Intergovernmental Fiscal Transfers

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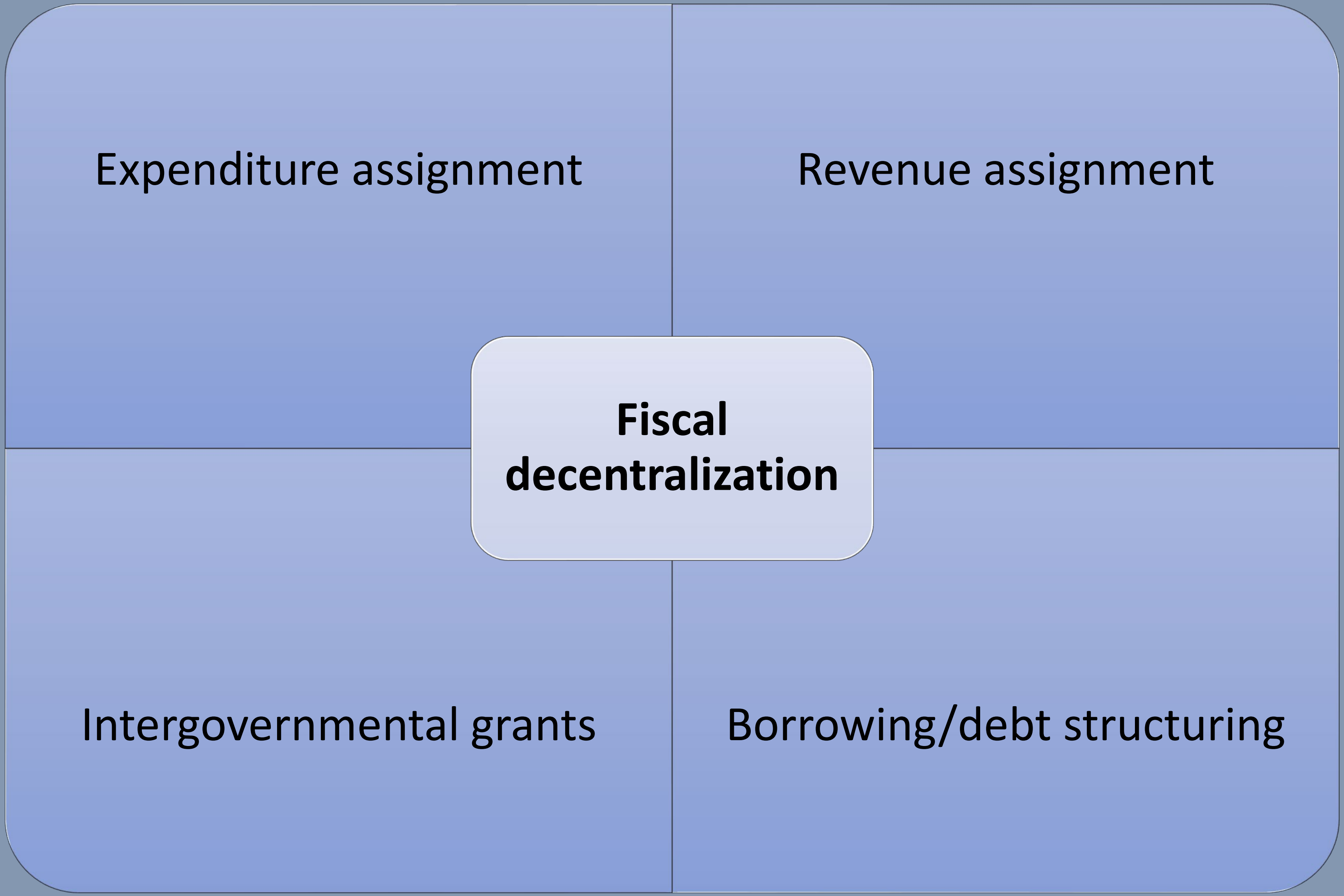
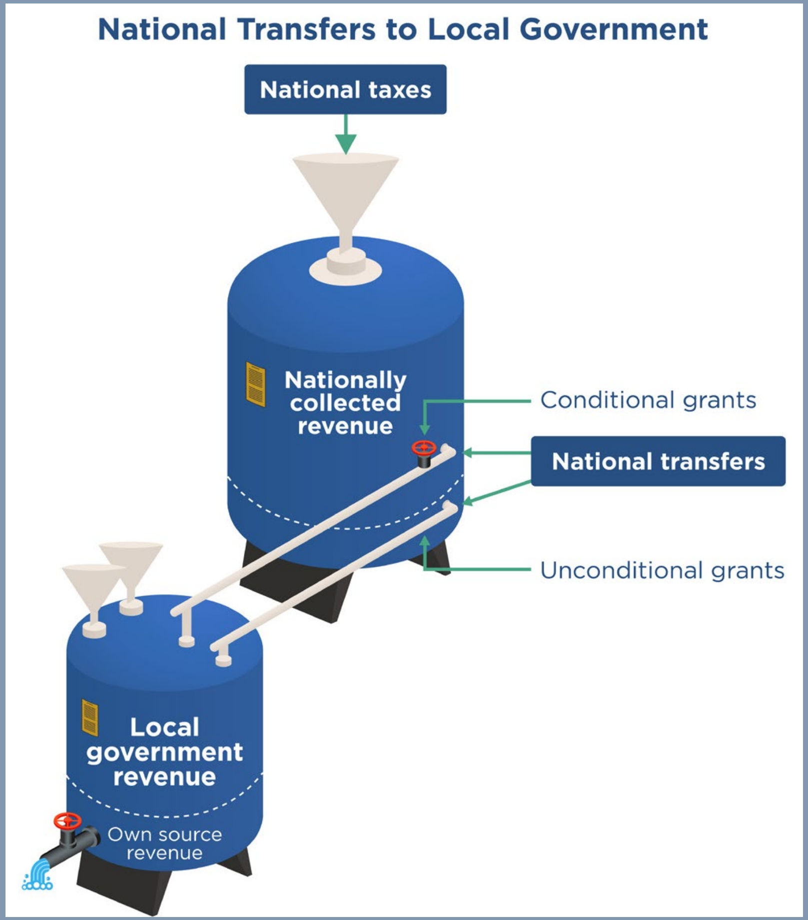

