



Federal Ministry
for Economic Cooperation
and Development

Good Financial Governance in German Development Cooperation

Promoting good governance in public finance
BMZ Sector Strategy Paper

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Summary

German development policy works towards ensuring that developing countries assume **greater ownership** so as to be able to mobilise own financial resources and to use them to fund policy measures that promote development. A **transparent, legitimate and development-oriented public finance system** is the key to sustaining development success. The aim of the Federal Ministry for Economic Cooperation and Development (BMZ) in publishing the present Strategy Paper is to increase the impact of German development policy engagement in regard to public finance systems and to contribute towards shaping the international debate around this issue.

The BMZ takes an integrated, value-based **approach to good governance in public finance** (good financial governance). This approach takes account of **three dimensions** and their mutual **interactions**:

- 1) the principles of **good governance**, such as transparency and the rule of law (normative dimension),
- 2) the legal **framework, structures** and political **interests** (political economy dimension), and
- 3) technical **processes** and **tools**, that is public financial management (PFM) (technical dimension).

Successful reforms of public finance systems are complex undertakings and they are dependent on political, economic, social and historical-cultural factors. That is why PFM cannot be regarded from a purely technical perspective or in isolation. Rather, it must take into consideration the values underlying our development policy, such as the human rights-based approach, the promotion of a social and sustainable market economy, a free and democratic social order and, not least, the personal initiative of individuals. Bilateral and multilateral donors and organisations have pledged to adopt more ambitious and systematic PFM reform programmes and to set them within

the context of good financial governance. Germany played a key role in shaping this process and in coining the term **good financial governance**. In doing so, the BMZ has positioned itself in the international debate.

One of the key contributions of German development cooperation is its support for public finance reforms. Efficient and transparent public finance systems have a positive impact on **sustainable development and poverty reduction**. Efficient public finance systems also have a key role to play in the context of the Aid Effectiveness Agenda: As a government's central governance tool the public finance system is used to mobilise, channel and control financial resources.

Supporting partner countries in **mobilising their own revenues to achieve sustainable development goals** is one of the BMZ's objectives for the post-2015 process. Not least, that support allows partner countries to become less dependent on official development assistance (ODA). Combating tax evasion and avoidance is a central aspect in this.

Germany is committed to combating the causes of **illicit financial flows** that come from various sources, for instance tax evasion, and thus erode public finances. This impacts weak structures in developing countries in particular, since they are hardly in a position to implement efficient measures to counterbalance the strategies adopted by international networks and corporations.

By promoting good financial governance the BMZ aims to strengthen **good governance** through promoting **effective state action** and **transparency**. There are important overlaps here with the **fight against corruption**. National tax systems have a special role to play in the context of good financial governance, since they help citizens to identify with the state and strengthen **accountability**.

Good financial governance promotes **environmental sustainability** for instance because it strengthens partner countries' budget capacities so that international financial resources for climate protection purposes can be accessed and used efficiently. Good financial governance is also of central importance when it comes to delivering **efficient services** in the education, health and food security **sectors**, for example. Great importance is attached to fiscal decentralisation when it comes to promoting **rural regions**. Sustainable debt management guarantees **intergenerational equity**.

The BMZ is **guided by** the following **principles** when it comes to strengthening good financial governance. The aim thereby is to make efficient use of the key benefits of German development cooperation and to promote the international debate around this issue:

- A set of **values and interests** on which Germany's commitment is based, for example the human rights-based approach and promoting both a social and sustainable market economy and a free and democratic social order,
- Strengthening **ownership and domestic resource mobilisation**,
- **Using partner countries' finance systems**,
- Greater **harmonisation** and division of labour among donors,
- Greater **policy coherence**, especially in regard to international tax policy,
- Supporting broad-based **reform alliances** in partner countries with various stakeholders, and
- Efficiently interlinking the various **development policy instruments** (Technical and Financial Cooperation) and of bilateral and multi-lateral cooperation.

1. Introduction

Good financial governance is an indispensable condition for economic as well as for social and environmentally sustainable development. At the same time, good financial governance is an expression of value-based policies. Public financial management (PFM) that promotes development is not only geared to purely efficiency-related aspects but also to sustainability, realising human rights, democratic legitimacy, transparency and participation.

This is particularly relevant for the new global framework that will supersede the Millennium Development Goals in the post-2015 period: Good financial governance is a key element when it comes to effectively fulfilling the international community's pledge to combat global poverty.

International development cooperation and the governments of partner countries have already undertaken key efforts to reduce global poverty and inequality. These efforts must be continued and their previous successes, their level of sustainability and their quality further improved. Global poverty reduction, ecological and socially sustainable economic activity, conservation of natural resources, respect for, protection and safeguarding of human rights, and good governance can only be effectively accomplished if international efforts continue to focus on good financial governance. It is of decisive importance that this issue be incorporated and given the right emphasis within a new global system of sustainable development goals (known as the post-2015 process). That is why the BMZ is committed at international level to ensuring that the goals of good governance are also systematically and comprehensively established within the field of public finance after 2015.

The BMZ applies a value-based development policy and is committed to coherently orienting that policy to poverty reduction and to environmentally

sustainable and socially equitable development. Consideration is also increasingly being given to good financial governance aspects in the various subfields of good governance – in particular anti-corruption, political participation and accountability – and in the fields of sustainable economic activity, food security and private sector promotion.

1.1 PURPOSE AND OBJECTIVES OF THE SECTOR STRATEGY

The sector strategy set out in this Strategy Paper describes the central role good financial governance plays within German development policy. Implementation of the sector strategy is intended to contribute to poverty reduction and development by promoting the transparency and effectiveness of partner countries' public finance systems.

The Strategy Paper sets out the BMZ's key lines of argument and sources of information that are relevant to the decision-making process in regard to shaping German development cooperation. It comprises **development policy guidelines** for drawing up the regional and country strategies that are part of bilateral development policy, and provides decision-making guidance for identifying, reviewing, planning, implementing, controlling and evaluating German development cooperation projects in the area of public finance. It defines the framework and need for action in regard to German development cooperation.

In addition, the present Strategy Paper provides guidance as to how German development cooperation **positions itself** in the international debate, in regard to its cooperation with multilateral organisations such as the World Bank, the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) and in the context of European development cooperation.

Likewise, it is the basis for dialogue with the general public and for all communication with the German Bundestag.

The Strategy Paper is complementary to the BMZ Strategy Paper 178 on Promotion of Good Governance in German Development Policy (2009) that emphasises the significance of good financial governance as an important area of action of German development cooperation, and it ties in with the Position Paper on Increasing the Effectiveness of Bilateral Development Policy, Strengthening and Using Partner Systems (2010). There are links to other relevant BMZ strategy papers, namely the Strategy Paper on Anti-Corruption and Integrity in Development Policy (2012), the strategy papers dealing with poverty, human rights and extractive resources, as well as the Cross-Sectoral Strategy on Gender Equality in German Development Policy (2014).

1.3 BINDING NATURE OF THE STRATEGY AND TARGET GROUP

This Strategy Paper is binding on the implementing agencies of official German development cooperation

(Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Kreditanstalt für Wiederaufbau (KfW), the Federal Institute for Geosciences and Natural Resources (Bundesanstalt für Geowissenschaften und Rohstoffe, BGR) and the Physikalisch-Technische Bundesanstalt (PTB) and on the German Institute for Development Evaluation (Deutsches Evaluierungsinstitut der Entwicklungszusammenarbeit, DEval). It provides guidelines for business undertaken by the KfW and its subsidiary Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) at their own risk and within the area of responsibility of the GIZ International Services (IS). Further, the Strategy Paper provides guidance on Germany's development policy commitment in multilateral institutions, particularly the United Nations, the European Union and multilateral development banks. It offers orientation to non-governmental organisations and private sector actors.

The BMZ regularly reviews both the application and implementation of the sector strategy and whether it needs to be updated. In doing so it takes up the guiding principles for implementation defined in this Strategy Paper.

2. Good financial governance: definition and relevance for development policy

2.1 THE RELEVANCE OF PUBLIC FINANCE SYSTEMS FOR DEVELOPMENT POLICY

Only when a state is in a position to (i) mobilise sufficient resources to sustainably finance development goals, (ii) implement its policies and the related priorities effectively and transparently using public budgets and (iii) to guarantee effective financial oversight will it be able to successfully combat poverty and promote economic and social development.

