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for Economic Cooperation
and Development

STRATEGIES 178

Promotion of Good Governance in German Development Policy



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1. Summary

In the United Nations Millennium Declaration (2000) the international community affirmed the eminent importance of good governance as a key factor in the global effort to eradicate poverty. The present strategy paper is a contribution towards realising the Millennium Declaration and achieving the Millennium Development Goals (MDGs). It describes the specific services offered by Germany to its partner countries within the scope of development policy. The strategy paper is applicable to cooperation with regional organisations and to strategic cooperation with multi-lateral organisations and the EU.

Our understanding of good governance is based on human rights. The **threefold obligation of the state**, i.e. respecting, protecting and fulfilling human rights, makes the state a duty-bearer and the people right-holders. It is on this basis that the “BMZ’s Catalogue of Criteria for Assessing Development Orientation” defines the key elements of good governance.¹

This strategy paper focuses on partner countries in which the state is well developed. In keeping with the Paris Declaration, we assist these countries in **implementing state and administrative reforms and sector reform policies**. Thus it complements the BMZ’s strategy paper on “Development-Oriented Transformation in Conditions of Fragile Statehood and Poor Government Performance”. The focus of the latter strategy paper is on partner countries with less developed states where state-building is the crucial issue. The two strategies complement each other.

The following **principles** guide our development policy cooperation on promoting good governance.

- Strengthening country ownership of good governance
- Conducting a continuous, long-term policy dialogue
- Promoting state and civil society
- Taking local realities, rather than blueprints, as a starting point, and
- Mainstreaming governance across all sectors.

Efforts to foster good governance take place in various fields, at various levels and with various partners from state and civil society. Some of the important fields for action are:

- Threefold obligation: respect, protect and fulfil all human rights
- Democracy, rule of law and the media
- Gender equality
- Administrative reform and decentralisation
- Good financial governance, transparency in the extractive industries and anti-corruption.

¹ The five criteria are: pro-poor and sustainable policies; respect for, protection and fulfilment of all human rights; democracy and the rule of law; efficiency and transparency of the state; cooperative stance within the international community.

Good governance is a challenging and complex field that cannot be dealt with exhaustively in a strategy paper. Notwithstanding the valuable experience gained through German development policy in many areas, expectations of what assistance can achieve should not be unrealistic.

“Good Governance is perhaps the single most important factor in eradicating poverty and promoting development”²

2. Introduction

2.1 Why do we promote good governance?

In the United Nations Millennium Declaration (2000) the international community affirmed the eminent importance of good governance as a key factor in the global effort to eradicate poverty. Promoting good governance helps to achieve full observance of human rights, which must be respected, protected and fulfilled by the state (threefold obligation). When a state strives to achieve full observance of human rights it is acting in a development-oriented manner. Development-oriented action is an essential foundation stone for the stability of a society. Development orientation is key to the peaceful reconciliation of diverging interests at supranational and global level: in negotiation and implementation processes, development-oriented actors perform important political facilitating functions.

The present strategy paper is a contribution towards realising the Millennium Declaration and achieving the Millennium Development Goals (MDGs). It sets out the development policy guidelines of the Federal Ministry for Economic Coop-

eration and Development (BMZ) for measures in the field of good governance.³ Good governance is a challenging and complex field. Notwithstanding the valuable experience gained through German development policy in many areas, expectations of what assistance can achieve should not be unrealistic. The strategy paper is applicable to cooperation with partner countries, regional organisations, multilateral organisations and the EU. It describes the specific services offered by Germany to its partner countries in this field. The strategy paper is binding for the implementing organisations of official German development cooperation; it is intended to provide guidance for non-governmental organisations and private-sector actors. It is also applicable to regional strategies, country programmes and priority area strategies of bilateral German development policy. It serves as a basis for decision-making in the identification, appraisal, design, implementation, control and evaluation of measures relevant to this specific sector/issue.

² Former United Nations Secretary-General Kofi Annan at the United Nations General Assembly in 1998.

³ The strategy paper replaces the BMZ position paper ‘Good governance in German development cooperation’ of 2002.