Expenditure assignment
Revenue assignment
Fiscal decentralization
Intergovernmental grants
Borrowing/debt structuring

Revenue and expenditure assignment

- Fiscal imbalance
  - Vertical imbalance: local government has more responsibilities than what can be financed from own revenue
  - Horizontal imbalance: Local governments have unequal capacity and potential to mobilize revenue
- Intergovernmental grants
  - Unconditional and Conditional grants
  - Address fiscal imbalance
  - Redistribute resources
  - Promote national objectives at the local level



African Charter on Decentralisation (2014)

- Article 7(2) – “Central governments shall adopt legislation and create the necessary oversight and evaluation mechanisms to ensure that the percentage of revenue raised at the national and local levels are effectively transferred to local governments or local authorities for local economic development.”
- Article 16(4)(c)- “Central governments shall be responsible to equitably redistribute natural resource benefits acquired from natural resource exploitation in given localities and communities to all sub-national governments and local communities.”

AFRICAN CHARTER ON THE VALUES AND PRINCIPLES OF DECENTRALISATION, LOCAL GOVERNANCE AND LOCAL DEVELOPMENT

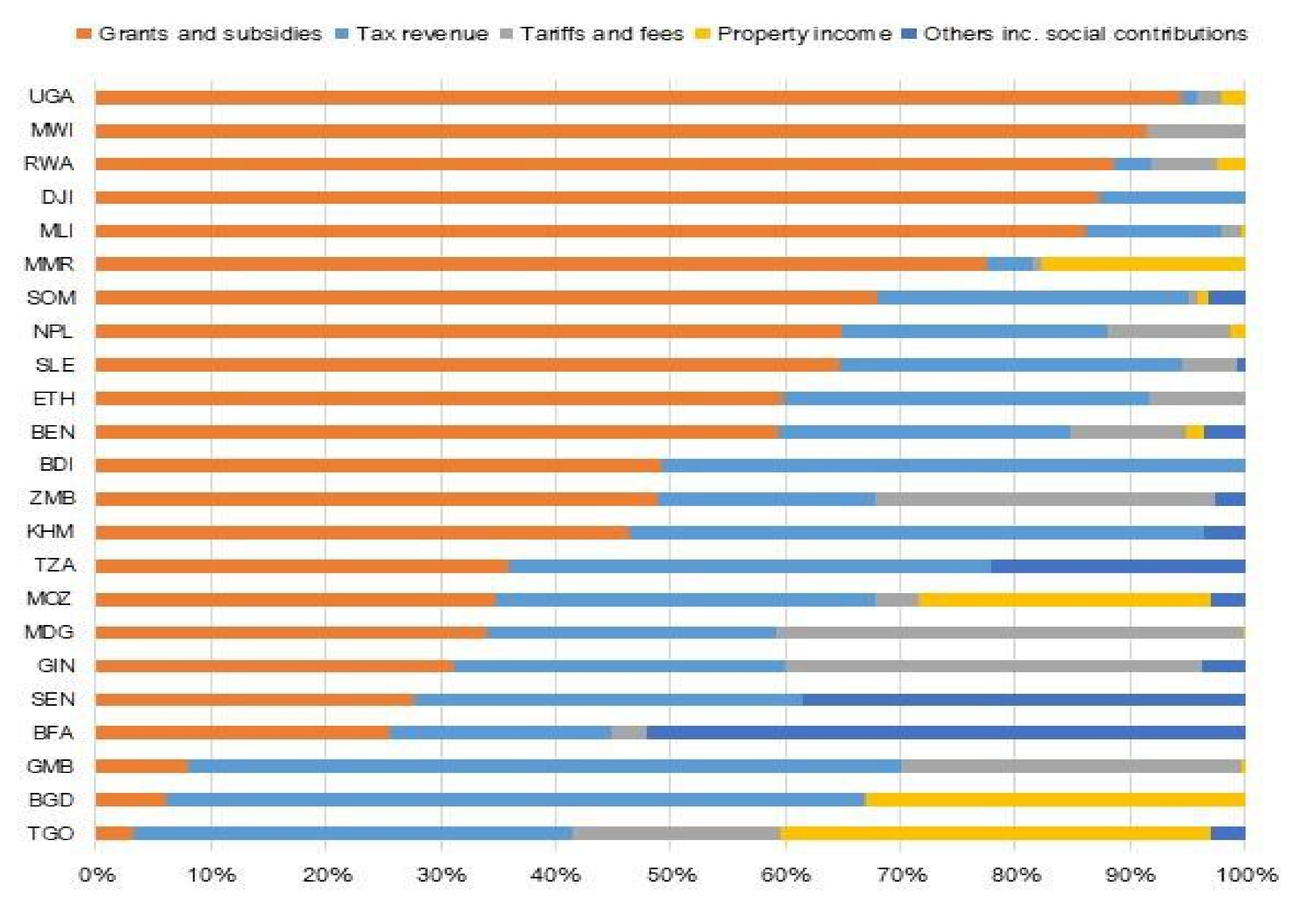
Unconditional grants

- Generally, to address vertical imbalance
- Local government has discretion to spend
  - Recurrent and capital expenditure
- Enhance budget autonomy
- “Downside”
  - May incentivize poor financial behaviour e.g. wasteful expenditure
  - May discourage local revenue mobilization effort

Conditional grants

- Grants that come with conditions for spending
  - Come in various forms – e.g. capital grant
- Conditions determined by the national government
  - Constrain the autonomy of local governments
- Used to drive national objectives at the local level
  - Address disparities – e.g. infrastructure development, SDGs etc.
- Often come with stringent reporting requirements
  - Corresponding duty on the national government to monitor
- Many times, local governments fail to spend conditional grants
  - Lack of capacity, the dispersal of grants very late in the year etc.

