

# Chapter 19

## Subnational Governance and Development: A New Perspective

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### **ABSTRACT**

*This chapter examines how the practice of governance, especially at a subnational level, has been evolving since the 1990s, focusing on the implications for “community governance”. An overview of recent thinking on the nature of governance opens up the question of whether “governance” may be exercised through institutions entirely separate from government. Examples are considered from Australia’s experience with “community banking”, and from trusts and foundations that have emerged from major public sector restructuring. The chapter considers the work of the Global Fund for Community Foundations as an important civil society contribution to subnational governance in developing countries, examining the role of foundations in building capacity and capability in disadvantaged communities through a new approach grounded in an understanding of “community governance”. Overall the chapter argues for a broadening in the understanding of governance, from what governments do to encompassing how our communities come together to shape their own futures.*

### **INTRODUCTION**

The work of Osborne and Gaebler (1992) represented a high point in the unquestioning acceptance that it was the role of governments to make choices on behalf of their societies and determine how those choices should be realized. In this respect, their view was in the tradition of the inductive approach to the

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understanding of government, which has informed major areas of work such as “public choice theory”, “new public management”, and “agent/principal theory”. In this chapter analysis of governance draws more extensively on the deductive approach, that is, researchers observing what is happening in the real world and developing theories designed to inform an understanding of their observations.

We start by examining the recent experiences from developed countries. The common theme is greater involvement by communities in decision-making, which would normally have been seen as the prerogative of a governing entity, typically an institution of government at whatever level. Our examination draws on two different but interconnected trends. The first is the growing shift in understanding of governance from what governments do, to a collaborative process bringing together a range of formal and informal institutions in combinations which may be increasingly context-specific and will frequently include “bottom-up” community-based entities and the possibility of communities becoming in some form “self-governing”. This trend includes an acceptance that one role for formal institutions of government is enabling the development of the capacity and capability required at a community level to underpin resilient “bottom-up” entities.

The second trend reflects changing understandings of the role and potential of seemingly long-established categories of entity, including trusts, foundations, and public companies. We examine the experience of community banking in Australia as developed by the Bendigo and Adelaide Bank Ltd (as it now is), and consider a number of trusts which have resulted from government-directed restructuring of special-purpose entities which, prior to restructuring, were effectively “ownerless” (examples include regional savings banks in a number of jurisdictions, and special-purpose electricity distribution authorities in New Zealand). A common theme is whether, and to what extent, decisions about the application of income and capital within these entities should follow long-established practice within trusts and foundations on the one hand and companies on the other (including companies engaged in corporate social responsibility), or whether the nature of the entities is such that some form of mandate should also be sought from the communities they serve. If this is the case, what does this imply in terms of the relationship between those entities and communities?

These two trends have both set the context for and contributed to the understandings required to enable the emergence of significant “bottom up” community driven entities able to play a largely self-directed role in the governance of their communities. An ideal illustration is the work of the Global Fund for Community Foundations in supporting the emergence of community-based foundations in developing countries, specifically focusing on building local capacity and capability, including the skills and resources required for communities to be effective partners in delivering development outcomes. It is suggested that this initiative provides an important alternative for disadvantaged communities, especially in societies which lack a strong local government network committed to the wellbeing of its communities.

## **BACKGROUND: CHANGING UNDERSTANDINGS OF SUBNATIONAL GOVERNANCE**

Current thinking about governance has been changing from “what governments do” to the potential for communities to be at least in part “self-governing”. Two decades ago, in their influential book *Reinventing Government*, Osborne and Gaebler described governance in these terms:

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