As a state's central steering instrument, public finance systems are particularly relevant for reacting to economic and social challenges such as increasingly dynamic population growth. It is in societies with a large proportion of young people in particular that demographic risks will need to be absorbed. They have particularly great public service delivery needs, for instance in regard to education, health, food and infrastructure, especially in rural regions. Good financial governance is indispensable when it comes to meeting those needs.

Good governance in public finance is a central approach both on the revenue and spending side when it comes to promoting transparent, legitimate and development-oriented government action.

2.2 PUBLIC FINANCE IN THE INTERNATIONAL DEBATE

USING AND STRENGTHENING PUBLIC FINANCE SYSTEMS

The UN conferences on Financing for Development that were held in Monterrey (2002) and Doha (2008), the Paris Declaration on Aid Effectiveness (2005) and the Busan Partnership for Effective Development Cooperation (2011) emphasised the importance of public finance systems in the international development policy debate; initiatives aimed at making

What is good financial governance?

Good financial governance is defined as transparent, legitimate and development-oriented state action in the area of public finance on both the revenue and the expenditure side. Good financial governance implies that a country has effective and accountable state institutions and financial administrations that are based on the rule of law, and that it has efficient audit institutions and parliamentary and civil society control mechanisms and institutions.

improvements in this area have gained in significance. When they signed the Busan Partnership for Effective Development Cooperation in 2011 donors committed **to use and strengthen partner systems** when engaging in development cooperation. That includes, for example, legal and administrative procedures such as procurement, award of contracts, accounting and reporting in the context of programme-based approaches.

CONTRIBUTING TO INCREASING DEVELOPING COUNTRIES' OWN REVENUES

These declarations all emphasise, as an integral element, that developing countries are themselves responsible for **domestic resource mobilisation** to achieve national and international development and sustainability goals. The issue of mobilising partner countries' own revenues was already addressed at the 2002 UN conference in Monterrey and was taken up again and again in follow-up conferences; it now plays an important role in the debate around the post-2015 development agenda and the associated **Financing for Development process**. It means that partner countries become less dependent on ODA.

Since the international financial crisis of 2008/09 awareness has spread both in developed and in developing and emergent countries that greater fiscal

scope based on sound financing from domestic resources and an efficient spending policy increases resilience to external shocks.

REDUCING ILLICIT FINANCIAL FLOWS

Measures are being adopted within the framework of the G7/G8 and the G20 that are intended to prevent and combat tax evasion and illicit financial flows worldwide. Tax avoidance, corruption and organised crime are all sources of illicit financial flows. Illicit financial flows undermine development financing because they deprive countries of many times the amount of funding provided in the form of ODA. According to estimates by the Washington-based non-governmental organisation Global Financial Integrity (GFI), the extent of illicit financial flows from developing countries amounted to some 5.9 billion US dollars in the period between 2002 and 2011. These estimates are not entirely uncontroversial within the World Bank and among other

development finance experts, but they do indicate the relevance of the phenomenon. The explicit backing of the G8 (particularly at the Lough Erne Summit in the UK in 2013) and the G20 in regard to international standards such as automatic information exchange on tax matters, the Action Plan on Base Erosion and Profit Shifting (BEPS) and the commitment to disclose beneficial ownership information have increased international pressure to improve public finance systems worldwide. They create the opportunity to adopt wide-ranging reforms and engage in international cooperation also with developing countries.

These obligations afford further opportunities for shaping a coherent international policy within the German government in regard to tax matters and when it comes to preventing illicit financial flows. They are guiding principles of German development cooperation.

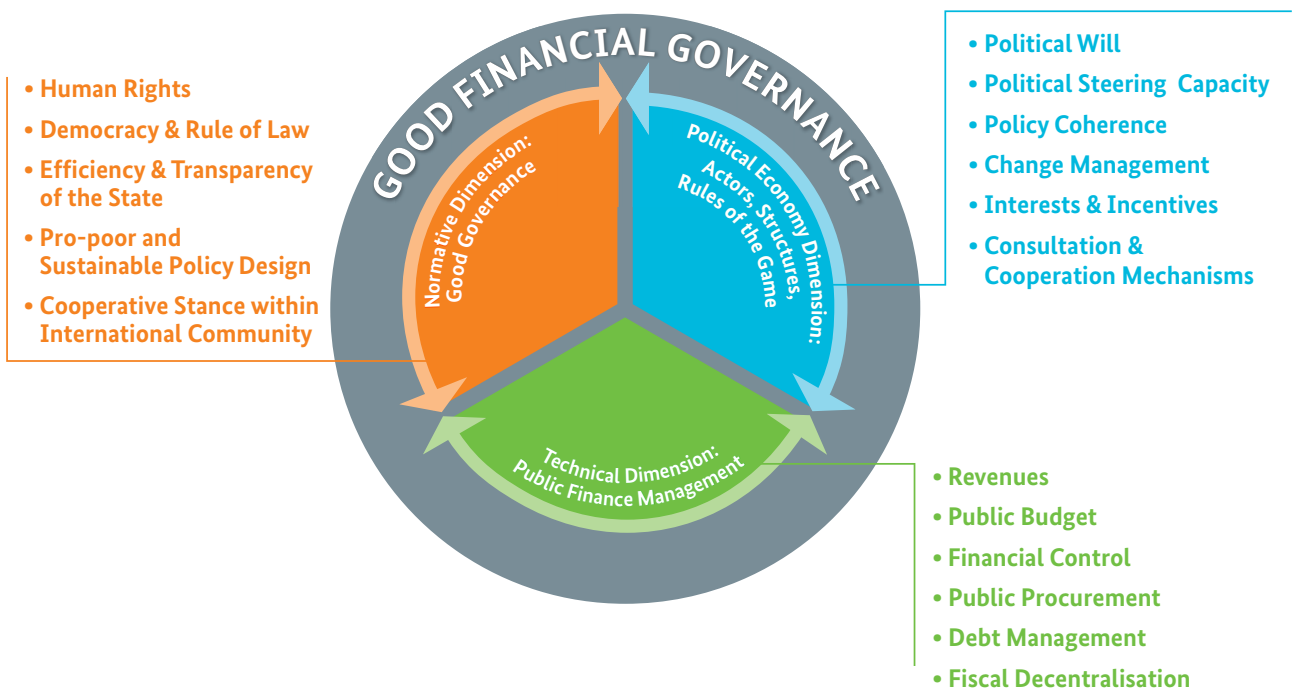
3. The good financial governance approach in German development cooperation

3.1 THE APPROACH

Promoting good financial governance is an expression of a value-based development policy. Germany's development policy engagement is intended to contribute to good governance, rule of law principles, transparency and participation. Based on the conviction that the state should be there for its citizens and not that citizens should be there for the state, it also aims to strengthen individuals in their dealings with governmental institutions. In order to be able to strengthen good governance in public finance and to increase the effectiveness of German cooperation, German development policy pursues a multi-dimensional good financial governance approach (see chart).

Good financial governance is an integrated, systemic and value-based approach. Accordingly, German development cooperation supports the effectiveness and efficiency of state action in regard to domestic revenue, the public budget, financial control, debt management, fiscal decentralisation and public procurement, and it takes account of the mutual interactions between these areas. Based on this approach, good financial governance covers both the revenue and the expenditure side of public finance and all processes and institutions whose aim is to regulate, organise and control the generation and use of public resources. A skilled administration is the prerequisite for implementing technical processes and achieving good financial governance. In the international debate the **technical dimension** of good financial

Good financial governance: dimensions and areas of action



governance is termed public financial management (PFM).

However, promoting good financial governance means going beyond merely building technical capacities and includes addressing non-technical, often policy-related aspects in particular. Reforms of public finance systems encompass sensitive policy processes since they interfere with power structures and the distribution of resources within a society. When it comes to shaping successful reform processes, German development policy therefore also takes account, in the **political economy dimension** of good financial governance, of various stakeholders, their interests and their interactions with formal (legal) and informal structures. These include, for instance, aspects of the government's political will and capacity to steer policies, policy coherence, incentive systems and cooperation mechanisms that impact the reforms.