WOFI (2022) Subnational government (SNG) revenue in LDCs by category as a % of total SNG



Progressive intergovernmental fiscal system

- Objective
  - Relies on credible data
  - Use of a criteria and formulas
  - Role of independent financial commissions – e.g. Commission on Revenue Allocation of Kenya
- Predictability
  - Multi-year predictions – South Africa
  - Concept of minimum percentage – e.g. Zimbabwe's Constitution set 5%

Multiyear projections - South Africa

Allocations and predictions for each sphere

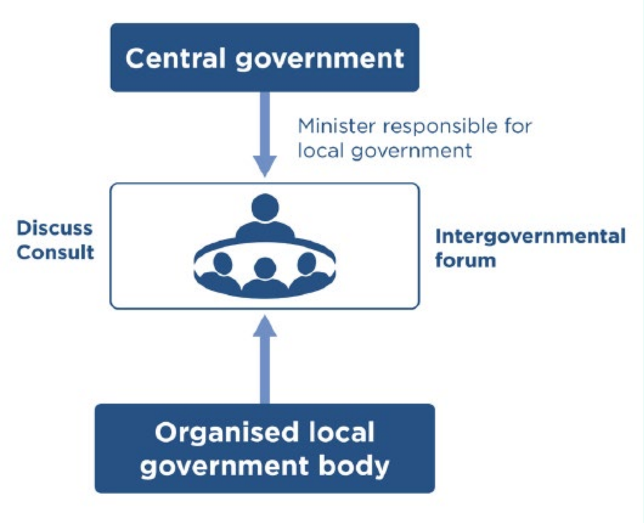
Spheres of Government	Column A	Column B	
	2025/26	Forward Estimates	
		2026/27	2027/28
	R'000	R'000	R'000
National[1,2]	1 571 476 758	1 631 803 495	1 709 716 617
Provincial	633 165 959	660 568 536	690 243 493
Local	106 087 022	110 661 361	115 665 536
TOTAL	2 310 729 739	2 403 033 392	2 515 625 646

Allocations and predictions for each municipality

	Number	Municipality	National Financial Year		
			Column A	Column B	
			2025/26	Forward Estimates	
				2026/27	2027/28
			R'000	R'000	R'000
EASTERN CAPE					
A	BUF	Buffalo City	1 296 018	1 365 808	1 427 605
A	NMA	Nelson Mandela Bay	1 637 749	1 739 300	1 817 952
B	EC101	Dr Beyers Naude	126 546	131 231	137 143
B	EC102	Blue Crane Route	73 464	75 684	79 097
B	EC104	Makana	135 052	140 120	146 429
B	EC105	Ndlambe	142 119	147 290	153 935
B	EC106	Sundays River Valley	122 783	127 670	133 431
B	EC108	Kouga	203 533	213 418	223 037
B	EC109	Kou-Kamma	72 001	74 812	78 184
C	DC10	Sarah Baartman District Municipality	113 301	116 246	121 511

Progressive intergovernmental fiscal system

- Transparency
  - Article 16(5)(e) of the African Charter – "Conditional and unconditional financial transfers from central government to local governments or local authorities shall be transparent and predictable".
  - formula driven allocations; participatory, publication of formulas and allocations
- Participatory
  - Local governments should have the means to inform the process
- Fairness
  - Equity versus equality- it is not necessarily about treating all local governments the same
- Stable but flexible



Other important variables

- The success of an intergovernmental systems is dependent not just on the design but also other variables
- Do national authorities follow the “rules of the game”?
- How much weight is given to political considerations?
- Are grants determined and distributed timeously?
- Economic performance – how much resources are available for sharing or redistribution

Conclusion

- Localization of SDGs will not work without adequate resources
- Intergovernmental grants are needed to complement local resources
- The design of intergovernmental grants/transfers
  - Objectiveness, adequacy, predictability, transparency, participatory and fairness
- Promote the national objectives but not at the expense of local autonomy, responsiveness and accountability
- Localization of SDGs
  - Balance local autonomy, cooperation and supervision