



Schweizerische Eidgenossenschaft
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**Swiss Agency for Development
and Cooperation SDC**

**State Secretariat for
Economic Affairs SECO**

SECO and SDC cooperation for effective public financial management, decentralization and local governance intervention

Vision

In Swiss international cooperation activities, SDC and SECO coordinate their projects for effective interventions, particularly in the area of public financial management (PFM), decentralization and local governance. They do this through their specific strengths and by using their resources in a complementary way.

Purpose

Based on the vision, the purpose of this guidance is to draw attention to the benefits of a stronger cooperation and communication between SDC and SECO in PFM, decentralization and local governance projects, worldwide. This requires understanding and acknowledging different decision-making approaches as well as identifying, communicating and harnessing geographical and thematic genesis and overlaps between SDC and SECO. Recognition of each other's strengths forms the basis for such cooperation and will lead to an efficient and effective use of the limited resources available and improve synergies.

As such, SDC and SECO are strongly committed to harness these synergies through reciprocal sharing of information beyond formal project development procedures, for the benefit of a strong cooperation.

Objectives

This guidance aims to transfer the vision into daily practice. It does so by:

- Clarifying organizational entry points to PFM, decentralization and local governance projects.
- Defining key principles for effective PFM, decentralization and local governance interventions.
- Creating awareness for complementary strengths and resources of SECO and SDC.
- Providing practical guidance for institutional and thematic cooperation between SDC and SECO.

Target group

The following guidance is relevant for all persons within SDC and SECO who manage and are involved in PFM, decentralization and local governance projects. The guidance is particularly relevant for:

- SDC HQ governance staff (SDC Thematic Unit Governance) and geographic desks at HQ.
- Management and NPOs of Swiss cooperation offices.
- SECO-WEMU project managers.
- SECO field staff at cooperation offices and embassies.

1. Organizational entry points for PFM, decentralization and local governance interventions

There exist various definitions and approaches towards PFM in theory and practice. This section aims to outline and clarify SECO's and SDC's approaches towards PFM, decentralization and local governance interventions as well as clarifying organizational entry points. Although SECO and SDC may have different genesis and rationales

for PFM, decentralization and local governance interventions, these may look quite similar at the end of the day. Therefore, many of these interventions bear synergies for closer cooperation and collaboration, as further outlined in the remainder of this guidance.

1.1. SECO – PFM as an important pillar for economic growth and sustainable prosperity

Being part of SECO as Switzerland's Center of Competence for economic policy, WEMU's engagement in public financial management is firmly rooted in SECO's broader economic governance and foreign economic policy mandate and benefitting from its long-standing experience. Strong and effective PFM institutions are part of a sound economic governance, and a precondition for an efficient and effective use of public resources, transparency and accountability. Sound PFM and fiscal sustainability is a prerequisite for governments' ability to provide social protection and public services delivery, and eventually, for sustainable growth. As such, they are indispensable for the achievement of broader SDG goals, including gender equality, climate & resource efficiency. SECO's major reference framework for PFM is the Public.

Expenditure and Financial Accountability framework (PEFA-cycle), as outlined in *Figure 1*. Along this cycle, SECO interventions particularly aim to support national and sub-national governments as outlined below.

To **collect more** through **enhanced domestic revenue mobilization**. This leads to the following PFM entry points:

- Develop efficient tax administrations as well as fair and effective tax policies; and
- Minimize tax evasion and international profit shifting.

- Increase fiscal transparency in governments and extractives industries.

To **spend better** through **increased efficiency and effectiveness** of government expenditures. While PFM engagements are context-dependent and may evolve over time, typical entry points are:

- Establish trust in public finance institutions and reduce corruption.
- Build effective PFM institutions, including Ministry of Finance, Tax Administrations, Public Investment Units and Supreme Audit Institutions (SAIs).
- Improve investment planning and economic governance.
- Foster policy-based fiscal strategies, budget preparation and execution.
- Enhance public sector accounting and financial reporting; and
- Develop sound debt and asset management practices.
- Improve accountability and service delivery.

