

»» Materials on Development Financing



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Shaping more just, peaceful and inclusive development processes How KfW Development Bank promotes Good Governance

Authors: Dr Niels Kemper, Isolde Bielek
Editor: Susanne Brösamle

Good Governance is a necessary condition for peaceful and sustainable development. With its projects and programmes to promote decentralisation, urban development and administration, public policy and administration as well as peace development and crisis prevention, KfW Development Bank makes a key contribution in different ways to promoting Good Governance, thus helping to shape more just, peaceful and inclusive development processes.

Participation and accountability are core elements of responsible governance

To contribute to improving living conditions, particularly of poorer people, governance measures are based on one or more of the following principles: transparent, accountable, effective and inclusive institutions actively involve all relevant societal groups to a large extent in decision-making processes leading to representative decisions, function according to principles of the rule of law and strengthen

the accountability of those affected. They improve the economic, social and political opportunities for participation of disadvantaged groups, strengthen social cohesion, reduce corruption and give all citizens access to rights and laws.

In the projects or programmes that pursue Good Governance, one of the main priorities is strengthening the accountability of the partners, starting with planning through to implementation and operation of measures, e.g. infrastructure investments. This focus on partners is key to the success of the measures because development processes must emerge from within a society and be supported by it.

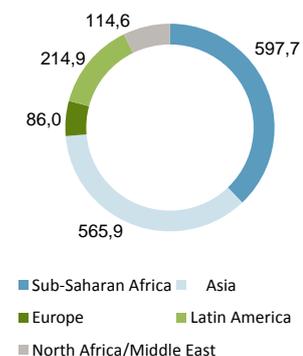
International development cooperation can thus provide key impetus and support a country's own efforts – but it cannot, however, act as a substitute for them. A pronounced willingness to seek reform and the mobilisation of domestic resources often drive the success of support measures.

Around EUR 1.58 billion for Good Governance measures

KfW Development Bank is currently supporting 130 ongoing Good Governance programmes on behalf of the German Federal Government. They are spread across 5 regions of the world and 45 countries.

The geographic focus is Sub-Saharan Africa where slightly more than half of all

Commitment volume per region (In EUR millions)



Source: own representation

measures are located. Around one-fifth of the measures are being carried out in Asia.

The total volume of funding commitments currently amounts to around EUR 1.58 billion. These funds mainly consist of financial contributions from the German federal budget. KfW finances roughly EUR 316 million from funds raised on the capital market, and around EUR 50 million stem from budgets of other development partners (delegated funds). Market funds are primarily deployed in projects in Latin America. They make up around 70% of the funding commitments there.

The average funding volume per measure is EUR 12.1 million¹. The average funding volume of measures in Latin America is EUR 23.9 million, a figure that is much higher than measures in Sub-Saharan Africa and Europe which receive average funding of EUR 9.2 million.

The main goal pursued by more than half of the measures is to reduce poverty, and around three-quarters of the measures have a positive impact on gender. Nearly half of all measures are being carried out in crisis and conflict countries. There is just a small handful of measures that can be assigned to the governance sector in emerging countries.

Four types of Good Governance measures

The Good Governance measures supported by KfW can be broken down into four types:

- Decentralisation
- Urban development and administration

- Public policy and administration
- Peace development and crisis prevention

Type 1: Decentralisation Decentralisation brings the state closer to its citizens by transferring tasks, responsibilities and decision-making powers and resources to decentralised government bodies (provinces, districts and municipalities). This has many advantages: the political and economic participation of the population is strengthened and citizens have more oversight over their rulers. Decentralisation can mobilise development potential at local level.

Typically KfW supports decentralisation processes by providing resources for municipal infrastructure investments. The decentralised administrative bodies and participative processes are often strengthened at the same time.

In KfW-financed decentralisation projects, citizens usually decide indirectly (i.e. via elected or appointed representatives) about the deployment of resources that are provided via national transfer systems or municipal development funds. Citizens often decide to invest in elementary education, medical centres or the water supply. Economic development can also benefit from supported measures, for instance, by financing markets or transport options that facilitate local mobility, value creation or local trade.

This type of economic infrastructure also represents an important source of income for the municipalities, in the form of both fees and taxes.

In total, KfW Development Bank currently supports decentralisation in 38 ongoing measures with a commitment volume of EUR 413.8 million. This represents a good one-quarter of the commitment volume of all ongoing measures to strengthen Good Governance. The priority area of these measures is Sub-Saharan Africa.

Type 2: Urban development and administration

The population in cities continues to grow. Already today more people live in cities than in rural areas with this trend set to continue. Cities are at the centre of changes in society, cultural expression and economic prosperity. However, they can also be places of marginalisation, violence and

inhumane living environments. As a result, they must be capable of creating liveable surroundings for all of their citizens.