The primary concern of the integrated good financial governance approach is to promote sustainable development. That is why the **normative dimension** of the good financial governance approach takes account of the general governance situation in a country and how it interacts with public finance reforms. Governmental actors in public finance systems, in particular the finance and relevant line ministries, can act on a more sustainable basis if they engage in constructive exchange with civil society and private sector actors. Against this backdrop, great importance is attached to promoting political participation and accountability in the context of good financial governance.

Reform programmes cannot all simultaneously take account of or influence all the elements of each of the three dimensions. The relevant elements need to be selected depending on the context, objective and available resources, and they must be regularly reviewed within a dynamic environment.

Box 1

Why good financial governance?

Good financial governance contributes to achieving good governance targets and is thus geared to sustainable development:

- By promoting a socio-economically and environmentally sustainable fiscal policy, good financial governance contributes to **reducing poverty and shaping sustainable policies**.
- By redressing the unequal distribution of assets, good financial governance helps to protect and safeguard human rights and promotes a **social and sustainable market economy**.
- Good financial governance increases the **transparency** of state action and thus improves the conditions for opinion formation, **political participation and personal initiative**.
- Good financial governance supports the separation of powers and thus promotes the **rule of law and effective state action** as well as **anti-corruption work** in the field of public finance.
- Good financial governance on both the revenue and the expenditure side enables citizens to participate and engage in financial oversight and thus promotes **democracy and accountability**, as well as constructive **relations** between the state and society.

3.2 OBJECTIVES AND IMPACT OF GOOD FINANCIAL GOVERNANCE

Development policy measures in the field of good financial governance aim to orient PFM (in regard to revenues, public budget, financial control, public procurement, debt management and fiscal decentralisation) to the principles of good governance and to firmly establish them as part of the partner country's respective governance context. That means they take account, in particular, of the level of state effectiveness, transparency and democratically legitimate oversight. The core functions of public finance systems can be used to indicate, by way of example, how the various good financial governance dimensions interact:

- In order to be able to finance sustainable development, Germany's partner countries must be in a position to mobilise domestic financial resources and to create efficient and equitable control systems (fiscal function).
- A compensatory tax system can redress the unequal distribution of assets and create a more stable social framework (socio-political function).
- The available financial resources must be coherently allocated to stakeholders in accordance with a national development strategy and based on consultations between various ministries and governmental levels (steering function).
- Allocation and spending of the financial resources must be transparent and verifiable (control function).

4. Germany's good financial governance approach: challenges and opportunities

It is often impossible to support various subfields and areas of action of public finance systems without a division of labour among donors. That is why German development cooperation has to carefully select and combine the fields of intervention it intends to address. The nature of the technical and/or financial support provided may vary depending on the context and the needs of partner countries; the focus can be placed on different subfields in different instances. The specific objectives defined for the various areas of action of good financial governance in German development policy will be defined in the following and described from the good financial governance perspective. In order to ensure that the instituted reforms lead to larger-scale successes that benefit good financial governance, none of the areas of action should be considered in isolation. For example, boosting revenue in a one-sided manner may seriously interfere with citizens' relationship with the state unless, as a means of counterbalancing a higher tax burden, an efficient and transparent use of funding leads to improved public service delivery. Likewise, wide-ranging budget reforms should not be pushed through without considering what consequences they will have for the parliament's and audit offices' supervisory capacities.

4.1 THE SUBFIELDS OF GOOD FINANCIAL GOVERNANCE

REVENUES

The objective behind supporting reforms on the revenue side within the framework of German development cooperation is to improve partner countries' ability to mobilise domestic revenue. In this context German development cooperation supports reforms of tax policy and tax administration in equal measure.

In shaping **tax policy** German development cooperation aims to make partner countries' tax systems more efficient and fair. Tax policy creates the enabling environment that is important in regard to private sector engagement and personal initiative for economic development. Gradually expanding the tax base and combating tax evasion, tax avoidance and corruption increases a country's capacity to generate its own financial resources and creates more fairness in taxation. Progressive tax systems that levy taxes based on the ability-to-pay principle contribute to redressing inequalities. In many countries, abolishing tax incentives can also contribute to creating more equality at the same time as taking the burden off the tax administration. In countries with significant raw material deposits, appropriate taxation of natural resources can make a key contribution to mobilising domestic revenues.

Box 2

The tax administration and civil society in Nepal

German Technical Cooperation has since 2008 been advising the Nepalese tax administration in regard to establishing a competent, efficient and service-oriented tax collection system: The tax administration's software infrastructure and databases were expanded, staff underwent professional training and a strategy for improving the tax administration's service-orientation was developed and implemented. One particular focus was put on information campaigns directed at taxpayers. These measures led to decisive improvements being made in terms of service and transparency; the tax administration now has a good reputation among the general public. In the period between 2008 (when the project was launched) and 2012, the number of registered taxpayers rose from 320,000 to 800,000, an increase of 150 per cent. Tax revenue increased by 22 per cent in the period between 2011 and 2012 alone.

Efficient and fair tax systems require an efficient and fair **tax administration**. Transparent, rule-based and fair administrative action and quality service delivery increase taxpayers' voluntary tax compliance and strengthen their trust in the state. When the tax administration communicates administrative processes and tax legislation so they are easy for taxpayers to understand, taxpayers will find it easier to meet their duty to pay tax. Involving the informal sector poses a challenge in this regard. When it comes to boosting effectiveness and efficiency, it is particularly important to expand and improve the tax administration's capacities, for instance by reforming organisational structures or introducing information technologies. Constructive dialogue between the state and taxpayers can make a key contribution to improving taxpayers' tax morale and to reducing tax avoidance and evasion.

Increasing regional and global economic links also mean that the tax authorities are facing new challenges, which is why countries need to build their capacities for dealing with **cross-border tax matters**. Tax avoidance and evasion do not stop at national borders and require greater international cooperation. Negotiating and implementing double taxation agreements and agreements on the exchange of information in tax matters and shaping national legislation on base erosion and profit shifting (BEPS) have an important role to play in this context. German development cooperation promotes capacity-building in developing countries so that they can meet these cross-border challenges and expand their administrative capacities, including the necessary control mechanisms. Only then will they be able to request and make efficient use of the information collated on the basis of the aforementioned OECD agreements so as to be able to levy taxes at international level.

PUBLIC BUDGET

By supporting reforms of public budgets German development policy aims to ensure that partner countries' **expenditure planning and management is development-oriented** and that it contributes to the implementation of pro-poor and development strategies. A structured and comprehensive budget is an essential precondition for coherent and transparent policy-making. The drawing up and implementation of public budgets reflect a government's strategic priorities and are a key policy-making instrument. It must be ensured that national development targets correspond to the relevant funding allocations in the budget, for example. That includes social, economic and environmental sustainability goals. These can only be efficiently pursued and implemented if national budgets include the corresponding funding that can be spent in line with funding allocations.

Box 3

Reform of fiscal policy in El Salvador

Together with other donors German Technical Cooperation has been supporting the Government of El Salvador since 2011 in applying the principles of equity, efficiency and transparency to its fiscal policy. Based on the integrated good financial governance approach, advisory services are provided in regard to both the revenue and spending side. A new model of budget planning and controlling is thus being developed and implemented in cooperation with the Ministry of Finance of El Salvador. It comprises an integrated monitoring and evaluation system, a mid- and long-term expenditure plan at ministerial level and the introduction of results-based budget management. Significantly higher income tax revenues have already been generated on account of the measure.

Good governance in the area of the public budget can be said to have been achieved when the processes involved in the planning and drawing up, the implementation and oversight of public budgets are characterised by legitimacy, accountability, transparency and the appropriate participation of the population. Parliaments and other forms of civil participation therefore have a big role to play in this.

Key budgetary areas of action are improving the budget cycle, strengthening effective organisational structures and clarifying roles in those institutions that are involved in the budget process, particularly the respective ministry of finance, relevant line ministries and the parliament.

That also involves building sufficient institutional and technical capacities in regard to fiscal legislation and (results-based) budgeting, budget implementation and the accompanying reporting. More specifically, for example, integrated financial management systems (IFMS) can be introduced, finance and planning ministries advised, and administrative staff upskilled.

