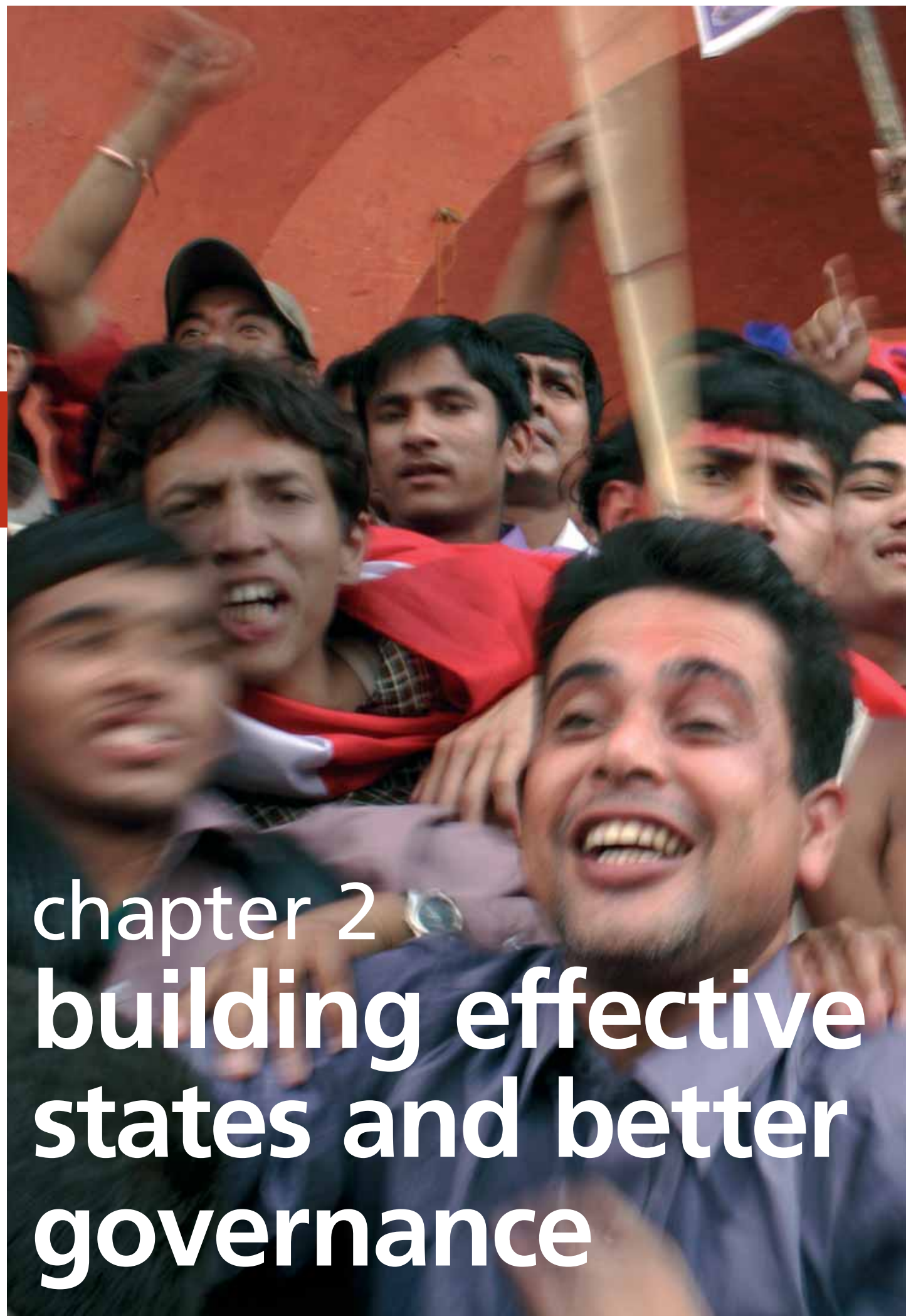




helping to
build states
that work for
poor people



chapter 2 building effective states and better governance

Effective states are central to development. They protect people's rights and provide security, economic growth and services like education and health care.

Building better governance takes time and has to come from within each country, but international partners can help.

This means we need to work not just with governments, but also with citizens and civil society.

Good governance is essential to reduce poverty ...