Participative urban planning, fiscal decentralisation, sufficient resources and the resulting capabilities are essential for this. Liveable cities can only be created together with the people who live there.

Beyond providing infrastructure, cities are also always places that people identify with and venues for public discourse. Different worlds and cultures come together in cities.

A city has to be able to cope with and protect this diversity and meet the different

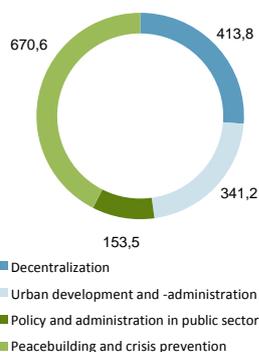
Efficient poverty alleviation via decentralised structures – Benin



Source: KfW Photo Archive / auslöser-photographie

Decisions in Benin always used to be made in the capital of Cotonou. But since a decentralisation reform in 2009, the municipalities have a say in important issues such as water supply, education and health care. To make it possible for the municipalities to raise the funds for investments, Benin's government created a special budget line, the "Fonds d'Appui au Développement des Communes" (FADeC). KfW Development Bank augments the finance transfer mechanism with additional funds together with other development partners such as the EU Commission and Switzerland. The funds are distributed according to an allocation formula which factors in population, poverty index and area so that disadvantaged municipalities where particularly many poor people live receive more funds from the FADeC than richer ones. At the same time, the monies from the fund are distributed in such a way that particularly active municipalities with good governance, e.g. with well-functioning entities and good procurement systems, are rewarded. The first successes are already visible: sanitation, access to clean drinking water, elementary education and the rural infrastructure have improved.

Commitment volume per measure (In EUR millions)



Source: own representation

¹ The median funding volume is EUR 8 million.

»»» Crime prevention through integrative urban development – South Africa



Source: KfW Photo Archive/ Jens Steingässer

No-one used to walk through the Khayelitsha Township, a district of Cape Town, voluntarily after dark. It was particularly life-threatening for women and children to be out on their own. Crime, poverty and mass unemployment were prevalent. Improved infrastructure, social programmes and stronger urban management have made poor districts safer. The city of Cape Town has set up small community centres, known as "Active Boxes", with support from KfW Development Bank. These centres are staffed by volunteers around the clock. They function as kindergartens, meeting points and places to relax. The residents of the township had identified the places where violence was particularly common. It is precisely in these places that well-lit Active Boxes, playgrounds and amateur football fields have been installed. This made it possible to recover public space for people in the township by creating a place for non-violent activities. Today women feel safer, even after dark, walking home from the bus stop. They know that the community centres are always occupied.

The Western Cape province now also wants to apply the successful model which is designed to strengthen the ties between the relevant departments within the administration with local stakeholders, in other cities.

needs it entails. In this way, a city stays vibrant and innovative and improves social cohesion and peaceful coexistence in a globalised world.

With its projects and programmes, KfW Development Bank supports sustainable and people-oriented urban development. This includes the target group-oriented expansion of public infrastructure, programmes for conflict resolution and the prevention of violence as well as climate and environmental protection.

Overall KfW Development Bank is currently providing support for 29 measures in the area of urban development and administration which focus on the promotion of Good Governance in cities (commitment volume EUR 341.2 million).

»»» Support for free elections – Burkina Faso

Following the overthrow of the government in 2014 which saw the long-standing president Blaise Compaoré ousted and the dissolution of parliament and municipal councils, a twelve-month transitional phase began headed up by an interim government. The presidential and parliamentary elections in December 2015 and the local elections in May 2016 were intended to bring about a return to constitutional normalcy. KfW Development Bank supported the independent election commission in charge of organising and monitoring the election in carrying out the local elections by financing election materials (printing ballots, voting booths, etc.). The project aimed to contribute to credible, peaceful and transparent local elections and make it possible for the voting population to participate in Burkina Faso.

Type 3: Public policy and administration

Democracy and an efficient and transparent public administration facilitate a constructive relationship between government and society which in turn is a key prerequisite for sustainable development. To achieve this goal, a government needs well-functioning institutions that practise good governance as well as monitoring mechanisms embedded in policy and society.

In this field of activity, KfW Development Bank provides support, for example, for free and independent elections and the drafting of property laws (land register systems) and encourages institutions responsible for parliamentary oversight.

In particular the public finance system in many partner countries is weak. As a result, KfW Development Bank promotes reform programmes to boost efficiency in the public sector (Good Financial Governance) and strengthens local administrative institutions.