When it comes to promoting **accountability** German development policy aims to ensure that civil society is involved in shaping the national budget, for instance by introducing participatory planning mechanisms or by following up funding allocations and their actual use (known as budget tracking). This work is supplemented by support provided by specialist platforms for the supraregional exchange of knowledge and experience, such as the Collaborative Africa Budget Reform Initiative (CABRI).

FINANCIAL CONTROL

By supporting reforms in the field of financial controls German development cooperation aims to create a **well-functioning, independent financial control system for accountability** and to improve public sector effectiveness. External control monitors compliance with budgetary provisions in regard to budget implementation and guarantees the dedicated, economical and proper administration of government funds. Oversight of the government

Box 4

Good financial governance in Ghana

Germany has been supporting Ghana in improving its public finance system since 2003. Based on an integrated approach, German development cooperation is cooperating closely with the Ministry of Finance of Ghana, the highest-level tax administration, the national procurement authority and the parliament. Financial and Technical Cooperation measures are closely coordinated and embedded within a joint programme. German Technical Cooperation provides advice on implementing Ghana's national Poverty Reduction Strategy and on the responsible and transparent use of revenues generated from extractive resources that are intended to specifically promote economic growth. To that end, strategies and approaches were developed in cooperation with those responsible at political and technical level that lead to the creation of a transparent and efficient tax system. In addition, budget preparation and budget implementation as well as the quality and credibility of the budget process have improved and accountability vis-à-vis the Ghanaian parliament has increased. German financial cooperation supports good financial governance in Ghana as part of general budget support and, since 2005, by means of direct support for the Ghanaian audit office, whose audit scope has thus been expanded.

and administrative structures helps to prevent the executive granting privileges and engaging in uneconomic state action. In addition to the main actor involved in external financial oversight (the national audit office) there are other actors that are important when it comes to strengthening accounting, namely budget and accounting committees, internal auditing, administrative units, the judiciary and anti-corruption units. There are important overlaps with the independent media and civil society. Suitable means of publishing the audit results and a public debate are prerequisites so that parliaments, citizens and civil society can gain access to this information.

Financial control is primarily concerned with increasing the effectiveness of **audit offices** and applying the guiding principle of a citizen-friendly, transparent and service-oriented administration that works effectively and efficiently. German development cooperation

- supports audit offices' organisational structure and processes by providing organisational and legal advice and supports improvements being made to the legal bases so as to strengthen audit offices' independence within the institutional context;
- strengthens audit offices' role by providing strategy and context advice so they become an important initiator of public administration reform;
- supports staff in order to improve audit offices' advisory capacity and their understanding of their supervisory capacity, and
- promotes investments in the infrastructure by means of German Financial Cooperation, such as buildings that are often needed to increase audit offices' independence and efficiency.

Germany's development policy work in the field of financial control at national level should be closely dovetailed with support for regional associations of the highest-level financial control authorities, such as the African Organisation of Supreme Audit Institutions (AFROSAI) in Africa, the Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores (Organisation of Latin American and Caribbean Supreme Audit Institutions, OLACEFS) in Latin America and the Asian Organization of Supreme Audit Institutions (ASEANSAI) in Asia. German development cooperation cooperates closely with the Federal Audit Office and the Land (federal state) audit offices in Germany in this area.

PUBLIC PROCUREMENT

One of the key concerns of German development cooperation is improving partner countries' procurement policies and thus increasing **cost efficiency**, eco-social orientation and **transparency** in the long term and improving public service delivery. Contracts should be awarded in line with the legal framework; procurement should as far as possible include the disclosure of important information and processes, and important actors should be involved. The aim of the advisory services provided in this subfield is also to ensure that public award procedures are implemented economically and on time and that they are verifiable.

German development cooperation supports public procurement in the context of good financial governance projects, as well as within the framework of decentralisation and administrative reform programmes, in particular by

- developing the statutory bases for and regulations applicable to public procurement and drawing up model tenders, contracts and invoices;

Box 5**The national audit office in Mozambique**

As well as contributing to budget support, German development cooperation in Mozambique supports the establishment of governmental and administrative systems and active civil society participation. One focus is on strengthening internal accountability by supporting the Mozambican audit office, the Tribunal Administrativo. German Financial and Technical Cooperation cooperate with other donors in this regard. Their common objective is to strengthen and expand external financial control at national and decentralised level. Important impetus was provided in the context of cooperation with the Brazilian audit office that received German support. It increased the quality of audits in Mozambique and accelerated the audit procedure. In addition, a new communication strategy helps the general public to better understand the audit reports. A joint cooperation with AFROSAI provided important impetus that led to the introduction of improved audit standards. Establishing regional offices has increased local presence. The Mozambican audit office now has more than 400 members of staff who have undergone audit training according to international standards. The number of audits increased from six in 2003 to 600 in 2010. More than 450 public service management staff were called to account for their incorrect handling of public funds. In addition, training courses were run for the parliament, civil society and the media. This measure made an important contribution to promoting transparency and accountability of governmental action and strengthened a key aspect of the good financial governance approach.

- supporting the entire award procedure, including control and complaints mechanisms, by establishing work units, forming (national, regional and local) networks and by better organising workflows, including expanding e-procurement procedures; and
- cooperating in regard to all aspects of personnel selection and training.

There are many cross-linkages between public procurement and other subfields within the public finance system: The transparent award, for example, of licences to business enterprises in the extractive industry, makes a substantial contribution to generating revenues. Public procurement is the key to effective budget implementation and financial control, given that revenue is spent via the budget in the form of public contracts.

FISCAL DECENTRALISATION

Strengthening ownership at decentralised level is one of the key concerns of German development cooperation. The BMZ aims to promote the principle of subsidiarity and increase responsiveness to citizens' needs. Reforms in the field of fiscal decentralisation and internal financial relations thus make important contributions to good financial governance. In this area German development cooperation works to improve **financial management at the subnational level** and to promote an appropriate **distribution of public revenue** within and between various levels of government in line with the **distribution of tasks and functions**. This issue is primarily supported as part of decentralisation projects.

- When it comes to shaping domestic financial structures German development cooperation not only aims to ensure that the subnational level has sufficient revenue to fulfil its tasks, but also that it can take decisions on collating and

Box 6**International public procurement initiatives**

In many partner countries the extractive and construction industries have huge potential for development: Potential revenue is often not fully exploited and spending is not development-oriented. This is frequently due to weaknesses in the respective procurement system. This is where international efforts, such as the Construction Sector Transparency Initiative (CoST), take their cue. The Open Contracting Partnership was launched in 2012 and aims to increase disclosure and participation across the various phases of the award process (from needs planning to conclusion of the contract). Germany is involved in the Partnership. It focuses on contracts between the public and the private sector, particularly in regard to natural resources. Direct contracting parties and civil society are both important actors.

using the funding under its own responsibility (fiscal autonomy). One special focus here is on generating own revenue in order to increase autonomy of action at subnational level. At the local government level visibility of taxation and thus accountability are especially high. To that end German development cooperation, for example, supports tax policy and tax administrations at local level.

- One aim is to establish consistent living conditions for all in order to create overall social stability. This is particularly important when the opportunities for generating revenue or the costs of public services vary greatly across regional authorities. German development cooperation here lends support in redressing inequalities, particularly between urban centres (that are generally more developed) and rural regions (that are often less developed).

- Strengthening local financial management, from levying taxes to spending and oversight, is a key prerequisite for transferring more competences to the subnational level. Because it is closer to citizens, good financial governance can also make a significant contribution to improving relations between citizens and the state. Nevertheless, capacity bottlenecks are often still more pronounced at subnational level than they are at national level.

DEBT MANAGEMENT

One of the primary concerns of German development cooperation in the context of good financial governance is that its partner countries are able to cover their development and financial needs and thus maintain a sustainable debt level. Debt management is one of a state's key instruments for enabling investments in development via the budget. The purpose and aim of debt management is thus to make the credit volumes provided for under the budget plan available on time and at fair market conditions, to ensure they are repaid on the due date and thus to permanently reduce repayment costs in the budget as well as to keep the risk low. Inefficient debt management can lead to an excessively high debt burden. In the long term, the high costs associated with debt repayment limit both a state's capacity and scope for effective action. As a result, other investments in important sectors such as infrastructure, health and education, will have to be cut. Sustainable development thus becomes more difficult to achieve.

