

**FINANCING AND GOVERNANCE FOR LOCALIZATION OF SDGS:
INTERGOVERNMENTAL FISCAL TRANSFERS**

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OUTLINE

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Intergovernmental Fiscal Transfers (IFT) are payments made by the central government (from higher level) to the local government (lower level)

- Intergovernmental fiscal transfers are crucial for the SDGs because subnational governments, where much SDG-related spending occurs, often lack sufficient local revenue and rely on central government funding.
- The design and allocation of these transfers significantly impact progress towards the SDGs, requiring careful consideration of resource distribution, regional needs, and incentives for subnational governments to effectively manage expenditures on areas like health, education, and infrastructure.
- Their structure, often in the form of earmarked or non-earmarked grants, creates incentives for subnational governments, influencing their fiscal behavior and accountability.

1. Structuring Intergovernmental Fiscal Transfer Systems

- Clear Objectives and Criteria: Establish clear objectives and criteria for fiscal transfers, aligning with national priorities and local needs. This could include specific targets for healthcare, education, or infrastructure development.
 - Formula-Based Allocation: Implement formula-based allocation mechanisms that consider factors like population, poverty rates, and service delivery needs. This ensures that resources are allocated based on need, rather than political considerations.
 - Conditional Grants: Use conditional grants to incentivize local governments to prioritize specific services and initiatives, such as healthcare, education, or infrastructure development. This can help ensure that local governments are aligned with national priorities.
 - Capacity Building: Provide capacity-building support to local governments to enhance their ability to manage and utilize fiscal transfers effectively.
 - Regular Review and Assessment: Regularly review and assess fiscal transfer systems to ensure they are meeting their intended objectives and make adjustments as needed.
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2. **Predictability, Equity, and Responsiveness of Fiscal Transfers**

- **Predictable Funding:** Ensure predictable funding for local governments through multi-year budgeting and commitment to fiscal transfer allocations. This enables local governments to plan and budget effectively.
- **Equitable Distribution:** Implement equitable distribution mechanisms that consider the unique needs and challenges of different local governments. This could involve weighting formulas to account for factors like poverty rates or geographic challenges.
- **Addressing Challenges:** Address challenges like inadequate funding, inefficient allocation, and corruption, which can undermine the effectiveness of fiscal transfers. This could involve strengthening institutional capacity, improving governance, or implementing anti-corruption measures.



3. **Lessons from Existing Fiscal Transfer Systems**

- **Lessons from Success Stories:** Identify and share lessons from success stories of effective fiscal transfer systems, highlighting best practices and areas for improvement. This could involve case studies, peer-to-peer learning, or knowledge-sharing platforms.
- **Contextualizing Fiscal Transfers:** Contextualize fiscal transfers to address specific local needs and priorities, such as SDG and Agenda 2063 initiatives. This involves understanding the unique challenges and opportunities facing local governments.
- **Improved Planning and Allocation:** Use lessons from existing fiscal transfer systems to improve planning and allocation of funds for specific priorities, ensuring effective use of resources. This could involve developing guidelines, tools, or frameworks for local governments.
- **Capacity Building and Technical Assistance:** Provide capacity-building support and technical assistance to local governments to enhance their ability to manage and utilize fiscal transfers effectively. This could involve training, mentoring, or peer-to-peer support.

The role of the Central Banks in Intergovernmental Fiscal Transfers

- While the central bank is crucial for the overall economic and financial health of a country, the direct management and administration of intergovernmental fiscal transfers rest with the fiscal authorities of the central government.
- The Central Bank's role can be **direct** or **indirect**:

Direct Roles of Central Banks

- Monetary Policy: Ensures price stability and financial stability, which impacts the overall economic environment in which IFTs operate.

Indirect Roles of Central Banks

- Economic Data and Research: Central banks often conduct economic research and collect data on fiscal transfers and regional economic conditions, which can inform policymakers about their effectiveness and equity.



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