Tools and Methods Series

Reference Document No 4

EuropeAid

Analysing and Addressing Governance in Sector Operations

November 2008

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Luxemburg: Office for Official Publications of the European Communities, 2009

DOI 10.2783/33642

ISBN 978-92-79-11376-5

Printed in Belgium

PRINTED ON WHITE CHLORINE-FREE PAPER

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ACKNOWLEDGEMENTS

This document has been prepared by the European Centre for Development Policy Management (ECDPM) and Nils Boesen within the Aid Delivery Methods Programme of the European Commission, EuropeAid.

The process has been coordinated by the Governance, Security, Human Rights and Gender Unit within EuropeAid and benefited enormously from discussions within and comments from the Reference Group consisting of all units of the Quality of Operations Directorate. In addition, valuable contributions have come from geographical Directorates in EuropeAid, DG RELEX, DG DEV and external partners, in particular some EU Member States that have followed the process closely.

The importance of addressing governance weaknesses at sector level is increasingly recognized as a precondition for attaining results and achieving sustainable development in sectors. This document should be seen as an input to the discussion and a contribution to the ongoing efforts to strengthen the quality of the EC's work in this area.

Any comments, questions or suggestions are welcome and should be addressed to:
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LIST OF ACRONYMS

ACP	Africa, Caribbean and Pacific
APRM	African Peer Review Mechanism
DAC	Development Assistance Committee
DFID	Department for International Development
EC	European Commission
EGS	Education Guarantee Scheme
ENER	Etablissement National d'Entretien Routier
ENP	European Neighbourhood Policy
EU	European Union
FLEGT	Forest Law Enforcement, Governance and Trade
FNT	Fédération Nationale des Transporteurs
GDP	Gross Domestic Product
IWRM	Integrated Water Resources Management
NAO	National Authorizing Officer
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
Sida	Swedish International Development Cooperation Agency
SPSP	Sector Policy Support Programme
URA	Uganda Revenue Authority
WHO	World Health Organisation
WTO	World Trade Organisation

EXECUTIVE SUMMARY

1. The European Commission (EC) and EU Member States invest a considerable amount of aid in various sectors (i.e. health, water and sanitation, education, transport, food security, migration and SSR etc). Getting results in all these policy areas is critical to make progress towards the Millennium Development Goals.

2. Yet ensuring sustainable results with sector aid is a challenging task. Sector programmes sometimes face challenges not because of limited funds, but due to the governance constraints within the sector. Democratic governance is therefore increasingly a key issue that EC sector specialists are taking into consideration.

3. This document seeks to offer guidance to EC sector specialists on how to analyse and address governance in sector operations in a more systematic and comprehensive way, without being a compulsory blueprint. Built on experience and lessons learnt its objectives are twofold:
   - to strengthen understanding of governance issues at sector level; and
   - to increase the capacity of EC staff at Headquarters and in Delegations to analyze and address governance in EC support to various sectors.

4. **CHAPTER 1** sets the scene for dealing with governance in sectors. It reiterates the broad definition of governance that the EC adopted in its 2003 Communication on Governance and Development [1]:

'Governance concerns the state's ability to serve the citizens. It refers to the rules, processes and behavior by which interests are articulated, resources are managed, and power is exercised in society. The way public functions are carried out, public resources are managed and public regulatory powers are exercised is the major issue to be addressed in that context'.

5. The EC distinguishes between three dimensions of democratic governance:
   a) the **core governance issues** of rules, interests, resources and power;
   b) the **governance principles**: 'participation'; 'inclusion'; 'transparency' and 'accountability';
   c) the governance themes or **governance clusters**: (i) support to democratization; (ii) promotion and protection of human rights; (iii) reinforcement of the rule of law and the administration of justice; (iv) enhancement of the role of civil society; (v) public administration reform, management of public finances and civil service reform; and (vi) decentralization and local government reform. [2]

6. Democratic governance is crucial for sustainable development and hence the importance of addressing governance in sector operations:

   - *Democratic Governance is a key priority for the EC* since it touches upon fundamental principles such as participation, inclusion, transparency and accountability. Promoting these principles at sector level helps, over time, to consolidate democracy, the rule of law and respect for human rights.

   - *Governance is required for sustainable sector development*. While poor governance alone is certainly not the only reason for sector weaknesses, there is strong evidence that poor governance tends to severely limit the opportunities for sustainable sector development.

   - *Governance is critical for aid effectiveness*. The new aid modalities seek to promote domestic ownership of (sector) policies and the use of domestic capacities and institutions for implementation. Adequate governance conditions (e.g. transparent budget- and decision making processes; the existence of watchdog agencies; popular participation) are crucial for progress and results.

7. **CHAPTER 2** tries to capture the essence of the EC's experience so far in dealing with governance at sector level and the various reasons for strengthen the efforts. Although technical matters remain important, democratic governance is increasingly crucial in support for sector development and some sector specialists claim that 70 % of their work is related to governance.

(1) EC (2003): COM (2003) 615 'Governance and Development'.
(2) Draft Handbook on promoting good governance in EC Development and Cooperation' (final draft 2004).

8. Some key lessons can be noted from EC's experience: (i) addressing sector governance contributes to better and more sustainable results in development cooperation; (ii) improvements of governance conditions in a sector takes time; (iii) governance principles are already taken into account in a number of existing sector projects and programmes. However, more work needs to be done in order to systematically analyse the core governance issues at sector level and in particular how power and politics influence sector performance and results.

9. **CHAPTER 3** sets out where to start and what to aim for in order to address governance better and thereby enhance the quality and impact of EC response strategies at sector level.

10. It emphasizes that democratic governance is a domestic issue as recognized by the EC, and consequently governance support cannot be based on blueprints or one size fits all solutions or show immediate results, but requires a realistic and incremental approach based on the current governance reality.

11. Donors own governance performance matters and especially in heavily aid dependent countries, donors' role can have considerable influence – for good and for bad – on the domestic governance situation.

12. EC staff is therefore encouraged to integrate democratic governance throughout its work; to systematically analyze the governance situation within their sector of work; to adopt a sector development approach focusing on the overall development of the sector; and finally to seek joint approaches with other donors as regards analysis, dialogue ad support to sector governance development.

13. **CHAPTER 4** presents a methodology that can guide the process of analyzing governance at sector level and suggests a set of practical steps to carry out such an analysis. It also examines critical process issues such as who should make sector governance assessments, when and for what purpose.

14. A governance analysis is a joint exercise between governance and sector specialists of the EC and a continuous process given that the conditions that are shaping the particular governance situation in a sector (interests, resources, power, actors etc) are changing.

15. When planning for a sector governance analysis it is important to define the purpose of the analysis, since the processes to follow depends to a large extent on the purpose. OECD/DAC distinguishes between three broad types of governance assessments [3]: those related to (i) donor decisions and concerns; (ii) general partner-donor co-operation; (iii) promotion of or support for governance reforms. Within these three broad categories the specific purpose for doing a sector governance analysis can vary substantially in scope and ambition.

16. The methodology also underlines that the process should be as inclusive as possible, working with partners and other donors and building on possibly processes and governance assessments already existing. At the same time, it is important to remember that governance concerns politics and hence, a governance analysis is sensitive. A certain level of prudence is therefore required in the way the process and its conclusions are managed.

17. The **sector governance analysis framework** (see figure below) focuses on the following four steps: (i) *context* – what are the local, national, regional and international structures, processes and legal framework that influence the sector?; (ii) *actors* – who are the stakeholders (both the demand and the supply side, included and excluded) in the particular sector? What are their powers, interests, and incentives for change?; (iii) *governance and accountability relations* between the actors – are the relations formal or informal? Are the governance mechanisms hierarchical, patrimonial, market oriented or based on networks? (iv) a final *summary* of the previous steps analyzing the governance *reform readiness* in the sector.

18. **CHAPTER 5** suggests ways for the EC to address governance issues within sector operations and provides guidance for designing and implementing effective EC response strategies. It does so by specifying three operational guidelines that can be kept in mind when going from the analysis to action:

   - *Act strategically*; refrain from adopting normative approaches or exercising hands-on control when supporting governance reforms, but instead focus on the domestic governance system in the sector. The aim should be strengthening the capacity of the domestic sector governance system to deliver, and needs to be seen as a long term step-by-step process.

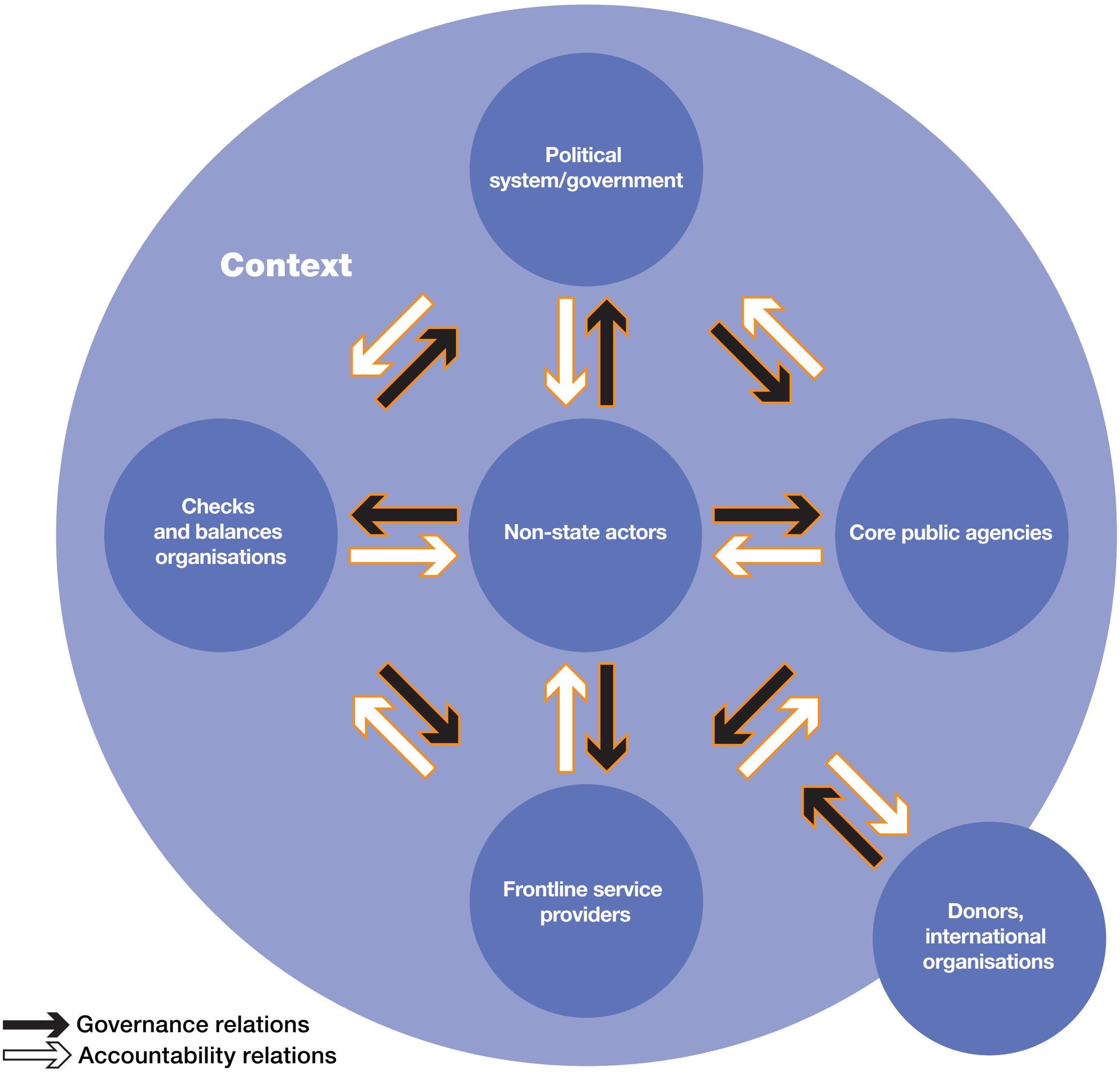
(3) OECD/DAC Network for Governance: Donor approaches to governance assessment: a sourcebook.

- *Focus on basics first*; governance changes take time and evidence show that 'leapfrog' improvements from weakly performing systems to the most advanced approaches, do usually not work.

- *Promote governance principles* (participation, inclusion, transparency and accountability) in sector operations in ways that fit the specific country context while taking sector specifics into account.

19. This final chapter of the document suggests some ways for EC staff (and other development partners) to better address governance weaknesses in sector operations, recalling that the entry points varies depending on the country and sector specific conditions and that the response strategy should not only focus on strengthening the supply side of governance (i.e. executive branch of government) but also pay attention to the demand side and also how to deal with governance constraints outside the sector that influence any development of the sector as such.

Governance Analysis Framework



Step 1:
Analyze the context
- Policies
- Legal and regulatory framework
- Organisational capacities
- International context

Step 2:
Map the actors
- Role and importance
- Interests pursued
- Power and resources
- Key linkages
- Incentives

Step 3:
Assess governance and accountability relations
- Mix of governance mechanisms
- Information about governance
- Responsiveness of governance
- Accountability set-up
- Capacity for governance and accountability

INTRODUCTION: Why this document?

The European Commission (EC) and EU Member States invest a considerable amount of aid in various sectors. These include e.g. health, water and sanitation, education, and transport. In recent years, other sectors of intervention have come to the forefront, attracting growing levels of support (e.g. forestry, mining, migration and security sector reform). Getting results in all these policy areas is critical to make progress towards the Millennium Development Goals.

Yet ensuring sustainable results with sector aid is a challenging task. Often the issue is not a lack of good ideas and funding, but political constraints and institutional issues in and beyond the sector, or what are broadly termed 'governance' issues. Sector programmes sometimes face challenges because the governance environment is not conducive to them. It is therefore becoming a key consideration for EC sector specialists to ensure that governance is adequately addressed in their sector. Some sector specialists claim that '70 % of what we are doing in our sector is actually related to governance'.

Building on existing sector experience, this document seeks to offer guidance to EC sector specialists on how to address governance in sector operations in a more systematic and comprehensive way.
Its objectives are twofold:

(i) to strengthen the understanding of governance issues at sector level; and
(ii) to increase the capacity of EC staff at Headquarters and in Delegations to analyze and address governance in EC support to various sectors.

The structure of the document is as follows:

- Chapter 1 sets the scene for dealing with governance in sectors, explaining why governance is crucial for sustainable sector development and how the concept is applied by the EC.
- Chapter 2 tries to capture the essence of the EC's experience so far in dealing with governance at sector level. It identifies some of the main challenges for future EC sector support strategies. The three remaining chapters build on this agenda.
- Chapter 3 sets out where to start and what to aim for in order to address governance better and thereby enhance the quality and impact of EC support strategies at sector level. This includes the adoption of a realistic and incremental governance approach.
- Chapter 4 then examines the ways and means to organize the process of analyzing governance at sector level and offers a basic model, as well as a set of practical steps to carry out such an analysis.
- Chapter 5 focuses on how to cross the bridge from analysis to action. It proposes a set of operational guidelines and possible actions to support governance improvements in the various sectors.

1. Main EC policies and concepts on democratic governance

1.1. The overall EC policy on governance

The EC, like many other donors, has put democratic governance at the top of its agenda. It recognizes that governance is an internal process of political transformation, specific to each country. The primary responsibility for pushing this agenda forward lies with the local actors and stakeholders. The benefits expected from democratic governance include enhanced poverty reduction, strengthened security and stability, greater respect for human rights and improved aid effectiveness.

In recent years, the EC has made major efforts to translate this commitment into a comprehensive policy framework on democratic governance, including several thematic Communications (4). This culminated in the 2006 EC Communication on 'Governance in the European Consensus on Development' (5), which sought to develop a coherent and common approach to promoting democratic governance. This Communication stresses the importance of promoting the concept of democratic governance in sector programmes. It also underlines the EC approach to supporting national, regional and continental governance processes, such as the African Peer Review Mechanism (APRM).

In addition, most EC policy documents relating to key sectors deal with governance. This applies not only to more traditional sectors, such as transport, education, health and food security, but also to relatively new policy areas of interest to the EC, such as migration (see Box 1, p. 10).

1.2 The rationale for dealing with governance in sectors

There are four main reasons for addressing governance at sector level:

- *Democratic Governance is a key priority for the EC*. Governance touches upon fundamental principles such as participation, inclusion, transparency and accountability, which are goals in their own right. It is about strengthening the legitimacy and delivery capacity of domestic institutions. This holds particularly true in fragile situations, where sector support should ideally be linked to state formation/building processes. Promoting better governance at sector level, over time, helps to consolidate democracy, the rule of law and respect for human rights.

- *Governance is required for sustainable sector development*. The ways in which public functions are carried out, public resources are managed and regulatory powers are exercised strongly influence the performance of the main sector actors, the focus of sector policies and their concrete outcomes. While poor governance alone is certainly not the only reason for sector weaknesses, there is strong evidence that poor governance tends to severely limit the opportunities for sustainable sector development. Governance is required to reinforce public functions for the sake of everyone (e.g. in terms of ensuring efficient use and more equitable distribution of resources). Supporting governance means supporting reforms in a given country.

- *Governance is critical for aid effectiveness*. The new aid modalities seek to promote domestic ownership of (sector) policies and the use of domestic capacities and institutions for implementation. However, ownership is a necessary, but not sufficient, condition for performance at sector level. Adequate governance conditions (e.g. transparent budget processes; the existence of watchdog agencies; inclusive citizenship) are crucial for achieving sector results.

- *Democratic governance principles also apply to the EC*. Several EC Communications, including those pertaining to specific sectors of intervention, recognize the need to consider the governance of aid. The Paris Declaration and the Accra Agenda for Action emphasize the importance of mutual accountability which reflects that donors' own governance behavior matters. Sector operations therefore have to analyze and address governance challenges not only at the level of partner countries but should also pay attention to the way in which aid is disbursed, how donors exercise governance in sectors through their actions and possible incoherencies within the EC which impact negatively on sector performance in the partner country. In certain situations, generous donor funding can distort the 'right incentives' among local stakeholders and contribute to postponement of the necessary reforms.

(4) The first landmark was the EC Communication on 'Governance and Development', EC COM (2003) 615.
(5) EC (2006) 'Governance in the European Consensus on Development. Towards a harmonised approach within the European Union', COM (2006) 421.