Even though their debts have repeatedly been cancelled by the international donor community (e.g. debt relief under the Heavily Indebted Poor Countries Initiative (HIPC Initiative) and the Club of Paris), some developing countries are still having difficulties maintaining a sustainable debt level. Worldwide leaders when it comes to supporting and advising partner countries in regard to debt management

are the World Bank, the International Monetary Fund (IMF) and regional development banks, particularly in their capacity as creditors, as well as the United Nations Conference on Trade and Development (UNCTAD). The BMZ supports the Debt Management Facility (DMF) of the World Bank and the IMF, and UNCTAD's Debt Management and Financial Advisory Services (DMFAS) programme, two of the most important initiatives in this area. It is also actively involved in the respective donor committees when it comes to shaping and further developing content-related aspects of these initiatives. However, in accordance with the principle of the division of labour between donors and on account of the complexity of this issue, this subfield does not constitute one of the priorities of bilateral development cooperation. Cooperation between bilateral development policy projects with the aforementioned leading donors can, nevertheless, make sense in some cases.

4.2 GOOD FINANCIAL GOVERNANCE IN DIFFERENT COUNTRY CONTEXTS

PARTNER COUNTRIES WITH LARGE ODA FLOWS

In countries with low levels of income, official development assistance (ODA) still represents the most important external source of finance. Donors thus have a very special responsibility to bear. It is especially in partner countries with relatively large ODA inflows compared to their domestic revenues that attention needs to be paid to implementing measures to boost financing from domestic resources. In view of their low economic performance, countries in this group generally have a lower tax base and tax quota than richer countries. In addition, due to a lack of capacities in their tax administrations, it is not always possible to collect all the taxes due. Tax avoidance and evasion cannot be effectively combated. The quality of public finance systems varies greatly, especially in low-income countries. Measures to broaden

the tax base, in particular by incorporating the informal sector, are particularly relevant for this group of countries. In addition, good financial governance measures need to lay the foundations for it to be possible to use partner systems.

FRAGILE STATES

More than half of Germany's partner countries are affected by conflict, violence and fragile statehood. What these countries have in common is that they all have a particularly low level of governance and very weak institutions. Citizens' trust in the state has largely been eroded. The institutional, technical and personnel capacities for managing public finances are low or non-existent. Often the statutory bases and regulatory framework first need to be created. Legal uncertainty increases the risk of corruption. Political priorities especially in (post-)conflict states are often limited to emergency relief, reconstruction and peacebuilding.

The **New Deal for Engagement in Fragile States** that was agreed in 2012 by the OECD calls for greater harmonisation of donor activities and indicates the advantages of cooperating with non-state actors. On the one hand, non-state actors can be used, for a transitional period, to deliver those urgently needed basic services that the state is unable itself to deliver to its citizens. On the other hand, giving support to non-state actors can raise all kinds of issues, especially when the recipients are former rebel groups. Peace agreements or similar accords between national actors must not be undermined. The basic principle is that the creation of parallel systems must be prevented.

As a result, during a transitional period the focus must be on laying simple foundations for establishing well-functioning public finance systems (**basics first approach**). That involves, for example, establishing and expanding the administrative and

institutional enabling environment, introducing simple PFM approaches, such as drawing up financial plans, and capacity- and institution-building for key actors such as finance and planning ministries, parliaments and audit offices. That enables basic public services to be delivered to citizens once more, which in turn boosts the population's confidence in governmental institutions. Ultimately, better governmental legitimacy and acceptance contributes to stabilising the political situation and makes a country more attractive for international business and foreign investors, whose involvement is important for promoting economic development.

RESOURCE-RICH PARTNER COUNTRIES

The extraction of non-renewable resources is a time-limited source of state revenue and is associated with huge macro-economic and social challenges. High revenues for the central government generated in the extractive industry influence the power structure within a state. They make the government less dependent on the taxes paid by its own population and thus create less of an incentive for governmental accountability towards citizens. Political decisions can be driven by the desire to ensure the elite still has access to and can maximise profits from raw materials. A state's interest in its own population's development and in human rights, by contrast, then takes a backseat.

Good financial governance and transparency on both the revenue and the expenditure side are key prerequisites when it comes to sustainably tapping into the potential available in the extractive industry and stemming the risk of corruption. Good financial governance in the extractive industry covers regulations and the administration of public contracts and levies that are appropriate for the state and for businesses, are efficient and transparent. It also comprises effective financial oversight and financial management that take account of the probable

fluctuations in revenue from the extractive industry, by safeguarding against price risks. The risks associated with a dominant raw materials sector (a problem known as "Dutch disease") must be counteracted by means of managed exchange rates and a good investment policy. Above all, investment of state revenue must be development-oriented.

GLOBAL DEVELOPMENT PARTNERS, EMERGING ECONOMIES AND MIDDLE-INCOME COUNTRIES

Without sound state finances, it will not even be possible to guarantee sustainable economic growth and lasting or increasing prosperity in the long term in more developed countries. The challenge that thus arises is that measures to consolidate the budget and generate public revenue firstly need to be implemented and that at the same time wide-ranging reforms to stabilise the economy and safeguard social services need to be launched. In some cases, the national authorities do not have sufficient capacities to implement what are increasingly complex reforms and measures.

The focus of good financial governance projects in these countries is on increasing the efficiency and effectiveness of existing financial systems, on providing advice on introducing more complex financial management instruments and approaches, and on introducing or adapting often highly complex modern approaches and international standards. Building the capacities of specialists and management staff when it comes to implementing international funding is one of the key areas of activity of German development cooperation in this group of countries. Added development policy value also results from the increased use of triangular cooperation arrangements and South-South exchange among this group of countries, that less developed countries can also benefit from.

Box 7**The Extractive Industries Transparency Initiative (EITI)**

The Extractive Industries Transparency Initiative (EITI) was established in 2002 with the aim of increasing the transparency of income generated from the natural resources oil, gas, metals and minerals. Countries that sign up to the EITI pledge to disclose the income they generate from natural resources. The involved businesses also disclose their payments to the state. In August 2014 a total of 46 countries were implementing the EITI Standard. Of these, 29 states were classed as conforming to the EITI, that is they fulfilled all the obligations under the EITI Standard. A total of 17 states were classed as candidate states that did not yet fully comply with the EITI Standard. The EITI Standard was fundamentally reformed in 2013. Along with disclosing financial flows, countries now also have to disclose information on expenditure, licences, production figures and general information on the extractive industry and the respective financial system. The aim of the reform was to improve the effectiveness of the EITI. By taking the decision to not only look at the revenue side but also to include the expenditure side and the granting of licences and award of contracts, the EITI can become a wide-ranging instrument for implementing good financial governance in the states implementing it. Germany has provided the Initiative with financial support and consultancy services since its inception. Germany's involvement in the EITI Strategy Working Group made a key contribution to ensuring those rules that are decisive for good financial governance were added to the Standard.

4.3 INTER-LINKAGES BETWEEN GOOD FINANCIAL GOVERNANCE AND OTHER AREAS OF DEVELOPMENT COOPERATION

FIGHTING CORRUPTION

Administrative units that are actively involved in transferring funding as part of budget implementation are particularly susceptible to corruption. These include procurement and award departments in ministries and tax and customs administrations. Respecting and implementing international administrative and PFM standards as well as the ethical conduct of the involved actors are key conditions when it comes to preventing corruption.

Anti-corruption measures are just as essential to achieving good governance as creating efficient and effective public finance systems (see the BMZ's Anti-Corruption and Integrity in German Development Policy Strategy (2012).

Joint approaches to preventing corruption, such as Transparency International's Integrity Pacts agreed between private enterprises and government agencies, can help to build trust and confidence between these actors and citizens. In addition, transparency initiatives such as the EITI (see Box 7) and the Open Contracting Partnership (see Box 6) have a key role to play when it comes to disclosing financial flows and award processes, thus making them less susceptible to corruption.