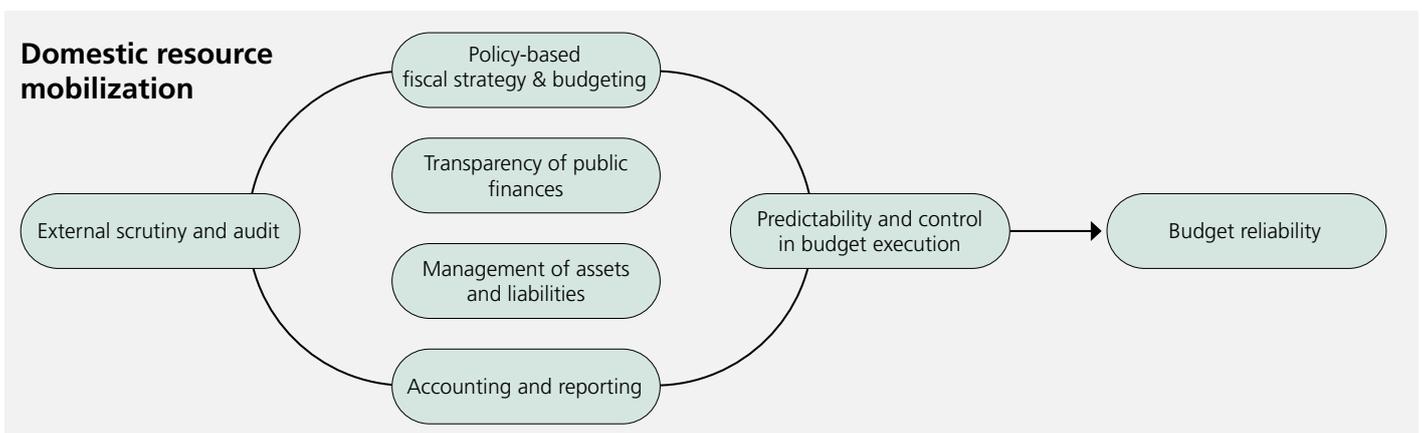


Figure 1: PFM Cycle (Macroeconomic Support Division (WEMU), 2021)

1.2. SDC – PFM as an important pillar in decentralization and local governance

Sound PFM practices are an important pillar in SDC’s decentralization and local governance work, supporting well-functioning sub-national and multilevel governance that leads to more democratic control, greater efficiency and accountability. In SDC’s systemic understanding, decentralization must always include administrative, political and fiscal decentralization alike in order to ensure congruence of functions, funds and decision-making within national and sub-national governments. Strengthening the

quality of local public finance management and the capacities of sub-national governments in this field is thus key for the overall success of decentralization reforms and the performance of local governments. Moreover, participative approaches to public finance management contribute to achieve **broader societal outcomes** such as empowering communities, connecting civil society, bringing trust, as well as to strengthen state-citizen dialogue as outlined in *Figure 2*.