Box 1 – Governance in sector policy documents. The examples of transport and migration

In the 2000 EC Communication on **transport**, governance is considered as a prerequisite to sustainable development of the sector. This is reflected in the central importance given to:

(i) sound public finance management and institutional capacity development;
(ii) improving the overall national policy framework with regard to road, rail, transit traffic, customs, health and immigration procedures;
(iii) the involvement of all stakeholders (government departments, representatives of transport users, chambers of commerce, farmers' associations and local communities) in policy formulation and implementation;
(iv) decentralization (with a view to increasing efficiency);
(v) accountability (to improve the standard of public services);
(vi) political dialogue (to increase awareness of the transport issue and the importance of linking it to governance); and
(vii) improved coordination and complementarity between donors and Member States (to help countries develop a common approach for sustainable transport).

Migration is a new sector for the EC development cooperation. The recent EC Communication on Migration and Development mentions some of the key governance principles to be addressed in this sector:

(i) improving the transparency of the remittance market and access to information on remittance flows and services;
(ii) improving the legal framework for remittances;
(iii) the need for a sound economic and political climate to persuade migrants to invest part of their remittances: a transparent bureaucracy, a functional judicial system, the absence of corruption and a sound macro-economic framework;
(iv) the participation of diaspora organizations in the development process as important stakeholders in the policy-making process.

Source: EC (2002) *Promoting Sustainable Transport in Development Cooperation,* COM(2002) 422; EC(2005) *Migration and Development: Some Concrete Orientations,* COM(2005) 390.

1.3. The concept of governance and its various dimensions

The EC adopted a broad definition of governance in its 2003 Communication on 'Governance and Development' (6):

'Governance concerns the state's ability to serve the citizens. It refers to the rules, processes and behavior by which interests are articulated, resources are managed, and power is exercised in society. The way public functions are carried out, public resources are managed and public regulatory powers are exercised is the major issue to be addressed in that context.

Governance is a basic measure of the stability and performance of a society. As the concepts of human rights, democratisation and democracy, the rule of law, civil society, decentralised power sharing and sound public administration gain importance and relevance, a society develops into a more sophisticated political system and governance evolves into good governance'.

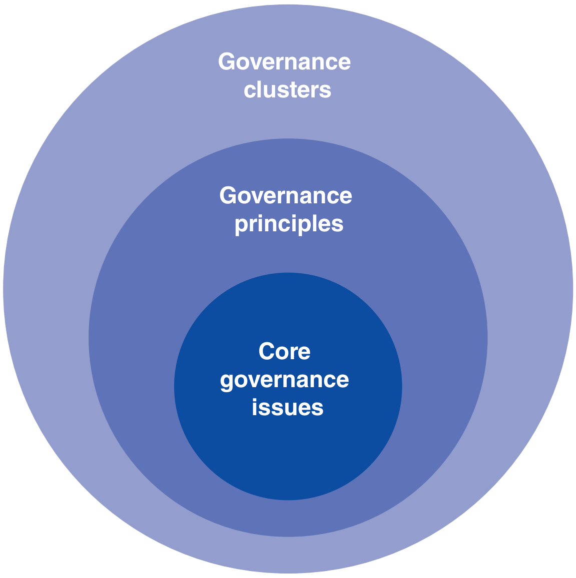
From this Communication and other EC policy documents published later, it is possible to identify the **three main dimensions of the EC governance concept**, as illustrated in Figure 1. (p. 11). These dimensions are also considered in the 'Draft Handbook on promoting good governance in EC Development and Cooperation' (7).

(1) In essence, **governance** is **about rules, interests, resources and power**. These **core governance issues** largely determine how power is used and on whose behalf institutions function in a particular country; how the relations between rulers and organized groups in society or citizens operate; and how sectors are governed.

(2) The second dimension refers to a set of known **governance principles**: 'participation'; 'inclusion'; 'transparency' and 'accountability'.

(3) The third dimension highlights that governance is a multi-dimensional concept, encompassing several themes or **governance clusters**. These are (i) support to democratization; (ii) promotion and protection of human rights; (iii) reinforcement of the rule of law and the administration of justice; (iv) enhancement of the role of civil society; (v) public administration reform, management of public finances and civil service reform; and (vi) decentralization and local government reform.

Figure 1: **The different dimensions of the EC governance concept**



EC interventions in sectors should seek to encourage and promote improvements of each of these governance dimensions. Based on the identification of entry points in a given sector – at the level of governance clusters, through one of the governance principles or directly dealing with the core issues – the aim is to promote a **virtuous circle** of gradually improving governance conditions in the sector.

Take, for instance, a development program in the water sector. The consistent application of the governance principles of participation, accountability, inclusion and transparency (i.e. the middle circle of the figure) aims to create space for (poor) people to express their voice and defend their interests. Over time, this can generate other benefits, such as improved organizational capacity and the bargaining power of user groups. This, in turn, may gradually contribute to shifting the balance of power and the rules of the game in the sector (inner circle). These evolutionary processes in the water sector are likely to have some knock-on effects in some of the six governance clusters (outer circle). This occurs, for instance, when participatory processes help to build, from the bottom-up, a culture of pluralism and democratic decision-making; when the call for effective service delivery pushes the decentralization agenda forward; or when the increased capacity of citizens to claim accountability triggers developments in the area of the rule of law, etc.

(6) EC (2003): COM (2003) 615 'Governance and Development'.
(7) Draft Handbook on promoting good governance in EC Development and Cooperation (2004). http://ec.europa.eu/europeaid/what/governance-democracy/documents/final_draft_handbook_gg_en.pdf

2. What is EC experience so far in sector governance?

2.1. Governance is increasingly prominent in sector operations

Although technical matters remain important, democratic governance has moved to the centre stage in sector operations. The focus on 'politics' has increased, although the challenges for different sectors vary:

- In sectors such as water and rural development, there is usually fierce competition among different interest groups for scarce resources. Sector operations therefore include improving regulation of the different demands of competitors, as well as the challenge of ensuring equitable service delivery and access, particularly for the poorest people.

- On sensitive issues such as land reform, cross-sector governance issues such as decentralization, customary ownership and enforcement of deeds and titles, also need to be considered. It may often be important to take into account informal and complex governance mechanisms, such as the roles played by traditional chiefs.

- In sectors such as forestry, mining and other extractive industries, the governance agenda is likely to be strongly influenced by commercial interests, both domestic and foreign. Fostering sustainable forest management raises major governance challenges in terms of protecting the interests of local communities; enhancing corporate responsibility; promoting the regulatory role of governments; and addressing issues of policy coherence (e.g. with regard to European firms operating in the sector).

- There is now more focus on understanding the underlying (power) relationships in a sector and the functioning of informal or traditional relations, which are often less visible, that have a strong influence on the chances of effective reform within the sector or beyond.

2.2. Several 'push factors' are likely to reinforce this focus on governance

The first factor is related to the priority now attached to democratic governance in overall EC cooperation. The explicit recognition by the EC of the critical importance of 'power and politics' in country specific settings will further influence and transform the way in which sector support programs are designed and implemented.

Secondly, there is a conscious shift in EC sector interventions from specific EC projects to sector wide approaches. This shift to a broader, more participatory and multi-actor approach to sector development requires a stronger focus on governance. Without adequate governance, the risk is that the sector programme will not fly. As a consequence, the EC (and other donor agencies) needs a better understanding of the forces and factors shaping the power relations and politics in a given sector. All this offers a stronger point of entry for the EC when engaging with domestic stakeholders on governance issues.

Renewed efforts by donors and partner countries to render aid more effective constitute the third factor in the push for improved sector governance. In the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008) donors in particular, committed themselves to improve the 'governance of aid' and to be held accountable for it. Fragmented aid efforts, parallel delivery systems, mixed policy messages by multiple donors not only limit aid effectiveness but such donor practices also weaken domestic governance systems by reducing the scope for national ownership and domestic accountability. Devoting attention to sector governance on a systematic basis is one of the ways to increase aid effectiveness.

2.3. Valuable lessons learned

The EC's experience of dealing with governance in sector operations has not yet been systematically analyzed and documented except from the Governance Evaluation 2006 [8]. However, it is possible to draw some key lessons:

- *Investing in sector governance helps to achieve better and more sustainable results*. There is no shortage of evaluations linking the limited success of EC supported programmes primarily to governance problems that were not or could not be addressed. Conversely, experience suggests that investing in sector governance pays off. This can help to create a more conducive environment for the effective delivery of services and the transparent and accountable use of EC aid.

- *Governance reforms take time*. Governance is about developing more effective states that are responsive and accountable to their citizens, and time is an essential factor in such processes. Quick fixes, including the transfer of institutional models, can however be tempting when factors such as the interest to see early results, disbursement pressure or upcoming elections are allowed to set the agenda. But in order to improve sector governance sufficient time must be set aside to allow for a sound analysis of the prevailing governance conditions or for participatory approaches that help in identifying and building on opportunities for progressive change (see Box 2).

- *Opening the 'black box': how can it be done?* The EC sector staff have gained considerable experience of applying governance principles in sector operations recent years. However, less often it has been based on a systematic analysis of the core governance issues related to formal and informal rules, interests, power and resources (pertaining to the inner circle, as shown in Figure 1). There is broad recognition that this 'black box' needs to be further unraveled in order to identify more suitable and effective EC response strategies.

Box 2 – Improving governance takes time

Participation and ownership are high on donor agendas and key to improving sector governance. However, integrating these principles into daily cooperation activities implies rethinking the way in which donors manage their business. In a world where results are expected within a tight timeframe, some of the more successful examples of participatory and owned processes are far more time-consuming than some would like to admit.

In *Lebanon*, the EC is supporting an economic and social fund for development, focusing on job creation and local development. From the outset efforts were made to ensure that the programme would rest on a solid governance foundation. Besides capacity building activities for municipal councils and grants to the poorest communities, community development is being promoted through a fully participatory approach. In the priority target communities, a participatory assessment of community needs is carried out and the local population is assisted in the design of integrated local development plans and in supervising the implementation cycle of their projects. However, for such an actor-oriented and participatory approach to be successful, it is necessary to be prepared for a long dialogue process. In the Lebanon case, the full cycle of local development planning and project implementation took more than 3 years.

In *South Africa*, the successful water services sector support programme Masibambane provides similar lessons. The South African context is marked by a strong government that took the lead in developing an enabling sector policy framework. However, this process, which involved key sector stakeholders such as organized local government and the Water Boards, was time-consuming: it took more than two years to create a strategic framework for water services, including an appropriate set of governance rules for the system to operate effectively. In parallel to the establishment of the Strategic Framework for Water Services, sector coordination structures were established at national and provincial levels. The process of making all these structures fully operational took more than four years. They are now extending their mandate beyond water services to deal with the issues relating to Integrated Water Resource Management (IWRM). Although this has started very well with the development of Provincial Water Sector Plans, it is likely to take several years for fully functional structures addressing all aspects of IWRM to become operational.

(8) Thematic Evaluation of the EC support to good governance. March 2006.
http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/2006/884_docs_en.htm

2.4. A new qualitative leap forward is required

Quite some progress has been made in addressing governance in sectors. However, experience also suggests that a more solid foundation needs to be created for this ongoing process by:

- Taking a **fresh look at the overall approach** to supporting sector governance. This may help to shift the focus away from what ‘should be done’ (in a normative manner) more towards ‘what is actually happening’ in a given sector and to build on that in order to move forward in line with what is politically feasible. The implications of this shift in approach are analyzed in chapter 3.

- Improving the **capacity to analyze the governance situation** in a given sector, i.e. to open the ‘black box’ of sector governance; to understand the more deeply-rooted causes of an existing governance situation. This is the focus of chapter 4.

- Enhancing the **capacity to support domestic governance reforms** with a set of operational guidelines and carefully designed response strategies. These challenges will be examined in the final chapter of this document.

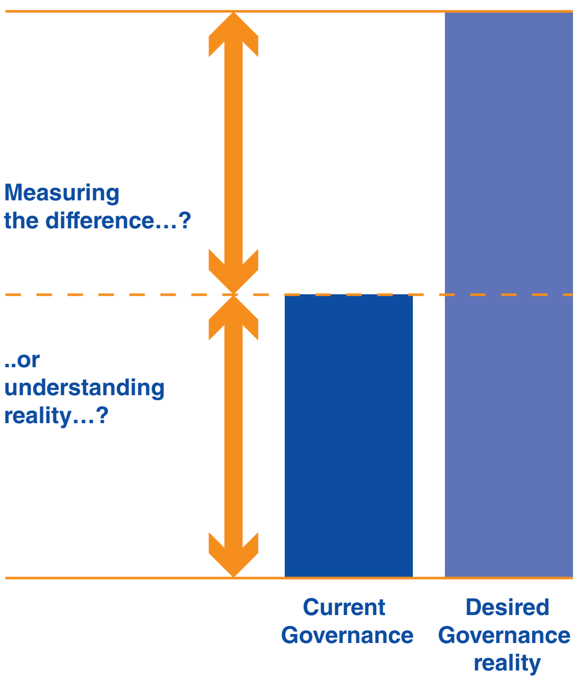
3. Addressing sector governance: the overall approach

3.1. The basic perspective: start from where the sector is, not from where it should be

There are different ways of looking at the governance situation in a given sector (see figure 2). One way is to start from where the sector stands, analyzing what the reality is and understanding why it is so. This pragmatic approach offers a more promising basis on which to develop a realistic picture of what domestic actors and donors can do to enhance sector governance. In order to understand how a sector functions in the real world it is needed to go beyond legal frameworks, formal institutions and processes in trying to understand the political economy underpinning the functioning of a given sector in terms of rules, interests, resources and power.

Another approach, in which the existing situation in a sector is essentially viewed through the lens of a future ideal state of governance – and measuring the gap – may all too easily lead to a limited perception. It may lead donors and partners to look primarily at what is *not* there – e.g. adequate accountability or transparency or appropriate incentives for civil servants – rather than help actors to understand the underlying causes that have created the current governance reality in the sector; the history, the influence of culture and the incentives that might explain what makes service providers perform.

Figure 2: Choosing the right lens to examine governance



The former approach has one important implication: promoting enhanced sector governance demands knowledge of the governance-relevant dynamics of the sector and beyond. Donors must draw on local knowledge – **sector governance cannot be analyzed or dealt with behind a desk or from a distance**.

3.2. The four fundamentals and their implications

(1) A realistic and incremental approach aiming for better governance

The 2003 Communication on Governance and Development [9] stresses that the development of governance into good governance is a gradual process involving the transformation of society. Experience and diagnostics warn against unrealistic expectations in terms of how to move from poor to enhanced sector governance. Therefore, the basic tenet of the approach is to aim for an incremental approach to improved governance.

The **implications** of this fundamental include:

- pragmatism and realism – seeking and exploiting opportunities for incremental progress rather than big leaps forward;
- recognition that governance enhancement is most often a slow and long-term process spanning decades;
- modesty and patience when working with sector governance processes;
- need for a solid and clear understanding of the local context as the basis for support to governance initiatives.

(2) Sector governance enhancement is primarily a domestic affair (at both central and local levels)

Governance articulates how interests are accommodated and power is exercised in the sector. Though increasing globalization implies that external forces may play a stronger role than previously (see below), enhanced sector governance is primarily the result of a domestic commitment to change backed by sufficient power to see it through.

[9] EC (2003): COM(2003)615 'Governance and Development'.

The **implication** is that donors can facilitate and support the enhancement of governance, but they cannot drive it, impose it, lead it or manage it. In operational terms, this means that EC staff need to be acutely aware of the roles they assume when seeking to support enhanced sector governance. Rather than trying to 'fix things when they go wrong' through externally driven projects, donors need to focus on the incentives that drive the political elites to support and drive reform and how to change these. This, in turn, will require a much greater capacity to engage in dialogue with the forces of politics and power.

(3) Donors' own governance performance matters

In aid-dependent countries, donors themselves exercise considerable influence – for better or worse – on the governance of the sectors they support. In practice, donors are often important players with considerable influence on policies, strategies, programmes and implementation processes. The EC demands accountability from recipients, for resources spent, capacity developed and the results achieved. While this responds to legitimate concerns about how European taxpayers' money is spent, it can also be a risky exercise. An approach which is too donor-driven or hands-on could easily bypass and thereby undermine domestic governance structures and accountability processes. A classic example is the tendency for accountability to be provided upwards to the donor community, instead of to national parliaments and citizens.

The **implication** of this fundamental is that the way donors do business in terms of engaging with others (the Paris Agenda and the Accra Agenda for Action), requesting for special monitoring, reporting and auditing, transparency in planning and disbursements etc are not neutral. It also implies that donor agencies need to be much more aware of how their role affects governance processes in partner countries (see also chapter 5.1).

(4) Beyond aid

Sector governance is primarily a domestic affair. However, in addition to donors, regional and global dynamics have an influence on domestic governance systems. Regional integration can be an important motor for change in governance at national level. The last decade has also seen a number of global initiatives in international trade and finance to reduce the incentives for corruption or practices which harm the environment. These include the Extractive Industries Transparency Initiative, the Kimberley Process Certification Scheme for diamonds and the Forest Law Enforcement, Governance and Trade (FLEGT) action plan which seeks to tackle illegal logging. Problems with the quality and security of products leading to consumer rejection in rich countries also provide strong incentives to improve crucial sector governance mechanisms, such as the enforcement of standards.

The **implication** for donors of this broader global and international context is to think 'outside the aid box' and to seek joint approaches to governance enhancement which exploit all available incentives for change. It requires a willingness to consider the coherence and impact of the various instruments of external action on governance processes – aid, trade and economic cooperation, diplomacy, and security.

3.3. Strategic priorities

The approach outlined above has specific implications for EC staff. To enhance the effectiveness of the governance work done in sectors, EC staff is invited to:

- *Analyze governance* more systematically to avoid fragmentation and placing too much focus on governance aspects that are fashionable at a given moment. A systemic approach means examining the context for sector governance, the interests, resources and power of actors, and their relations.

- *Adopt a sector development perspective*. Enhanced sector governance should help to strengthen responsive service delivery and effective regulation. This will also increase aid effectiveness – and the focus on sector performance should therefore drive the sector governance agenda of donors rather than overly narrow concerns about their individual support.

- *Seek joint approaches before going alone*. Whenever feasible, donor analysis of governance, dialogue with authorities and domestic stakeholders, as well as support to governance enhancement should be joint, aligned and based on harmonized efforts.

- *Address sector governance as a cross-cutting theme in sector programme support*. The newly revised EC Guidelines on Support to Sector Programmes [10] emphasize the strong governance dimension in sector programmes. Sector governance therefore has to be included as part of the seven assessment areas listed in the EC Guidelines (see also chapter 4, p. 27-28).

[10] Europan Commission (2007) Guidelines No 2 Support to Sector Programmes. EuropeAid Tools and Methods Series.