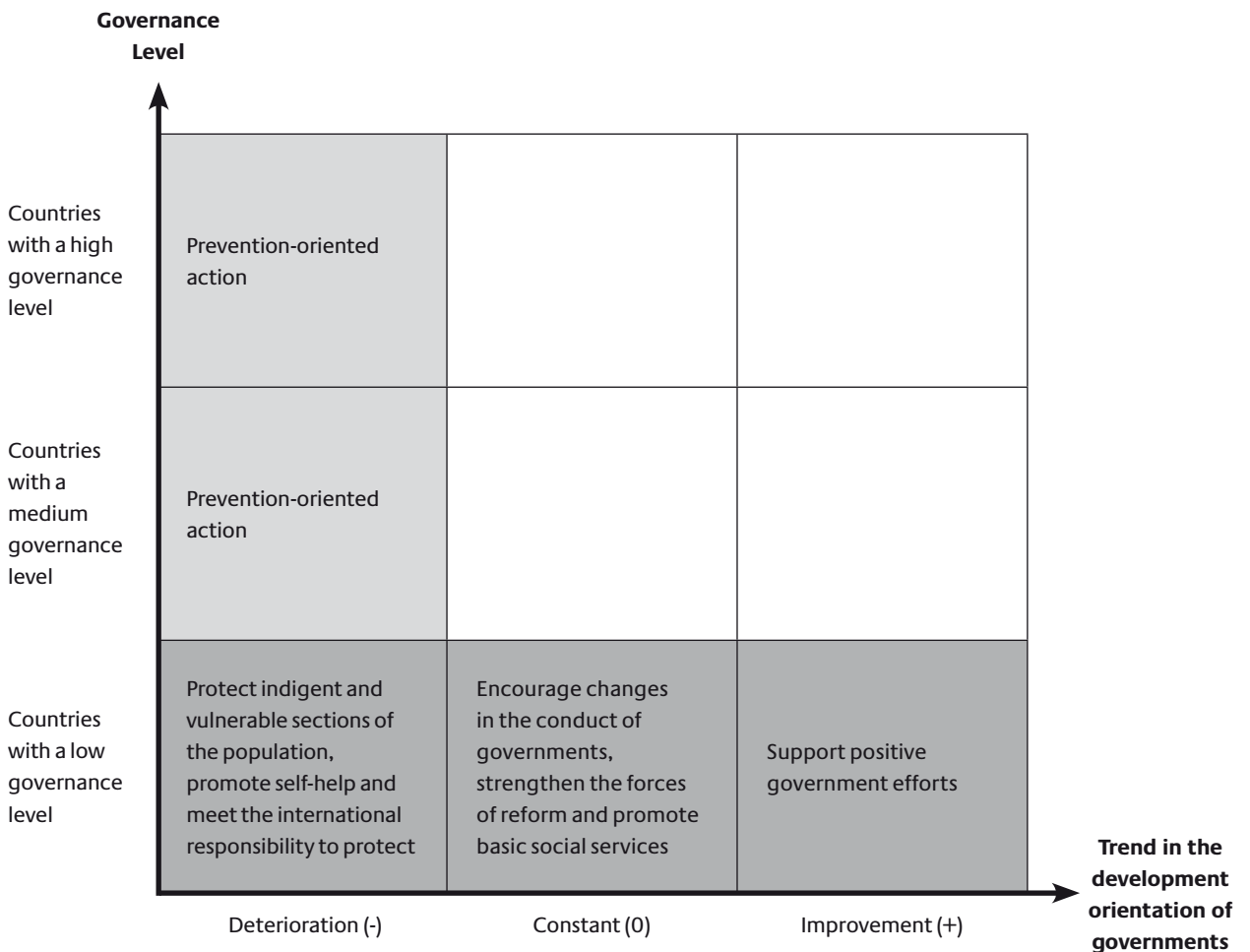
2.2 Delineation of focus

Efforts to foster good governance fall within the area “Democracy, civil society and public administration”, one of a catalogue of priority areas that German development cooperation may focus on, and are also a key subject in other sectors.⁴ The specific form of assistance is determined by the level of governance and development orientation of the partner country.

In partner countries where the state is well-developed and state actors are development-orient-

tated (see matrix, medium and high government level) German development policy aims to support national (sector) reform policies in keeping with the Paris Declaration on Aid Effectiveness (2005).

The BMZ strategy paper “Development-Oriented Transformation in Conditions of Fragile Statehood and Poor Government Performance” (2007) goes into more detail on specific aspects of **partner countries with less developed or fragile states or low development orientation (i.e. state building)**.



⁴ In its policy marker system, the OECD uses PD/GG 1 and 2 for projects in the fields of „participatory development/good governance“. A project whose principal aim is to promote participatory development, democratisation and good governance is tagged PD/GG 2. Projects in which the promotion of good governance is a secondary objective are marked PD/GG 1.

Approaches to governance that are applicable in **crisis and (post-)conflict situations** are outlined in the BMZ sector strategy on “Crisis Prevention, Conflict Transformation and Peace Building”. In such cases, it is, not least, important to avoid taking action that could unintentionally exacerbate old conflicts (“do-no-harm” appraisal).

2.3 What do we understand by “good governance”?

The term “governance” refers to the way decisions are taken and policies are framed and implemented in a state. It also includes political processes at supranational level and relevant regional organisations. **The focus is on norms, institutions and procedures that regulate the actions of governmental, non-governmental and private-sector players.** On the one hand, it is about the values that underlie governance and, on the other, about the institutional frameworks in which governance takes place. The normative and institutional dimensions of governance can only be understood in the light of the specific historical, cultural, social and economic context.

There is no standard international definition of good governance. Yet over the last few development decades good governance has developed into a broad normative and internationally established concept. Our understanding of good governance is based on universal human rights and the principles derived from them.⁵ The ideal is a state which acknowledges, progressively implements and fulfils the obligations it has entered into internationally and regionally. This ideal is based on the **state’s threefold obligation, i.e. respect for, protection and fulfilment of all human rights.** It makes state actors bearers of obligations and the citizens holders of rights. Good gover-

nance is a precondition for development – and a development goal in its own right.

