



Decentralization and Local Governance Network

Recommendations on “SDC support to Sustainable Municipal Finances” as presented during the Sarajevo dlgn f2f meeting

1. When providing financial support to local Governments, SDC should strive to work on-system. Since financial support to local Governments is a highly political issue, pre-conditions for engagement have to be assessed carefully. The 4-stage “maturity of decentralization” model developed by the iDPWG-DLG should be used for this assessment. SDC should advocate for formula based national intergovernmental transfer systems. If pre-conditions permit and risks appear to be manageable, SDC should contribute to formula based national intergovernmental transfer systems. The contribution modalities should be determined by the leverage that can be attained: this can be through participation in banded funding, through the provision of experience, or through reputation (Swiss neutrality, Swiss per equation system). SDC should strive for a consultancy role in the design and implementation of the national intergovernmental transfer system (policy dialogue), trying to influence the criteria used in the formula to have SDC values reflected (democracy, gender equality, social inclusion, poverty targeting, environmental protection).
2. If conditions do not permit to work on-system, SDC should only engage in pilots for providing grants to local Governments if a clear link to the national steering platform on fiscal decentralization exists and experiences from the pilot can be fed into it. SDC should advocate for a multi-stakeholder steering platform, including central Government (alignment), development partners (harmonization), and other national actors (democratic process). SDC should put special emphasis on the inclusion in this platform of elected, legislative institutions.
3. In a mature system of fiscal decentralization, borrowing opportunities by local Governments for capital investments are key for sustainability. This asks for legal preconditions, modalities to access credit institutions, and institutional capacities. Support for borrowing normally will be the last stage in the development of sustainable local Government finance. SDC should support local Governments in their capacity to prove their credit-worthiness, and engage on procedures for them to access credit institutions.
4. SDC should put more focus on supporting municipalities’ own revenues because of its potential to improve local autonomy and downward accountability.
5. SDC should support overall national transfer systems and their development (commitment to Aid Effectiveness).
6. SDC needs to acknowledge that by supporting municipal finances it always interferes in or influences domestic politics and SDC should elaborate a strategy of political dialogue.
7. SDC should work within the given national system of capacity building.
8. SDC should engage in providing capacity building vouchers or grants to local governments based on municipal capacity building plans.