4. Analyzing sector governance

4.1. Why and how to analyze sector governance? Guiding principles for the process

The purpose of governance analysis must drive the choice of process and methodology. Who should be involved? How much? Who should lead, and who should take a back seat? How deep should the analysis be, and to whom should it be distributed?

A technically excellent donor-produced analysis 'speaking the truth to power' could risk to undermine trust between development partners and domestic actors if it is not sensitive to the political conjuncture in the sector and could thus despite the opposite intention, have a negative effect on a sector programme. Conversely, even a quite 'light' governance analysis may – if owned by the sector authorities and presented at the right time – set in motion a gradual enhancement process.

The core process issues that should be considered when doing a governance analysis are:

(1) *define the purpose of the governance analysis;*
(2) *work together with other actors;*
(3) *make public more than you think you can;*
(4) *consider the analysis as a continuous process, including through monitoring and evaluation;*
(5) *combine sector and governance expertise when managing EC sector governance analyses.*

(1) Define the purpose of the governance analysis

For what purpose is the exercise being carried out? Will it serve the basis for EC programming or is the aim to engage in a dialogue with the various actors in the sector?

It is important to define the purpose of a governance analysis at the outset, since the same process is unlikely to be suitable for several purposes. OECD/DAC distinguishes between three broad types of governance assessments: those related to (i) donor decisions and concerns; (ii) general partner-donor co-operation; (iii) promotion of or support for governance reforms. [11]

Within these three broad categories the specific purpose for doing a sector governance analysis can vary substantially in scope and ambition:

- to enhance the domestic actors' capacity to assess and change sector governance so that sector performance improves;
- to improve overall aid effectiveness in the sector by seeking a joint understanding of and harmonized support for governance by multiple development partners;
- to get sector governance on the agenda for an ongoing or desired policy dialogue between sector actors and development partners;
- to enhance sector governance through a stand alone EC initiative (e.g. in the framework of the EC programming cycle);
- to provide justification for the feasibility of broader EC support to the sector;
- to provide justification for the use of particular support modalities (e.g. budget support, project modalities) in view of the associated risks.

(2) Work together with other actors, build on what is there – particularly domestic processes

The governance analysis process should be as inclusive as necessary to achieve best results. If the purpose is broad – e.g. to support domestic sector governance reform processes – then the involvement of domestic actors is essential. If domestically driven processes like e.g. the African Peer Review Mechanism (APRM) are ongoing, then it is imperative to build on and strengthen these processes and avoid that an EC or donor-driven analysis undermines the domestic process. By drawing on already existing analyses and working closely with other donors both at national and sector levels, the transaction costs associated with governance analyses can be reduced.

The dynamics of the Paris Agenda and the Accra Agenda for Action provide a promising window of opportunity for joint action with regard to sector governance analyses, including a harmonization of donor assessment tools. At policy level, the EU has committed itself to aligning and harmonizing aid to sectors in a much more effective way (see Box 3).

(11) OECD/DAC Network for Governance: Donor approaches to governance assessment: a sourcebook.

Box 3 – A new EU Code of Conduct relevant for support to sector governance

The EU has undertaken to tackle the 'cacophony' at sector level and proposes to reduce the number of donors per sector (*Code of Conduct on Complementarity and Division of Labour in Development Policy* – Council, 15 May 2007). Improving aid coordination or harmonizing among donors at sector level is a means to this end. This should serve the purpose of creating an environment in which partners can assume even more ownership of development policies and implementation. So, at least, donors try not to burden the consultative mechanisms at sector level. Ideally, donors are investing in strengthening domestic sector coordination between governmental stakeholders and non-state actors. The design of processes for sector governance analyses should take this principle as a starting point.

(3) Make public more than you think you can

Governance analysis may unveil sensitive information, not necessarily backed by hard evidence. Sensitive points may be appropriately aired in small meetings, which may have a more positive effect than publishing them officially. By the same token, sector governance analyses can be used to table identified governance shortcomings onto the agenda for further discussion with domestic stakeholders. In this way donors can play an important role in gradually and tactfully moving the bar on what can be debated.

Some donor countries have an obligation by law to publish virtually all public documents. But the effect of such blueprint policies – in which everything is to be made public – is obviously to move sensitivities out of public reports and into desk drawers or the verbal debrief.

(4) Consider the analysis as a continuous process, including monitoring and evaluation

Governance analysis, dialogue and follow-up actions at sector level should not be seen as a one-off event. The governance situation in a given sector changes continuously: actors change with a change of government, rules with a new law, etc. Therefore it is a permanent ongoing process over a longer period of time. It is also important to link the timing of the activities as far as possible to the domestic sector calendar so that it feeds into e.g. annual reports to parliamentary sub-commissions, the budget preparation cycle or key consultative events with sector stakeholders.

(5) Combine sector and governance expertise when doing EC sector governance analyses

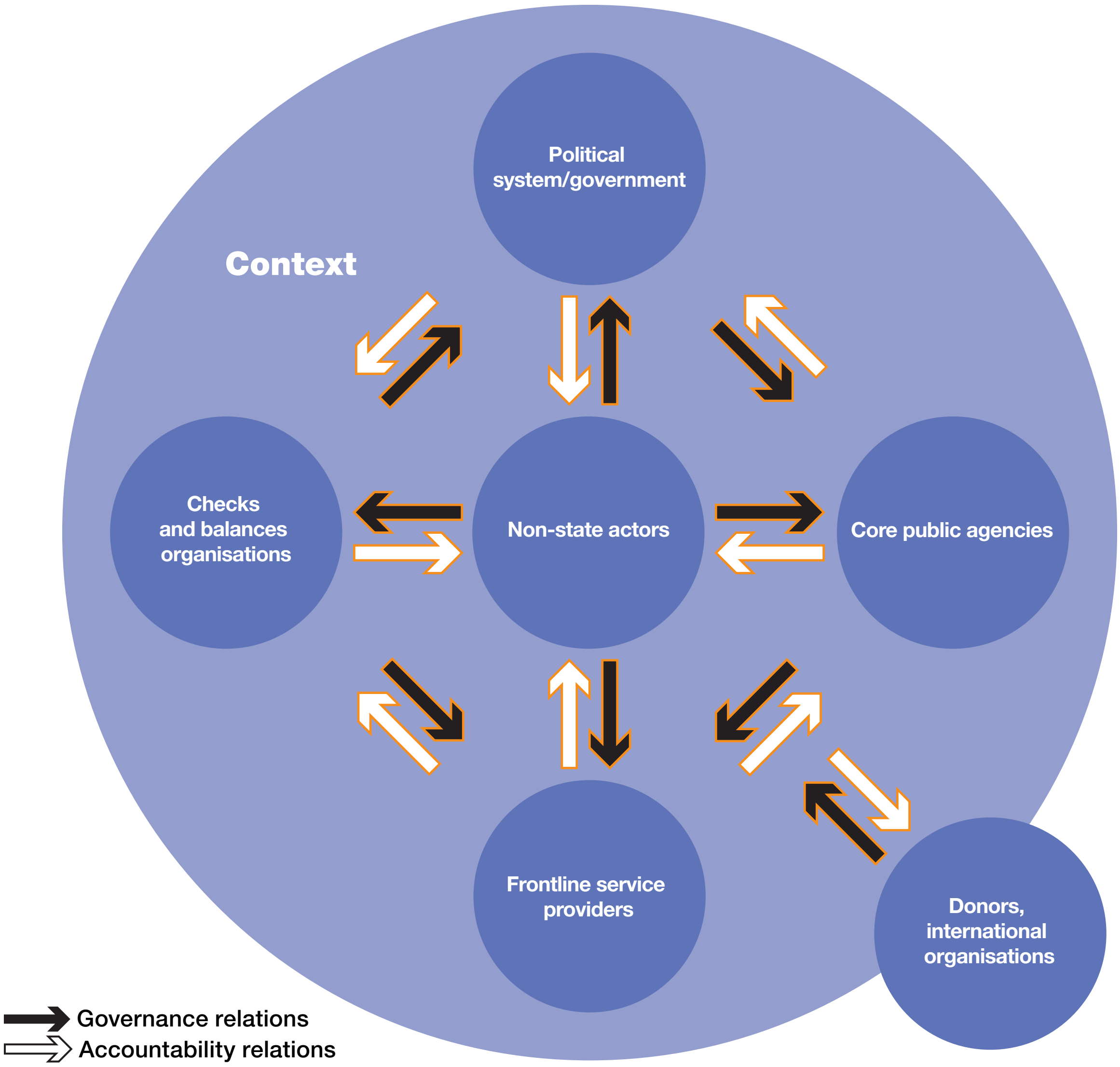
Sector governance has to be addressed across the specializations of EC staff. Whatever the role that delegation staff should play, the analyses should be a joint exercise between governance and sector expertise.

4.2. The Sector Governance Analysis Framework – Making the iceberg visible

The sector governance analysis framework (Figure 3) visualizes the main elements to take into account when analyzing governance in a particular sector. The framework focuses on three dimensions, each of which brings a set of specific questions:

- *Context*: how does the wider governance framework in a society set the stage for the specific governance in sectors? How is the overall public sector governance set-up? How does the local, regional and global context influence domestic sector governance?
- *Actors*: who are the stakeholders (key players but also excluded) in the sector? What are their respective power and authority, their interests and incentives for maintaining the status quo, or for change?
- *Governance and Accountability Relations*: What are the characteristics of the governance relations between actors in the sector? Are formal or informal relations dominant? How transparent is the decision making, the relations between stakeholders and the allocation of resources within the sector? Who is linked to whom, who has fought with whom, and by what means?

Figure 3: Governance Analysis Framework



Step 1:
Analyze the context
- Policies
- Legal and regulatory framework
- Organisational capacities
- International context

Step 2:
Map the actors
- Role and importance
- Interests pursued
- Power and resources
- Key linkages
- Incentives

Step 3:
Assess governance and accountability relations
- Mix of governance mechanisms
- Information about governance
- Responsiveness of governance
- Accountability set-up
- Capacity for governance and accountability

Seeking answers to these questions will produce a snapshot of the existing sector governance by entering specific information about the sector into the governance analysis framework. The framework expands the 'accountability triangle' from the World Development Report 2004 (12), and also draws on more recent work by the World Bank (Levy, 2007). More information on the conceptual basis for the sector governance analysis model is presented in Annex 1.

The framework locates sector governance in a wider context which enables and constrains both actual governance and possibilities for introducing change. The framework further identifies six clusters of actors (see the circles in the diagram), linked to each other by a set of governance and accountability relations (see the black and white arrows in the diagram). Understanding these relationships helps to move beyond a static picture by providing a better grasp of why the existing governance situation is as it is and whether improvement is feasible.

(12) The World Bank Report 2004: *Making Services Work for Poor People* sought to better understand the politics of service delivery. It focused in particular on the 'accountability triangle' and analyzed how the relationships between clients, providers and policy-makers hamper or impede the delivery of services to poor people.

A practical example of the sector governance analysis framework is included in Annex 5 as an illustration.

4.3. How to use the tool? Analyzing sector governance in four steps

Each of the three dimensions – context, actors, governance/accountability relations – reflected in the framework can be applied as sequential steps in the governance analysis process (see Figure 3).

Step 1: Analyzing the Context of Sector Governance

The broader national and international governance context sets the stage for how sector governance is configured and how it can develop. Governance issues cutting across the public sector must therefore be analyzed, involving governance specialists and drawing on the available information:

- The performance in a given sector is likely to be influenced by the degree of political attention the sector receives from the legislative and top executive level, as well as by ongoing or planned public sector-wide governance reforms.
- A strong judiciary at national level that effectively enforces anti-corruption laws, will have an impact across sectors. Conversely, a sector is not likely to be able to enforce anti-corruption measures in the absence of a strong and independent judiciary.
- Changes in civil servants' pay and employment conditions will change the incentives to perform, and may strengthen or weaken formal and informal lines of authority.
- Public finance management capacity will typically influence governance in all sectors, and the same is true for public financial management reforms.
- The general level of decentralization pursued by the country is likely to shape how decentralization and deconcentration are balanced in specific sectors.

This wider perspective is also necessary to appreciate the difficulties or limitations of creating sector islands of markedly better governance (see Box 2 above). The international context also matters: a country which has subscribed to World Trade Organization protocols on import/export regimes is likely to have an incentive to adhere to these regimes, and this may have very concrete governance implications (e.g. for the agricultural sector).

Factors that can negatively affect the scope for sector governance reforms include international money laundering, trans-national organized crime, lack of transparency in extractive industries, etc. Some sectors are more prone to the fall-out of such harmful international dynamics than others. It is

Box 4 – Limitations of 'island approaches' to governance improvement

In 1990, the Uganda Revenue Authority (URA) was established and given operational autonomy in return for meeting agreed targets. It was exempt from civil service rules concerning recruitment, retention, pay and conditions; and operated on business principles. Expatriates filled most top positions, with the expectation that they would be relatively protected against political pressure and patronage. A relatively independent board of directors was supposed to give policy direction and oversee operations, but in practice remained involved in day-to-day operations.

Initially, the URA was a resounding success: revenues increased from 7 percent of GDP in 1991 to 12 percent in 1996. However, the initial highest-level political support for the URA faded, the autonomy of the senior management eroded, and the building of a merit-based cadre of staff failed as appointments based on patronage came to dominate. As a consequence, a decade after the URA was set up, corruption – which the very establishment of the URA was intended to redress – was perceived to be chronic, pervasive and well organized.

In this particular case, governance reforms were not sustainable over a longer time perspective. Isolated reforms within an unchanged institutional environment – with its imperatives of retaining power through patronage and personal rule – clearly reduced the impact of such reforms over time.

Source: Robinson (2006) *The Political Economy of Governance Reforms in Uganda,* IDS Discussion Paper.

therefore important to properly assess these influences to gauge their scope and identify the likely obstacles to governance reforms.

How best to carry out a context analysis? First of all, sectors can and should draw on the many general context analyses which are available from local sources (universities, think-tanks, media analysts) or from donors. Normally, a broad context analysis could therefore be based on already available data (see Box 5). These existing governance assessments can provide a rapid appraisal of the main factors that influence sector governance processes. It is important to be selective when discussing the broader picture – the point is to get a **concise overview** of the national and international drivers and constraints on governance improvement in the sector. The analysis is thus largely a **selection process**: which broader factors are most relevant for the sector, why and how are they relevant?

During one of the workshops organized in preparation of this Reference Document, participants helped with identifying a number of 'Do's' and 'Don'ts' when making a context analysis.

Among the 'Do's' the following tips were proposed:

- aim broad rather than focus narrowly;
- scope and depth of the context analysis should be adapted to the sector;
- look at information beyond sector boundaries such as public expenditure reviews;
- diversify the analytical tools and sources of information and rely on both formal and informal channels;
- ensure continuity in the context assessment.

There are also important 'Don'ts' to keep in mind:

- don't turn the (context) analysis into a Brussels' based exercise;

Box 5 – Making optimum use of existing governance assessments

Several donors, agencies, academic, private sector and civil society organizations produce a variety of governance assessments, which can be a useful source of information when analyzing the context of sector governance. Analytical reports produced in the sector by government, individual donors or jointly may also contain relevant information on which to build.

- *At EC level*: The ACP Governance Initiative and the ENP Governance Facility were both created to encourage governments to address governance weaknesses. In this context the EC assesses certain aspects of the governance situation in countries in these regions. For the ACP countries, *governance profiles* have been drawn up by the EC Delegations which provide an overview of the state of governance at country level and identify the main governance weaknesses. Given that the profiles to a large extent rely on data from other analyses carried out by other organizations (World Bank, African Peer Review Mechanism where such analyses exist), they can serve as a useful source for further country analysis.

- *Other donor agencies*: Since the late 1990s, increasing awareness of the importance of the political dimensions of change led to the development of various tools to analyze the state of governance. Most of these frameworks operate at country level and are designed to guide donor interventions. As such, they may serve as a useful source of information in the analysis of the broader environment in which the sector operates. In the framework of the OECD DAC Governance Network, a survey and sourcebook were produced that provide an overview of the different governance assessments used by OECD agencies. Examples include: DFID's Country Governance Analysis, DFID's Drivers of Change, DGIS Strategic Governance and Corruption Analysis, African Development Banks' Country Governance Profile, and Sida's Power Analysis.

More information can be found in Annex 2 and at:
http://www.oecd.org/document/14/0,3343,en_2649_34565_39869902_1_1_1_1,00.html

- *Analytical reports produced by research institutes, think thanks and NGOs* can also provide valuable information on the governance context. Some of the analyses or indicators most often referred to are published by Transparency International, the Bertelsmann Foundation, and Freedom House.

- *Sector reviews* carried out jointly or by individual donors in the context of an SPSP also contain a lot of information on the sector governance context and the broader factors which influence it.

- don't make it a one-off undertaking;
- don't rely exclusively on specific governance advisors but prioritise capacity development with sector specialists and working in multi-disciplinary teams;
- don't turn a blind eye on how aid modalities affect governance in sectors (see also step 2);
- don't ignore how international systems and policies determine the context for sector governance.

Step 2: Mapping the Actors – their Interests, Power and Incentives

The focus on 'actors' is central to the sector governance analysis. The purpose of this mapping is to identify those organizations and individuals which are (i) the main stakeholders in the sector and (ii) those presently playing an important role in governance and accountability relations in the sector. The Governance Analysis Framework proposes **six clusters of actors**. The underlying hypothesis is that sector governance will be more effective for sector development when there is:

- an effective *supply* of governance (i.e. where actors in power share information, take decisions within clearly defined regulatory framework and allocate resources transparently, offer space for participation and are accountable for their actions etc);
- a *demand* for accountability from non-state actors and checks and balances organizations, mediated through the political system.

Some actors play different roles and thus belong to more than one cluster – the parliament, for example, can be seen as part of the political system or as a 'checks and balance' organization to contain the power of the executive. Donors can be considered as actors on both the demand and supply side.

When analyzing the actors, attention should also be given to gender imbalances, which may exclude women from exercising governance functions affecting the credibility of the social contract.

The six clusters are:

(i) *Non-state actors*: The framework deliberately puts the non-state actors in the centre. The reason is that, although it is not always the case, the state should eventually be controlled and governed by the people, and accountable to the people. In reality, a state may actually be serving the interests of elite groups.

There is further the assumption that successful development depends on increasingly stronger governance relations between the state and broad segments of empowered citizens. Only when citizens have the interest and the power to call the state effectively to account is it likely that a 'social contract' can be forged between citizens and state.