It provides support, for example, in the establishment of municipal administrations, in the implementation of tax reform programmes or the establishment of courts of auditors that review the revenues and expenditures of the finance administration. This enables public funds to be used more efficiently and systematically, for example, for programmes that alleviate poverty.

Overall KfW Development Bank is currently supporting 16 measures in the area of

public policy and administration with a commitment volume of EUR 153.5 million.

»»» Better good governance through the court of auditors – Rwanda



Source: KfW Photo Archive / Rendel Freude.

Rwanda is one of the poorest, youngest and most densely populated countries in Sub-Saharan Africa. It is experiencing highly dynamic development. This also includes the reform of the public finance system. KfW Development Bank supports and funds the implementation of these reforms together with other development partners. Strengthening the Rwandan court of auditors is one of the main priorities for the reform of public finance. As an independent institution, it reviews whether the government manages its budgets properly. Finances are provided for, among other things, equipment, communication technology and qualification measures as well as support from an international financial auditor. One significant outcome of this support is better national audits. Promising progress was also made in the national procurement system. Today almost all tenders are conducted publicly and in line with international standards. Reforms in the public finance system are thus making a key contribution to good governance and fighting corruption in Rwanda.

Type 4: Peace development and crisis prevention

Promoting transparent and peaceful decision-making processes, also in fragile contexts, creates special challenges for international development cooperation. Government partners are often only able to take action to a limited extent in crises. As part of transitional assistance, KfW Development Bank links short-term aid with structure-building development cooperation. The aim is to stabilise the population's living conditions and strengthen their resilience, particularly through the decentralised, multisectoral provision of basic infrastructure and services such as the reconstruction of schools, medical stations, rural roads, bridges and markets. In these areas as well, the citizens are involved in deciding how funds are used.

The measures generally include the labour-intensive construction of infrastructure by local workers including combatants and refugees. The improvement in living conditions brought about by the projects demonstrates the value of peace ("peace dividends") and reduces inequality between social groups. Participation and personal accountability reduce conflict and act as a stabilising force.

KfW Development Bank currently supports 47 ongoing projects or programmes for peace development and crisis prevention with a commitment volume of EUR 670.6 million. This represents a good third of all the ongoing measures to strengthen Good Governance. Geographically speaking, the measures concentrate on Afghanistan and Pakistan (17) as well as Sub-Saharan Africa (15).

»»» State building at district level – Afghanistan



Source: KfW photo archive / auslöser fotografie

State building in Afghanistan which has been underway since 2001 has been strongly focused on the central state institutions. The North Afghanistan stabilisation programme calls for "state building" at district level. The target group is the population in extremely fragile regions. Their living conditions are to be improved through access to basic infrastructure services, a reduction in local conflicts and involvement in state decision-making processes. In addition, the members of the district councils receive advanced training to enhance their administrative skills and fulfil their role as representatives of the people more effectively.

Different implementation modes: project vs. programme financing

In all four of the intervention areas mentioned, different implementation modalities are deployed depending on the local conditions. The project model is usually chosen when the overall situation is difficult and partner structures are comparatively weak: in this case, the focus is generally to eliminate clearly defined and selective obstacles to development. KfW Development

Bank provides intensive support for each individual step starting with the project concept through to implementation all the way to operation to ensure that funding is also used properly in challenging conditions. Effective partners in the partner countries with more stable overall conditions, on the other hand, can implement across-the-board programmes largely on their own (programme model). The focus in this mode is sectoral policy dialogue (e.g. defining spending priorities) and support for local implementing organisations. The funds are only made available once agreed prerequisites have been fulfilled, for example, after an adopted law has come into force. Depending on the income and capacity of the partner country, these policy reform programmes can be supported with grants or loans that generally flow directly to the partner country's budget. To this end, an effective public finance system is required which can be closely scrutinised and supported with respective support measures if need be, for example, through the establishment or support of a court of auditors.

Conclusion

Good Governance requires effective institutions and is an indispensable prerequisite for sustainable development.

Promoting Good Governance is a lengthy process that, in addition to the willingness of the partner countries to seek reforms, also requires a combination of many complementary measures of financial and technical cooperation. There is no blueprint for this process because support programmes have to be brought into alignment with the local conditions, needs and possibilities. The definition of a coherent support programme is part of the policy dialogue between the German Federal Government, partner governments and the other development partners.

KfW Development Bank has a broad range of proven developmental funding models and implementation modes to effectively support Good Governance and participative development processes.



Cover photo

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Contact

KfW Group
KfW Development Bank
Palmengartenstrasse 5-9
60325 Frankfurt am Main
Germany
Tel. +49 (0)69 74310
Fax +49 (0)69 7431 2944
info@kfw-entwicklungsbank.de
www.kfw.de