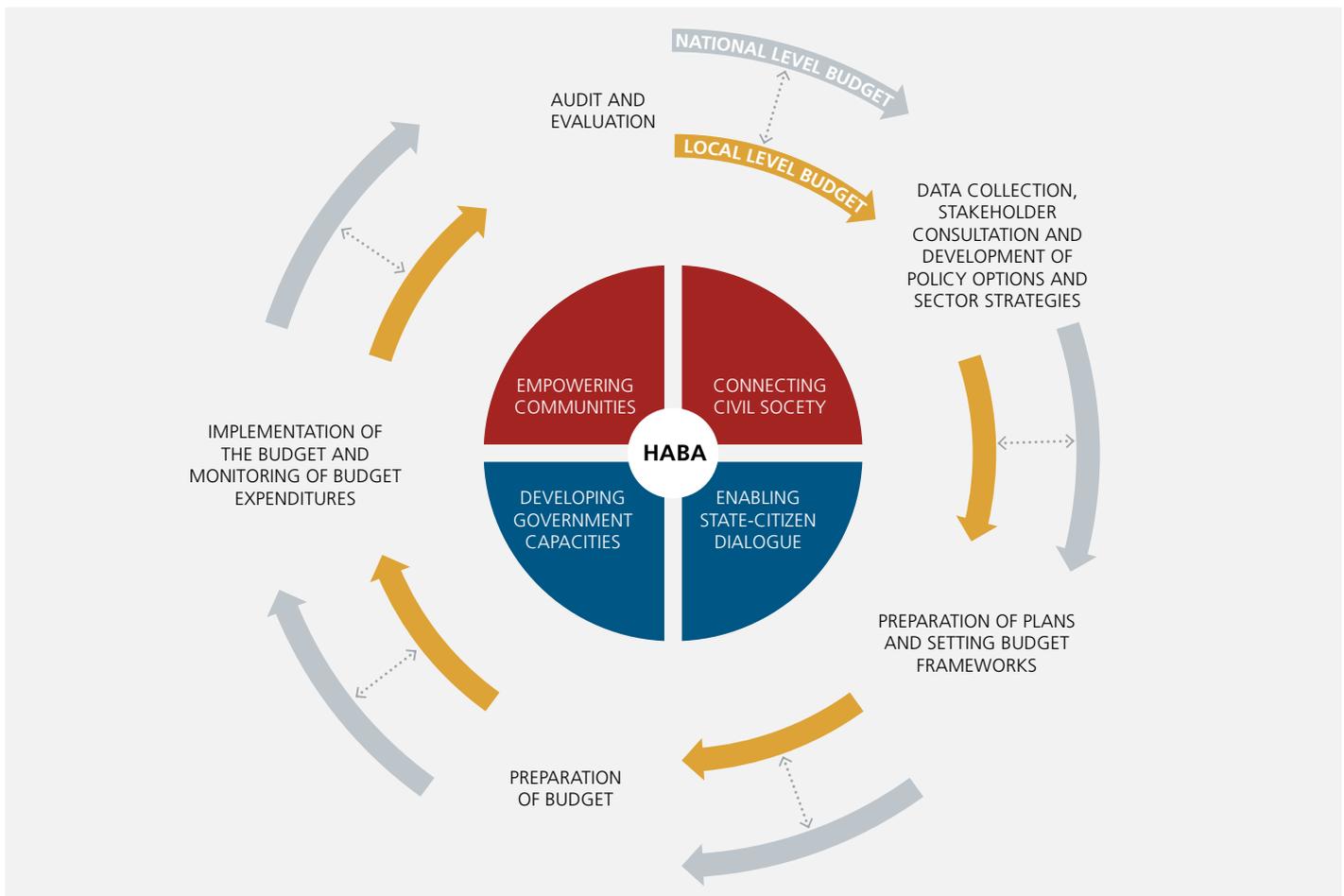


Figure 2: SDC’s PFM approach (Swiss Agency for Development and Cooperation SDC, 2019)

The efficiency and effectiveness of a country’s PFM system supports achieving these outcomes by the following entry-points of SDC. This list is non-exhaustive. Entry-points are context dependent and can overlap with SECO entry points:

Supporting a transparent, accountable and credible government, with the following PFM entry points:

- Strengthen PFM institutions to inclusively plan, collect and spend resources effectively.
- Increase the quality of financial information for better decision-making and scrutiny.
- Develop independent legislature and non-government actors.

Ensuring efficient and effective service delivery, with the following PFM entry points:

- Strengthen government capacity for effective service delivery.
- Increase the value for money in service delivery.
- Strengthen policy-based budget preparation and execution.

Eliminating corruption and strengthening civil society advocacy, with the following PFM entry points:

- Building public and civil society capacity to challenge governments and strengthen anti-corruption efforts.

1.3. Shared views on effective PFM interventions

Despite individual rationales or entry points for PFM interventions, SECO and SDC share the following views and key principles for effective PFM interventions:

- **PFM systems are complex:** A systemic view on PFM means that the capacity and performance of a PFM system is affected and influenced by the individual capacities or attitudes of all systemic elements. Therefore, PFM systems are multicausal and complex. Changing one element (e.g., the implementation of a new accounting standard), will both, influence and depend on other systemic elements (e.g., PFM law, IFMIS or the training of accountants). Managing these complexities will require a thorough understanding of the problems to be addressed as well as the local context, well designed project interventions and room for flexible project adaption (cf. problem-driven reform approaches).
- **PFM systems are part of wider governance arrangements:** PFM systems are important pillars to strengthen multi-level governance mechanisms within national and sub-national governments. Sound PFM systems support the trust building and accountability, and, therefore, are important drivers to build strong democratic institutions and to fight corruption. PFM is an important pillar of decentralization processes, for example with respect to domestic revenue mobilization.
- **The reform context is important:** PFM depends on the local context, which is shaped by specific political, institutional, technical or human capacities. All these capacities are not uniform and approaches to the design and implementation of local PFM systems must take this into account.
- **Problem-driven and flexible reform approaches:** The problem-driven iterative adaption (PDIA, cf. Andrews, 2013) approach calls for adapted solutions based on a thorough problem analysis with room for experimentation. In contrast to implementing a rigid log-frame, PDIA promotes an iterative learning process which should allow evidence-based adaptations to the interventions. Through engagement with multiple agents, reforms can be scaled up and sustained.

