the DAC Network on Development Evaluation. The work was managed by Megan Kennedy-Chouane of the DAC Secretariat. Additional valuable comments were received by Nick York (DFID) and Hans Lundgren (OECD.) The full working paper on which this summary is based is below.

From Effective Aid to Effective States: Evidence from evaluation
http://oe.cd/goveval
October 2011

This working paper presents the common evidence from a set of recently or nearly completed international evaluations examining key aspects of public sector governance and aid effectiveness. The issues - including country ownership and leadership, centre of government capacity for planning, financial management and delivery, accountability and incentives for reform, and the appropriate channelling and management of development assistance - lie at the heart of a future development co-operation strategy.

DEReC: the Development Evaluation Resource Centre
http://oe.cd/derec

DEReC brings together hundreds of development evaluations, including evaluations and dozens of reviews of projects. This dynamic database of evaluation reports is freely available for your use. DEReC includes reports published by the independent evaluation units of our 32 members.

DEReC continues to grow substantially, reaching an ever wider community. Each year the Network’s 30 bilateral and multilateral members contribute hundreds of new reports.

Summary of Key Norms and Standards - Second Edition
http://oe.cd/DevEvalNorms
June 2010

This concise document contains the main elements of the OECD Development Assistance Committee’s approach to evaluation, including core principles for evaluation policy and management, a description of the five main evaluation criteria and internationally agreed quality standards. A working tool for assessing evaluation systems and the use of evaluation in development agencies is also presented. The last section points to other resources, including specific guidance on various types of evaluation. Also available in French: Évaluer la Coopération pour le Développement : Récapitulatif des Normes et Standards de Référence.

These free publications and more information on the DAC’s work on evaluation and development co-operation can be found on the website: www.oecd.org/dac/evaluation