Measures to strengthen the law and judiciary (including fiscal jurisdiction and criminal prosecution) and creating an efficient administration with integrity contribute to the prosecution and prevention of corruption in the financial sector. On the other hand, promoting effective, transparent and responsible public finance systems can itself contribute to the fight against corruption.

HUMAN RIGHTS AND GENDER

Human rights are a key element of the values on which German development policy is based. The BMZ strongly emphasised the importance of human rights for German development policy in its Strategy Paper on Human Rights in German Development Policy (BMZ Strategy Paper 4/2011e). In its Cross-Sectoral Strategy on Gender Equality in German Development Policy (BMZ Strategy Paper 2/2014e) the BMZ refers to the key role and function of public finance systems when it comes to promoting gender-equitable financing for development. The aim is to work towards ensuring that all programmes are oriented more to human rights and gender equality.

Good financial governance projects must actively seek ways of realising human rights – particularly women’s and children’s rights. Reforms of tax legislation should therefore be shaped so that existing discrimination against the poor and minorities can be overcome or at least reduced. Approaches such as human rights-based and gender-equitable budget planning directed at specifically involving women and the poor can lead to local authority budgets, for instance in the health sector, becoming more participative, human rights-friendly and gender-sensitive. In the extractive industry the diverse threats to human rights that are, for instance, associated with an unfair distribution of benefits, resettlements or breaches of child protection guidelines can be effectively and systematically combated by supporting the design and implementation of concession contracts.

CIVIL SOCIETY PARTICIPATION AND PROMOTING THE MEDIA

Civil society participation is essential for good governance in public finance and in the raw materials sector. Governments seek to use a constructive debate with taxpayers in regard to the levying and use of taxes to create a beneficial tax culture that, for instance, boosts the population’s willingness to voluntarily pay taxes

and increases the potential for generating domestic revenues. That is why taxpayer education measures are carried out as part of good financial governance projects. Firstly, they serve to give taxpayers information about the modalities of those taxes they are liable to pay and, secondly, they inform the public about the resulting benefits, that is the use to which tax revenue is put. Good financial governance projects therefore always also include measures to promote the media as a mouthpiece for political communication.

Civil society also has a key role to play when it comes to the democratic oversight of the public administration’s expenditure planning and financial management. Budget tracking, that is the oversight of the use of the government’s investment budget, is one of civil society’s classic control and monitoring instruments. Civil society organisations can thus contribute very directly to improving good governance, to increasing transparency and to public accountability, thus to preventing and exposing corruption. In order for governments to take them seriously as competent partners in a critical dialogue these organisations need specific skills and technical expertise. Good financial governance projects strengthen civil society actors and they are always involved, for example via the use of modern means of communication and social media. One example is the media training courses run in the context of the EITI. As well as being part of the classic separation of powers in democratic systems, the media here contribute to democratic oversight. They help to improve the relationship between citizens and the state by contributing to an informed debate and offering a platform for constructive dialogue.

CLIMATE FINANCING

Many partner countries of German development cooperation need a great deal of additional funding in order to be able to implement strategies to adapt to climate change and reduce greenhouse gas emissions.

Public finance systems in partner countries consequently face huge challenges. Often, partner countries do not fulfil the conditions granting them direct access to international climate funding as the fiduciary risks are too high and the national structures do not meet international transparency and accountability standards. This can lead to the creation and use of parallel structures that are external to partner systems and to no sustainable structures for the coherent planning and implementation of policies being created in these countries. If, in the field of climate financing, no account is taken of the follow-up costs of climate investment projects that are launched too late, such as the construction of dykes,

this can impose burdens on the national budget and its implementation.

By promoting good financial governance in climate financing, German development policy aims to take account of various climate measures at the budget planning stage and to implement them via national systems. This guarantees that climate funds are subject to national accountability and control mechanisms. German development policy strengthens national budget systems in partner countries so that they can absorb the climate funding, making them effective enough to be able to achieve climate targets.

Box 8

The role of good financial governance in the agricultural sector in Kenya

As is the case in many developing countries, the Kenyan agricultural sector is one of the most important pillars of the national economy. This not only becomes clear when one considers its share of gross domestic product (GDP), but also when one looks at the key contribution this sector makes to food security and generating an income for poor population groups in particular. State investment is comparatively low, far below what is set out in international agreements. That is why it is especially important for the scarce resources in this sector to be used efficiently and effectively. Corresponding instruments that support this approach include expenditure analyses such as the World Bank's Public Expenditure Reviews (PER) and the Public Expenditure Tracking

Survey (PETS) that the Kenyan Ministry of Agriculture has undertaken. Another instrument is the benefit incident analysis (BIA) that uses budget data to compare the influence of governmental services on certain population groups, generally based on income quintiles. The good governance programme and the agriculture programme that were both implemented under German development policy and were commissioned by the BMZ published a joint study based on the BIA. It shows that farmers hardly benefit at all from governmental expenditure in the fields of health, education and infrastructure, for instance, since they can hardly access them in rural regions. Based on this information the government can adapt its policies and specifically improve access to public services in rural regions.

5. Implementing good financial governance in the context of German development cooperation

5.1 MODALITIES, INSTRUMENTS AND FORMS OF COOPERATION

BILATERAL COOPERATION

German development cooperation meets the requirements as to time and complexity associated with political economy reform processes, such as improving governance of public finance, as well as with progress made by partner countries. A broad range of modalities, particularly in regard to good financial governance, are available to that end. They comprise financing reform programmes (including as part of budget support and basket funding) and infrastructure through Financial Cooperation as well as the long-term, direct provision of advisory services through Technical Cooperation. The professional expertise available in German public finance institutions (audit offices, tax administrations, finance ministries and through the Senior Expert Service [SES]) means that a pool of qualified experts can be drawn on to provide short-term, practical support to partners on an equal footing.

Financial Cooperation

Financial Cooperation promotes good financial governance via targeted investment measures and funding for sector reform programmes. Investment is particularly needed when it comes to expanding information technology systems in the tax administrations and in public financial management (PFM), as well as when it comes to the physical infrastructure, such as the buildings in which audit offices are housed. In many cases partner countries carry out wide-ranging reform programmes in the field of good financial governance that comprise numerous investment and advisory services in regard to revenue mobilisation, public budget, the award of contracts and financial oversight. These programmes use and strengthen partner systems. They are generally promoted by the donor community through **programme-based approaches** by means of financial

contributions and accompanying support from Technical Cooperation. Germany's contribution is set out in a joint programme proposal with a joint results matrix that clearly indicates how German Financial and Technical Cooperation measures complement each other and fit into partner countries' programmes.

Where conditions such as the effective and transparent oversight of the use of funding is guaranteed, the basic macroeconomic, political and human rights prerequisites are met and state action is credibly development-oriented, **budget support** can be one instrument for increasing ownership. Naturally, like any other instrument, budget support must prove in each individual case that it will have clear, convincing added policy value when it comes to achieving the envisaged development policy goals compared to alternative methods, such as the coordinated use of bilateral development policy instruments. Good financial governance has a key role to play, first as a precondition for granting budget support and, second, as a key objective of policy dialogue. German Financial Cooperation works towards indicators measuring progress towards achieving good financial governance (e.g. transparency, participation and integrity) being included in the target agreement reached between the donors and the partner country so as to create incentives for improving good financial governance.

It is also important to promote good financial governance in the context of funding investments in other sectors such as water, transportation, energy and agriculture/agricultural financing. For instance, levying equitable user fees and the sustainability of the planned projects also boost state revenues. The transparent and competitive award of contracts ensures that state revenues and development funding are both used efficiently.

Technical Cooperation

The key task of Technical Cooperation is to build partners' capacities in all fields that are of relevance to good financial governance. Technical Cooperation supports the establishment of a stable, rule of law-based institutional framework and thus ensures that reforms are firmly embedded within partners' systems and safeguards their sustainability. Institution-building guarantees that those institutions are able to fulfil their remits effectively and that they are accountable. At the individual level, staff in the relevant governmental and non-governmental institutions undergo basic and continuing training so they can effectively fulfil their tasks. Systematically building networks creates stable cooperation relationships and makes mutual learning possible.

