

Intergovernmental Finance

Roy Bahl

Georgia State University

Delhi, 2016

TOPICS

- Options for Own Source Revenue Mobilization
- Why Give a Grant?
- Grants that are centralizing
- Grants that are decentralizing
- Conditional Grants
- Bad Ideas for a Grant System
- Some Common Practices
- Thoughts about India

Options for own source Revenues

- Are Local Taxes Necessary?
- Property and Land Taxes
 - Yield = 2.2% GDP in IC, 0.6% LMIC, less in India
- Taxes on Motor Vehicles
- Sales Taxes
- Kill the Golden goose because it behaves badly?

Why Give A Grant?

- Gap Filling
- Externalities or national Priorities
- Equalization
- Bribe

How Should The Grant System Be Structured?

Alternative Form of Intergovernmental Grant Programs

Method of allocating The divisible pool Among eligible units	Method of determining the total divisible pool		
	Specified share of National or state Government tax	Ad Hoc Decision	Reimbursement Approved Expenditures
Origin of collection	A	NA	NA
Formula	B	F	NA
Total or partial reimbursement of costs	C	G	K
Ad Hoc	D	H	NA

How Can Intergovernmental Transfers be Centralizing?

- No transparency in vertical sharing
- Ad hoc distributions
- Uncertainty and year-to-year changes
- Strict Conditions

How Can Intergovernmental Transfers be Decentralizing?

- Revenue adequacy
- Certainty
- Unconditional

Conditional Grants

- Address Externalities or State Priorities
- Distorts local choices
- Requires Monitoring

Bad Ideas

- Deficit grants
- Actual (vs) Potential expenditures, revenues
- Complicated Formula
- Ad Hoc allocations
- Failure to Monitor Outcomes
- Symmetry?

PRACTICES

- Traditional, Unitary countries (Philippines, Indonesia)
- Minimum Services (South Africa, Russia)
- Derivation Revenue Sharing, Earmarked Grants (China)
- Conditional Grants (delegation) (Colombia)
- Equalization Grants

Some Interesting Approaches to reforming State Level Grant Systems

- Address the urban financing gap with new taxes, and increase the vertical share for other local governments (Latin America, South Africa)
- Use significant delegation in the case of local government grants (Colombia). Is this consistent with fiscal decentralization?
- Mandate a pass-thru of central grants to sub-provincial governments (China). See also Brazil and Nigeria.
- Use more conditional or performance based grants (Africa and Mexico). Is this consistent with Fiscal Decentralization?

Some Closing Thoughts For SFCs

- Press for Urban Tax Reform, near self-sufficiency
- Urban and Rural programs need not be the same
- Avoid Complication, Avoid Social Engineering
- Monitor Impacts of Formulae and Provisions
- Do Conditional grants fit with a Fiscal Decentraliation Objective?
- Is Equalization Important?