The BMZ’s **Catalogue of Criteria for Assessing the Development Orientation of Partner Countries** defines key elements of good governance.

We talk about **good governance** when **state actors and institutions** earnestly endeavour to frame policies in such a way that they are **pro-poor, sustainable** and in line with the MDGs. There is a direct connection between good governance and poverty reduction. Good governance facilitates the creation of a reliable enabling environment, which in turn promotes broad-based economic growth and helps reduce poverty. A state acts in a development-oriented manner if it **respects and protects all human rights** and earnestly endeavours to **fulfil** them for all its citizens – irrespective of status, gender, age or ethnicity, religion or cultural group. Its action is guided by **democratic and rule-of-law principles.** These include popular participation, a responsible parliament, lawfulness of state action and an adequate division of powers. The state should also be capable of managing conflicts constructively and non-violently. Key elements are the **efficiency and transparency** of state administration. The determination and ability of governments to take effective action and a transparent, efficient and citizen-orientated administration are vital elements. These latter aspects are also critical to the public finance system, especially when it comes to effectively fighting corruption in state institutions. Given the growing importance of regional and international cooperation, **a cooperative stance within the international community** is a further characteristic of development orientation.

⁵ Empowerment, participation, equal opportunities and/or non-discrimination, transparency and accountability.

BMZ Catalogue of Criteria for Assessing Development Orientation⁶

- 1. Pro-poor and sustainable policies**
- 2. Respect for, protection and fulfilment of all human rights**
- 3. Democracy and the rule of law**
- 4. Efficiency and transparency of the state**
- 5. Cooperative stance within the international community**

⁶ The catalogue is reproduced in full in Annex 1.

3. Overarching Objectives

In the Millennium Declaration the international community affirmed the principles of global sustainable development. These principles are fleshed out in the MDGs, in the Monterrey Consensus adopted at the International Conference on Financing for Development (2002), the World Summit on Sustainable Development in Johannesburg in 2002, the Paris Declaration (2005), the outcome of the United Nations Millennium+5 Summit and the Accra Agenda for Action (2008). German development policy has set itself four goals for the implementation of this international framework of action:

- **Reducing global poverty**

- **Building peace and democracy**
- **Justice in globalisation**
- **Protecting the environment**

In the inter-ministerial Program of Action 2015 the German government spells out its contribution towards implementing the Millennium Declaration and achieving the MDGs. Only a holistic approach can ensure that all projects have a positive impact on social, economic, ecological and political development. Promoting good governance is part of this.

The following BMZ strategy papers and position papers are also important for the promotion of good governance:

The **BMZ Strategy Paper on the Promotion of Equal Participation by Women and Men in the Development Process** (2001) sets out the objectives and principles in the field of gender equality, and describes the lessons learned, opportunities and constraints.

The **BMZ Strategy Paper on Development Cooperation with Indigenous Peoples in Latin America and the Caribbean** (2006) seeks to align development cooperation more closely with the rights, interests, needs and organisational processes of indigenous peoples.

The **BMZ Strategy Paper on Social and Ecological Market Economy Principles in German Development Policy** (2007) applies the principles of sustainability to economically relevant issues, highlighting the linkage between economic policy and good governance as a necessary precondition for inclusive and sustainable economic growth.

The **BMZ Strategy Paper on Social Security** (2008) describes approaches to the pro-poor framing of social policies at national level and thus to structural poverty reduction.

The **BMZ's Development Policy Action Plan on Human Rights 2008-2010** (2008) aims for stronger human rights promotion and its mainstreaming in development cooperation.

The position paper **Anchor Countries – Partners for Global Development** (2004) stresses that goal-oriented cooperation on reforming and strengthening state structures in these countries is essential to creating equitable global structures that foster peace (global governance).

4. Links with International Treaties and European Development Policy

International human rights guarantees such as those enshrined in the International Covenant on Economic, Social and Cultural Rights (ICESCR) (1966) and the International Covenant on Civil and Political Rights (ICCPR) (1966) set **globally applicable standards for the responsible exercise of state power**. The Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) of 1979 requires ratifying states to take specific steps, in the form of policies and programmes, to eliminate discrimination against girls and women and to ensure de facto gender equality. Many partner countries have ratified these and other treaties, acceded to regional human rights agreements and are members of regional organisations, treaties and initiatives.

One relevant initiative in the African context is the **New Partnership for Africa's Development (NEPAD)** (2001). Under it, the African states have set up the African Peer Review Mechanism (APRM) and initiated a process of mutual governance assessment. In the Constitutive Act of the African Union (2002) the signatory states declare the promotion of good governance to be an important objective; the revision of the Cotonou Agreement (2002) includes good governance as a fundamental element of cooperation and provides for the possible suspension of cooperation, for example in cases of serious corruption.

