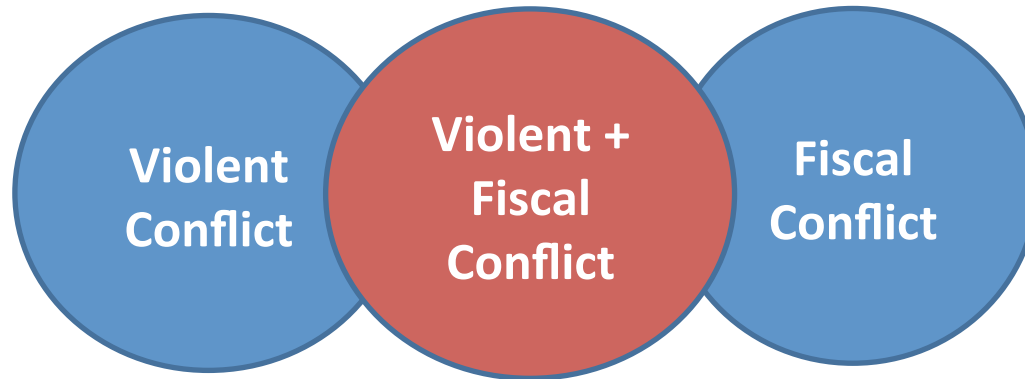


**Transfers in conflict and fragile
situations:
Glue or solvent?**

Jonas Frank, SDC
Pemba, June 2015

Intergovernmental relations in fragile and conflict situations

- Fiscal conflicts are a permanent feature of intergovernmental systems



- High hope in federal systems to handle conflicts
- Subnational elections are often not implemented
- Asymmetric systems
- Transitional arrangements

Transfer objectives: fragile and conflict situations

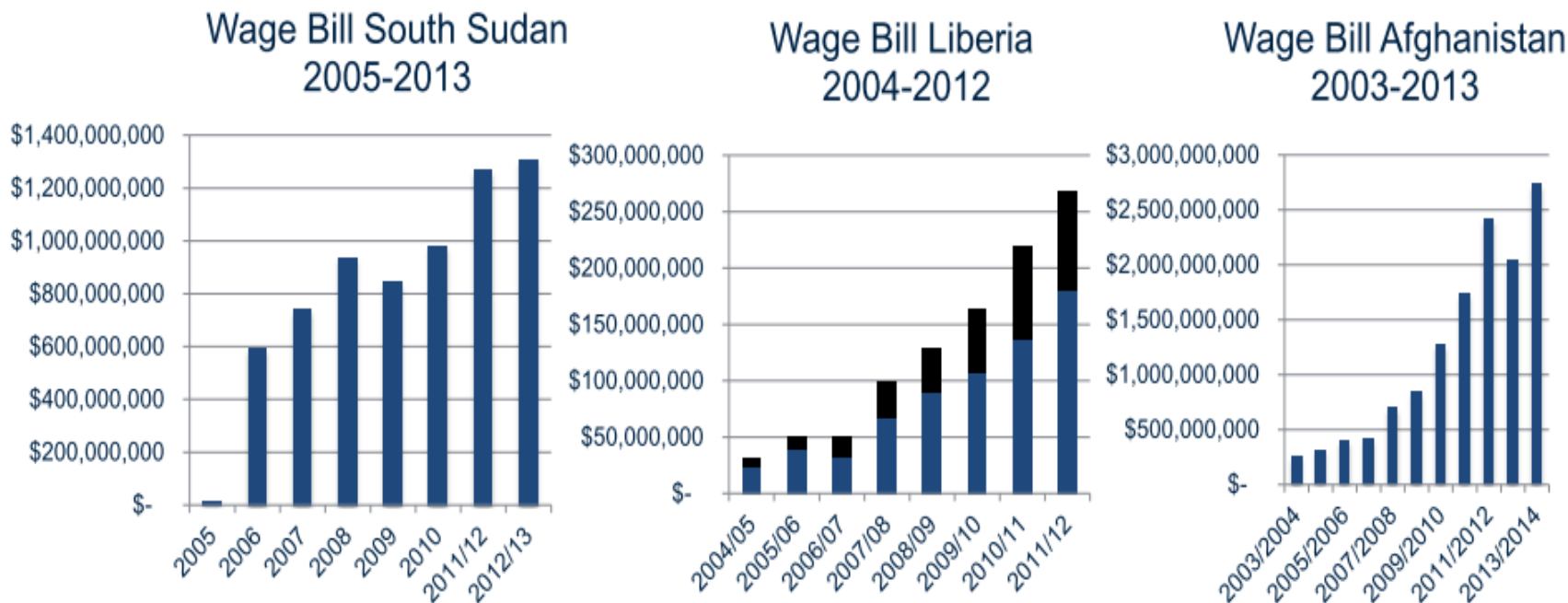
- **Fiscal appeasement: ensuring buy-in of important groups into peace settlements**
 - Revenue decisions lead – assignment of responsibilities of second and third order importance
 - Ensuring public employment – source of income of many citizens
- **“Union preserving” transfers:**
 - Buying-off intents of secession
 - Transfers to border regions – security criteria
- **“Mobility averting” transfers:**
 - Various groups share a country but prefer not to comingle: avoiding migration

«How-much-to-give» to each subnational government? And on what criteria?

- **Equal shares**
 - High inequity in per capita terms – unrelated to service delivery concerns
 - South Sudan
 - Initially, unconditional transfers based on equal shares among states
 - In recent years, phasing in of per capita criteria + conditional transfers ‘follow’ the number of staff on payroll
 - Other examples: Somalia, Bolivia
- **Derivation**
 - SNGs obtain share of tax amounts «collected» in a given territory
 - Democratic Republic of Congo
 - Does not account for horizontal flows across SNGs
 - Favors «richer» regions
- **Reconstruction needs**
 - Ambiguous – valid for ad-hoc investments but not formula (Iraq)
- **Natural resources**
 - Higher shares for «producing» regions

On what are resources spent?

- High share of military and security expenditures
- Increasing payroll cost – human resources managed in often disjointed responsibilities across levels of government
- Leaving little room to finance infrastructure and re-building of destroyed assets



Source: National Budgets. Data for General Government (Consolidated Central Govt + Armed Forces + Subnational Govt)

You are part of domestic resource bargains, so set priorities:

- Ensure that funds arrive at SNG level and that they are actually spent: PFM capacities
- Sharing of revenue/budgetary information generates trust
- Fiscal coordination mechanisms
- Do not recommend or directly finance resource distribution across SNGs before understanding stakeholder interest + historical context
 - The merit of equal shares - but reduce over time
- Provide guidance for evolving intergovernmental bargains:
 - Broad principles + time-bound agreements + exit options