2.1 People want to be governed well, and to have a say in what happens in their lives. They want to be safe. They want the chance to earn a decent living for themselves and their families. And they want to be treated fairly by their government and public officials. These aspirations are enshrined in

the Universal Declaration of Human Rights, and the Millennium Declaration of 2000. But the reality for many people in poor countries is very different.

2.2 Effective states and better governance are essential to combat poverty. States which respect civil liberties and are accountable to their citizens are more stable, which in turn means they are more

A tale of two states

Tanzania is an increasingly effective state. It has a stable government committed to economic growth and reducing poverty, and a national plan known as Mkukuta which the UK and other international partners are supporting. Over the last decade the Government has improved public finances, and strengthened local government. It is improving the conditions for business and is taking action on corruption. The result? The economy has grown 6% a year since 2000. There is less corruption. The proportion of children in primary school has leapt from 58% in 2000 to 95% in 2005. And infant mortality rates are down by a third since 1999.

Zimbabwe is a failing state. The ruling party used draconian measures to hold on to power.

Human rights are abused. The rule of law has been undermined. Commercial farming was destroyed by drastic land reforms, and economic mismanagement has led to sharp rises in public borrowing. The private sector has lost confidence. The result? The economy has shrunk by 40% in the past seven years. Inflation has soared over 1,000% and unemployment to 70%. Food is in short supply and the international community is now helping feed the population. Public services have almost collapsed. Huge numbers of Zimbabweans have left the country and, for those who remain, life expectancy has fallen to 34 years. Four in five people are living below the national poverty line.

likely to attract investment and generate long term economic growth.¹ They can also cope better with calamities. Famines, for example, are less likely where there is a free media, because the press creates pressure on governments to provide relief.² Unless governance improves, poor people will continue to suffer from a lack of security, public services and economic opportunities. The contrast between Tanzania and Zimbabwe over the past decade is striking.

2.3 So what is good governance? Good governance is not just about government. It is also about political parties, parliament, the judiciary, the media, and civil society. It is about how citizens, leaders and public institutions relate to each other in order to make change happen. Elections and democracy are an important part of the equation, but equally important is the way government goes about the business

of governing. Good governance requires three things:

- State capability – the extent to which leaders and governments are able to get things done.
- Responsiveness – whether public policies and institutions respond to the needs of citizens and uphold their rights.
- Accountability – the ability of citizens, civil society and the private sector to scrutinise public institutions and governments and hold them to account. This includes, ultimately, the opportunity to change leaders by democratic means.

Understanding good governance

Capability means having the ability to perform certain functions....	Responsiveness means taking account of citizens' aspirations and needs...	Accountability means being answerable for what is done...
<p>Providing political stability and security.</p> <p>Setting good rules and regulations.</p> <p>Creating the conditions for investment and trade, and promoting growth in jobs and incomes.</p> <p>Managing public finances and putting government policies into practice effectively.</p> <p>Making sure government departments and services meet people's needs.</p> <p>Keeping borders secure and helping people move safely and legally.</p>	<p>Providing ways for people to say what they think and need.</p> <p>Implementing policies that meet the needs of the poor.</p> <p>Using public finances to benefit the poor – for example to encourage growth and provide services.</p> <p>Providing public goods and services in ways that reduce discrimination and allow all citizens – including women, disabled people and ethnic minorities – to benefit.</p>	<p>Offering citizens opportunities to check the laws and decisions made by government, parliaments or assemblies.</p> <p>Encouraging a free media and freedom of faith and association.</p> <p>Respecting human rights and making sure the 'rule of law', is upheld, for example by an independent judiciary.</p> <p>Providing regular opportunities to change leaders in peaceful ways.</p>



2.4 All three characteristics are needed to make states more effective, to tackle poverty and to improve people's lives. For example, there is no guarantee that a more capable health ministry will automatically focus on the diseases killing the poorest people unless it is responsive and accountable. The UK will now make it a priority to help our developing country partners improve governance on all three fronts.

Improving governance...

2.5 Significant improvements in governance can take place. Botswana, Ghana and Tanzania have strengthened their public institutions in recent years. Rwanda, Mozambique, Vietnam and Cambodia have successfully rebuilt their countries after devastating conflicts. And East Asian countries, such as Malaysia and South

Successful states – the East Asian experience

East Asian countries have made remarkable progress in raising living standards. A sense of national purpose has helped in this. Political leaders saw common interests between the citizen and the state, and built confidence in government's ability to maintain security, protect savings, promote investment and deliver better services.