The private sector – farmers' and industrialists' associations, exporters of specific commodities as well as international investors – are an important part of the demand-side, but can also be part of a situation where informal and corrupt relations to politicians allows a *de facto* monopoly to persist for selected businessmen. The media also belongs to this non-state cluster, and is important because the media can demand accountability and investigate cases of poor governance. When identifying the actors in this non-state cluster it is therefore *important to further break down the cluster of the non-state group*: formal (elite) groups (employers' associations, political parties, media, trade unions, etc.) and informal elite groups (clans, ethnic groups, families, oligopolies, etc.) may exercise strong formal or informal governance at various levels. As a result, the lines between the political system and civil society are often blurred.

(ii) *Checks and balance organizations*: These organizations typically supervise sector organizations (e.g. a bank superintendence, a reference veterinary laboratory checking quality of provincial laboratories, state auditors), or handle complaints and resolve conflicts (the judiciary, ombudsmen, expert appraisal boards, etc.). They may be public or private, the latter then certified by a public body (e.g. private auditors, land surveyors). Effective checks and balance organizations (e.g. parliament) are essential to curb excessive concentrations of power (with the inevitable resulting abuse of power) in the executive branch of government – but they are, of course, themselves subject to governance which may be good or bad (e.g. consistently corrupt judiciary systems).

(iii) *The political system/government*: These are the rule-making and top-level executive actors in the public sphere at various levels. At national level this includes the parliament and the cabinet; at sector level it includes parliamentary sector commissions and the minister. If the framework is used at district level, the local government or municipal council is the political level – in a village forming a Water Users' Committee it may be the village chief or the council of elders.

(iv) *Core public agencies*: These can include sector ministries and centralized agencies with largely normative and regulatory roles. If regional or local governments play such roles they would also form part of the core agencies – if they deliver direct services they would be in the category of service providers. If the framework is applied at village level in the water sector, the Water Users' Committee would be considered a core agency. This category of actors is located on the *'supply side' of governance*, as they are the 'duty bearers' towards the users of services who are the 'rights holders' and who can demand that the duty bearers perform their role, and hold them accountable for their performance.

(v) *Frontline service providers*: These include public and private providers who deliver direct services to users, customers or citizens: headmasters, nurses, police officers, road maintenance crews, water pump operators in the village, etc. Local governments may play a more or less significant role: frontline providers may be hired or contracted by local governments and/or directly by the centre.

(vi) *Donors, regional and international organizations: International and regional organizations* can exercise authority through treaties whereby a government agrees to abide by certain governance principles. Some international organizations like the World Trade Organisation (WTO) can impose sanctions on countries which do not live up to their obligations. Less formal, but sometimes just as effective, they can act by virtue of their professional or moral authority. The World Health Organization (WHO), for instance, can exercise considerable influence by virtue of its professional authority, while the African Peer Review Mechanism (APRM), which looks at governance issues in African countries, has a degree of moral authority. *Donors* also play an important role in influencing the domestic governance agenda. In line with the Paris Declaration and the Accra Agenda for Action, their role in governance should however be limited and focused on strengthening domestic governance. In reality, donors still continue to exercise significant governance functions, particularly where aid is a significant part of the available funding. *Donors are part of the demand side* of governance, requiring that recipients are accountable for the money received and results achieved. The insistence of donors' demand could, crowd out domestic demand for accountability, so that governments become more accountable to donors than to their own citizens and make citizens pose demands to donors instead of to their government. In this way, donors may be weakening rather than strengthening the emergence of a social contract. Conversely, donors are *also part of the supply side* of governance: donors make detailed policy recommendations; they contract technical assistance, formulate plans and policies; and donors have a large say in e.g. the formulation of poverty reduction strategies.

What is the best way to map actors? Brainstorming about the various actors involved in sector governance tends to produce long lists. It may provide a starting point but it is often better to quickly reduce the list to those actors that really matter; those with the strongest

Box 6 – Donors as key players in improving the demand and supply sides of governance. The example of the FLEGT initiative in the forestry sector

The FLEGT (Forest Law Enforcement, Governance and Trade) process provides a good example of how donors can influence sector governance in various ways.

In many countries, the forestry sector is characterized by illegal logging, driven by a strong demand from consumer countries. In 2003, the EU presented the EU FLEGT action plan, which sets out a range of measures to combat illegal logging in producing countries by promoting improvements in the sector governance framework.

The process is still in its infancy, but FLEGT has the potential to improve both the demand and supply sides of governance in the forestry sector. On the demand side, advocacy and monitoring capacities of civil society can be enhanced, and checks and balance mechanisms reinforced. On the supply side, the regulatory and internal monitoring/control capacities of the government and core public agencies are strengthened and private sector initiatives supported.

Countries can conclude a Voluntary Partnership Agreement and benefit from EC-funding for FLEGT supporting projects. Currently, partnership negotiations are ongoing with Indonesia, Malaysia, Ghana and Cameroon. Informal discussions and preparatory work is taking place in Congo, Central African Republic, Liberia, Gabon, Vietnam, and Côte d'Ivoire.

formal or informal say in governance and those with the most important formal or informal accountability obligations. In order to make this selection process it is important to assess the *interests, power and incentives of the various actors*. There are various stakeholder analysis tools that offer ways of doing this, and a simple matrix for this purpose is included in Annex 3.

In this process, existing 'mappings' of key governance actors, carried out in the context of other processes can be helpful. For instance, the growing EC support to civil society (as a governance player) is usually accompanied by a mapping exercise and a stakeholder analysis (including of the strengths and weaknesses of the various actors) also often covering particular sectors of intervention. Due attention should also be given to gender issues, as the analysis might reveal important gender imbalances. The EC has developed tools to help EC sector specialists for this purpose. [13]

The key questions to be considered for each actor would include the following:

- *Role and importance of the actor*: does the actor play a governance role or an accountability role, or a mixture of both? How important is the actor for the actual governance and/or accountability? From a future perspective, will this actor be more – or less – important?

- *Interests pursued*: What are the short and long-term agendas of the actor? What mix of formal and informal objectives is the actor pursuing? What is the mix between pro-poor objectives and objectives linked to bureaucratic policies and power struggles, or individual positioning and individual interests? Which one would prevail over the others?

- *Power and resources*: What (informal and formal) power and resources does the actor have at its disposal? Is the formal power undermined by counteracting informal power of other actors? What constraints does the actor face? What other actors outside the sector play a role for the sector (Minister of Finance, cabinet/president, development partners)?

- *Key linkages*: To whom is the actor connected, formally and informally? Who knows whom? What connections and allegiances does the actor have? The informal relations may be of more interest but also more difficult to map.

- *Incentives:* What incentives (rewards or sanctions) would the actor perceive getting from maintaining or enhancing sector governance? For example, service providers and civil servants: are they motivated to perform by professional ethos, the pay and conditions, adequate supervision and/or competitive pressure? From a future perspective, would alternative arrangement like e.g. outsourcing or privatization, provide effective incentives, or would market failures render such attempts ineffective?

Other tips that were proposed at one of the preparatory workshops for this reference document include:

- start with the actors within the sector, and from there broaden to actors beyond the sector;

- admit that the reliability of the current analytical practices vary a great deal – with major weaknesses still to be addressed;

- look for those sources which are best suited to identify the stakeholders that matter, understand their interests, and look for the formal and informal relations among them;

- use informal as well as more formal channels for the diagnostic exercise;

- remember that nationals from the country working in the delegation may bring valuable information especially on actors' informal or formal roles based on tradition and culture;

- use the mapping to inform the policy dialogue;

- ensure feedback loops from policy dialogue into the actors' analysis;

- develop capacities to undertake such actors' analysis – which goes beyond the mere mapping and focus on interests and incentives;

- make sure that such analysis is not an add-on to sector work but is brought more to the centre of the sector work.

Stakeholder analysis is sensitive particularly when it relates to relations between actors or actors playing an informal governance role. While aiming at making as much as possible public, certain information may better be used with discretion (i.e. not refer to in documents, shared with smaller group of stakeholders when relevant etc). However, the broader picture of stakeholders, their importance, interests, power and incentives is an important part of the broad sector governance dialogue and provides a starting point for discussing possible changes to move towards more effective governance.

(13) See: Toolkit on mainstreaming gender equality in EC development cooperation, available on http://ec.europa.eu/comm/europeaid/projects/gender/toolkit_en.htm

Step 3: Analyzing Governance and Accountability Relations

Knowing the context and mapping the key actors in the governance-accountability set-up are the first steps. The next task is to analyze the governance and accountability relations between key actors. Most often these governance and accountability relations operate within more complex settings. The Governance Analysis Framework identifies **four** such **governance mechanisms** through which authority and power can be exercised, following different 'rules of the game'. These four governance mechanisms are described in more detail in Annex 1. In brief:

- *Governance by hierarchy* is formal; the superior has a formalized right to issue orders and command a level of obedience; subordinates are highly dependent upon decisions taken at the top level;

- *Patrimonial governance* is informal; loyalty and support to the 'patron' in exchange for protection, resources and/or position binds the client to the patron and makes him/her dependent on the patron;

- *Market governance* is formal; the famous 'invisible hand' where competition and the forces of supply and demand compel independent market participants to adapt their performance – or vanish;

- *Voluntary network governance* is informal and found among independent actors when there is no apex authority, no market and no patron establishing order, and relations are therefore predominantly based on trust and mutual recognition.

When looking at governance relations, the first task is to analyze the 'mix' of governance mechanisms that determine the functioning of a sector. The aim is not to pass judgment, but simply to describe and understand how the sector is actually governed, as an essential prerequisite for a dialogue about how governance can be enhanced (see Box 7 below for an example).

Other issues to look at could include:

- *Information about and clarity of governance*: Are the 'rules of the game' in the sector fairly clear, comprehensive and available, and do the actors know them? Is it clear when, how and by whom decisions are taken, and are the remits for decision-making for different actors fairly well defined?

- *Responsiveness of governance*: Are actors and agencies subject to fairly predictable central guidance in line with formal policies, or is decision-making more arbitrary, discretionary and ad hoc?

Box 7 – Understanding governance mechanisms in Kenya and the implications for the agricultural sector

The importance of understanding underlying governance mechanisms for sector governance can be illustrated through the example of Kenya. Patrimonial governance mechanisms have made up an important part of the functioning of the Kenyan state since its independence, as exemplified in the increased powers that were conferred on the President in the 1960s, weakening other actors such as the parliament, judiciary, local government and civil society organizations. In the agricultural sector, this was clearly felt through the increased Presidential control over public agencies such as the agricultural commodity marketing board and producer organizations, which were converted into quasi-public bodies. This tendency increased in the 1980s, when the 1985 State Corporation Act transferred many of the powers over marketing boards and authorities from the Minister of Agriculture to the Office of the President. This strong presidential grip on the sector implied that the adoption of virtually any policy required presidential approval.

The post-independent State also had a strong ethnic component, favouring members of the ethnic community in power. As in Kenya different ethnic groups are associated with particular crop and/or livestock production systems, agricultural policies favoured certain agricultural products produced by the ethnic group in power. At the same time, the heavy regulatory framework introduced by the colonial regime was maintained and used for patronage purposes by imposing restrictions on production and marketing or granting trade licenses to favoured individuals.

Source: Smith, Lawrence (2004) *Agriculture in Kenya: Identifying What Shapes the Policy Environment,* Oxford, Oxford Policy Management.

Is the sector governance in line with governance principles or cross-cutting governance clusters, such as democratization, human rights, decentralization, rule of law, participation of civil society etc?

- *Accountability set-up and responsibility*: What are the mechanisms, if any, through which people entrusted with power are kept under check so that they do not abuse that power – and to what extent do they carry out their duties? Does the presentation of accounts to their 'governors' have consequences in the event of serious under-performance? Do accountability systems have any impact on the behavior of duty holders?

- *Capacity for governance and accountability*: Are resources and capacity available in terms of quantity, quality and timeliness, to enable agencies to follow governance directives, and to meet accountability obligations? Are resource flows and management transparent?

In principle, the governance and accountability relations between each pair of actors in the Sector Governance Analysis Framework (figure 3) can be assessed in detail. However, for the sake of a better understanding of the governance situation in the sector, this is not necessary and would make the exercise unwieldy. It is therefore recommended to elaborate a comprehensive picture on a general level, rather than aiming for a detailed description. Annex 4 offers guiding questions for analyzing governance relations, and suggests possible data sources.

Step 4: Summing up – Analyzing Governance Reform Readiness

As a final step, the above three steps can be brought together in a **summary matrix** which presents:

- the key features shaping and describing the existing governance relations in the sector. (The proposed key variables in the matrix are condensed from the more detailed analyses discussed above);
- the key strengths/opportunities as well as the key weaknesses/threats for change in governance and accountability on the demand and supply sides, respectively.

This matrix does not add new information to the previous steps. Rather, it is intended to synthesize the detailed analyses made and to provide an overview and major trends, with a focus on the overall readiness – or resistance – to enhancing governance.

The matrix is also **not intended as a 'scorecard'**, nor does it prescribe how enhancement should take place, or how far-reaching change should be, or how fast.

Its purpose is to stimulate discussion and to help those engaged in enhancing governance to identify feasible and realistic options for change.

Although the best approach is to work on both demand and supply side at the same time, the analysis may in some countries and sectors lead to a fairly

Table 1: Trends in Sector Governance – summarizing the analyses

	Key features	Key strengths/ Opportunities	Key weaknesses/ threats	Major trends
Context beyond the sector				
Actors, interests and incentives				
Governance/ accountability relations				
Other aspects				

negative picture with few drivers of change and windows of opportunity for governance enhancement from the supply side. If a country is suffering a general governance backlash where regime legitimacy is questioned by citizens and authoritarian rule increasingly used to oppress dissent and voice, or if corruption and nepotism are rampant, then the scope for shorter term governance enhancement at sector level is likely to be limited.

In such cases, sector specialists will have to look for alternative entry points (e.g. support to the demand side through the private sector and civil society, while maintaining dialogue and contact with potential future reformers in government). If governance is consistently poor with no clear signs of readiness to improve it by the authorities, this will, of course, impact the scope of EC support to the sector and the modality through which this can take place.

4.4. Governance Analysis and the Seven Assessments Areas for Sector Policy Support Programmes (SPSP)

When working to support sector programmes in a partner country, the EC analyses seven elements with a view to determining the scope and feasibility of support [14]. The seven assessment areas are:

- sector policy/strategy;
- budget and expenditure management;
- sector coordination and management;
- institutional setting and capacity;
- performance monitoring system;
- macro-economic framework;
- public financial management.

Sector governance is not an independent area on the list, but the results of a sector governance analysis will inform each of the seven assessment areas for SPSP, and the sector governance analysis will draw on the assessments in each of the seven areas. The central governance issues most relevant for each of the seven areas are shown in the Table 2 below.

Table 2: Assessment Areas for Sector Policy Support Programmes (SPSP)

SPSP Assessment Area	Salient Sector Governance Issues
Sector policy/strategy	• Voice of sector actors in national level policy processes • Voice of sector-external actors in sector level policy processes • Inclusiveness and effectiveness of sector policy processes Transparency of policy making processes • Efficiency of policies – are they actually enforced/followed, are actors in the policy-results chain in the sector held accountable
Budget and expenditure management	• Do budget constraints and opportunities effectively inform policy making, and do budgets reflect policy choices? • Do budgeting processes involve relevant actors? Do donors deliver on pledges in a timely fashion and are they held accountable by country stakeholders? (The Public Expenditure and Financial Accountability (PEFA) assessment addresses issues in this area).
Sector coordination and management	Sectors often include a combination of governance mechanisms – hierarchy from central ministries to deconcentrated units and agencies; networking with actors from other sectors or government levels (e.g. central agricultural authorities have no formal authority over e.g. infrastructure provision in rural areas, or credit policies). In the management set-up, donors may play an inappropriate role if a layer of control with donor participation is inserted between e.g. civil servants and their minister. Information flows, consultations, formal and informal decision-making processes between different sector organizations and stakeholders, as well as with important stakeholders outside the sector (e.g. ministry of finance, the cabinet) is another aspect of the focus in this assessment area.

(14) See EuropeAid Guidelines No 2 'Support to Sector Programmes', Tools and Methods Series, EC. July 2007.

SPSP Assessment Area	Salient Sector Governance Issues
Institutional setting and capacity	The EC's guidance on institutional and capacity assessments [15] underlines the aspect of how sector organizations are governed by external actors and organizations. Governance can operate mostly according to functional dimensions: auditing (to what extent are prescribed standards followed?), the judiciary (will legal claims be processed according to the due process rules in force?). However, governance can also have a largely political dimension: user groups may complain if services are not delivered, the media may report on failures or on excellent performers. The quality of governance mechanisms will directly impact the pressure on organizations to perform and deliver.
Performance monitoring system	Data on results achieved, in principle, provide the basis for accountability. Performance monitoring is therefore an indispensable tool for governance and accountability – but it is not enough on its own. In this assessment area the sector governance analysis would focus on whether and for what performance data are actually used. The data may come too late or be of insufficient quality to be useful for decision-making – or it may be assumed that formally agreed results are the only ones that matters.
Macro-economic framework	Macro-economic governance issues form part of the sector governance context analysis. The quality of national fiscal or monetary policy governance will influence behavior in sectors.
Public financial management	Public financial management, including procurement, may represent a serious risk to sector performance where governance vulnerabilities at different levels in the value chain – from policy level to frontline service provision – can lead to leakages, waste and outright fraud or corruption. Adequacy of controls, transparency, incentives and accountability – i.e. governance – in this area is of crucial importance for the overall PFM and sector performance. (The PEFA assessment instrument details issues for this assessment area).

When working to prepare EC sector policy support programmes, governance and accountability aspects should thus be considered and addressed in each of the seven assessment areas. Though not formally prescribed, significant value may be added to the seven assessments by looking at governance across the components of a sector programme, because governance aspects in one area (e.g. participation in policy processes) may be closely connected to governance aspects in another area (e.g. accountability for results according to the policy). From this perspective, governance related concerns need to be identified and addressed throughout SPSP cycles (from identification and formulation to implementation), including in terms of analysis, dialogue, and monitoring and evaluation.

(15) See EuropeAid Reference Document No 1 'Institutional Assessment and Capacity Development', Tools and Methods Series, EC. September 2005.

5. From Analysis to Action: How best to support incremental governance progress in sectors?

How can the EC and other development partners support steady, gradual processes of improving sector governance, based on the existing realities in a given country? How can they promote improved governance, built on a sound analysis of the prevailing governance and accountability relations in the sector? This final chapter provides guidance for designing and implementing effective EC response strategies. It does so by specifying three operational guidelines and a set of specific actions which can be taken by EC staff (and other development partners). The three operational guidelines are:

- act strategically;
- focus on basics first;
- promote governance principles in sector operations.

