

Index

- accountability mechanisms 83–4
- Africa and Asia, lower-income countries in 86
- Argentina 166, 173
- Arellano, M. 121, 183
 - and generalized method of moments (GMM) approach 385–6
- Asian Development Bank 103, 107, 121, 284
- Australia 25
 - Loan Council 177–8
- Australian Local Fiscal Sustainability report (PWC, 2006) 38–9
- Austria 8, 165, 173, 177
- Bangladesh 13, 67, 70–72, 73, 75, 78, 82, 86
- banks
 - and China Banking Regulatory Commission 240, 241
 - regional development (RDBs) 283–4, 290
 - specialized 171
 - see also* Asian Development Bank; World Bank
- Barrios, S. 23, 130, 134
- Belgium 165, 173, 175
 - High Council of Finance 178
- Bessho, S. 33, 306, 320, 321, 330, 354
- Blundell and Bond system estimator 140, 183
- Bohn model 355
- Bond, S. 121, 140, 183
 - and generalized method of moments (GMM) approach 385–6
- Brazil 17, 86, 105, 166, 173, 179
- Cambodia 6, 21, 67, 71, 73, 75, 86
 - decentralization as Cambodia People's Party strategy 75, 79
 - Hun Sen 79
- Canada 25, 105, 130–60, 173
- capacity building 56, 57, 87, 91
 - need for 51–2
- central and local government finance
 - in Japan, *see* Japan, local public finance system in
- Chakraborty, P. 46, 103, 105, 107, 121
- China, *see* People's Republic of China
- China Banking Regulatory Commission 240, 241
- corruption 83, 90, 182, 238, 254, 279, 303, 395–406
 - common determinants of 401–2
 - Corruption Perceptions Index 398
 - effects of decentralization on 402–3
 - credit agencies (Standard and Poor's; Moody's; Fitch) 169–70
- Das, P. 38, 371, 375, 378, 383
- debt–deficit
 - behavior 372
 - relationship 382, 383–4
 - spiral 383
- decentralization reforms 81, 84–5, 306, 330
- Denmark 25, 176, 177, 213
- Domar, E. 372, 380, 381
 - Domar's model 381–2, 392
- European Union 174–5
 - fiscal and debt rules of 287
 - Stability and Growth Pact 174, 177
- Fan, Z. 33, 223
- federalism, fiscal space, public investment spending 103–29
 - conclusions 120–21
 - econometric estimation 118–19
 - key fiscal indicators: the long-run trend 109–18

- spending inertia 119–20
 - see also* fiscal rules
- Finland 171, 214, 398
- fiscal equalization and subcentral government borrowing: Canada, Germany, Spain 130–60
- conclusions 156
- econometric analysis of
 - determinants of regional government borrowing with fiscal equalization 136–48
- fiscal decentralization and intergovernmental transfers 132–4
- fiscal equalization schemes 134–6
- policy implications 152–5
- results, discussion of 149–52
- fiscal federalism model 14
 - second 14
 - standard (Oates and Musgrave) 14
- fiscal rules 105–9
 - appropriate structure for 106–7
 - subnational, India 107–9
 - as useful? 105
 - and why they may not work 105–6
- Fitch (credit agency) 169–70
- forms of government decentralization and institutional quality 395–419
 - appendix 411–19
 - corruption, *see* corruption
 - data and empirical estimation 397–402
 - data 397–9
 - empirical estimation 399–400
 - results 402–5
 - additional considerations and robustness checks 403–5
 - effects of decentralization on corruption 402–3
 - effects of decentralization on the shadow economy 402
 - shadow economy 395, 396–7, 398, 402
 - determinants of 400–401
 - theoretical background to/relevant literature for 396–7
- frameworks for central–local government relations and fiscal sustainability 3–63
 - conclusions and policy implications 52–6
 - expenditure assignments 8–14
 - in Asia 9–12
 - issues in 12–14
 - theoretical foundations for 8–9
 - fiscal risks/mechanisms to maintain local government financial stability 38–52
 - fiscal risks at local government level 40–43
 - fiscal sustainability at local government level 38–9
 - managing fiscal risks 43–52
 - government decentralization in Asia 4–8
 - institutional barriers 6–8
 - local government size and complexity 4
 - intergovernmental transfer mechanisms 23–33
 - intergovernmental fiscal transfers in Asian economies 27–32
 - issues regarding transfers in Asia 32–3
 - theoretical foundations for 23–7
 - local government debt financing 33–8
 - instruments for 33–4
 - issues in local government borrowing in Asia 37–8
 - subnational borrowing in Asia 35–6
 - revenue assignments 14–22
 - in Asia 18–22
 - theoretical foundations for 14–18
- generalized method of moments (GMM) approach/estimator 140, 148, 183, 190, 363, 385–6; *see also* Arellano, M.; Bond, S.
- Germany 18, 130–60, 165, 166, 174, 175, 176
- global financial crisis (2008–09) 40, 108, 111, 113, 130, 134, 153, 213, 237, 239
- Goel, R.K. 395, 396, 406, 407, 416
- Helsinki Accord 277
- Hodrick–Prescott filter 137, 139, 355