Technical Cooperation incorporates both the different governmental levels (**multi-level approach**) and governmental and non-governmental actors (multi-actor approach) in public finance in order to create broad-based reform alliances. This includes establishing negotiation mechanisms, cooperation platforms and networks.

The aim of Technical Cooperation is to enable a combination of seconded and local experts, development workers and integrated experts to spend longer periods on the ground and to establish close contact with relevant partners in various institutions. Short-term experts seconded from Germany's fiscal administration can provide practical advice to partners on an equal footing.

EUROPEAN AND MULTILATERAL COOPERATION

German development cooperation also promotes good financial governance through European and multilateral institutions. Germany is one of the most important donors to multilateral development institutions and is the largest contributor to the European Development Fund (EDF) and the Development Cooperation Instrument (DCI).

Box 9

The Global Extractive Resources Initiative (GERI)

Development policy instruments such as the Global Extractive Resources Initiative (GERI) pool together the specialist capabilities available to Technical Cooperation in the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the Federal Institute for Geosciences and Natural Resources (BGR). GERI supports the German government's Raw Materials Strategy. Its key objective is to guarantee that German development policy is coherently implemented in partner countries that have raw material deposits. The GIZ and the BGR jointly implement GERI, from strategy development to planning and to implementing development policy measures in the extractive industry.

The European Commission is an important actor in international cooperation in the field of good financial governance, most particularly on account of the budget support it grants. By closely **dovetailing programmes run by the European Commission and bilateral good financial governance programmes** (among other things through co-financing and combined financing), German development cooperation works to ensure that better account is taken of values such as transparency, accountability and civil participation in the context of EU programmes.

At multilateral level the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Cooperation and Development (OECD) are among the important partners of German development cooperation. For instance, the BMZ cooperates closely with the IMF when it comes to strengthening public financial management (PFM) in its partner countries and it supports the work of the IMF regional centres and several IMF trust funds in the field of taxation. The BMZ's cooperation with the World

Bank in the field of public sector reforms in partner countries is relevant to good financial governance projects. Germany promotes and benefits from the work of the World Bank on developing indicators (Public Expenditure and Financial Accountability (PEFA) and Indicators of the Strength of Public Sector Management Systems [ISPMS]). Further, the BMZ cooperates closely with the OECD's Development Assistance Committee (DAC) and its Center for Fiscal Affairs (CFA). Cooperation with the working groups established there, for example the Task Force on Tax and Development, is extremely important for a professional exchange on good financial governance issues. The BMZ also cooperates with the World Bank, the IMF and other multilateral actors on indebtedness, debt relief and debt management. It promotes various debt management initiatives and actively supports the corresponding policy debates (debt limits policy review, non-concessional borrowing policy, debt sustainability and new approaches to restructuring).

Other bilateral donors such as the UK, Switzerland and Japan also support the implementation of better PFM in partner countries. Germany engages in regular exchange with other bilateral donors and carries out joint bilateral projects in the interests of closer donor coordination and a division of labour.

NON-GOVERNMENTAL COOPERATION/ COOPERATION WITH NETWORKS AND PLATFORMS

Non-governmental cooperation

Various international non-governmental organisations are active in the field of good financial governance. They specialise in different fields, for instance budgetary issues (the International Budget Partnership) or the award of contracts and combating corruption (Transparency International). They thereby influence the international debate around public finance, among other things by preparing

and disseminating data, through their information campaigns and training courses for civil society actors, academics and journalists. When it comes to taxation, the Global Alliance for Tax Justice brings together a number of civil society actors (church organisations, specialised non-governmental organisations) and provides information on various issues around fair taxation. It also runs its own campaigns and projects. The Tax Justice Network, a network of researchers and journalists, compiles the Financial Secrecy Index. Germany cooperates with these actors and supports them in calling for governments to be fully accountable. For example, it supports the Tax Justice Network Africa's Capacity for Research and Advocacy for Fair Taxation (CRAFT) project. The project aims to strengthen civil society so that it can address tax issues and work towards fair taxation. The CRAFT project also involves establishing networks at national and international level and training courses on taxation.

Part of capacity-building for partner countries' parliaments and civil society organisations involves close cooperation and coordination with private German organisations, churches and political foundations, since these each have many years of experience in implementing funding measures on the ground. Measures to promote the freedom of opinion and expression, and the right of access to information, as well as an independent, strong and pluralistic media sector in partner countries are funded in cooperation with Deutsche Welle Akademie.

Network and platforms

Regional networks are important partners when it comes to passing on experience gained in implementing reforms and sharing specialist know-how among institutions in partner countries. That is why German development policy supports multi-actor networks and platforms such as regional networks specialising in good financial governance, like the African Tax

Administration Forum (ATAF), the Collaborative Africa Budget Reform Initiative (CABRI) and the African Organisation of Supreme Audit Institutions (AFROSAI). Germany thus promotes key PFM institutions at national level and the targeted exchange of know-how at regional level.

The International Tax Compact (ITC) aims to strengthen international cooperation with developing and emergent countries in regard to taxation (see Box 10). Another important forum in which bilateral and multilateral organisations, partner countries and civil society actors work together is the Platform on Effective Institutions. It was established in 2011 during the Fourth High Level Forum on Aid Effectiveness in Busan and aims to sustainably strengthen public sector reforms.

5.2 GUIDING PRINCIPLES

TAKING ACCOUNT OF VALUES AND INTERESTS

Values and interests are the foundation on which Germany's commitment in the field of good financial governance is based. A public finance system is not regarded from a purely technical perspective, but also takes into account the values on which German development policy is based (human rights; promoting a social, sustainable market economy; a free and democratic basic order).

STRENGTHENING OWNERSHIP AND FINANCING FROM DOMESTIC RESOURCES

Good financial governance approaches must be oriented to national reforms undertaken in partner countries and the respective country context in order to strengthen developing and emergent countries' primary responsibility for steering their own sustainable development processes and to mobilise the domestic financial resources needed to do so.

Box 10

International Tax Compact (ITC)

The BMZ launched the International Tax Compact (ITC) in 2009 based on the outcome of the Doha Conference. The ITC is an informal platform that aims to promote tax systems in order to enable developing and emergent countries to more effectively combat tax evasion and avoidance. It brings together numerous development partners, including political decision-makers, representatives of the tax authorities, donors, tax experts and civil society so as to be able to pool capacities and thus enable more effective action. This informal cooperation guarantees a maximum degree of flexibility. The ITC's partners include the European Commission, the World Bank, the OECD, and the US and African umbrella organisations of tax administrations. The ITC has an impact at national and regional level by promoting the dissemination of successful methods as well as an exchange of experience in regard to tax policy reforms and their implementation. It also supports capacity- and institution-building. At international level the ITC promotes both access to information and information sharing among development partners. In addition, through its analysis of various topics the ITC also contributes to the international debate around tax reforms and successful methods. Finally, the ITC contributes to building networks and promoting dialogue.

USING AND STRENGTHENING PARTNER SYSTEMS

The BMZ's Position Paper on Strengthening and Using Partner Systems addresses international obligations in this field and advocates expanding the systematic use of PFM country systems in Germany's development cooperation projects. Where partner systems are still weak and do not conform to international norms and standards, German development cooperation gradually makes use of these systems

and aims to selectively strengthen them. In this context it also commits to (i) examining partner systems in regard to whether they can be used or not, (ii) establishing where there are quality defects and (iii) adopting measures coordinated with other donors to strengthen partner systems.

PROMOTING A DIVISION OF LABOUR AND DONOR HARMONISATION

Development partners risk compromising the effectiveness of their own PFM measures if the support provided by them is too fragmented and there is no efficient division of labour within the donor community. This can lead to the often weak capacities available in the partner countries for coordinating development partners being overstretched and it being impossible to effectively implement the reforms. That is why German development cooperation works towards donor harmonisation and a division of labour among donors and takes a lead role in regard to public finance in partner countries where this is appropriate.