2. Complementary strengths and resources towards PFM, decentralization and local governance interventions

Although SDC and SECO share common principles on PFM, decentralization and local governance interventions, they have different entry points and approaches:

For SDC, PFM is an integral part of decentralization and local governance as well as anti-corruption programs and forms a key pillar to achieve good governance (SDG Goals 1, 5, 10, 16).



For SECO, PFM is an essential pillar of good economic governance, effective institutions, and sound economic policies on a global, national and sub-national level (SDG Goals 1, 8, 10, 16).



Accordingly, both organizations have developed specific strengths and resources in their fields of intervention as highlighted in the box below.

Complementary strengths and resources

SDC

- Expertise and long-term experience in decentralization and local governance, aligning administrative, political and fiscal decentralization alike in order to ensure congruence of functions, funds and decision-making.
- Well-established network on the local level with NGOs, CSOs and legislators.
- Innovative and experimental project work including participatory approaches.
- Cooperation office staff with sound knowledge of local structures and political economy.
- Network of NGOs and know-how of working in a fragile context, i.e., “resources in the field”.
- Short reaction times due to decentralized structures.

SECO-WEMU

- PFM knowledge rooted in WEMU’s responsibility for General Budget Support, Debt Relief and Poverty Reduction Action, and ensuing focus on fiscal sustainability and sound PFM.
- Strong network within the World Bank and IMF.
- Long-standing experience of staff due to “no-rotation” principle.
- Well-established relationships with international experts and institutions on regional level (e.g., SAI, PEFA, RTACs).
- Experience with multilateral donor structures.
- Strong technical knowledge on the entire PFM spectrum.

2.1. Different intervention focuses of PFM, decentralization and local governance projects

In both organizations, projects enter at the global, national or sub-national level. As for SECO, historically the national and global level are the more prominent points of entry, as for SDC, most projects are located at the sub-national level, as indicated in *Figure 3*.

While the legacy of these approaches is still present in project development, both organizations are striving for permeability in both directions. Thus, by design allowing for trickle up and down effects in projects or programs.

