Good Financial Governance

Transparent and efficient use of public funds

Good financial governance is good governance in public finance. This includes that governments manage their expenditures in an efficient, transparent and accountable way whilst also collecting appropriate and fair taxes. Development cooperation contributes to good financial governance in partner countries by supporting ministries and other authorities responsible for public spending, tax administrations, audit institutions, parliaments and civil society. This will improve the management of citizens’ money and prevent corruption.

Context

Dealing properly with public funds is one of the key aspects of good governance. A well-structured and comprehensive public budget is crucial for creating coherent policies and to hold government accountable. Parliaments and governments have to ensure that national development goals, such as better education, are incorporated into the state budget and supported with corresponding funds. Only then can new teachers be employed and new schools built.

In order to achieve goals and use funds efficiently, governments and public administrations have to follow clear rules during the implementation of budgets. This includes payments by public authorities being carefully documented and traceable. Government contracts must be awarded fairly to implement the scarce funds efficiently and prevent corruption.

Independent supervisory authorities, such as audit offices, are another element of good financial governance. They control public spending and reveal embezzlement and corruption. As a result, the parliament and civil society are able to control the government, which also strengthens basic democratic values.

Efficient and legitimate tax collection provides governments with sufficient means to cover public expenditures. But in many developing countries the share of tax revenue is too low compared to the gross national product. It is therefore necessary that governments in developing countries collect higher tax revenues to advance development and at the same time distribute the financial burden fairly.

Yet, the reform of public financial management is only making sluggish progress in many partner countries. Reforms often require an extensive restructuring of public administrations. Rules, responsibilities and authorities shift and change. Moreover, many public officials are insufficiently educated and not familiar with the necessary procedures and regulations. There is also often a lack of necessary infrastructure including, for example, adequately equipped office buildings or functioning IT systems.

The KfW development approach

KfW Development Bank promotes measures to improve public financial management in partner countries and therefore contributes to good financial governance. By financing extensive reform programmes and infrastructure, such as buildings and information technology, KfW supports key institutions in public finance. These include financial administration on a central and decentralised level, audit offices, procurement agencies, tax administrations and parliaments. Civil society plays a significant role as well. KfW Development Bank often collaborates with other donor institutions to support partner countries jointly in promoting good financial governance. This has a positive effect on development: strategic budget planning, internal control mechanisms, accounting and reporting have often all significantly
improved following projects by KfW Development Bank. As a result, public spending can be utilised more transparently, efficiently and effectively in partner countries. Fewer funds are embezzled or lost due to inefficient budget planning. Efficient and well-equipped supervisory authorities monitor the proper implementation of budgets. This is also for the benefit of the poorer population. Public sector contracts are tendered in a transparent way and awarded to the most advantageous bidder. This enables public spending in all sectors to use scarce funds more efficiently and to focus more on development. Additionally, the support by KfW Development Bank makes a significant contribution to reducing corruption.

At the same time, KfW campaigns for the reinforcement of tax systems, hence partner countries are able to mobilise their own funds to fight poverty. Admittedly, many states in Sub-Saharan Africa are still reliant on international development funds to provide an absolute minimum of state services. At the same time, however, many partner countries succeed in financing an increasing share of national budgets through taxes and levies by themselves. Taxes also create an important foundation for the relationship between citizens and the state, because those paying taxes can demand more accountability from the government. KfW Development Bank promotes the mobilisation of domestic revenues by supporting tax administrations in partner countries, for instance by improving their IT equipment or the training of tax officials.

Rwanda - Transparent Accounting

Rwanda is one of the poorest, youngest and most densely populated countries in Sub-Saharan Africa. Yet it is characterised by highly dynamic development. This also includes reforms in public financial management. KfW Development Bank accompanies and finances the implementation of these reforms in collaboration with other development partners using a coherent basket financing approach.

The reforms are already showing results. The state is working more effectively and projects are being implemented more efficiently. Budget planning figures have become considerably more reliable. The expansion of the Rwandan audit office made a marked contribution to the reforms. As an independent institution it monitors whether the government’s budget management is in accordance with the regulations. One part of the German funds that go into public finance are therefore earmarked for the development of the audit office. National audits in Rwanda have improved significantly as a result of the reform efforts.

Promising progress was also made in the national procurement system. Today, almost every tender is public and carried out according to international standards. Therefore the reforms of public financial management in Rwanda make an important contribution to good governance and combating corruption.