In addition to the above, the following treaties and initiatives, which have the backing of the international community, provide an important basis for promoting good governance:

- The **United Nations Convention against Corruption (UNCAC)** (2003) contains a broad spectrum of practical anti-corruption instruments and actions to encourage transparent financial transactions
- The **United Nations World Summit (2005)** acknowledged that good governance is essential for development and sustained economic growth.
- The **Accra Agenda for Action**, adopted at the High Level Forum on Aid Effectiveness (2008), stresses the need to strengthen the policy dialogue on development strategies, particularly as regards implementation of commitments on gender equality, human rights and the environment.

In the context of European development policy, the **European Consensus on Development (2006)** and the **Conclusions of the EU Council on Gender Equality and Women's Empowerment in Development Cooperation (2007)** provide a valuable basis on which to promote good governance.

5. Principles and Fields of Action

5.1 Principles for the promotion of good governance

One of the objectives of German development policy is to strengthen the transparency, accountability and efficiency of the state on the basis of democracy and the rule of law. That applies to cooperation with regional organisations too. The aim is to support legitimate state actors both in performing their core functions and in shaping political processes that are inclusive of civil society. The promotion of good governance is usually a long-term, complex and conflictual process. **Some of the leading principles for promoting good governance are set out below:**

- **Strengthening country ownership of good governance.** Social reform processes cannot be imported into societies from outside. Development policy actions can do no more than support and monitor reforms towards good governance. The desire for reform and the mobilisation of local resources are decisive for the success of aid actions. Promoting good governance should therefore be based on the priorities and reform policies of our partner countries.
- **Conducting an ongoing policy dialogue in the long term.** Ownership of good governance can be promoted through a long-term policy dialogue between partner governments and donors. This dialogue

should encompass all political levels and be incorporated into the process of framing reform policies. Incentives for further reforms can be created to encourage development orientation in our partner countries – especially in the form of offering them the prospect of innovative financial instruments.⁷ Forums in the framework of budget financing lend themselves well to a permanent policy dialogue.

- **Promoting state and civil society.** State institutions require the participation and engagement of civil society actors. The latter have a valuable role to play when it comes to asserting and realising human rights, democracy and the rule of law. In particular, they represent the interests of disadvantaged and discriminated sections of the population. But they are also involved in, for example, the delivery, monitoring and control of basic social services (e.g. implementation of the right to health, education, water and food). In such cases, civil society actors are key contacts, whilst the state performs a statutory regulatory function. Seen in this light, the promotion of good governance encompasses both state and civil society and includes parliamentary development.
- **Taking local realities, not blueprints, as the starting point.** There is no such thing as a blueprint for promoting good gover-

⁷ Programme-oriented joint financing is an innovative method of financing comprising basket funding alongside general and sectoral budget support. It concerns the joint financing by several donors of sectoral, multisectoral or macroeconomic reform programmes which the partner country develops and for which it takes full responsibility, the donors having agreed with the partner country on common objectives and harmonised procedures. Bilateral funding takes place through Financial Cooperation, though basket funding is possible through Technical Cooperation under TA pooling.

nance, nor ideal routes to reform. That is why the historical, cultural, political, economic and social context of governance and specific regional developments must be taken into account. Many partner countries still have their traditional systems of government. Their standards, values and institutions are deeply rooted in society and perform important functions for the people. The aim must be to respect this diversity and use it creatively for reform, and to promote links and cooperation as regards social and economic development, whilst also drawing on “modern” structures. Compatibility with human rights and women’s rights must always be borne in mind and actively encouraged.

- **Governance as a key theme in all sectors.** Integrating good governance promotion into sector-specific projects can make them more effective. For example, if the rights and interests of different sections of the population are taken into account in the provision of public services (e.g. drinking water, health and education) and if state action is transparent and accountability-based, this contributes directly to reducing poverty. Good governance is essential for a socially equitable economic policy.

5.2 Levels of action, fields of action and approaches

Fields of action

Good governance can generally be promoted in different interconnected and mutually dependent fields and levels of action. The **multi-level**

approach makes it possible to promote good governance at all levels – especially at the local level – and implement it coherently. It facilitates the promotion of parliaments and executive institutions at the sub-national level and integration of the various political levels of action.

In some regions and sub-regions it is possible to **support regional governance structures and regional organisations**. Existing structures must be taken into account, including strengthening the rights of civil society and democratic participation. BMZ regional strategies address governance promotion at regional level. Regional organisations often work as a catalyst for governance reforms at continental and national level. In Africa, the African Union, NEPAD, the APRM and regional integration associations such as ECOWAS, EAC and SADC are taking on increasing responsibility for peace, stability and development. By fostering greater economic integration they are also helping to bring about regional stability and development.⁸

Fields of action and approaches

The various fields of action for the promotion of good governance are closely interconnected. Existing interdependences must be taken into account through coherent, coordinated sector policies and by making use of synergies. For example, an exclusive focus on promoting efficiency in the judicial system can actually serve to reinforce autocratic structures unless, at the same time, the legal reforms required to foster the rule of law are implemented. These possible knock-on effects must be taken into account in the planning and implementation of projects. Potential conflicts between the different sector-policy targets should be carefully considered (trade-offs).

⁸ This also applies to projects aimed at combating organised cross-border crime, for example the trafficking of women and children.