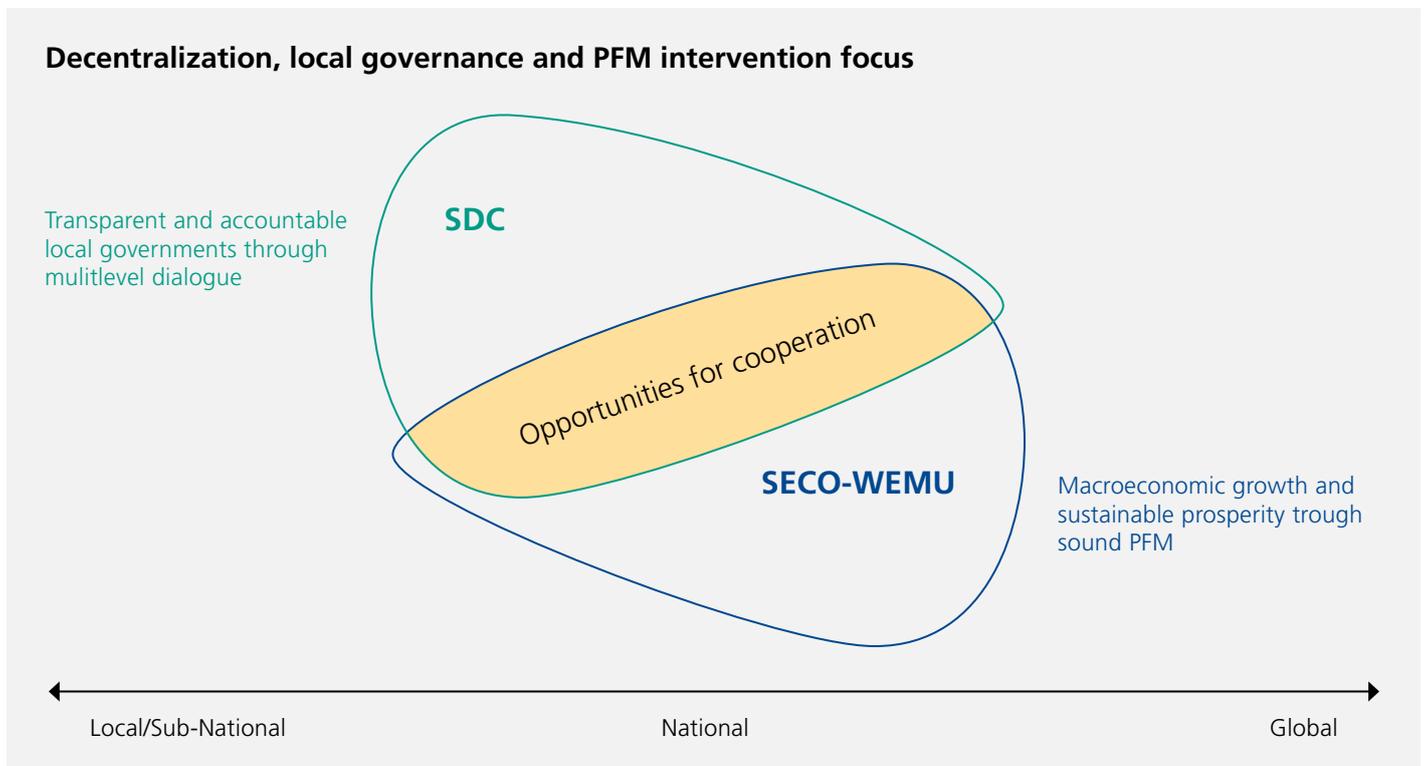


Figure 3: PFM intervention focus (own figure)

Projects on the sub-national level are often dependent on decisions on the national level, and vice-versa, projects on the national level strongly affect the sub-national level where the impact is often the most significant on both, citizens and public administration personnel. Taking the different approaches into consideration, a stronger cooperation is desirable to achieve the goals set out by both organizations.

Since both organizations work towards the same goal, naturally, there is an overlap (cf. *Figure 3*: shaded in yellow). Based on the

strategic trajectory of both SECO-WEMU and SDC, this overlap is very likely to increase. While this might present a challenge at first glance, it is even more so an opportunity for all parties involved to harness the knowledge and experience of the other organization. And by doing so, increase cooperation within the overlap to achieve better and more efficient PFM, decentralization and local governance interventions on behalf of Switzerland.

2.2. Different decision-making approaches

Through historical development, certain patterns have evolved on where, when and by whom decisions have been taken, with the result that competencies and resources are distributed differently. SECO follows a rather centralized approach where the final authority lies within the HQ in Bern, while SDC applies a rather bottom-up, decentral approach, leaving the majority of decision within the hands of the management of the cooperation offices.

Both approaches have their advantages and disadvantages and are tailored to established processes and the long-term strategy of each organization. Ultimately, however, they serve the common goal of carrying out and implementing effective PFM, decentralization and local governance interventions that support the International Cooperation Strategy of the federal government (Staatssekretariat für Wirtschaft SECO & Direktion für Entwicklung und Zusammenarbeit DEZA, 2020).

3. Institutional cooperation towards effective PFM, decentralization and local governance interventions

The guidelines for the geographical, institutional, and thematic cooperation (i.e., "Vademecum Zusammenarbeit DEZA-SECO" (Staatssekretariat für Wirtschaft SECO & Direktion für Entwicklung und Zusammenarbeit DEZA, 2020) require SDC and SECO to cooperate within PFM, decentralization and local governance projects. As highlighted in the previous sections, there exist different deci-

sion-making approaches while geography and thematic focus may partially overlap.

These differences and overlaps are to be acknowledged, accepted and harnessed in order to strengthen cooperation. This section delivers further details regarding the how, when, and where to do so.

