

Good Governance, Qualitative Growth, Employment

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"Good governance and sustainable development are indivisible. That is the lesson of all our efforts and experiences, from Africa to Asia to Latin America. Without good governance [...] no amount of funding, no amount of charity will set us on the path to prosperity."

Kofi Annan

Good governance – a key prerequisite for qualitative growth

Sustainable economic, ecological and social development is not only defined by economic growth but also manifests itself through an increase in distributive justice, improvement in equal opportunities and social security, peaceful coexistence and the preservation of natural resources.

Experience gathered in our partner countries shows that efficient state institutions are an important prerequisite for the achievement of these development policy goals. This is why the German Federal Ministry for Economic Cooperation and Development (BMZ) places a very high priority on the promotion of good governance.

What do we mean by good governance?

The German Federal Ministry for Economic Cooperation and Development (BMZ) has established the following good governance principles:

- Poverty-orientation and sustainable policy
- Observance, protection and guarantee of all human rights
- Democracy and the rule of law
- Government efficiency and transparency
- Cooperative behaviour in the international community of states

Source: Federal Ministry for Economic Cooperation and Development (2009), "Promotion of Good Governance in German Development Policy", BMZ Concepts 172.

Promotion of good governance by KfW

KfW promotes good governance as a cross-sectoral issue and via projects in the fields of (1) decentralisation and good local governance, (2) budget support for the implementation of national development strategies and (3) the strengthening of public financial management and public administration.

Decentralisation reforms focus on the transfer of duties, political decision-making powers and financial resources from the central government to middle (provincial) or lower levels of government (e.g. towns and municipalities). This brings the state closer to the citizens and makes governmental action more geared to the needs of the population. KfW supports such reforms through the establishment or financing of national transfer systems, the strengthening of the financial foundations of communities, the promotion of the local economic infrastructure, and the establishment of local administrative institutions, among others.

Budget support is a tool which assists reform-orientated governments in selected partner countries in the implementation of their national development strategies. On the one hand, budget support works via financial incentives: payments are made directly to the partner country's budget once jointly agreed objectives have been achieved. On the other

hand, KfW supplements budget support with specialist technical support such as taking part in national task forces and investing in public financial management.

A working **public financial system** is essential for successful development in all sectors. It is impossible for development strategies to be effectively implemented without reliable budgeting and the proper use of public funds. KfW actively supports public financial management so that government expenditure is deployed more transparently, efficiently and effectively in our partner countries and so that improved tax collection can generate additional funds for development purposes.

Direct effects

Both projects which support decentralisation reforms and budget support expand the financial scope of local and national authorities, making a direct and immediate contribution to qualitative growth and job creation.

As part of budget support, this takes place through the financing of the implementation of national growth and poverty reduction strategies in the partner countries. Many countries which receive budget support have made impressive progress towards achieving the Millennium Development Goal (MDG) through an increase in social expenditure. In Rwanda, for example, maternal mortality has decreased by 35% in the last five years, child mortality has almost halved, and the proportion of poor people has fallen from 57% to 45%. 1.2 million people were thus able to escape poverty.

As for decentralisation projects, they generally finance priority local infrastructure (e.g. markets, schools and medical centres) which are constructed – frequently in high labour intensive (HIMO) way – by local building firms and subsequently maintained and operated by



Building a local infrastructure in Mozambique: jobs and prerequisites for sustainable growth.

Source: KfW photo archive

local specialists. A secondary effect of this infrastructure is often the creation of other business opportunities and jobs, e.g. when, as part of decentralisation projects, rural roads are built and markets are established to allow the local population to sell their produce and thus earn income.

Indirect effects

As well as having a direct positive impact on qualitative growth and employment by creating an enhanced scope for financing, governance projects have a long-term impact since they improve the economic and political framework. Examples here include the strengthening of the public financial system and the improvement of the ability of the municipalities to plan and implement infrastructure projects.

There is now sound scientific proof of the long-term contribution of governance projects to qualitative growth in partner countries. Studies show that countries which receive budget support from Germany direct more of their budget towards the national development strategy. The European Commission confirms that countries with a high proportion of budget support have made much more progress in the Human Development Index and in MDGs which can be directly influenced by the government (e.g. education). An analysis by the World Bank found that poverty is reduced much more quickly in countries which receive budget support.¹

Budget support also helps to improve the framework conditions for private investment and thus promotes qualitative and quantitative growth. In many cases, an improvement in the investment climate forms an important component of the performance targets agreed by the providers of budget support and the recipient and forms part of the political dialogue associated with budget support. Budget support thus motivates governments to improve the investment climate, thereby creating jobs and a competitive economy. For example, as

part of budget support to Ghana, it was agreed that the administrative procedures for setting up and registering businesses would be simplified. The goal of making the import and export of goods easier was also set. The results of the Ghanaian government's efforts are clearly evident: according to the Doing Business indicators of the World Bank, the time required for the cross-border trading of goods has halved since 2006. During the same period, the number of procedures required in order to register a business has fallen from 11 to 7 and the costs associated with setting up a business have been significantly reduced.

Many of the effects described can be explained by greater accountability on the part of political decision-makers. This promotes a greater focus on results when the national budget is approved and implemented. Greater transparency in the budgetary process and increased integration of parliament, the media and civil society have contributed to this.

Positive effects with regard to sustainable growth, the reduction of income inequality and the achievement of MDGs can also be seen in the field of decentralisation (Veigel, 2012). As with budget support, accountability plays a major role. In the long term, local accountability (and especially participation at local level) is vital, since it ensures that policy is geared to the needs of the population. In the short term, however, the countries which show the best results are those which have pronounced top-down accountability, i.e. where the municipalities receive adequate supervision and support from the central government or independent institutions.³

Summary

Through its governance projects, KfW supports its partners in a long-term process of change with the goal of good governance. These projects directly create jobs, e.g. as a result of the implementation of the national

Fighting corruption and encouraging qualitative growth and more employment

Corruption is one of the biggest obstacles of all when it comes to qualitative growth and productive employment. As well as being a direct waste of resources, the long-term influence of corruption on the economic development of a country is even more serious. Corruption scares off investors and leads to misallocation of resources. According to Transparency International, developing and emerging countries incur losses of between 20 and 40 billion US dollars each year as a result.

For this reason, the German Federal Government places a high priority on the fight against corruption.² Budget Support is a particularly useful tool for promoting anti-corruption strategies in partner countries. This type of promotion can take the form of the setting of performance criteria for the awarding of budget support or accompanying support for independent supervisory institutions such as national audit courts.

development strategy and the development and operation of local infrastructure. The long-term effects are more important, however, since efficient local and national administrative structures which fulfil their duty of accountability to the people improve government services, reduce corruption and thus sustainably improve the investment climate.

Further information

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http://www.kfw-entwicklungs-bank.de/ebank/EN_Home/Sectors/Governance_and_decentralisation/index.jsp

1 World Bank (2010), *Poverty Reduction Support Credits: An Evaluation of World Bank Support*, European Commission (2010), "Budget Support and MDG Performance", EC Development Paper No. 2010/01

2 Federal Ministry for Economic Cooperation and Development (2012), *Anti-corruption and integrity in German development policy*, BMZ Strategy Paper 4/2012

3 K. Veigel (2012), "Decentralization Matters for the Poor", KfW Discussion Paper