- Im, Pesaran, and Shin (IPS) panel data unit root tests 357, 384
- India 4, 6–7, 9, 13, 17, 18, 21–2, 27, 32, 35–6, 38, 47, 67, 70–71, 75, 79, 86, 103
- debt dynamics, fiscal deficit and stability in government borrowing 371–94
- budget deficit, public debt, and economic growth 380–82
- empirical analysis: equations, studies and tests 382–8
- fiscal capacity, fiscal health and government borrowing 373–80
- summary and conclusions 388–9
- Fifth Pay Commission award 110
- Finance Commission 373
- fiscal reforms 373
- Fourteenth Finance Commission 86, 120–21
- intergovernmental system in 79
- legislation
- Fiscal Responsibility Act (FRA) 103–4, 108, 111–14, 118
 - incentive structure of 107
 - Fiscal Responsibility and Budget Management Act (FRBMA) 109, 111
- subnational fiscal rules in 107–9
- Thirteenth Finance Commission (2010) of 86, 103, 108–9, 111, 120
- Twelfth Finance Commission (2005) of 103–4, 107, 108, 111, 121, 376
- Indonesia 4, 7, 9, 13, 21, 22, 25, 27, 32, 33, 36, 47, 55, 67, 68, 73, 75
- decentralization 79
- government decentralization program 276–305
- conclusions 302–4
 - financing subnational governments 292–302
 - budget realization 300–302
 - equalization transfer 299
 - expenditure needs of local governments 295–7
 - horizontal imbalances of regional government 297–8
 - revenues of local governments, and legislation 292–5
 - village funds (*dana desa*) 299–300
- institutional setting 278–92
- administration of public sector's funds 290–92
 - debt financing 288–9
 - division of responsibilities between government levels 278–82
 - fiscal reforms 285–8
 - government finance 282–5
 - revenue sources for local governments 287–8
 - state-owned enterprises 289–90
- legislation and reforms 276–8
- Auditing Management of Accountability of State Finance (Law No. 15, 2004) 285, 290
 - Bank Indonesia (Law No. 23, 1999) 283
 - Concerning State Treasury (Law No. 1, 2004) 290
 - establishing province *Aceh Nangru Darussalam* (Law No. 11, 2006) 277–8
 - fiscal balance (Law No. 33, 2004) 294
 - Fiscal Balance Law (Law No. 25, 1999) 294
 - intergovernmental fiscal relationship (Law No. 25, 1999) 276, 302
 - local government (Law No. 22, 1999) 276, 277, 287, 302
 - local government rights to impose local taxes (Law No. 34, 2000) 293–4
 - splitting Papua into two provinces (Law No. 4, 2001) 277
 - State Finance (Law No. 17, 2003) 283, 286, 290
 - subnational government (Law No. 32, 2004) 277
- legislation, *see* Indonesia, government decentralization program