STRENGTHENING POLICY COHERENCE IN INTERNATIONAL TAX POLICY

Policy coherence that benefits development means that consideration is given to development policy goals when planning and implementing those measures adopted by the German government that may have an impact on developing countries. The focus here is on identifying potential synergies when coordinating measures among various federal ministries. An example in the field of good financial governance is combating tax evasion and avoidance as part of international initiatives. The BMZ cooperates closely with the German Federal Ministry of Finance (BMF) on this. There are, however, also overlaps with other federal ministries, such as with the Federal Ministry of Justice and Consumer Protection (BMJV) and the Federal Ministry for Economic Affairs and Energy (BMWi). Examples include transparency standards

for multinationals in the extractive industry that are active in partner countries or combating illegal financial flows from developing countries. This close exchange between the BMZ and other relevant federal ministries aims to guarantee coherency between measures taken by the German government in regard to good financial governance.

GREATER DOVETAILING OF TECHNICAL AND FINANCIAL COOPERATION AS WELL AS OF BILATERAL AND MULTILATERAL COOPERATION

It is particularly in the field of good financial governance that the complementarity of Financial and Technical Cooperation is key to implementing sustainable reforms. The instruments work closely in harness during the implementation phase; measures are coordinated. Where both instruments are used simultaneously, they are presented as joint programme proposals. In addition, when it comes to promoting good financial governance the political and financial weight of German development cooperation within multilateral organisations is fully exhausted on account of Germany being actively involved in shaping multilateral development policy in the field of public finance (e.g. the IMF). The added value of synergies and complementarities with various bilateral and multilateral actors is realised in order to jointly boost the effectiveness of development cooperation in the field of good financial governance.

PROMOTING BROAD-BASED REFORM ALLIANCES IN PARTNER COUNTRIES

Supporting good financial governance reforms promises greater success if that support does not focus solely on cooperation with governmental institutions such as the finance and relevant line ministries, revenue administrations and financial control bodies. That is why Germany pinpoints those forces of reform that are outside the governmental sphere and promotes broad alliances. These include

parliaments and civil society organisations, and they have to be accorded wide-ranging possibilities of accessing information, of participation and consultation, for example when it comes to shaping and monitoring the budget or as part of the EITI process. However, business enterprises, particularly in the extractive industry, and the media are also key actors that need to be involved in order to achieve a social consensus. In order to enable a broad social debate, Germany will continue to actively promote the establishment of relevant dialogue forums in the context of its good financial governance projects.

5.3 OUTLOOK

The aforementioned principles show what Germany stands for in regard to good financial governance. It also indicates what contribution the good financial

governance approach makes towards the German government being able to effectively fulfil its international obligations, for example in the context of the Aid Effectiveness Agenda and international forums such as the G7/G8/G20 and the OECD.

When developing joint programmes consideration will in future be given in the context of policy dialogue and in all German good financial governance projects to partner countries' revenue and expenditure side, to dovetailing good financial governance projects with other subfields of good financial governance, as well as to normative and political economy aspects. Good financial governance projects should fit seamlessly into the overall programme of support provided to a country (including that of other donors). Strengthening financing from domestic resources will take a prominent role in this approach.

Annex

I. ABBREVIATIONS

AFROSAI	African Organisation of Supreme Audit Institutions
ASEANSAI	Asian Organization of Supreme Audit Institutions
ATAF	African Tax Administration Forum
BEPS	Base erosion and profit shifting
BGR	Federal Institute for Geosciences and Natural Resources
BIA	Benefit incident analysis
BMF	Federal Ministry of Finance
BMJV	Federal Ministry of Justice and Consumer Protection
BMWi	Federal Ministry for Economic Affairs and Energy
BMZ	Federal Ministry for Economic Cooperation and Development
CABRI	Collaborative Africa Budget Reform Initiative
CFA	Center for Fiscal Affairs
CoST	Construction Sector Transparency Initiative
CRAFT	Capacity for Research and Advocacy for Fair Taxation
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DEval	German Institute for Development Evaluation
DMF	Debt Management Facility
DMFAS	Debt Management and Financial Advisory Services
EDF	European Development Fund
EITI	Extractive Industries Transparency Initiative
EU	European Union
G8	Group of 8: Germany, France, the UK, Italy, Japan, Canada (since 1976), Russia (since 2002), the USA, the EU (since 1977)
G20	Group of 20: G8 + G5 (Brazil, China, India, Mexico, South Africa) + Argentina, Australia, Indonesia, Republic of Korea, Saudi Arabia and Turkey
GDP	Gross domestic product
GERI	Global Extractive Resources Initiative
GFI	Global Financial Integrity
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HIPC Initiative	Heavily Indebted Poor Countries Initiative
IMF	International Monetary Fund
IMFS	Integrated financial management systems
ISPMS	Indicators of the Strength of Public Sector Management Systems
KfW	Kreditanstalt für Wiederaufbau
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
OLACEFS	Organisation of Latin American and Caribbean Supreme Audit Institutions

PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Reviews
PETS	Public Expenditure Tracking Survey
PFM	Public financial management
PTB	Physikalisch-Technische Bundesanstalt
SES	Senior Expert Service
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

II. SELECT DOCUMENTS AND LITERATURE

A) INTERNATIONAL AGREEMENTS AND CONVENTIONS

Doha Declaration on Financing for Development

International Conference on Financing for Development, Doha, Qatar, 29 November–2 December 2008

English version available at:

http://www.un.org/esa/ffd/doha/documents/Doha_Declaration_FFD.pdf

G8 Leaders Communiqué and Lough Erne Declaration

G8 Summit in Lough Erne, Northern Ireland, UK, 17–18 June 2013

English versions available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207771/Lough_Erne_2013_G8_Leaders_Communique.pdf

and

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207543/180613_LOUGH_ERNE_DECLARATION.pdf

Busan Partnership for Effective Development Cooperation

Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29 November–1 December 2011

English version available at:

<http://www.oecd.org/dac/effectiveness/49650173.pdf>

B) STRATEGY PAPERS PUBLISHED BY THE FEDERAL MINISTRY FOR ECONOMIC COOPERATION AND DEVELOPMENT

Strategy on Budget Financing in the Context of Programme-Oriented Joint Financing

BMZ Strategy Paper 146, December 2008, 37 pages

German version available at:

<http://www.bmz.de/de/publikationen/reihen/strategie-papiere/Konzepte146.pdf>

Promotion of Good Governance in German Development Policy

BMZ Strategies 178, February 2009, 25 pages

English version available at:

http://www.bmz.de/en/publications/type_of_publication/strategies/konzept178.pdf

Gender Equality in German Development Policy

Cross-Sectoral Strategy, BMZ Strategy Paper 2/2014e, 24 pages

English version available at:

http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier340_02_2014.pdf

Extractive Resources in German Development Policy

BMZ Strategy Paper 4/2010e, September 2011, 24 pages

English version available at:

http://www.bmz.de/en/publications/type_of_publication/strategies/StrategyPaper302_04_2010_en.pdf

Increasing the Effectiveness of Bilateral Development Policy, Position Paper on Strengthening and Using Partner Systems

BMZ, Division 210, July 2011

Anti-Corruption and Integrity in German Development Policy

A Strategy, BMZ Strategy Paper 4|2012e, June 2012, 40 pages

English version available at:

http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier323_04_2012.pdf

C) IMPORTANT ORGANISATIONS AND SOURCES

Public Expenditure and Financial Accountability (PEFA)

<http://www.pefa.org>

Tax Administration Diagnostic Assessment Tool (TADAT)

<http://www.tadat.org>

International Tax Compact

<http://www.taxcompact.net>

Effective Institutions Platform

<http://www.effectiveinstitutions.org>

Extractive Industries Transparency Initiative (EITI)

<http://eiti.org>

Open Contracting

<http://www.open-contracting.org>

Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF)

<http://sustainabledevelopment.un.org/content/documents/4588FINAL%20REPORT%20ICESDF.pdf>

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Addresses of the BMZ offices

BMZ Bonn
Dahlmannstrasse 4
53113 Bonn
Germany
Tel. + 49 (0) 228 99 535 - 0
Fax + 49 (0) 228 99 535 - 3500

BMZ Berlin
Stresemannstrasse 94
10963 Berlin
Germany
Tel. + 49 (0) 30 18 535 - 0
Fax + 49 (0) 30 18 535 - 2501

poststelle@bmz.bund.de
www.bmz.de