Malaysia is a good example. Political leaders implemented policies to address economic inequalities faced by the largest ethnic group, but made sure domestic minorities and foreign investors were not excluded. Regional economic growth created new opportunities. And aid played a role in building government capability and providing access to technical knowledge.

Korea, have changed the lives of millions of their citizens.

2.6 In most cases, strong political leadership, economic growth, and a vibrant private sector were the main factors encouraging change. A growing middle class, more educated citizens, and a greater willingness by civil society and media to speak out pushed political leaders to improve the performance of the state. In some cases, the better off members of society led the demand for better governance. Businesses and trade unions demanded better rules and regulation. Professionals pressed for a more open media and the rule of law. People called for better representation by political parties in exchange for the taxes they paid.³

2.7 Accountability is at the heart of how change happens. Where accountability is good, audit institutions and parliamentary committees scrutinise the way government bodies spend their money and what they achieve. Courts help prevent abuse of office. And beyond the formal structures of the state, civil society organisations give citizens power, help poor people get their voices heard, and demand more from politicians and government.⁴

2.8 But some countries struggle to improve governance. Sometimes this is due to grievances and conflict – as has recently been the case in Palestine, Nepal and Sudan. On other occasions, it is because states are undermined by self-serving leaders who siphon off huge personal wealth from natural resources such as oil and diamonds. Sierra Leone, Angola and the Democratic Republic of Congo (DRC) have all suffered this ‘natural resource curse’.⁵ In many of these instances, corruption, unaccountable elites, patronage and ethnic divisions have distorted the political process.

2.9 Governance is influenced by what happens in the region, by international organisations and standards, and by the views of other countries and international partners. For example, peer reviews by the African Union (AU) and its New Partnership for Africa’s Development (NEPAD) are beginning to show how governance can improve. But change takes time and outsiders cannot impose models. People and governments in developing countries have to choose better governance for themselves. Political parties, civil servants, journalists, trade unions,



businesses, faith and other civil society groups must determine the future of their countries. This is about politics. Politics determines how resources are used and policies are made. And politics determines who benefits. In short, good governance is about good politics.

The UK will use its aid to support good governance...

2.10 The UK Government has a responsibility to make sure that UK aid money is used for the purpose for which it is intended. We take this very seriously. In deciding how to provide assistance to developing country partners, we will in future consider three principles:

- Is there a commitment to reduce poverty?
- Is there a commitment to uphold human rights and international obligations?
- Is there a commitment to improve public financial management, promote good governance and transparency, and fight corruption?

2.11 To answer these questions, we will look at a government’s record and its plans: are people’s rights being respected, is spending on public services going up, are efforts being made to tackle social exclusion, is economic policy promoting growth, and are public finances well managed? Answering these questions will mean understanding the underlying politics and governance. We will use a new ‘quality of governance’ assessment to help us monitor whether governance is getting better or worse. We will do such assessments with others where possible, for example with the EU and World Bank.

2.12 Where governance is relatively good and improving, the UK will consider the use of direct budget support in order to back our partners’ plans to fight poverty and increase spending on public services like health and education.⁶ In these countries, our aid will be long term, predictable, and delivered through the country’s own systems – because this delivers the best results for the least cost.⁷ But even in these circumstances,



direct budget support must be accompanied by continuing efforts to improve the management of public finances, to build the capability of government to provide services, and to ensure citizens are able to hold governments to account. Wherever possible, we will work with other international partners to co-ordinate assistance – for example through joint plans or joint financing agreements – to reduce the burden on developing country partners.

2.13 In other cases, where governance is not so good – where the commitment to reduce poverty is weaker or where the risk of corruption is greater – we will still provide aid, sometimes budget support, but differently. Fragile states often lack the capacity to reduce poverty but, paradoxically, have an even greater need to deliver public services. Consequently, they also need long term, predictable, well co-ordinated assistance to improve government systems. But, in these cases, the UK will restrict how our money can be used. For example, we might: limit our aid to specific programmes that meet the needs

of the poor; use basic services grants to direct aid to services like education and health; channel funds through ring-fenced accounts; set up implementation units outside government; or use independent and more frequent monitoring and auditing arrangements. In all cases, we will also invest in efforts to improve the long term capability, responsiveness and accountability of public institutions.