5.1. Act strategically to strengthen domestic governance

The operational guideline to '**act strategically**' may help to identify the way forward. It invites EC staff to refrain from adopting normative approaches or exercising hands-on control when supporting governance reforms. The more donors focus on the detailed content – which project, policies, indicators should be pursued – the more their actions could crowd out domestic governance mechanisms. For instance, an education sector policy agreed between donors and central government agencies is not likely to promote effective domestic sector governance if it excludes parliament, political parties, parents, teachers and other legitimate stakeholders from the policy process.

Alternatively, donors can focus on the domestic governance system in the sector: how are policies actually decided (and do formal policies matter?); how are actual spending decisions taken (is the budget a transparent and effective allocation process, or are real priorities set through opaque cash management decisions during the fiscal year?); how are performance benchmarks defined and measured (and are the measurements actually used for learning and/or accountability)?

The latter approach strategically aims at strengthening the domestic governance system. When donors exercise detailed 'content' control and quasi-management instead of focusing on the domestic system and the results this system produces, they must carefully balance the trade-offs and seek to diminish the damage to the system caused by their own direct governance interventions. This does not imply that donors should only look at how the domestic governance system can deliver results in the long run – the short term needs of service delivery to poor groups and the minimization of risks, waste and leakages may prompt donors to insist on policy content aspects, co-decision making or special procedures. But this last approach – which has been the traditional mode of operation (at least, in terms of mindset) by most donors – should be used only when required. The primary focus should be on strengthening the capacity of the domestic sector governance system to deliver, and needs to be seen as a long term step-by-step process.

This balancing act is necessary in relation to both individual donor projects and when donors act jointly in sector processes. Box 8 provides some pointers for achieving this balance in sector governance operations.

Box 8 – 'Act strategically': what does it mean in practice?

- Be aware that donor resources represent power: every action taken and word spoken by a donor is likely to interfere in domestic governance relations. Consider the likely impact of donor actions on governance *before* acting.
- Build shared country-donor governance mechanisms (joint task forces, steering committees, policy dialogue forums) so that they complement rather than undermine domestic mechanisms.
- Consider the impact of donor interventions in sectors (e.g. health delivery) on the state-society compact (e.g. in terms of citizen's perception on who delivers services).
- Work carefully on calendar issues to adjust donor-government interactions to the 'governance-calendar' in the sector, including (but not limited to) the budget cycle.
- Respect the role division between central and local governments, as enshrined in legislation.
- Be aware of the complex governance relations between sectors and local governments while ensuring the necessary linkages and coherence between sector support and decentralization processes (1).
- Involve relevant domestic actors who play, or should play, a role in the governance set-up in the sector including political society, checks and balances institutions and non-state actors – rather than focusing only on the executive.
- Define and enforce transparency codes between donors on sharing and publishing relevant information – practice what you preach.
- Harmonize the direct accountability demands of development partners through joint reviews, use of official government documents.
- If national systems and processes cannot deliver the required information for donors' accountability needs, seek to strengthen these systems rather than establishing parallel monitoring systems.
- Resist the temptation to micro-manage.

(1) For more information, see the European Commission Reference Document No 2 on 'Supporting Decentralisation and Local Governance in Third Countries'. EuropeAid Tools and Methods Series, January 2007.

5.2 Focus on 'basics first'

The EC consider governance as a long-term political and social transformation process driven by local actors (see chapter 1). Donor agencies can contribute to enhancing (sector) governance but they should also recognize that this is likely to be a slow and complex process, requiring realism and pragmatism.

These realities dictate the need for a **basics first approach**. It means looking for multiple small, practical steps which are informed by a strategic view of how to accelerate ongoing processes of change (see Box 9). Consistently, evidence confirms that overambitious governance reforms are unlikely to be effective or sustainable. Experience in public finance management, for instance, has shown that attempts to 'leap-frog' from weakly performing systems to the most advanced approaches, do not work.

Box 9 – 'Basics first' in sector governance: what does it mean?

In the broader sector governance context a basics first approach would imply:

- strengthen emerging domestically-rooted demands for governance and accountability – rather than focusing only on the supply side of governance;
- seek to formalize informal governance practices gradually – rather than attempting to replace them by formal approaches in one strike;
- work on increasing predictability and gradually reducing discretionary behavior – before introducing comprehensive and integrated planning and monitoring systems;
- increase basic transparency in governance, targeted directly to those with a clear interest in the matter – rather than 'putting everything on the web';
- 'demystify' public budgets and help various actors to engage in budget processes related to the sector;
- work on governance and accountability for inputs and procedures before making managers accountable for results (manage *for* results rather than *by* results);
- strengthen external controls before relying on managerial accountability;
- add merit as a criterion when selection is based on loyalty and patronage – rather than seeking to replace loyalty-based recruitment with merit-based;
- monitor sector performance (e.g. in health) by focusing on practical, down-to-earth issues (e.g. absenteeism, drug management and leakage, informal payments). [1]

(1) For an example see Lewis, M. Governance and Corruption in Public Health Care Systems. Centre for Global Development, Working Paper Number 78, January 2006.

5.3 Promote governance principles in sector operations

The review of EC experience with promoting sector governance (see chapter 2) acknowledged the experience gained with applying EC governance principles – participation, inclusion, transparency and accountability – in sector operations. They need to be promoted in ways that fit the specific country context and respect the 'basics first' principles while taking sector specifics into account.

The table 3 below aims to identify some of the key challenges to be addressed when promoting the governance principles, and provides some pointers to be considered in the design and/or implementation of sector operations.

Table 3: Promoting governance principles in sector operations

Governance principles	Key challenges when applying these principles in sector governance	Example of questions to consider during design and implementation
Participation	Improve the overall quality of participatory approaches consistent with local conditions and culture. Improve the effectiveness of multi-actor dialogue processes. Strengthen the regular interface between core agencies and the political system (parliamentary committees) and between core agencies and frontline providers and/or local governments. Create opportunities for users to have a voice regarding the quality of the services provided in the sector.	• To what extent have the various actors been enabled (e.g. in terms of timely information and capacity support) to effectively participate in sector policy dialogue? Are existing, informal consultation mechanisms factored in? • Are the right 'process conditions' in place to promote ownership of sector reforms (e.g. in terms of information flows; credible dialogue mechanisms; transparent decision-making processes; monitoring systems)? • Is participation properly organized in the various phases of the sector programme? Is participation organized in accordance with the legal framework, taking into account the legitimate role division between the various actors? • Is there scope to forge effective public-private partnerships? • Is user feedback (scorecards, etc.) systematically built into the system?
Inclusion	Promote social inclusion which matches the pace of the outreach capacity of service providers and regulators. Encourage and capacitate public services to introduce relevant gender specific information in public information management systems. Actively check whether certain ethnic, social or interest groups are deliberately excluded from access to services.	• Is there room for marginalized groups to promote their interests and balance elite interests? • Are gender imbalances addressed? • Are relevant data available about possible exclusion from access to services in the sector? • Under what conditions will decentralization of service delivery contribute to or hinder equitable access for poor and marginalized groups?
Transparency	Promote a culture based on the 'right to information' with regard to public policies and budgets. Support public (media) debates on results achieved and value for money in spending. Make information about budget allocations and actual transfers to frontline units publicly available to all staff and service users. Ensure own transparency as a donor.	• What measures will be effective in terms of increasing access to information and transparency? • What type of support would help to put in place a transparent framework for tracking public finance and expenditure throughout the process? • Does the transparency framework apply to the various actors in the sector (public agencies, civil society organizations, private sector, donor agencies)? • Are relevant policy documents, studies, audits, evaluation reports, etc. systematically made public? • Are overseeing agencies functioning properly?

Governance principles	Key challenges when applying these principles in sector governance	Example of questions to consider during design and implementation
Accountability	Distinguish between various types of accountability (political, social and managerial). (16)	• To what extent is information available on existing accountability mechanisms and ways to use them? • To what extent are the necessary checks and balances in place and operating to check on the use of State power? How can the horizontal accountability mechanisms realistically be strength-ened? • How can the vertical, citizen-led account-ability mechanisms be strengthened? • What type of support could be provided to civil society organizations to enable them to play their role in policy processes and performance monitoring? • What measures have been taken to improve donors' own accountability?
	Improve top-down state accountability while supporting bottom-up account-ability demands from citizens, com-munities and civil society organizations.	
	Assist checks and balances organiza-tions in performing their supervisory functions, (e.g. the Auditor General).	
	Invest in capacity development of civil society organizations involved in advocacy work (including watchdog agencies).	
	Develop action plans and perform-ance assessment frameworks for improved donor accountability as part of the Paris Agenda and the Accra Agenda for Action.	

5.4. Possible actions for promoting sector governance

The ultimate choice of relevant actions will depend on country and sector-specific conditions, as revealed by ongoing sector governance analyses. The entry points for EC support to improved sector governance will vary accordingly (see the test application of the Sector Governance Analysis Framework in Annex 5).
This implies that there is no 'to do' list which can be generally applied across sectors, countries and time frames. Reforming sector governance is a process of learning and adapting, and not something that can be prescribed. Therefore, the guidance below is simply designed to stimulate discussion and draw attention to possible action areas, issues and factors that may need to be considered, thereby helping staff to make better informed decisions in specific situations.

The range of possible actions is fairly broad, and can be broken down into three clusters:

(1) actions that strengthen the supply side for improving governance;
(2) actions that strengthen the demand for improving sector governance, and;
(3) actions that deal with governance constraints outside a particular sector.

It is by applying a combination of targeted activities from these three clusters that both the reform readiness and capacity to improve governance at sector levels may be effectively enhanced.

For each of these cluters of potential actions, three sets of questions will be considered:

- What is the issue?
- What can be done?
- What are the operational implications during the project cycle?

(16) For a short and practical overview see IDS Policy Briefing. Making Accountability Count. Issue 33, November 2006 as well Capacity.org. *Accountability*. Issue 31. August 2007.

1) How to strengthen the supply side for improving sector governance?

| What is the issue?

The sector governance analysis is undertaken partly to create better insight into the degree of political will and the capacities for reform of a partner government, or certain key or less central actors within government. The findings can range from partner countries that are willing to engage in meaningful and relevant governance reforms, to situations where there is little or no commitment to improve sector governance. Where the willingness exists – even though sector capacities may be weak – donors can help to develop a more comprehensive sector agenda.

| What can be done?

How can donors promote that sector governance issues are put on the agenda and there is a move towards a domestic policy framework for improved sector performance? The following steps can be considered:

- *Pay careful attention to ownership issues*. In endeavors to get governance on the agenda, donors have traditionally pushed hard to convince partner governments to define ambitious sector governance action plans. Experience suggests that this approach generally has a limited impact. These plans tend to be incompatible with existing levels of reform readiness and capacity to manage change. Such plans may help to protect donors against risk levels that are considered unacceptable by their head offices, but they rarely foster sustainable improvement in governance. Therefore, taking a careful and detailed look at ownership issues is fundamental when working in this area. Depending on country situations, this could be done by:
  (i) staying at arm's length in planning and design exercises;
  (ii) creating incentives and space for government partners to take the lead in the development of a sector policy which addresses realistic ways to enhance governance;
  (iii) providing access to resources for organizations trusted by partner authorities who can help to draft sector governance agendas and plans.

- *Carefully consider capacity constraints and the longer term requirements for meaningful capacity development*. In line with the EC's thinking on capacity development [17], sector staff should look at the technical and political dimensions which together enable organizations to perform or which hinder them. These dimensions include leadership, commitment, responsiveness and motivation – as well as knowledge, systems (including internal reward and sanctions), technical skills (related to public finance management, for example) and resources. As already highlighted, improvements in sector governance are likely to occur over a long period of time and through a series of multiple, small steps. Capacity development in support of 'big bang' public service reforms has a very poor track record.

- *Encourage donor harmonization and alignment:* Limited knowledge, shallow understanding, fragmented support and duplicative donor procedures adversely affect levels of political will and capacities for governance reforms. The degree of leverage to promote reform in a given sector is likely to increase if donors work together purposefully. In addition to this, there is need to exploit possible complementarities, as different donors may have comparative advantages (e.g. supporting private sector and civil society actors or arranging peer-based exchanges).

- *Strengthen domestic ownership of the Paris Agenda and the Accra Agenda for Action (and their implementation):* To ensure more effective implementation of the principles of the Paris Declaration and the Accra Agenda for Action partner countries have to be put more centre stage in the aid effectiveness process. Donor agencies have an important role to play in harmonizing or in working out a better division of labour at sector level (e.g. in the context of the EU Code of Conduct). But the bottom line should be that government is capacitated to assume leadership of the supply side of the governance enhancement process [18] (see Box 10). Targeted investment in capacity building can help to create the necessary conditions for gradual ownership of the government to emerge. In some countries, aid coordination processes have moved forward considerably, creating opportunities for stronger national ownership (e.g. Tanzania, Uganda, Ghana, Zambia, Vietnam, and Cambodia). This, in turn, has impacted positively on both sector governance and the governance of aid.

(17) European Commission (2005) Reference Document No 1 *Institutional Assessment and Capacity Development. Why, what and how?* EuropeAid Tools and Methods Series.
(18) This is consistent with the first operational guideline, mentioned in chapter 5.1, calling on the EC to play a strategic role in sector governance.

Box 10 – Government leadership in coordination efforts

The Cambodian government, through the Cambodia Development Cooperation Forum, has taken the lead in coordination efforts. It has set up cooperation mechanisms at two levels. The sector and thematic issues are covered by the technical working groups, chaired by a senior government representative and co-facilitated by a development partner representative. At a higher level the Government-Development Partner Coordination Committee deals with cross-sector reforms and governance issues.

Furthermore, the government has created a focal point – the Cambodian Rehabilitation and Development Board – to coordinate its own efforts to implement the Paris Declaration. The board has published the findings of a study on the way in which the Paris Declaration is being implemented. The first *Aid Effectiveness Report* was discussed at the first meeting of the Government-Development Partner Coordination Committee in June 2007. In the process, particular attention is given to developing mechanisms for mutual accountability that go beyond information sharing and analyzing progress. The purpose is to use mutual accountability as an objective base for more open dialogue, increased transparency and an enhanced understanding of the interests of both donors and the partner country, including at sectoral level. In order to ensure effective monitoring, new tools have been developed (e.g. sector profiles and data collection systems for quantitative analysis).

Source: Aid Coordination in Cambodia, in: Capacity.org (2007) Issue 31.

- *Practice what you preach – enhance mutual accountability*. Donors, by signing the Paris Declaration and the Accra Agenda for Action, have committed themselves to be accountable and to provide predictable, reliable and transparent flows of funds and information. So, to affirm their credibility as pro-governance actors, donors have to be transparent about progress on harmonization and alignment. In a number of countries, concrete measures have been taken in this direction. For example, in the context of budget support partnerships in countries such as Mozambique, Ghana, Vietnam and Tanzania, the EC – together with other donors and partner countries – have jointly developed Performance Assessment Frameworks that enhance transparency over joint commitments and allow for monitoring of results, also of commitments made by donors to deliver on the Paris and Accra promises.
- *Promote public – private partnerships and market governance mechanisms when appropriate*. Public-private partnerships may merit attention in most sectors. Under the right circumstances, public-private partnerships may contribute to improving sector governance and create an effective division of roles between the various actors (who should do what?). Extending the scope of social service suppliers to non-state actors may enhance the quality and spread of services (see Box 11). Contracting out road maintenance, for example, may create competitive pressure on service. This can allow State agencies, for example, to concentrate on the most fundamental tasks for which they have the capacity and resources and which are essential to ensure equitable access to services. Defining roles may also help to avoid situations where civil society organizations *de facto* take over roles – often with donor funding – that from a strategic perspective should be performed by government agencies (both central and local).

Box 11 – Strengthening the relationship between non-state service providers and core public agencies in the health sector, South Africa

Before the first democratic elections in 1994, the EC supported a number of NGOs providing health care services in South Africa. Following the transformation of the country to a democracy, this support continued alongside support to the government through the Public Health Sector Support Programmes.

This led to a fragmented situation in the health sector. On the one hand, NGOs provided services in a vacuum, not necessarily aligned to government policies and with only limited access to government financial support. While on the other, the government increasingly recognized the importance of NGOs as key partners in delivering basic health care to the poor in both urban and rural areas.

In order to overcome this fragmentation and to strengthen the links between public and private health care delivery, the EC entered into an agreement with the South African government: Partnerships for the delivery of Primary Health Care including HIV/AIDS.

Its aim is to put in place an integrated district health system – with an NGO partnership component – in selected municipalities in five target provincial departments. Financial and technical support is provided to enable non-profit organizations to identify and define their roles. It is also geared at strengthening their capacities to negotiate and implement service partnerships with provincial health departments and district municipalities.

Source: programme documents (EC reference SA/B7-3200-01/01).

- *Strengthen the government's sector and national monitoring capacities*. One particular area of support for capacity development relates to developing local institutions' monitoring capacity of sector governance. This is obviously a far more ambitious approach than ensuring regular donor analyses in the framework of sector support. Reliable statistical information is a pre-requisite for meaningful monitoring of sector performance and related aid programmes (see Box 12). The inclusion of governance-relevant parameters may be both desirable and feasible, so that governance becomes an integrated part of the general monitoring. Such efforts should not overload existing information management systems, but seek to strengthen such systems wherever possible. Although still in their infancy, approaches have been tested in which specific governance indicators are integrated in household surveys. [19]

Box 12 – Innovative entry points in promoting domestic dialogue: statistics for society

There are several ways in which donors can promote domestic dialogue and on sector related governance issues. The MADIO programme supports capacity to develop and maintain statistics in Madagascar. It provides an innovative example of how statistics can be used as a tool for promoting dialogue and strengthening accountability relations between citizens and the State.

Based on the idea that access to good quality information may contribute to public debate, the programme is intended to support the production of good quality statistics, economic analysis of the data and broad dissemination of the results. The programme was not restricted to economic topics, but also included more sociological surveys on broad societal matters, such as reform of the administration, corruption, violence, education policies or the issue of ethnicity. Citizens are kept informed of the results through various channels that have been created and in which the media play an important role. Evaluations show that MADIO is fostering a 'culture of numbers' in a country where such a culture was previously non-existent. Now both citizens and civil society organizations use the information to promote public debate and political change.

Source: Razafindrakoto, Mireille & Francois Roubaud *(2006) La statistique au service du débat démocratique en Afrique: l'exemple du projet MADIO à Madagascar.*

(19) See for instance www.metagora.org

| What are the operational implications during the project cycle?