3.1. Assessing the scope and form of collaboration

First and foremost, any form of cooperation is founded on a mutual understanding and its application is reciprocal for both organizations. SDC and SECO jointly agree that mutual communication and information sharing efforts are beneficial to both organization and ultimately strengthen Switzerland as a strong actor in international cooperation for both partner countries as well as in the international system.

The following decision tree provides guidance on how to operationalize cooperation efforts into daily practice. The decision-tree is relevant for all persons within SDC and SECO who manage and are involved in PFM, decentralization and local governance projects.

Figure 4 requires both, organizations and individuals involved in PFM, decentralization and local governance projects to commit sharing information and exploring mutual cooperation opportunities.

SDC's and SECO's commitment to reciprocal sharing of information

- SDC and SECO are fully committed to sharing all relevant information with each other, both verbally and in writing at any point in time, at all levels of the institutions (i.e., informal outreach before formal project development procedures).
- Management (HQ and cooperation office) encourage communicating and providing access to information at an early stage of project development, including project ideas, drafts of proposals, concepts or projects before formal submission.
- SDC and SECO define the following point of contacts:
 - SECO: wemu.sekretariat@seco.admin.ch
 - SDC: Governance Focal Point and/or responsible operational unit

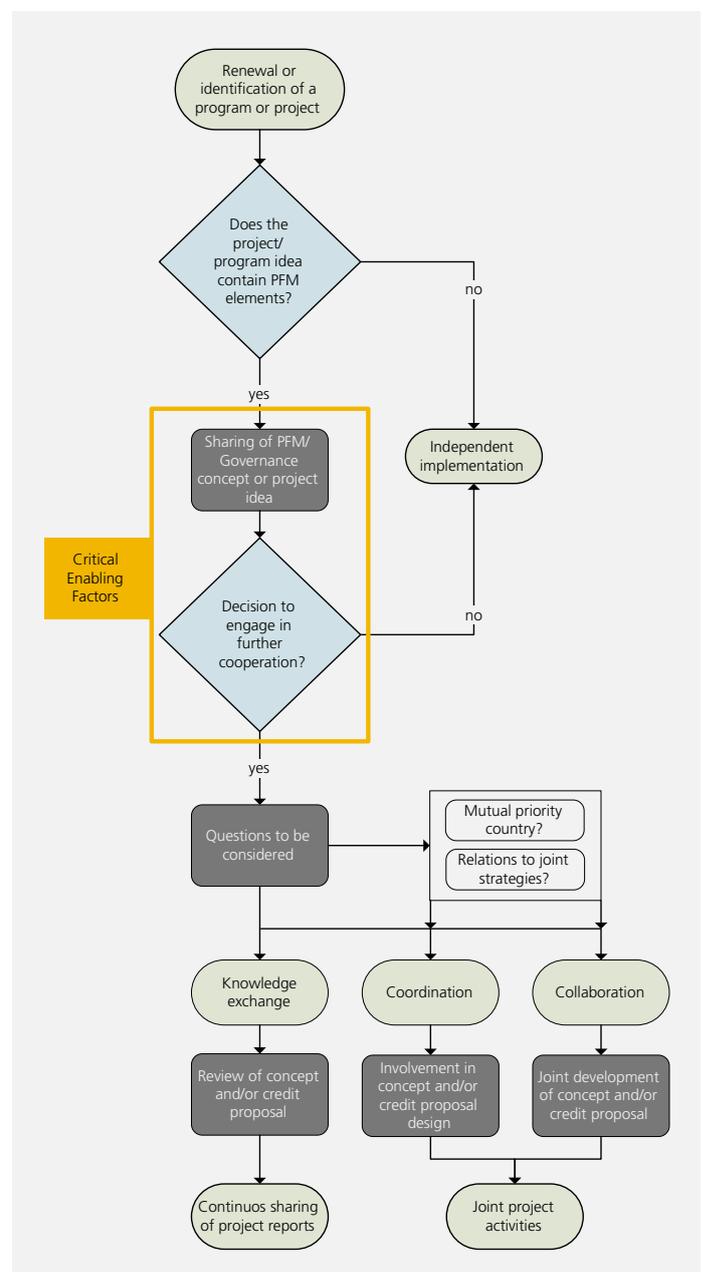


Figure 4: Decision tree guiding through cooperation opportunities (own figure)

3.1. Forms of cooperation

Cooperation can take the form of three broad categories. The following section provides a short definition and some examples of good practice for each of the modalities laid out in the decision tree (Figure 4).