2.14 Where the government is simply not committed to helping its citizens, we will still use our aid to help poor people and to promote long term improvements in governance. But we will do this by working outside the government, and with international agencies like the UN and civil society organisations.

2.15 Where circumstances deteriorate – or improve – the UK will re-assess governance, our partners' commitment to the three principles and, where necessary, change the way we provide aid.

The UK will

- Adopt a new 'quality of governance' assessment to monitor governance and our partners' commitment to fighting poverty. The assessment will be done as part of our published Country Assistance Plans, or more frequently if necessary. It will be based on discussions with partner governments, civil society and other international partners.
- Use this assessment of 'quality of governance', as well as commitment to the three principles – reducing poverty; upholding human rights and international obligations; and improving public financial management, promoting good governance and transparency, and fighting corruption – to make choices about the way in which we give UK aid.
- In partner countries, help improve the capability of state institutions and strengthen accountability to the poor.
- Support the African Peer Review Mechanism launched by the New Partnership for Africa's Development to help partners improve governance.



International partners can help...

2.16 It is difficult to build better governance on all fronts at the same time. In states recovering from conflict, for example, it is important to create the conditions for security and justice. But sometimes providing basic services quickly may be more important. After the 1994 genocide, the Rwandan Government rapidly opened primary schools to show their commitment to educating children from all ethnic groups.

2.17 The UK has a strong record in working with developing countries to improve the capability of public institutions. 'Technical assistance' – often comprising specialist staff and training – offers new ideas and ways of working. Such support only works well when the institutions themselves want change and are ready to lead reform. Where there is strong leadership, for example in Rwanda it is possible for significant change to take place. As with financial aid, we believe technical assistance should be provided through government systems so that developing countries can design and manage it to meet their needs. And donors should pool technical assistance funds to improve co-ordination and reduce administrative burdens.

2.18 It is essential that international partners avoid doing things that undermine a country's capability. For example, some AIDS projects have recruited professional staff from government health services which are already struggling to provide health care. Or in fragile states, such as Afghanistan, giving aid only through non-governmental organisations (NGOs) or private contractors can actually hold back the process of building the capability of the state.

2.19 Consulting people improves government policy. Involving citizens and asking them what they want leads to better public services. International partners can encourage this. For example, the UK is helping countries to analyse the social impacts of policies, and to monitor and evaluate poverty reduction programmes.



How UK aid has helped Rwanda and elsewhere

The UK has provided substantial budget support and other assistance to Rwanda since the genocide in 1994 (which destroyed the house above). Public service reform is strengthening ways of managing staff and performance. This is helping local government to improve health and education. Land reform is paving the way for agricultural development and investment. The National Institute for Statistics is reviewing progress against the national Poverty Reduction Strategy. Rwanda's Revenue Authority has reduced paperwork for businesses and increased tax collection from 9% of gross domestic product in 1998 to 15% in 2005. The result? Rwanda's economy has grown by over 10% a year over the past decade. Spending on programmes to reduce poverty has increased. Poverty dropped from 70% in 1994 to 60% in 2002. Primary school enrolment has steadily climbed to 94%. Mother and infant death rates are falling. Nevertheless, there are challenges. Maintaining political stability is important but so too is allowing space for different political views and freedom of expression.

Other examples of UK support include:

- Improving tax agencies and systems. In Zambia and Mozambique UK technical assistance and funding has helped raise revenue rates significantly. In Uganda, reforms led to a 35% rise in tax revenues. These taxes are helping to fund poverty reduction programmes.
- Improving how public finances are managed. In places like Tanzania, Ghana, Pakistan, Bangladesh and Vietnam, the UK is helping improve spending procedures, accounting and auditing. These changes help ensure money is spent for its intended purposes.
- Helping education, health and other ministries to recruit more staff, improve training, and use planning and monitoring to improve the way services are managed.
- Linking institutions between countries to share lessons and skills. UK organisations such as the police service and National Audit Office are working with sister organisations in poor countries. Exchanges between tax agencies within Africa are another example.