What does this mean in real terms for programming and managing EC support in a given sector? The following practical tips may be useful:

- **Identification phase:**

  (i) *Integrate governance as an area for capacity development*, including in areas singled out for capacity development support such as enhanced policy processes, public financial management, monitoring. In order to identify opportunities to support capacity development for improved sector governance, a careful analysis is needed along the methodology described above in chapter 4 taking into account prevailing governance conditions, the readiness to reform, the potential winners and losers of the reform, as well as the incentives for and drivers of change.

  (ii) *Define a coherent set of results-oriented capacity development measures* that build on existing capacities and flexibly exploit opportunities as they emerge. This may include clarifying and regularizing as much as possible the governance and accountability mandates in and between sector organizations and e.g. local governments, where these are unclear or informal. It may involve taking specific steps to ensure that key decisions in the sector are formalized and made transparent to staff and as relevant users, and that small-scale measures of accountability become an integrated part of regular management practices. It can also be done by ensuring links between capacity development efforts at central and local government levels to strengthen specific, mutual accountability measures between the different layers in accordance with the formal governance mandates that each level has. All of these options require a focus beyond training and human resource development. They also require that processes, systems, information flows, managerial practices and incentive mechanisms are realistically and gradually developed and applied.

  (iii) *Identify opportunities for harmonized support to sector governance*. It is important to assess the various other donors and intervention strategies that could be combined for strengthening sector governance (on both the supply and demand sides of governance).

- **Formulation phase**

  (i) *Prioritize a sector development perspective when choosing the right mix of aid modalities*. The choice of aid instruments can affect governance in a sector. Some modalities such as projects are less aligned and harmonized than others, such as sector budget support. 'Stand alone' projects funded by individual donors tend to limit transparency and in practice, focusing only 'on the tree may obstruct the view of the forest'. But sector or general budget support requires policies and governance capacities that are often not available in sufficient quality. Therefore, sector engagement often requires a carefully selected mix of approaches and aid instruments. Such considerations have to go hand in hand with efforts to explore comparative advantages and reduce the procedural burden associated with uncoordinated donors. In sector approaches, where the EC delivery modality is budget support, this would also mean jointly agreeing on performance assessment frameworks.

- **Implementation phase**

  (i) *Ensure a participatory process* of monitoring institutional development progress among government agencies at various levels. The key challenge will be to support realistic and purposeful management information systems that may not necessarily satisfy donors' standards, but may be appropriate in the gradual build up of institutional capacity and incremental process towards improved sector governance.

2) How to strengthen the demand side for improving governance?

| What is the issue?

The Sector Governance Analysis Framework outlined in chapter 4, attaches great importance to those stakeholders that articulate concrete *demands* for effective governance. Attempts by donors to influence government directly through financial leverage and conditionality have often not worked. So there is a need to think more strategically about how to engage with civil society and other key players in order to strengthen the demand for improved governance. Supporting practical, down-to-earth governance and accountability mechanisms is thus also a way of getting sector-wide approaches away from meeting rooms and a focus on formal documents and general level engagement.

| What can be done?

The EC explicitly refers to the important role of organizations from civil society, political society as well as citizens, in voicing demands and creating the pressure that can bring about lasting reforms. There is a broad range of support strategies that may help to build effective constituencies for change. These can include:

- *Expanding the space for a domestic dialogue on sector governance.* External actors can play an important role as allies of domestic change agents. They can do this through various actions, including by:
  (i) investing in information and communication on sector matters: an informed citizenry is essential in strengthening the responsiveness of the State and a pre-requisite for meaningful participation by civil society organizations in sector dialogue processes;
  (ii) supporting studies and audits, preferably done by domestic actors, that can help to give a better picture of the governance conditions in the sector;
  (iii) investing in independent media and civil society watchdog organizations that can produce relevant findings and analyses of sector challenges in a way which is accessible to broader audiences;
  (iv) playing a mediating role in cases where government and various sections of civil society are not on good speaking terms – or in conflict. In strongly authoritarian settings, donors can seek to support and protect civil society (e.g. human rights organizations; farmers' associations or environmental activists), but may have little power to promote broader dialogue.

- *Enabling targeted sector groups such as end-users as well as service providers 'on the ground'* (e.g. teachers, police officers, extension agents) to have a voice that will be heard. This can be encouraged through simple scorecard approaches, regular surveys, focus group processes or by creating mechanisms that give users a role in supervising internal governance in the sector.

- *Supporting the establishment or effective functioning of complaint and redress mechanisms.* ([20]) Support could involve National human rights commissions; Ombudsman institutions; Transitional justice mechanisms providing reparation/compensation/restitution and rehabilitation to victims of human rights violations. International UN human rights mechanisms, international criminal tribunals and regional human rights mechanisms constitute examples of complaint and redress mechanisms at international level.

- *Providing strategic support to watchdog agencies* that are strategic for governance within a sector (see Box 13). Such actors may include professional unions (e.g. teachers, police officers, nurses, doctors) and other relevant non-state actors that can help to provide evidence and fuel a societal debate on *how* systems deliver (or do not deliver) and are responsive (or otherwise). The EC is supporting programmes in various countries that seek to build the capacity of non-state actors

Box 13 – Accountability through civil society – a broadening field of donor engagement

A relatively new area of work for donors consists of supporting civil society's engagement in budget policies and processes. This takes different forms, such as linking applied research and advocacy campaigns.

The case of Uganda provides an interesting illustration. With targeted donor support, the local civil society has been gradually empowered to participate in policy processes as well as monitoring the use of national and local budgets. The Uganda Debt Network, for instance, puts pressure on government to improve budget implementation in key service-delivery areas such as health and education. Local monitors check the implementation of government contracts – and try to spread the information to those who care.

The EC has also been active on this front. The 8th EDF Human Rights Programme in Uganda piloted an approach called 'poverty resource monitoring' with the view to enhancing the dialogue between local governments and civil society on the use of sector funding for service delivery and development. It focused on participatory planning and communication of local governments in order to strengthen 'downward accountability'. The programme also supported the creation of district NGO networks which could become interlocutors in the district planning and budgeting process. The 9th EDF decentralization programme has integrated this component and promotes it across other partner districts. This approach is also supported through some projects under the 9th EDF Civil Society Capacity Building Programme.

([20]) Complaint and redress mechanisms include domestic remedies such as Criminal prosecution of perpetrators following a complaint made by a survivor or a victim; Claim for damages as part of criminal prosecution; Civil claim for reparation; Constitutional claim for breach of fundamental rights; Judicial or quasi-judicial State compensation mechanisms.

Box 14 – Strengthening the demand side in the education sector, India

Governments can take initiatives to stimulate demand as well. In India, the government of Madhya Pradesh has undertaken some remarkable efforts to do exactly this in the education sector, while at the same time guaranteeing local ownership of the schooling process.

The Education Guarantee Scheme (EGS) model started as an experiment, and is based on a partnership between a local community and the government. Communities with at least 25 children and no access to a school within a distance of 1km were encouraged, through the Panchayat system of local government, to write to the administration to demand a school. The government for its part guaranteed that a school would be provided within 90 days of the demand, provided the community could provide a local teacher and a space for the school.

The innovative scheme was seen as a step forward, although its dynamics were sometimes problematic. EGS schools, which were primarily targeting the poorest of the poor and children from ethnic communities, received less funding than formal schools. The EC support programme to the Education Guarantee Scheme, the Sarva Shiksha Abhiyan programme, tries to address these problems by enabling the students of the Education Guarantee Scheme to move on to the formal classic education circuits, and with success so far.

to monitor government sector policies as well as the governance situation in the sector.

- *Engaging with 'political society'*. Another avenue for strengthening the demand side of sector governance is through parliaments and other domestic institutions with a formal governance mandate, particularly supervisory bodies (e.g. the Auditor-General; anti-corruption committees; ombudsman's offices; the Public Service Commission; human rights bodies, etc.). These institutions have a role to play in terms of ensuring two key components of accountability: *answerability* – the obligation of power-holders and service providers to justify their decisions – and *enforceability* – the existence and use of mechanisms for correcting poor behavior or abuse of power and resources. Parliaments can be a legitimate locus of supervision and they have the potential to play a critical role in governance matters, such as developing effective legal and regulatory frameworks, or controlling budget expenditure. Another example is the EC's active support to PEFA, Public Expenditure and Financial Accountability. This joint programme seeks to enhance governance through strengthening domestic accountability mechanisms and institutions. These types of donor-supported programmes may help to create a stronger demand for effective governance and service delivery. However, such programmes are no substitute for government initiatives (see Box 14).

What are the operational implications during the project cycle?

What does all this mean for programming and managing EC support programmes in a given sector? The following aspects deserve particular attention in the various phases of the project cycle:

- Identification phase:

Ensure that the question of the demand side for improved sector governance is further developed and operationalized during the identification of a sector support programme. This implies promoting a multi-actor dialogue to jointly identify suitable strategies to enhance the accountability processes in the sector (all along the accountability chain) and to define the modalities for involving the various civil society actors and supervisory bodies in the process.

- Formulation phase:

Ensure adequate financial and capacity development support for identified key actors that can help to improve accountability at various levels. This can be done either by including a specific component for these actors in the sector budget support provided or by funding a separate project.

- Implementation phase:

  (i) *Ensure that a regular dialogue takes place* first and foremost between key domestic sector stakeholders as identified in the governance analysis (step 2) to discuss progress in the implementation of agreed reform agendas.

Donors should be parties to that dialogue, but their primary viewpoint should be to see it evolve and deepen, rather than to promote their own content agenda. Experience suggests the critical importance of linking policy and political dialogue, as well as the need to include actors who often tend to be left out of the dialogue (e.g. parliamentary committees or political party representatives, representatives of traditional chiefs, religious leaders, trade associations, trade unions and employers' federations, professional associations and user groups). In order to underpin the dialogue with relevant statistical and other data and evidence, it is important to engage with domestic 'producers' of statistics and analyses, such as research institutions, policy think-tanks and specialized civil society organizations.

(ii) *use all opportunities to promote the effective use of the various accountability mechanisms* and processes at sector level. For instance, when the Auditor-General issues a report on sector performance, donors can play a role in fostering a domestic public debate (in parliament and the media) on the main findings. Donors can also encourage or facilitate links with policy and political dialogue processes.

3) How to deal with governance constraints outside the sector?

| What is the issue?

Reform initiatives in a sector can have an influence beyond the sector boundaries. Conversely, however, national or cross-sector governance dynamics or mechanisms clearly also set limits on how far sectors can make it alone, as well as represent opportunities at sector level. Institutional and organizational strengths and weaknesses in the public sector will set the scene for what sectors can and cannot do. The way the State manages its human resources, for example, will profoundly impact on the available technical skills at sector level. Another example is about the incentives at work in the public sector. These will determine part of the behavior and work ethos of civil servants – while other parts may be amenable to sector interventions (teachers work and pay conditions are actually often separately negotiated from the conditions for e.g. of police services or nurses). The quality of public finance management determines to a large extent the scope and direction of sector reforms. If citizens have lost faith in government or have limited respect for the 'public good', it will be difficult to foster a culture of governance in key sectors.

| What can be done?

There are several ways to look and act beyond the sector:

- *Ensure linkages with core cross-sector support programmes*. Since the rules and regulations on public tendering, public finances or human resource management (including employment and career conditions) impact on sector development, it is important to link up with cross-sector or horizontal support programmes. Sometimes it is also possible to integrate cross-sector components within one sector programme. In the case of the EC's sector budget support in Mali (through the Support *programme to the administrative reform and decentralisation, PARAD*) one cross-sector indicator – public tendering – was integrated in the monitoring framework of the sector programme. Among other things, this involves more horizontal linkages by sector specialists with stakeholders such as the Ministry of Finance.

- *Ensure the necessary linkages between sector support and ongoing decentralization processes*. The key task here is to design sector policies that do not counter decentralization but, where possible, even strengthen such reform processes so as to become mutually reinforcing. Establishing an adequate division of labour between central and local tiers of government is particularly important in sectors related to the delivery of social services.

- *Bring sector governance issues to the national policy and political dialogue*. Various governance issues cannot be tackled at the sector level alone. They need to be attended to at the national policy level. Certain reforms in the transport sector in Mauritania would not have received the prominence they did without the EC arguing for the need for major reforms at national policy level.

| What are the operational implications during the project cycle?

The need to also take into account society-wide and cross-sector governance challenges has important implications for programming and management of sector support programmes.

- Identification phase:

Identify and integrate cross-sector linkages that are relevant for enhancing sector governance. This includes broadening the scope of actors involved in consultations on the support programme. For instance, water governance, management and use are embedded in processes and forces outside the sector. Both the causes and the solutions of water problems will lie partly in other domains. Improving governance in the health sector may require a closer look at the impact of possible ongoing decentralization processes on the equitable provision of services. This broader dimension will need to be integrated in the identification of possible response strategies.

- Formulation phase:

Actively explore the opportunities and risks that new aid modalities offer for improving sector governance. Aid modalities such as general and sector budget support provide opportunities for sector ministries to engage more actively in national budget processes. Such engagement is important for determining priorities, for planning and expenditure purposes. In many cases, sector departments lack the required capacity to engage in a consistent way. Donor sector specialists can work with colleagues to ensure appropriate capacity support to ensure cross-sector linkages. Yet there are also risks attached to the new aid modalities. Applying these modalities can, for instance, lead to a *de facto* re-centralization of decision-making by central authorities. To avoid this, it will be important to also formulate a clear strategy towards other key actors in the sector (e.g. by including a component of support to watchdog agencies).

- Implementation phase:

Create the conditions for effective 'teamwork', at the level of EC Delegations and among donors. Compartmentalized approaches or pushing tasks around arguing that they belong elsewhere offer no solutions when it comes to addressing sector governance. Heads of delegations and heads of operations have a particular responsibility to ensure effective teamwork and personal involvement when issues have to be addressed at higher levels e.g. in national fora, in consultations with Member States, and in separate political consultations with the government. Development support and broad based diplomacy have to work together to optimize the role of the EC in the promotion of governance and sector governance. Furthermore, effective implementation requires a harmonized approach from donors in integrating the critical sector governance issues in national policy/political dialogue. This generally implies intense process management, balancing technical knowledge on a particular sector with a deeper understanding of the political feasibility of broader reforms. It also requires new skills among donor agencies (e.g. in terms of political facilitation).

5.5. Concluding remarks: Supporting incremental approach to Sector Governance

As stressed in this reference document, sector experts are already dealing with governance issues. A myriad of activities are already being undertaken – some with the intention of supporting governance, others with other aims. Inevitably, pitfalls, mistakes and clashes of interests will occur which produce tensions and conflicts, sometimes between domestic actors, sometimes between donors, and sometimes between donors and domestic actors. Intentions to strengthen governance may fail or succeed – both stakeholders from partner countries and donor agencies are on a learning curve in terms of addressing governance issues which combine numerous actors, different social and political interests, and different perspectives.

This reference document is intended only as a preliminary contribution to stimulate discussion and contribute to this learning process. There is further work ahead, collecting lessons learned and exchanging them in and across sectors, countries and donor agencies. Readers are therefore welcome to comment on the approach presented and the lessons learned on the ground: (EuropeAid-E4-Governance-Security@ec.europa.eu).

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ANNEXES

ANNEX 1. Governance Basics: Principal-Agent Theory and Governance Mechanisms

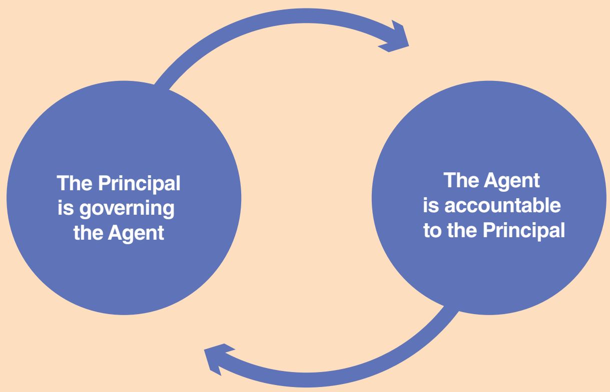
This annex expands on the conceptual basis for the sector governance analysis model presented in chapter 4 in the Reference Document.

Below, governance is first reduced to its most basic form, using the *principal-agent framework* developed in institutional economics. It is then expanded into four different *governance mechanisms*: patrimonialism; hierarchies; markets and networks. Getting a basic idea of these mechanisms is necessary to enable both a diagnosis of existing governance, as well as an informed dialogue about possible ways and means of enhancing governance.

Principal-agent Theory

In the simplest (and most idealized) form, governance can be seen as a relation between two individuals: one who governs, and another who is governed. The first is in economic theory often called the principal, the latter the agent (see Box 1). Governance describes the rules and norms through which the principal can enforce his or her will on the agent. The will of the principal can be expressed as instructions, orders, policies, objectives, desires or demands to the agent. These directives can be formal or informal, and they can be implicit or explicit. To know if the agent actually follows the principal's will, the principal must be able to hold the agent accountable in some manner, and inflict some kind of sanctions (or deprivation of benefits) if the agent does not deliver as the principal

Box 15: Principal-Agent Relationships [21]



This term is used in economics when one person (*the agent*) acts on behalf of another (*the principal*) and is supposed to advance the goals of the principal. So, a civil servant is the agent of the minister; a consultant is the agent of the client; a chief executive is agent of the owner – the minister, the client and the owner are principals in these relations.

Agents and principals can often have different individual objectives: a civil servant may wish to work as little as possible; a consultant may wish to sell expensive follow-up services; a chief executive may think of his/her own stock options rather than the longer term interests of the owners.

The problem of *moral hazard* arises when the principal cannot easily determine if the agent is really in pursuit of the principal's goals, or whether the agent is pursuing own interests. There is an *information asymmetry* in the relation – and the effectiveness of governance depends on the incentives to minimize the potential negative effects of this asymmetry. Holding the agent to account – enforcing relevant accountability – is therefore the flip-side of the governance coin.

(21) Milgrom & Roberts, 1992

wants. Accountability thus defines who can call for an account and who owes a duty of explanation [22].