5.2.1 Threefold obligation: respect for, protection and fulfilment of all human rights⁹

Human rights define fundamental civil, political, social, economic and cultural rights for individuals. They obligate the state to create a regulatory environment for non-state actors (including actors in the marketplace) in which individuals are protected from violations of their human rights by third parties. This threefold obligation requires that state actors (administration and government at all levels) pursue policies that, amongst other things, guarantee equitable access to basic social services (e.g. health, education, water), to economic resources (land, capital, infrastructure) and to political resources. The realisation of human rights requires the collaboration of various institutions at central and local level, and policies and programmes that are designed in accordance with human rights. The main target group should be those sections of the population that are disadvantaged as a result of discriminatory mechanisms. These are often ethnic groups and minorities.

In addition to the legal shortcomings that may exist, there is often a lack of the financial, personnel, institutional and infrastructural capacities needed to implement human rights. One of the consequences of this is that human rights abuses are not effectively prosecuted. State actors, especially at local level, are often not informed about their human rights obligations, nor do they know how to perform them. This situation is further compounded by the fact that the exclusion and discrimination of certain groups of people (e.g. women, people with disabilities, religious and ethnic minorities, young people) are deeply entrenched in the societies of many partner coun-

tries. One objective must be, therefore, to promote the acceptance of human rights, especially for discriminated sections of the population.

Approaches include:

- Promoting national human rights institutions and organisations within civil society and their (regional) networks.
- Supporting law reform so as to realise international human rights obligations at national, regional and local level.
- Promoting human-rights-oriented reform policies relating to basic social services and food security (e.g. right to water, education, health and food, and land reform) and human rights education.

5.2.2 Democracy, rule of law and the media

Democracy

The fundamental principles of democracy are representation based on free and fair elections; popular participation in the policy-making and executive processes (including between elections); rule of law; and respect for human rights. For a democracy to function well, democratic principles and processes must be firmly anchored and institutionalised within a society. This goes far beyond the formal holding of elections.

The lifeblood of democratic parliamentarianism is an informed and articulate civil society that actively participates in processes of political opinion-forming and decision-making at all levels. These aspects, as well as greater transparency

⁹ Given the outstanding importance of human rights for the field of governance and the systematic orientation of German development policy to human rights, the Development Policy Action Plan on Human Rights 2008–2010 establishes the following priority areas among others: eradicating the structural causes of poverty and marginalisation; consolidating sound frameworks; and human-rights-based growth.

in areas including, for example, the use of public resources, can be supported through the use of information and communication technology (e.g. e-governance).

In many formal democracies there are sections of the population that are, to all intents and purposes, excluded from policy-making. Our aim must be, therefore, to empower disadvantaged and discriminated groups and help them gain access to policy-making and executive processes. Young people should be a particular focus of attention since they usually make up the majority of the population and a significant proportion of the electorate.

Approaches include:

- Improving the efficiency of the political system (e.g. the efficiency of parliaments – including regional assemblies – in regard to their legislative, control and representative functions; assistance for preparing and holding elections)
- Strengthening democratically legitimated institutions at all levels (e.g. political decentralisation)
- Promoting institutionalised participation of civil society in policy-making and executive processes (political participation of women, young people, people with disabilities, religious and ethnic groups, and minorities).

Rule of law:

Law and justice constitute the framework for the free yet regulated interaction of all relevant stakeholders in society and are indispensable for democratic societies. The law is an instru-

ment for steering societal, political and economic processes. Our understanding of the rule of law hinges on the interdependence of democracy, the constitutional state and the welfare state. The rule of law presupposes a state monopoly on the use of force, it implies the principle of the separation of powers including an independent judiciary, the principle of the lawfulness of administration, and the respect, protection and fulfilment of all human rights. The combination of the obligation of public authorities to comply with the law and elements pertaining to the organisation of the state (such as the separation of powers) is important in many partner countries, not least in the context of state development processes.

Moreover, the law offers the individual protection against arbitrary action by the state.

A reliable legal framework is also an important factor in improving the investment climate and promoting pro-poor growth.¹⁰

Many partner countries have in place legal fundamentals which meet the requirements of a democratic constitutional state; and yet in practice the situation is often unsatisfactory – in some cases in spite of reform. In many cases, legal certainty and justice are circumscribed by shortcomings in, say, the independence, professionalism and neutrality of the judiciary. Disadvantaged and discriminated sections of the population, especially women and young people, often have no access to justice because they have no knowledge of their own rights or else they lack the financial resources to pay for legal advice and enforce their rights.

The aim of promoting the rule of law is to strengthen the role of the law as a steering instrument in society and as an instrument to protect the individual. It must go beyond the promotion

¹⁰ Cf. BMZ Strategy Paper 158: Social and Ecological Market Economy Principles in German Development Policy (2007).

of law and justice and strengthen the application of the rule of law in other fields of action that are relevant to good governance as well.