2.20 International partners can also help strengthen accountability by supporting 'watch-dog agencies', such as national auditors, anti-corruption commissions, ombudsmen and regulators, and human rights commissions. Providing more public information on local budgets in Uganda and India is reducing corruption by local government officials.⁸ Independent customer surveys in Bangalore between 1994 and 2003 produced dramatic improvements in

services such as water, policing, public transport and hospitals.

2.21 The media and civil society organisations hold governments to account. The media ask tough questions and encourage debate. Business associations pinpoint how to improve conditions for investment and remove red tape. Civil society groups such as trade unions, co-operatives and faith groups press for better public services. In many countries, civil society is helping to improve the quality of public spending by identifying whether the poor – including women and disabled people – will benefit. In Bolivia, they are monitoring the use of oil revenues. In Bangladesh, grassroots organisations are helping members get land rights. The UK will do more to support such work.

2.22 In many societies, women have less power over their lives than men. Reducing poverty means helping them get their rights, helping them hold officials to account and enabling them to engage in the political process. The UK is committed to promoting women's and girls' rights, particularly through partnerships between civil society organisations and governments.

Helping change in Iraq

In the south of Iraq, the UK is working with the BBC World Service Trust. We have provided training for Iraqi journalists, and established an independent Iraqi-run TV and radio broadcast station which went on air in summer 2005. Programmes include debates between election candidates, face-to-face interviews with senior politicians and phone-in discussions. These broadcasts help hold local and national government to account. For example, in a past programme a provincial governor faced hard-hitting questions about how local government funds were being used.



2.23 International links between civil society groups – such as those promoted by UK trade unions, the Commonwealth Secretariat, and the British Council – can help improve governance and accountability. We will provide more support for such initiatives in future.

The UK will

- Set up a new £100 million Governance and Transparency Fund to strengthen civil society and the media to help citizens hold their governments to account.
- Work in our partner countries to help make public institutions more accountable, for example by strengthening parliamentary and regulatory oversight.
- Support public sector reform to help improve public services.
- Support more responsive governance, for example, by helping partner countries to consult with poor people, and to produce better statistics on poverty and monitor their progress in overcoming it.
- Improve the effectiveness of our technical assistance, pool our funding with other donors where possible, increase the use of local providers and ensure value for money.
- Implement an Africa Capacity Building Initiative to share knowledge and skills between UK central and local government and developing countries.

Winning the fight against corruption...

2.24 Corruption hurts poor people, and it harms women in particular.⁹ When health staff demand bribes for medicines, teachers for enrolling children in school, or local government officials for providing water connections, it keeps people poor. Corruption damages economic growth by increasing the cost of doing business. It siphons off resources that should go into public services. And it undermines the accountability of political leaders and officials to their citizens. When politicians are ‘bought’ by powerful people or businesses through bribery, or when leaders themselves use personal or public funds to buy support, they become representatives of the few and not the many. In short, corruption is both a cause and a symptom of bad governance.

2.25 Reducing red tape and simplifying procedures limits opportunities for extortion. Improving pay and conditions helps reduce the incentives for officials to take bribes in the first place. Making tax collection agencies independent of other government institutions raises standards and performance. Automating financial systems and improving public contracting practices further reduces the scope for corruption. And appointing and managing people on merit leads to more professional and less corrupt public services. The UK will support these sorts of measures in countries where we provide aid.

2.26 But as well as more effective institutions, there is also a need for better accountability. Audit institutions, anti-corruption commissions and parliamentary committees need to scrutinise how government works. There must be proper laws and rules against corruption. Most countries have them, but they are completely ineffective if the police and legal system fail to investigate and prosecute offenders.



2.27 Popular political pressure also reduces the scope for corruption. A good example is the anti-corruption work of Transparency International (supported by the UK) in countries such as Kenya, Ghana, Zambia, Pakistan, and Bangladesh. Grassroots organisations and the media play a vital role in generating public debate about corruption by campaigning against it. Newspapers and radio stations have led the demand for action in high profile corruption cases in countries such as India, Kenya and Zambia.

2.28 The fight against corruption can be won, and public financial reforms are making a difference. A recent assessment of 26 Heavily Indebted Poor Countries shows that improvements are possible. For example, twice as many countries now produce expenditure reports showing how they are using their resources which reduces the risk of funds being misused.¹⁰ And the UK is working with the World Bank, the European Commission (EC) and others to support a new international Public Expenditure Financial Accountability Framework which is putting

pressure on governments to raise standards. The Framework has been used in nineteen countries and plans are in place to use it in a further 30.