Supply and demand side of governance are concepts that are commonly used among governance specialists. They refer to a fundamental distinction in the dynamics of governance reform. Donor agencies have tended to provide substantial support to improving the 'supply side' of governance, i.e. the capacity of the public sector to perform its roles. This is traditionally done by providing funding and investing in staff, procedures and systems. The assumption has often been that these capacity support measures will automatically result in improved governance and thereby better service delivery. It is now recognised that supporting the 'supply side' of governance is a necessary but not sufficient condition to improve sector performance. It is also vital to create a strong 'demand' for well-governed public services. This means supporting organised groups in society to exert pressure on the public sector to perform better and to be held accountable. This requires investing in the 'demand side' of sector governance. Next to non-state actors, checks and balances organisations are also part of the demand side of governance, since they are in principle there to 'demand' compliance with rules, regulations and legislation.

Governance Mechanisms

The relation between an agent and a principal is governed by one or more mechanisms – what we here called governance mechanisms. It is useful to distinguish between four different types of governance mechanisms. They have very distinctive features – but to add to complexity, they may all be operating at the same time in a specific principal-agent relation. The four mechanisms are governance by:

1. hierarchy;
2. patrimonialism;
3. market;
4. network.

Hierarchical governance

In a hierarchy, the principal has a *formal* right or authority to issue instructions, and the agent has a formal obligation to follow instructions as long as they are legal and to report on his/her fulfilment of the obligations to the superior. This is governance by *hierarchy*. It is by far the dominating mechanism inside well-functioning private and public organisations of a certain size. Without it, it is very difficult to ensure on the one hand a division of labour that enhances productivity, and on the other hand coordination between the specialised functions. In a hierarchy, sub-ordinates are highly *dependent* upon decisions taken at the top-level – this could be a decision to give certain authority by delegation to the subordinate, but the superior can at any time revoke that decision. Steering, control and formalisation are key ingredients, and efficiency is reached through a merit-recruited, well-paid bureaucracy with corporate coherence.

Patrimonial governance

A politician may command loyalty and allegiance of his followers and thereby have power by ensuring that some benefits are delivered to these clients but not to those which are not loyal. The same may as described happen between a boss and the subordinates, who may be rewarded for loyalty rather than performance. This is *patrimonial* governance, using a term which refers to the traditional role of a patriarch, head of a clan or a father. It may work well in smaller organisations – provided that the patron and client work to achieve the goals of the organisation, rather than their own goals.

In patrimonialism, *dependence* is high because the patron depends on the client for support and loyalty, while the client depends on the patron for resources (patronage). However, the patron clearly has the control of resources and power, creating strongly asymmetrical relations. Contrary to the formality of hierarchical governance, patrimonialism is based on *informality*. This does not mean that there are no rules – but they are not written down, and they are normally not as restraining on the patron as the formal rules are restraining on a principal in a formal bureaucracy. Patrons would thus often have – and preserve – a much larger room for discretionary decision-making, among others because this is necessary to keep clients on their toes: if the resources the client gets as reward for loyalty were formally guaranteed, then it would seriously weaken the incentives of the client to stay loyal. However, a patron cannot remove the benefits from clients without risking loosing his/her supporters and thereby his/her power base. If donors ask a patron in a patrimonial governance system to replace apparently incompetent or redundant staff, they may effectively ask the patron to demolish his/her power base – and few individuals accept that lightly.

Patrimonial governance is often associated with 'pre-modern' times, because eminent governance writers as e.g. Max Weber saw a development in governance mechanisms from patrimonial to bureaucratic (or hierarchical) governance. While developed societies undoubtedly rely much more on hierarchical than on patrimonial governance mechanisms, patrimonial governance continues to exist alongside other

[22] Day and Klein, 1987: 5

forms, and in some private sector organisations it may actually be a very effective governance form. For example, if you operate on the stock market, it is unlikely that you will be able to confer decisions upwards through a bureaucratic system of approval – once the approval gets back to you the trading opportunity will be gone forever. Managing subordinates in such a setting by commanding full loyalty (and thus not having side-deals or spread confidential information), requesting them to take decisions based on what they know would be the criteria of the leader, and punish and reward them for their loyalty and ability to do what the boss would have done (rather than for their actual results on the market) may be very effective. In a small workshop run by a father, with the son assisting and eventually preparing to take over, bureaucratic governance is also unlikely to be cost-effective compared to patrimonial governance.

Market-based governance

In a competitive market place, governance is exercised by the forces of supply and demand – if a provider does not deliver a combination of price and quality which is competitive then he or she will earn less or even suffer losses forcing the closure of the business. This is market governance, or the famous 'invisible hand'. Contrary to patrimonialism, the market mechanism is *formal* – a market will only work effectively if contracts and deals can be enforced and if price signals are transparent. Contrary to both hierarchy and patrimonialism, actors in the market are independent of each other.

In the 1980s and 1990s, the modern welfare states in developed countries were increasingly considered to be ineffective, dominated by red tape, focused on rules and procedures and insensitive to the increasingly differentiated and complex demands of citizens. As a response to this, market mechanisms – or 'quasi-market' mechanisms – became a popular supplementary governance mechanism in the public sectors in many developed countries. Typical elements include outsourcing of service delivery and non-core functions, and introduction of different forms of competition between public agencies.

Network governance

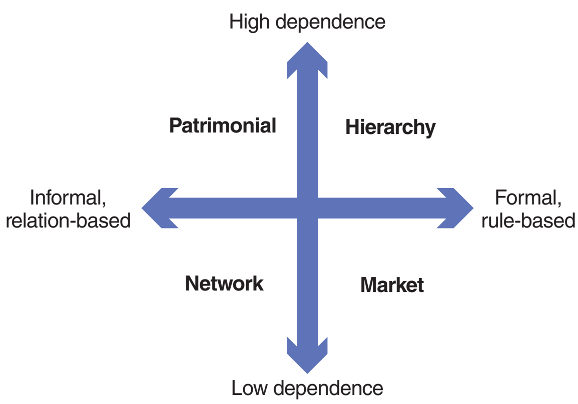
Network governance is a 'late-comer' among governance mechanisms, coming to life in increasingly complex governance settings in modern societies where numerous actors have to adjust to each other but where nobody has the authority to impose an order. In a voluntary network with no apex authority – for example a group of donors in a sector – mutual trust, mutual adjustment and bargaining may be the dominating governance mechanisms. Partnerships are based on ideas of network governance such as reciprocity, equality and trust. Actors are not dependent on each other, but they are of varying degree interdependent – to achieve (some of) the results they want, they need to cooperate with each other. In e.g. the agricultural sector there is also a network of interdependent actors without a formal boss (usually various ministries and agencies, farmers' associations, suppliers, credit and research institutions) which need a governance mechanism to achieve results on the ground. In general, networks are based on *informality* – they may at various stages try to formalise their rules ('codes of conduct', 'memorandum of understanding') – but typically, these formal rules cannot be enforced effectively, and network members can decide to walk away.

Network governance resembles patronage in some ways (networks are most often highly informal and person-dependent; loyalty to the network as well as 'network customs' may easily develop). Networks – sometimes promoted as a 'modern' means of bringing actors together in or across sectors – may therefore also be captured by vested interests thriving on patrimonial governance.

In networks, there is no identifiable principal-agent relationship, and it is therefore often difficult to hold a network accountable. If a network of donors in a country do not harmonise, who shall be held to account? Or if donors collectively commit to increasing aid without making individual, specific commitments – who should then be held responsible if the collective commitment is not transformed into action?

The figure 4 below shows the four governance mechanisms according to their degree of formality and dependency.

Figure 4: Four governance mechanisms



Box 16 – Behind the facade?

It is sometimes claimed that governance in some developing countries is marked by a difference between what is formally presented – adequate legal frameworks, hierarchical chains of command, formal accountability mechanisms etc. – and what is 'really' going on behind that facade, much more marked by patrimonial governance mechanisms, often allowing different forms of rent-seeking.

This may or may not be the case – generalisations here are likely to be unhelpful. However, the failure to diagnose what is going on may as much be a result of a cultural 'blindness' which impedes observers from donor agencies perceiving what is right in front of their noses, eyes and ears. Any organisation – including donor agencies – has a disclosed, public side – as well as a hidden, non-public side.

The difficult task is to assess the balance between the various elements and governance mechanisms – and, maybe even more difficult, to be helpful in suggesting to domestic actors how they can improve that balance of governance mechanisms in favour of pro-poor outcomes.

Most principal-agent relations display some elements of two or more of the governance mechanisms outlined above: in hierarchies, personal loyalties also matters (and often make overly bureaucratic systems work better). And market mechanisms also matter: if special skills are in high demand elsewhere, staff are less likely to accept excessive bureaucratic top-down management with little freedom to work according to professional judgement and standards.

Evidently, when we enter into the complex machinery of government, the governance relations between the political system, the central level agencies, local service providers and different groups of citizens become much more entangled and complex, with different aspects of all four governance mechanisms present in the different relations, and with longer accountability chains.

Table 2 details additional aspects of the four different governance mechanisms which can be present in a sector. The table demonstrates how differently the four governance mechanisms of patrimonialism, hierarchy, market and network operate and how the principal-agent relation varies in all the four because of differences in the basis of relationships, the degree of dependence, the type of accountability etc.

As outlined, all four governance mechanisms have formal as well as informal aspects, but hierarchies (and competitive markets) are clearly mostly based on formal governance, while patrimonial and network relations are mostly informal or person-based.

Table 4: Four governance mechanisms

	Patrimonial	Hierarchies	Markets	Networks
Basis of relationships	Loyalty	Employment relationship	Contracts and property rights	Resource exchange
Degree of dependence	Dependence	Dependent	Independent	Interdependent
Type of Accountability	Informal between patron and client	Formal financial and administrative accountability	Horizontal through market mechanism	Complex and blurred accountability
Medium of exchange	Patronage	Authority	Prices	Trust
Means of conflict resolution & coordination	Submission or Exit	Rules & commands	Haggling, courts	Diplomacy
Culture	Custom	Subordination	Competition	Reciprocity
Limitations of governance	Bound only by other persons; arbitrariness	Bound by institutions, predictability	Bound by efficiency	Bound by degree of consensus achieved

ANNEX 2. Overview of governance assessments

The OECD DAC Governance Network (GOVNET) has recently finalised a reflection on the use of governance assessments by donor agencies. The work has resulted in a sourcebook on donor approaches to governance assessments (DCD/DAC/GOVNET(2009)1/ANN2) that offers an overview of the different governance assessments including thematic assessments such as those focusing on human rights, conflict and corruption, that are used to help agencies and interested parties find their way in the labyrinth of governance assessments.

The sourcebook is based on a process that aimed at stock-taking of present practices in analysing governance, stimulating mutual learning and finding ways to strengthen cooperation and harmonisation of tools in this field. The process included a survey carried out at the end of 2007, and an international conference on the use of governance assessments (London, 21-22 February 2008).

The survey report and all the information on the conference can be publicly consulted: http://www.oecd.org/document/14/0,3343,en_2649_34565_39869902_1_1_1_1,00.html.

The sourcebook is in the process of being published and a final version will be available shortly.

The survey and the draft sourcebook provide detailed information on the following assessments that are in use by OECD agencies:

General Governance Assessment Tools

- France, AFD/MINEFI – Institutional Profiles
- Germany, BMZ – Criteria Catalogue
- Netherlands, MFA – Strategic Governance and Corruption Analysis (SCAGA)
- Sweden, Sida – Power Analysis
- Switzerland, SDC – Governance as Transversal Theme: Implementation Guide
- Switzerland, SDC – Key Questions for Context Analysis
- Switzerland, SDC – Monitoring of Development-Related Context Changes
- United Kingdom, DFID – Country Governance Analysis (CGA)
- United Kingdom, DFID – Drivers of Change (DoC)
- United States, MCC – Millennium Challenge Corporation (MCC) Scorecard
- United States, USAID – Democracy and Governance Strategic Assessment Framework (DGSAF)
- African Development Bank – Country Governance Profile (CGP)
- European Commission – Methodology to allocate the Governance Incentive Tranche
- Inter-American Development Bank – Democratic Governance and Institutional Assessment (DGIA)
- World Bank – Country Policy and Institutional Assessment (CPIA)
- World Bank Institute – Governance and Anti-Corruption (GAC) Country Survey
- World Bank Institute – Worldwide Governance Indicators (WGI)

Anticorruption Assessment Tools

- United States, USAID – Anticorruption Assessment Framework
- International Monetary Fund – Assessment of the anti-money laundering (AML) and combating the financing of terrorism (CFT) regimes

Human Rights Assessment Tools

- European Union – Human Rights Fact Sheets

Conflict Assessment Tools

- Germany, BMZ – Internal Assessment on Conflict Prevention Need (Early Warning)
- Germany, GTZ – Security Sector Reform Assessment
- Netherlands, MFA – Stability Assessment Framework (SAF)
- United Kingdom, DFID – Strategic Conflict Assessment (SCA)
- United States, USAID – Conflict Assessment Framework (CAF)

Other Thematic Tools

- International Monetary Fund – Assessment of Central Bank Financial Safeguards
- International Monetary Fund – Fiscal Report on Standards and Codes
- OECD/DAC Joint Venture for Procurement, JV-Proc – Methodology for the Assessment of National Procurement Systems
- Public Expenditure and Financial Accountability programme, PEFA – Public Financial Management Performance Measurement Framework
- World Bank – Country Procurement Assessment Report (CPAR)

ANNEX 3. Actor and Stakeholder Mapping

The matrix below (table 4) is a simple tool for mapping key governance actors and stakeholders. It serves as one element for analysing the change readiness towards enhanced governance in a sector.

The columns are for the following assessment parameters:

- *Role and importance*: Is the actor playing a governance role or an accountability role, or a mixture of both? How important is the actor for the actual governance and/or accountability, respectively? In a forward looking perspective, should the importance increase or decrease?
- *Interests pursued*: What is the short and long-term agenda of the actor? Which mix of formal and informal objectives is the actor pursuing? What is the mix between pro-poor objectives and objectives linked to bureaucratic policies and power struggles, or individual positioning and individual interests? Which one would prevail over the others, which are negotiable and which are not?
- *Power and resources*: What power and resources does the actor dispose of? Which part is formal, which part is informal? Is the formal power undermined by counteracting informal power of other actors?
- *Key linkages*: To whom is the actor connected – who knows whom? Which connections and allegiances does the actor have?
- *Incentives*: Which positive and negative incentives does the actor have to maintain or change his/her 'governance behaviour'? Which rewards would the actor perceive to get from maintaining or enhancing sector governance, respectively, and which sanctions would be likely in both cases? Which constraints would actors face for pursuing or resisting change? What is the 'system sum' of pushes and pulls of the various factors which incentive certain behaviour? A system under great stress or a system marked by fear may induce passivity. A system where 'free' money after all flows mainly because donors decide so may provide incentives to let donors govern, even if symbolically it is pretended that governance is rooted in the domestic hierarchy.

Table 4: Mapping of key governance actors and stakeholders

	Role and importance for actual governance/ accountability	Interests pursued	Power and resources for influencing	Key formal and informal linkages	Incentives
Non-public sector Actor 1 Actor 2 etc.					
Political system – Actor 1 Actor 2 etc.					
Core public agencies: Actor 1 Actor 2 etc.					
Frontline providers: Actor 1 Actor 2 etc.					
Checks and balances: Actor 1 Actor 2 etc.					
Development agencies and external actors Actor 1 Actor 2					

ANNEX 4. Analysing governance relationships – examples of issues and data sources

Table 5: Analysing governance and accountability relations

Parameters	Questions	Possible answers	Data Sources
Mix of governance mechanisms	• What is the respective role of patrimonial, hierarchal, market and network mechanisms in the relationships? Is one mechanism clearly dominating? • To whom is loyalty primarily owed by the agent (boss, patron, donor-agency, goal of the organization, external agents like e.g. professional association, trade-union or political party)? • Is it clear who exercises formal governance? • Are formal governance mechanisms relatively stronger or weaker than informal mechanisms? • Are informal governance mechanisms largely complementing or are they competing with formal governance?	• The access to services in the sector is largely determined by clientelism and patrimonial rules (e.g. the access to scholarships). • Promotion of civil servants is regulated along political party lines. • The introduction of a market mechanism has improved access to sector services. • Certain sector institutions recruit mostly on technical criteria and has a high technical/professional ethos.	• Existing evaluations and reports on the sector and more broadly on public sector issues including Drivers of Change or power-studies. • Government staff, maybe off-the-record. • Recently retired senior staff. • Perception-based quantitative indexes of transparency and accountability (World Bank's governance-indicators and other sources). • Local academics who do research in the area. • Politicians, journalists.
Information on governance	• Are clear, comprehensive and detailed governance directives provided for the sector? • Is there a timely and ongoing inflow of governance directives? • Are governance directives publicly available and relevantly shared in the organisation?	• A law is promulgated for the sector but there are no by-laws providing guidance for implementation. • The local government organises hearings with the citizens on the use of available budgets.	• Written rules and procedures for the sector. • Existing reviews and reports from previous consultancies in the sector. • Amount of senior executive attention given to the sector as witnessed in media coverage. • Government staff.
Responsiveness of governance	• Is the actor/agency subject to predictable central guidance or to arbitrary/ discretionary control? • Are the governance directives in line with overall formal policies? • Are sector governance directives responsive to the cross-cutting governance clusters (democratisation, human rights, decentralisation, rule of law, participation of civil society, public sector reform)?	• Responsibilities for predictable central guidance and control are not clearly defined. • Governance directives are not based on laws, but rather on ad hoc decisions. • A rights-based approach is promoted in access to sector services.	• Frequency and quality of interaction between the agency and the top levels of government (coordination meetings etc.) as reported by sector staff. • Mapping of types of coordination across sectors through interviews.

Parameters	Questions	Possible answers	Data Sources
Capacity for governance	• Are resources and capacity available in quantity, quality and timeliness to enable agents to follow governance directives? • Are resource flows and management transparent? (23)	• In the health sector responsibilities have been decentralised to local governments yet without corresponding means and capacities.	• Budget-allocations to the relevant ministry. • Actual flows of resources as evidenced in Public Expenditure Tracking Studies.
Accountability set-up	• Is the accountability system (responsibilities, frequency, format and processes for presenting accounts) congruent with the governance mechanisms? • Do governors effectuate and enforce sanctions, rewards or other measures based on the presentations of accounts?	• Oversight institutions (e.g. Court of Auditors) are poorly connected to parliamentary processes. • The government allows the media and civil society 'watchdog agencies' to operate.	• Existing PEFA evaluations and PERs. • Records of public debate about the sector-programme. • Interviews with staff and stakeholder – listen to their views. • Interviews with local academics´and journalist who do research in the area.
Information with regard to accountability	• Is information pertaining to the accountability function publicly available and pertinently distributed to relevant stakeholders in- and outside the public sector? • Is accountability-related information available in a timely manner?	• Data on planned and actual budget expenditures are reliable and communicated within reasonable delays to relevant stakeholders.	• Existing evaluations (e.g. PEFA, and PERs, reviews). • Newspaper articles, interviews with journalists who have covered this sector.
Accountability responsiveness	• Is accountability responding to the key governance directives, allowing assessment of the fulfilment of the directives? • Is accountability relevantly covering inputs, processes and results?	• There is sufficient reliable information on a number of key sector outcomes. • There remain major gaps in the monitoring and information systems to capture relevant data on inputs, processes and results.	• Reviews, reports, statistics. • Interviews with staff.
Capacity for accountability	• Are resources and capacity adequate to fulfil accountability obligations? • Are the resources and capacity dedicated to accountability appropriate as proportion of overall resource availability?	• Oversight institutions are not properly resourced. • Civil society lacks the capacity to demand accountability.	• Capacity and performance assessments of internal and external audit and oversight functions. • Interviews with civil society and private sector representatives.