Approaches include:

- Strengthening the organisation of the courts (e.g. decentralisation of the judiciary) and professionalisation of relevant actors in the justice sector (e.g. public prosecutors, judges, defence counsel and judicial officers).
- Support for the drafting, implementation and application of the law, with due consideration being given to human rights (public law, civil law, penal law e.g. lawfulness of the administration)
- Promoting access to the law and, where appropriate, to mediation for all sections of the population (e.g. through spread of law and education about the law; bringing together traditional and modern law).

Media:

Democratic participation cannot function without a free press, independent media and a pluralist media landscape. A free media, known as the “fourth estate”, fulfils a valuable democratic function: it offers a platform for social dialogue and, by providing information, helps to further the shaping of political opinion. It also performs watchdog functions with respect to breaches of the law by state actors (e.g. in cases of corruption, abuse of office and human rights violations). Political interference, censorship and economic interests hamper the development of a dynamic and independent media landscape. Independent, critical media are essential to a diversity of opinion and a culture of political pluralism and tolerance. Independent media make an important contribution to promoting learning processes within society. The internet in particular allows

the free circulation of information. A key element is to promote an environment in which a pluralist media landscape can develop and representatives of the media can go about their work without fear and without reprisals. At the same time, the users’ right to information must also be guaranteed.

Approaches include:

- Strengthening the independence of a free media (necessary legal and financial conditions)
- Promoting professional training and upgrading for journalists
- Promoting access to information and communication technology in the context of political participation and transparency.

5.2.3 Gender equality

Gender equality is a central issue within German development policy and one of the dimensions of good governance. Despite numerous international and regional treaties and initiatives there are still major shortcomings in many countries when it comes to implementation. State policies and actions impact differently on women and men. Institutions and policies based on patriarchal values and standards are partly responsible for the inequality of opportunities. Gender-specific discrimination makes it difficult for women to gain access to public services, markets and economic resources (land, capital, advisory services, training, information). The economic empowerment of women is one means of boosting economic development.

We want to help our partner countries to organise their institutions and frame their policies in such a way that women and men can help to shape political, economic, social and cultural development autonomously and on a basis of equality (empowerment) and that women can ben-

efit equally from these processes (gender mainstreaming). Institutions must be guided by the principle of gender equality and facilitate women's representation on the basis of equality.

Approaches include:

- Adapting existing legal norms, institutions and administrative practices to the rights and interests of women and girls (e.g. enshrining gender equality in the constitution, women as independent legal entities, land rights)
- Supporting the development and implementation of national strategies and action plans to protect against discrimination and other human rights violations against women and girls (e.g. prevention and prosecution of gender-specific violence)
- Promoting the eradication of gender stereotypes through gender-sensitive public education and information work.

5.2.4 Administrative reform and decentralisation

Administrative reform:

Public administration is the foundation stone of every democratic and efficient rule-of-law state and a key interface between state and society. Administrative reform is an important part of all state modernisation and critical to securing good governance in the different policy sectors. This applies as much to overarching reform processes as to the reform of sector administrations and institutions providing public services (e.g. health, education, social security, environment, business and industry).

In many partner countries there are politicised, centralist public administrations which cannot perform their functions efficiently. They are nei-

ther development-oriented nor responsive to citizens' concerns and, with their elaborate regulations, long drawn out processes and high costs, constitute an obstacle to development. This encourages informality and corruption. The crucial thing is to promote results orientation in public administration. This goes beyond the strict application of rules; instead, it is about delivering the concrete results called for by the public. This requires steering ability at the political level and the creation and strengthening of the corresponding administrative capacities and civil society monitoring of state action.

Approaches include:

- Supporting reform of administrative organisation, the civil service, and public finance and customs administration in the interests of greater efficiency, transparency and responsiveness to citizen's needs.
- Supporting institutional reorganisation of political functions and powers at all political levels
- Strengthening popular participation and the capacities of civil society actors – especially as advocates for disadvantaged and discriminated sections of the population – by establishing processes of political participation, with due regard being given to traditional mechanisms for participation.

Decentralisation:

Decentralisation and the introduction of local government are important elements of political reform in many partner countries. Decentralised government and administrative structures make it easier to deliver more efficiency, transparency and responsiveness to citizens' needs and help bring about democratisation and dynamic economic development at the local level. The crucial principle here is subsidiarity. Decentralisation

means in the first instance setting up parliaments and executive institutions at sub-national level and filling posts through local elections (political decentralisation). Actions are aimed at strengthening democracy by enhancing the legitimacy of the elected representatives of the people and increasing opportunities for individuals and civil society to participate (e.g. traditional participation mechanisms). Sub-national units must be suitably endowed with resources if they are to perform their functions properly. Fiscal decentralisation, i.e. endowing local units of government with financial resources and/or conferring on them powers to levy taxes, is therefore a vital component of successful decentralisation. The transfer of powers to local levels of administration (administrative decentralisation) should also be promoted. Needs-driven delivery of public service at the sub-national level (physical decentralisation) can lead to a sustained improvement in people's living conditions. Decentralisation processes may entail risks, for example when shifts in power structures and the redistribution of resources give rise to conflicts or cause existing conflicts to escalate.

