



DECENTRALISATION &
LOCAL GOVERNANCE



**External Support for Decentralization Reforms
& Local Governance Systems in the Asia Pacific:
Better Performance, Higher Impact?**

INTERGOVERNMENTAL FISCAL TRANSFERS

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JUSTIFICATIONS FOR TRANSFERS

- Vertical Fiscal Imbalance
- Regional Service Level Disparities
- Spillovers
- National Priorities
- Political Control
- Bureaucratic Protection

HOW TO STRUCTURE A TRANSFER SYSTEM

- Vertical Sharing
 - Tax shares
 - Ad Hoc
 - Cost Reimbursement
- Horizontal Sharing
 - Derivation
 - Formula
 - Cost reimbursement
 - Ad Hoc

Intergovernmental Transfer Structures in Asia

H/V	SHARED TAX	AD HOC	COST REIMBURSEMENT
DERIVATION	CHINA, INDONESIA, CAMBODIA(p)		
FORMULA	INDONESIA PHILIPPINES INDIA (FC) PAKISTAN Cambodia (d, c)	India (Schemes)	
AD HOC			
COST REIMBURSEMENT	Cambodia		Indonesia

CONDITIONAL VS. UNCONDITIONAL GRANTS

- Determining the Amounts to Transfer?
- Monitoring the Outcomes?
- Empowering SNGs or Line Ministries?
- Designing a Horizontal Distribution

CONDITIONAL OR UNCONDITIONAL TRANSFERS

Impact	Conditional transfer	Unconditional Transfer
Fiscal Decentralization	Weakens	Strengthens
Compliance and Administrative costs	Higher, especially if large number of conditional grants	Lower
Transparency	Less, if there are numerous conditions and distributions	More
Providing Incentives	Better, because there are more tools, e.g., matches, rules for use of the funds; displacement	Worse: weak incentives for revenue mobilization might be provided in the formula
Can Address Spillovers	Yes	No
Can Support central Policy Directions	Yes, except decentralization	No, except decentralization
Supports budget planning	Not if the appropriation	Yes. if the vertical shares