Knowledge Exchange

The minimum standard for all PFM, decentralization and local governance projects. Knowledge exchange includes continuous informal and formal information sharing with the goal to keep all relevant parties up to date on PFM, decentralization and local governance projects.

Good practices

- Exchange on synergies and potential overlaps at early stages between program officers/program managers (both, at HQ and cooperation offices).
- In critical areas early involvement of heads of section (WEMU) or responsible NPOs.

- Continuous updates on the development of entry and credit proposals and opportunities to provide comments and suggestions at different stages.
- Regular update of peers in the cooperation offices both ad-hoc and institutionalized (i.e., meetings on a weekly, monthly or other regular basis).
- Participate in joint trainings, learning journey or capitalization of experiences or introduction programs of new program managers/program officers.
- Participation in PFM and governance related working groups (e.g., decentralization).
- Field visits (from Desk Officer or PM) including time slots to meet NPOs affiliated with the other organization.

Coordination

Relates to a stronger involvement of the other organization, particularly in the early stages of project development and design, however the project is financed by one lead organization.

Good practices

- Participation in steering-committee and/or operation committees.
- Identifying and addressing structural overlaps, e.g., separately launched projects in a common area/domain.
- Sharing of relevant project information, such as progress or, end-of-project reports.

Examples include:

- *Tunisia*: SECO has a long-standing engagement in a PFM and governance MDTF. Given the Swiss interest to engage systemically and holistically (i.e., financial, administrative and political) in the countries' decentralization reform, it was agreed that SDC – would co-finance the MDTF. Under this new set-up, SECO continues to support fiscal decentralization and sub-national

governance, whereas SDC supports administrative decentralization, notably the establishments of regions as a new layer of government. The Swiss Cooperation Office in Tunis represents both SECO and SDC in the MDTF steering committee.

- *Tanzania*: "Good financial Governance": SDC has a long-standing PFM engagement at the national level, which also finances activities of thematic interest to SECO. SDC therefore regularly shares information, allowing SECO to comment, as appropriate.
- *Serbia*: SECO-WEMU started with a PFM reform in municipalities and SDC follow-up with two projects on citizen participation, building on the previous SECO-WEMU project.
- *Nepal*: SDC has a long-standing engagement in the area of governance and (fiscal) decentralization. Because a World Bank-led PFM MDTF complements these activities well, it was agreed that SECO would make a contribution as part of its complementary measures. This complements SDC activities that implement fiscal decentralization reforms in selected subnational entities.

Collaboration

Refers to jointly developed projects and concepts which aim towards equal responsibility of both organizations and may include a decision to use SECO or SDC funds, respectively, for different components under the same project.

Good practices

- Project development based on the alignment of strategic objectives with co-lead of both organizations.
- Jointly financed projects (clear delineation along components).
- Mutual representation of interest along the entire project cycle through the cooperation office and its implementing partners.

Examples include:

- *Somalia*: Even though it did eventually not materialize, the agreement was for SECO to finance a country-specific component that would contribute to a larger SDC program as part of its pre-existing engagement with a regional implementing partner.
- *Mozambique*: "Decentralization and Local Governance".
- *Kyrgyzstan*: Discussion of project ideas on sub-national level with joint planning.

4. Abbreviations

| | |
|-------|--------------------------------------------------------------------------------------|
| CSO | Civil Society Organization |
| HQ | Headquarter |
| IFMIS | Integrated Financial Management Information System |
| IMF | International Monetary Fund |
| MDTF | Multi-Donor Trust Fund |
| NGO | Non-Governmental Organization |
| NPO | National Program Officer |
| PDIA | Problem-Driven Iterative Approach |
| PEFA | Public Expenditure and Financial Accountability (Framework) |
| PFM | Public Financial Management |
| PM | Program Manager |
| RTAC | Regional Technical Assistance Centers |
| SAI | Supreme Audit Institutions |
| SDC | Swiss Agency for Development and Cooperation |
| SDG | Sustainable Development Goals |
| SECO | Swiss State Secretariat for Economic Affairs |
| WEMU | Macroeconomic Support Division from SECO (in German: Makroökonomische Unterstützung) |

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