Approaches include:

- Supporting reorganisation of the budgetary and financial system, fiscal decentralisation and municipal financial management in cooperation with audit authorities.
- 5.2.5 Good financial governance, transparency in the extractive industries and anti-corruption**
- Good financial governance**
- Good financial governance on both the revenue and spending sides is a key principle. It promotes transparent, legitimate and development-oriented state action. Public finance reform in our partner countries helps to ensure that public funds are managed competently and transparently and spent responsibly. Public finance has a central social allocative function. Through it, good financial governance can help reduce the gap between rich and poor. In many partner countries, poor administrative and management capacities mean that key preconditions of good financial governance are not in place. Tax systems can reinforce the unequal distribution of income, instead of reducing it. This must be avoided.
- State activities should be financed through taxes, tariffs, duties or contributions from citizens.¹¹ Only in this way is it possible to finance development sustainably. In many partner countries, it is necessary to close the gap between tax potential and tax revenues and promote the change-over from a customs-based to a tax-based revenue system. For governments, raising taxes brings with it the challenge of legitimating funding needs, setting spending priorities and accounting for expenditure. The budget will fail to fulfil its role as a central political steering instrument if spending decisions are not in line with political and social priorities. All too often, state financial controls are

¹¹ This is based on the precept 'No taxation without representation', which decisively influenced the development of European constitutions and democracies.

not adequate as instruments for informing parliaments. Effective internal and external controls are enormously important for curbing the abuse of power and sources of errors in budgetary and financial systems. A balanced distribution of duties and resources between the central and local levels is crucial to efficient domestic financial systems. Citizens should be better able to monitor government action effectively and demand government accountability.

Approaches include:

- Strengthening the role of the public budget as a central policy control instrument and of the actors in parliament, government and the administration who are involved in the budget process (budget preparation and execution)
- Strengthening independent and effective external financial controls (e.g. audit offices, civil society organisations)
- Improving the capacity for generating revenue through reforms of revenue policy and management, including dovetailing the two (e.g. promoting tax equity, customs modernisation)
- Promoting budgeting approaches that take account of impacts on relevant target groups (e.g. gender-responsive budgeting).

Anti-corruption

Corruption is the misuse of public or private office to gain undue advantage – for oneself or others. Corruption exists not only in the context of government revenues from the extractive industries but also in the state distribution processes and the private sector. Corruption causes legal uncertainty, leads to the misallocation of public and private investments, distorts competition and hampers economic growth and sustainable

development. It diminishes the efficiency and quality of administration and equality of opportunities for all sections of the population to access state goods and services. Corruption thus undermines public confidence in the state. The objectives of German development policy when it comes to anti-corruption are prevention and strengthening justice and criminal prosecution. Given the complexity and multilayered nature of the problem, combating corruption is often – implicitly or explicitly – incorporated into other BMZ fields of action as well. The United Nations Convention against Corruption (UNCAC) is an internationally recognised instrument and provides a valuable starting point for all projects.

Approaches include:

- Strengthening the administration (e.g. police and customs authorities), promoting codes of conduct and transparent public procurement.
- Strengthening the judiciary (judges, public prosecution, judicial personnel), especially their efficiency and integrity
- Supporting special and sector-specific anti-corruption commissions or anti-corruption units in public prosecutors' offices.

Transparency in the extractive industries

Growing demand for commodities, rising commodity prices and increased investment generate high and growing government revenues in partner countries rich in raw materials. An abundance of natural resources can fuel economic mismanagement and corruption through opportunities for rent seeking (resource curse). There is often no transparency regarding the level and distribution of government revenues. Weak institutions, failed economic policies and corruption are only some of the reasons why income from the extractive industries contributes little to reducing

poverty. Corruption weakens institutions because it circumvents established procedures, processes and mechanisms. Income from rents makes resource-rich states less dependent on taxing their people. As political actors see it, the steady flow of high levels of revenue from mineral resources often diminishes the need for, and their interest in, development-oriented action. Good financial governance must apply equally to the management of income from the extractive industries.

German development policy therefore supports transparency initiatives such as the Extractive Industries Transparency Initiative (EITI) for the oil, gas and mining industries. EITI's work aims to introduce transparency into the payments, such as taxes and royalties, made to the state by extractive companies. In this way, the government can be made publicly accountable for the use of these funds. The strategy pursued by EITI consists in conducting a constructive and institutionalised dialogue with the private sector, government and civil society (multi-stakeholder approach).

Approaches include:

- Co-financing and co-management of the World Bank's EITI Multi-Donor Trust Fund
- Support for EITI implementation in partner countries (institutional capacity building in financial administrations and local implementing structures).

5.3 Instruments and comparative strength of German development policy

The promotion of good governance as a priority area or as a key subject in other projects requires the careful selection of instruments that are

geared to the efficiency and legitimacy of the actors and their positioning in the country's social fabric. German development cooperation offers a broad **mix of instruments** which constitute a **comparative strength of German development policy**.

A nuanced analysis of the governance situation is required (BMZ Catalogue of Criteria for Assessing Development Orientation) if different instruments are to be deployed in a coherent manner appropriate to each context and if it is to be possible to react early to changes in the political and social environment. Conflict-related impact monitoring and the **policy dialogue** between governments are just as important. Policy dialogue is particularly effective if conducted jointly with other donors.