(23) The subject of governance and accountability in relation to public financial management is dealt with extensively elsewhere, e.g. in the Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework.

ANNEX 5. Applying the sector governance analysis framework: an example of the road sector

This annex illustrates how the analytical model can be applied in practice. The hypothetical example below deals with the transport sector in an imaginary country in sub-Saharan Africa (Azima). It illustrates:

- each of the steps of the governance analysis framework (see chapter 4 of the main document);
- EC actions and priorities that follow from this analysis;
- initial results of the process

Background information

Azima's transport sector receives substantial support from a number of donors, the most important being the World Bank, France, the EC and China. In the case of the EC, the multi-annual National Indicative Programme (NIP) focuses almost exclusively on the transport sector. More than 50 % of the financial envelope is allocated to the sub-sector of road transport, and focuses on infrastructure investments (about 90 % of the investments in road transport) and support to sector reform.

The PRSP identifies liberalising core economic sectors as a key driver of growth and improving governance as essential to the national development process. The PRSP transport sector strategy emphasizes the following key policy choices: reduction of transport costs, investments in essential transport infrastructure, the elimination of barriers to competition and the strengthening of private sector.

In practice, however, transport sector specialists are confronted with important sector weaknesses and serious under-performance in the sector. Moreover, the existing monopoly in road transport seems directly related to high costs for end-users. Based on this initial analysis, and in order to better understand the challenges of the sector and the drivers of change for sector reform, the EC decides to carry out a sector governance analysis.

The EC has identified the reduction of transport costs as a key development objective. Conscious of the reticence of the government to tackle the governance challenges in the sector, the EC makes the following strategic choices:

- *Communication*: The EC chooses to communicate in a transparent and clear manner the reasons why it insists on transport sector reform (with references to negative audit reports, likely effects on poverty reduction, aid effectiveness concerns and accountability to European taxpayers).

- *Political dialogue*: The EC decides to use the political dialogue as a key instrument to advance the reforms. The substantial past and planned aid allocations for the transport sector gives the EC Delegation potential leverage that it seeks to utilise optimally for the political dialogue.

- *Coordination with other donors*: In an initial phase, the EC chooses to limit its coordination efforts to mere information exchange. The EC estimates that solid alliances are difficult to build as most donors are active in different sub-sectors. In addition, most donors' support is rather 'technocratic' and financial and not necessarily informed by a deeper analysis of the governance situation in the sector. In a second phase however, the EC decides to cooperate – and coordinate – more closely with the other actors involved and tries improving alignment behind the same strategy.

Analysis of the governance situation in the transport sector

Four steps allow establishing an overall picture of the governance situation in the transport sector (see governance analysis framework, chapter 4 of the Reference Document):

- context analysis;
- actors analysis;
- analysis of the governance and accountability relations;
- summary analysis of the governance reform readiness.

Step 1: Analyzing the context of sector governance

In order to get a good overview of the broader context, basic documents such as the PRSP, the EC Governance Profile, other available governance assessments (both from donors and domestic assessments from civil society watchdogs, research institutes, authorities), and studies (e.g. on corruption) were reviewed. The Delegation also studied specific sector documents such as transport sector plans, transport programmes, donor strategies and programmes and sector audits. This provided a fuller picture of the sector context.

The Delegation paid special attention to existing *independent national* audits so as to avoid the perception of imposing a purely EC-driven governance agenda. These audits clearly revealed endemic corruption, a weak regulatory and legislative framework, and a clientelistic, rent-seeking system.

Table 6: **Example of step 1: mapping of governance context (*Azima*)**

Level	Factors/drivers	Indicators and sources of verification
Sector	Monopoly in road transport.	No will to liberalise the sector; Strong linkages between main transport organisation and ruling party. The regulatory and legislative framework; audit reports, surveys, reports (with informal sources), mappings.
	Political weight of the sector.	Leverage of sector on broader development objectives.
National	Lack of political will for fundamental reforms.	Slow implementation of engagements; Little enthusiasm from Government to change the regulatory framework; Reports of the policy dialogue.
	Weak legislative and regulatory framework.	Legislative texts not voted; Changes not implemented.
	Lack of organizational capacity by the state.	Importance of informal sector; Little access to services in rural areas; Donor diagnostics (project reports, strategy papers, detailed studies,etc.).
	Lack of transparency in public procurement.	Number of complaints on the selection process; press articles; surveys with stakeholders in transport sector.
	Poor material conditions of state officials.	Lack of fundamental reform of the payment system of state officials.
	Powers of the Parliament.	Ability of parliament to decide on national budget; Oversight of Government actions; Parliamentary reporting.
Regional	Traffic of stolen cars.	Fraud with car registration documents; Regional and national statistics (however weak these may be).
	Traffic of cigarettes, drugs,… influencing road transport conditions (clientelism, insecurity,…).	Regional and national statistics (however weak these may be).
International	Lack of deontology of certain international public works enterprises.	Non respect for contractual procedures.

Table 7: Example of step 2: mapping of actors (*Azima*)

Cluster of actors	Key actors	Power/Interests	Driver of change
Non-State Actors	Main transport organisation.	• Powerful. • Substantial financial resources through royalties paid by transporters. • Close links with police and administration. • Political links, support to ruling party. • Interest: keep the monopoly on road transport for rent-seeking.	Strong resistance to change.
	Other transport organisations.	• No weight. • Limited resources due to de facto monopoly. • Tensions with administration (difficulties with registration) and with main transport organisation. • Interest: liberalise road transport.	Driver of change.
Checks and balances organisations	Court of Auditors.	• Dependent on Presidency and instrumentalised by administration. • Doesn't use weight and legal power to address sector mismanagement.	Slight resistance to change.
	Public works controlling agency.	• Power to control public works. • Clientelist relation with the administration.	Slight resistance to change.
Political system/ government	Transport Ministry.	• Powerful in that it controls the political planning (favouring actors, interest groups, zones, infrastructural investments etc.). • Controls sector regulatory framework. • Clientelist relation with main transport organisation and public works enterprises.	Strong resistance to change.
	National Authorising Officer.	Interest in implementing cooperation strategy.	Potential driver of change.
	Parliament.	• De facto no power on legislation. • Several deputies linked to main transport organisation and public works enterprises.	Strong resistance to change.

Cluster of actors	Key actors	Power/Interests	Driver of change
Core public agencies	Administrative agency in charge of public works.	• Controls awarding of works and services. • Clientelist relation with main public works enterprises and control instances.	Resistance to change.
	Administrative agency in charge of road transport.	• Rent-seeking system for car registration documents, drivers licences. • Clientelist relations with users and transporters.	Strong resistance to change.
	Public procurement agency/commission.	• Controls public procurement. • Instrument to reward/punish political engagement of entrepreneurs. • Rent-seeking relation with public works enterprises.	Strong resistance to change.
Service providers	Small transport companies.	• Quasi mandatory member-ship to main transport organisation. • Tense relation with main transport organisation • No voice. • Interest: liberalise road transport.	Driver of change.
	Public works enterprises.	• Weak technical capacities of national enterprises. • Clientelist links with Euro-pean companies. • Interest: increase market share, if needed through corruption.	Strong resistance to change.
	Consultancies.	Clientelist relations with authorities for market share.	Resistance to change.
Donors	EC.	• Bulk of NIP goes to trans-port sector. • Tense relation with public procurement agency. • EC interest: reach CSP objectives for poverty reduction, liberalise trans-port sector and encourage sector reform for both development and market access reasons.	Driver of change.
	Development Bank.	• Focus on anti-corruption. • Interest: convince govern-ment to deal with govern-ance in transport sector.	Driver of change.
	Donor A.	• Interest: increase market share for its companies, including through political pressure.	Not concerned by governance questions.
	Donor B.	• Finance infrastructures in zones not covered by other donors. • Tense relation with public procurement agency.	No local representation.

Step 3: Analyzing governance and accountability relations

This step primarily deals with the structural features (underlying mechanisms, informal and formal relations between actors, capacity issues…) of the governance set-up in the transport sector. The Reference Document highlights a number of questions that can guide the analysis of governance and accountability relations in the sector:

(1) What are the governance mechanisms through which authority and power is exercised in the sector: (i) governance by hierarchy, (ii) patrimonial governance, (iii) market governance, or (iv) voluntary network governance?

The available audits, studies about corruption, anthropological studies etc. point to a patrimonial logic underpinning the transport sector in which rent-seeking is predominant. The clientelist relations between the main transport organisation and the police, between the public procurement agency and the public works enterprises, or between the administration and the public works controlling agency illustrate this logic. The road transport sector allows for massive capture of resources, thereby increasing the transport costs for the end users substantially.

(2) Do we know anything about the rules of the game of the governance set-up in the sector?

Different analyses reinforce the findings that the rules of the game are opaque. Below the surface of the formalized structures, an unofficial rent-seeking system has been put in place. The figure below visualises the governance and accountability relations between three types of actors.

(3) Is public action in the sector predictable (in line with formal policies) or rather discretionary?

The analysis and previous EC experiences confirm that management in the transport sector operates largely in arbitrary and non-transparent ways.

(4) Which accountability mechanisms are at play in the sector?

Accountability mechanisms are virtually absent. The graph below illustrates this (figure 6). It examines the accountability mechanisms of the road transport users, the political system and checks and balances organisations.

Figure 5: Example of step 3: Analyzing governance relations (*Azima*)

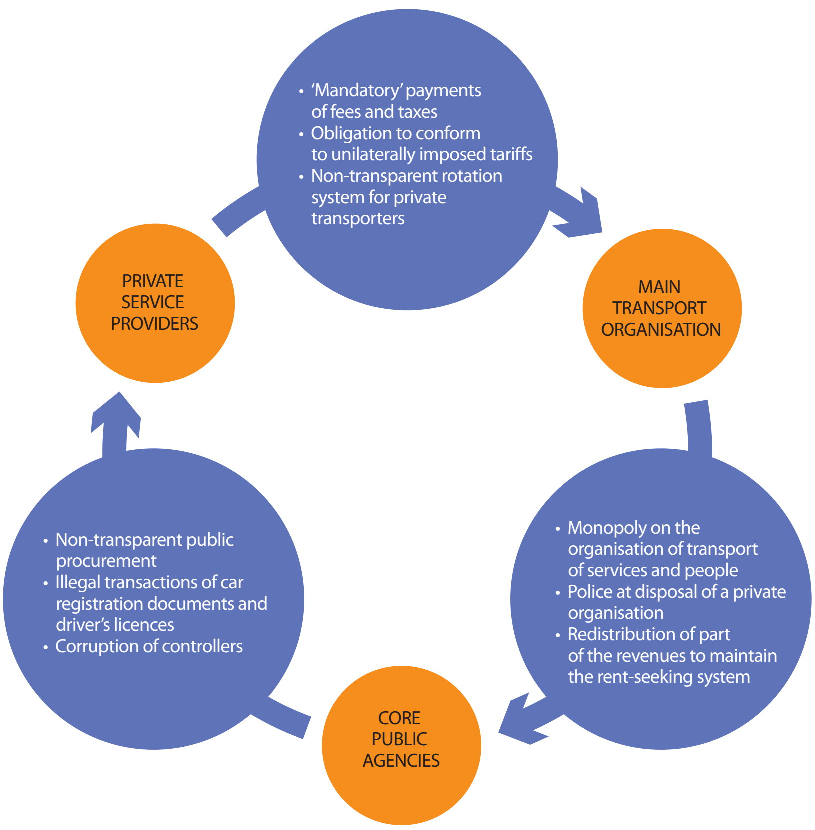
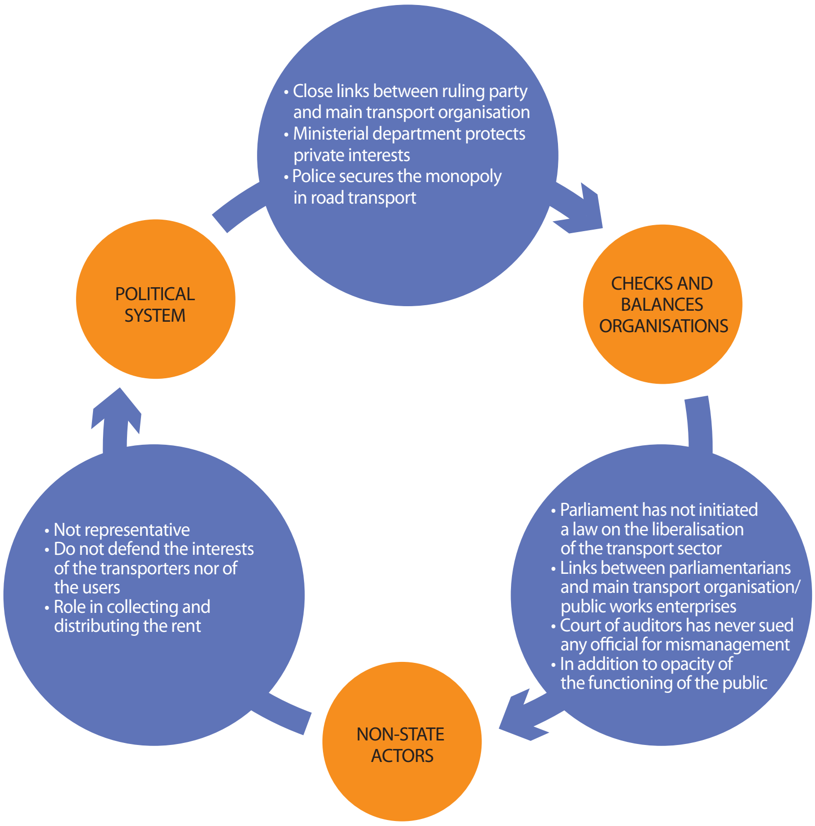


Figure 6: Example of step 3: Analyzing accountability relations (*Azima*)



(5) What is the government's institutional capacity for governance and accountability to effectively manage the sector?

The transport sector falls under a Ministry that has multiple competencies and responsibilities. This multiplicity weakens the political steer of the sector. There are only a limited number of qualified officials in the Ministry – with certain fields of expertise not covered – because of low salaries in the public sector and the political appointments.

Table 8: Example of summarizing the analyses - Trends in Sector Governance (*Azima*)

	Key features	Key strengths/ opportunities	Key weaknesses/ threats	Major trends
The broader context (beyond the sector)	• Longstanding opaque political system. • Predominantly private sector dominated by small family units.	• Important change of political leadership and orientation at national level.	• Endemic corruption. • Weak legislative and regulatory framework. • Justice instrumentalised.	• Opportunity for reform because of political changes.
Actors, interests and incentives	• Road sector monopolised by main transport organisation with close ties to ruling party.	• Recognition of other transport organisations. • New law on press freedom.	• Possible chaos of road transport if liberalisation is not accompanied by an overall reform; Inadequate remuneration system for officials and state agents.	• Liberalisation of road transport; New law under preparation providing legal and operational space for civil society; Liberalisation of radio policies.
Governance relations	• Clientelist relations between the main transport organisation and different administrations, and between service providers and checks and balances organisations.	• New institution created to control administrative acts. • Elaboration of a national anti-corruption strategy.	• Weak checks and balances organisations.	• Reform of the public procurement code; Reform of the transport sector; Administrative reorganisation of transport department.

Step 4: Summing up – Analyzing governance reform readiness

The matrix below (table 8) provides a summary of the key elements that arise from the sector governance analysis. This tool can be used as a basis for discussion on the governance situation and on possible entry-points and options for reform.

From analysis to action

The analysis shows how governance deficits are at the heart of current sector weaknesses. Encouraged by Headquarters, the EC Delegation decides to give a more prominent place to governance issues. Given the important challenges in the sector, the necessary reforms can only be gradual. The following table shows how the Delegation prioritizes interventions in the sector.

Table 9: Example of addressing governance (*Azima*)

Priorities for reform	EC action
• Organise a national dialogue on the liberalisation of the sector as a prerequisite to improved sector governance.	• Pressurize the government to break the monopoly. • Inform and communicate with all stakeholders.
• Support to the road transport reform.	• Support the participatory design of a sector reform. • Support the implementation of key pillars of the reform.
• Restructuring the public procurement system. • Institutional strengthening of the Transport Ministry. • Strengthening NSAs as part of the demand side.	• Support the strengthening the capacities of the NAO (to strengthen expertise in the short term). • Reform of the public procurement agency. • Institutional support and capacity development of the Transport Ministry. • Support the transport organisations in the framework of NSA programme.

Initial results of the process

Users, civil society organisations and the EC put pressure on Government, which gradually opened up to the idea of a national debate on the governance of the transport sector. In the end, a new sector policy was defined and endorsed, based on:

- liberalisation of the road transport sector and orientation towards a proactive policy on participation, including recognition of pluralism of the representative transport organisations;
- elaboration of a Plan of Action on reform of the road sector by a consultant (financed by the EC);
- signature of a Financial Agreement for part of the reform and launch of investment infrastructure projects.

Immediately after the Government started to implement its liberalisation policies, transport costs started to fall significantly. However, challenges persist and there is still a need for continued sector reform: capacity development to accompany the reforms, strengthening of the organisational/legislative framework.

While the cost in road transport dropped swiftly, the prices for goods remained unchanged. It became apparent that rent-seeking was simply transferred to other sectors. Since there was no broad political will within Government to reform the reforms remained confined to the transport sector, and corrupt behaviour was able to migrate in other sectors.

European Commission

Tools and Methods Series – Reference Document No 4
Analysing and Addressing Governance in Sector Operations.

Luxemburg: Office for Official Publications of the European Communities

2009 — 60 p. — 21 x 29.7 cm

ISBN 978-92-79-11376-5

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KQ-BB-09-001-EN-C

Publications Office
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ISBN 978-92-79-11376-5