Counting on education

At the African Inland Church Girls Primary School, like many others in Kenya, it isn't unusual to see the entire school budget written up on charts around the school. "This means," explains Deputy Headteacher Francisca Sanare, "that parents and the local community know exactly how much should be spent on the education of their children". The system allows parents to hold staff to account and helps prevent small scale corruption by ensuring that every available penny goes on the children's education. "Since we have had this system in place, parents have taken a keener interest in the running of the school and know exactly what each child is supposed to get. Even the children know that the government is providing them with pens, pencils and textbooks."

2.29 Tackling corruption is a long-term challenge and the UK's approach is four-fold. First, we will take all necessary steps to ensure that UK aid is used for the purpose intended. Strict accounting, procurement and auditing procedures are required for all UK aid programmes. Where necessary, independent auditors track expenditure, and technical staff strengthen management arrangements and oversight. All allegations of corruption are investigated and, if necessary, corrective action taken.

2.30 Second, the UK will help governments to investigate and deal with alleged corruption through the courts – especially where money has flowed through UK jurisdictions. The UK Serious Fraud Office has provided legal assistance to court cases in a large number of countries including Zambia, Malawi and Sierra Leone. The UK also uses its influence to support and encourage political leaders to take action, as recent events in Kenya and Nigeria have shown.

2.31 Third, corruption will be a central part of our discussions with partner governments when agreeing and reviewing our Country Assistance Plans. We will always assess our partners' commitment and actions to reduce corruption when deciding how to provide aid and what safeguards are required. We will now regularly review the 'quality of governance' as outlined above.

2.32 And fourth, in order to reduce the scope for international bribery and money laundering and to promote better codes of conduct for international businesses and public contracting, we will take action to address the international incentives for bad governance as set out in the next chapter.

Is Nigeria turning the corner on corruption?

Nigeria was bottom of the Transparency International Corruption Perceptions Index before 2000. But with strong political leadership and help from its international partners, the country is beginning to inch its way up the league. President Obasanjo and Finance Minister Okonjo-Iweala have set up agencies to investigate and prosecute corruption and – as several high profile individuals have found – corruption and financial crime now carry a real risk of prosecution. Revenue allocations to the country's 36 states and 774 local governments have been made public since 2004, so people can now see how much money their government has to spend. The National Assembly is considering new laws to strengthen budget controls and public contracting. The EITI in Nigeria is helping track the production of oil and gas and the public revenues it generates. Challenges remain, however, particularly in making information on government spending more widely available – but progress is being made.



The UK will

- Work with the World Bank and others to develop a new, internationally agreed approach to assessing and tackling corruption in all developing countries.
- Provide practical support to governments to help them investigate corruption, and deal with alleged offenders through the courts.
- Raise the issue of corruption with partner governments as part of our regular discussions.
- Help developing countries strengthen their public financial management, and support other public sector reforms to tackle corruption.
- Support the implementation of the Public Expenditure Financial Accountability Framework in order to increase international assistance to strengthen public finances in developing countries.
- Support independent organisations (watch-dogs, lobby groups etc) that monitor and track the performance of public services and organisations.
- Continue to investigate all allegations of corruption affecting UK aid, and take action.

How change happens: Enforcing land rights in Tajikistan

For poor people around the world, getting access to courts and legal support to protect their rights is often impossible. In many cases, the reason for this is straightforward – they cannot afford to pay the legal fees.

In Tajikistan, the UK has been helping to solve this problem by supporting Third Party Arbitration Courts. These courts are an alternative way of resolving disputes: two sides to a dispute agree to nominate a third party who they both trust to mediate their disagreement and come to a decision. Although they operate independently of the formal legal system, decisions are recognised by Tajikistan's official courts. This means that where parties do not comply with a decision voluntarily, the state can step in to enforce it.

Third Party Arbitration Courts provide poor people with a cheap, fair and accessible way of resolving disputes and protecting their rights. They are particularly effective at protecting the rights of women to land and property.

UK support to Third Party Arbitration Courts has helped to make legal services available to 800,000 people in Tajikistan (12% of the population). The approach has also been used successfully in Russia, Kyrgyzstan, Moldova, Ukraine and Georgia.