In countries with good governance the instrument of **budget support is also used under programme-oriented joint financing (PJF)**.¹² The basis of this instrument is an ongoing policy dialogue with the partner countries on reform policies in the various fields of action. A central issue here is public financial management in the framework of **good financial governance**. Development policy synergies and leverages are generated by combining budget financing under PJF schemes with project and programmes of Technical and Financial Cooperation.

German development policy supports international efforts to achieve a division of labour, especially within the European Union. Consistent application of the principles of the division of labour and complementarity may mean that German development cooperation makes use, in the fields of action described above, of opportunities for **"silent partnerships"** and/or **"delegated cooperation"** in agreement with other donors.

¹² German participation in budget funding presupposes a certain minimum level of good governance, cf. the BMZ's strategy paper on budget support.

6. Strategic Cooperation with Multilateral Organisations and the EU

Sustained benefits from the promotion of good governance will only accrue if the strategic cooperation with multilateral organisations, the European Union (EU) and regional organisations (cf. page 10 above) is stepped up further. Mandates, potential, comparative advantages and instruments must be judiciously deployed and interlinked through active collaboration in the EU, United Nations, World Bank, regional development banks and the OECD. Multilateral and regional organisations have further developed and strengthened their approaches and instruments in the field of governance promotion. The World Bank and regional development banks (African Development Bank, Asian Development Bank, Inter-American Development Bank) have stepped

up their activities in the field of governance, especially on administrative reform, anti-corruption, decentralisation and regional integration. As a general principle, the aim is to lend greater weight to our positions and enhance coherence. Sustainable results are most likely to be achieved if **bilateral and multilateral development cooperation are effectively interlinked**, especially in our partner countries.

The **Governance Incentive Tranche (GIT)** was adopted under the 10th European Development Fund (EDF) in 2007.¹³ It offers explicit incentives for improving governance in the partner countries. Implementation of this Initiative should be constructively monitored and further developed.

¹³ The GIT is based on the Communication of the EU Commission "Governance in the European Consensus on Development – towards a harmonised approach within the European Union" (2006).

7. Monitoring and Evaluation

Monitoring and evaluation must – as far as possible – be tailored to the partners’ planning and budget cycles. Responsibility for the monitoring of donor programmes should be integrated into partner countries’ national processes and instruments. Permanent monitoring of governance situations using, amongst other things, the appropriate indicators is important for the management and programming of projects. This is where coordination between donors at the international level comes in, to reduce differences in their assessment of the political situation and limit the volatility of development cooperation. Partners should be involved in evaluation processes, as they provide an opportunity to draw attention to existing shortcomings.

Evaluation is only possible if the results can be measured against pre-established criteria. To facilitate monitoring and optimise results, the donors and all the German actors involved should align their monitoring and evaluation mechanisms and develop common standards for the use of governance indicators. Priority area strategy papers should, wherever possible, contain concrete, verifiable objectives and indicators for each priority area.

The monitoring of actions designed to promote good governance must take into account the fact that these are complex and lengthy reform processes and that results cannot therefore be achieved in the short term. Changes in governance levels often take place gradually and are difficult to measure.

8. Outlook

Governance deficits have a direct impact on people’s lives. The successful promotion of good governance yields a “**development dividend**”, which in the medium to long term brings about an improvement in their daily lives. If efforts to promote governance are to be sustainable, they depend on coherent cross-departmental policies and developments at global level. Strategies designed to meet global challenges, such as **energy security, climate change and food security**, must be negotiated in the framework of global structural policy and implemented at national

level. This applies also to an **equitable global trading system** based on international obligations. Furthermore, the immediate environment of development cooperation is undergoing rapid development: emerging economies have become important donors and the number of development actors is growing all the time. This gives rise to new challenges in terms of coordination and harmonisation, not least in the promotion of good governance. Sustained success can only be achieved if there is **complementary and coherent cooperation among all the actors**.

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Annex 1

Catalogue of criteria for assessing development orientation

(in effect since January 2007)

1. Pro-poor and sustainable policies

- 1.1 Orientation towards the Millennium Development Goals (MDGs)
- 1.2 Sustainable, broad-based economic and financial policy
- 1.3 Support for ecological sustainability

2. Respect for, protection and fulfilment of all human rights

- 2.1 Implementation of international human rights treaties
- 2.2 Recognition and promotion of women's rights
- 2.3 Observance of human rights standards by state actors

3. Democracy and the rule of law

- 3.1 Democratic participation and a responsible parliament
- 3.2 Limitation of state power through justice and the law
- 3.3 Peaceful resolution of internal conflicts

4. Efficiency and transparency of the state

- 4.1 Government willing and able to act effectively
- 4.2 Corruption-free state institutions
- 4.3 Transparent, efficient, people-oriented public administration

5. Cooperative stance within the international community

- 5.1 Constructive participation in regional cooperation mechanisms
- 5.2 Constructive and active participation in international processes and bodies
- 5.3 Pro-peace stance in crisis and conflict situations

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