- Ministry of Finance 82
- Suharto regime and the 1990s' Asian economic crisis 79
- intergovernmental fiscal frameworks:
 - principles, realities and neglected issues 64–99
 - diversity of Asian experiences 67–77
 - essentials of the intergovernmental policy framework 70–71
 - fundamental intergovernmental structures 68–70
 - overview of 67–8
 - subnational government accountability 75–7
 - subnational government autonomy 73–5
 - subnational government fiscal empowerment 71–73
 - summary comments 77
- fiscal decentralization and intergovernmental relations 65–7
 - basics of 65–6
 - and commonly recognized challenges 66–7
- moving beyond the mainstream approach 88–91
 - looking forward 91
 - recapping dimensions of expanded thinking 88–90
 - implementation 90
 - institutional diversity 88–9
 - local political economy dynamics 90
 - national bureaucratic behavior 89–90
 - national political economy dynamics 89
 - policy fragmentation 89
- neglected considerations 78–88
 - central government bureaucracy 81–3
 - implementation 84–8
 - local political dynamics 83–4
 - national and intergovernmental political dynamics 78–81
- International Monetary Fund (IMF) assessment report of PRC economy 265
- definition of sustainable set of fiscal policies 162
- Italy 18, 156, 165
- Japan 4, 6, 7, 13, 18, 21, 22, 27, 35, 37, 38, 51–2, 399
 - central and local government finance 330–31
 - Law Relating to the Financial Soundness of Local Governments 51
 - local public finance system in 306–32
 - administrative system 307–10
 - borrowing 319–21
 - and Local Bond Program 319–20
 - concluding remarks 329–30
 - expenditures 311–14
 - fiscal adjustment of municipalities 321–9
 - ex post extraction of grants 325–6
 - 'flypaper effect' 325
 - framework 321–2
 - main results 322–4
 - responsiveness 324–5
 - typical examples: Kobe city and Onagawa town 327–9
 - volatility 326–7
 - intergovernmental transfers 314–19
 - central government subsidy 317
 - local allocation tax (LAT) grants 317–19
 - three interrelated factors 314–16
 - taxes 310–11
- Ministry of Internal Affairs and Communications 310
- Ministry of Health, Labour and Welfare 314
- Keynes, J.M. 373, 381
 - approach to public debt 372
 - multiplier effect 373
- Keynesian
 - argument 381
 - framework 381
 - New Keynesian model 394
 - paradigm 381

- Korea, Republic of 4, 6, 7, 9, 12, 13, 18, 21–2, 27, 32, 35, 37, 50
and local financial analysis and diagnosis (LFAD) 51
- Latin America (Chile, Columbia and Peru) 24, 86, 167, 173, 174, 176
legislation, *see* India; Indonesia; People's Republic of China
leviathan model 14
Levin, Lin and Chu (LLC) panel data unit root tests 356, 357, 384
Li, S. 250, 256
- Martínez-López, D. 23, 130, 155, 157
Martínez-Vazquez, J. 8, 9, 13, 22, 24, 32, 43, 44, 45, 92, 93, 161, 164, 213
- models
 Bohn 355
 Domar's 381–2, 392
 fiscal federalism 14
 leviathan 14
 New Keynesian 394
 public–private partnership (PPP) 248, 261, 267, 269–70, 273
 standard fiscal federalism (Oates and Musgrave) 14
 two-period (von Hagen and Harden) 105
- Moody's 169–70
Morgan, P.J. 3, 92, 93, 333
- Nasution, A. 12, 13, 20, 27, 31, 32, 33, 36, 276
National Audit Agency 353
New Keynesian model 394
- Organisation for Economic and Co-operation and Development (OECD) 155
countries/economies 35, 167, 312–13
- Pakistan 4, 7–8, 13, 22, 67, 68, 70–71, 73, 75, 78, 79–80, 82
People's Republic of China (PRC) 4, 7, 9, 12, 21, 22, 25, 27, 32, 35, 37, 38, 42, 250–75
 budget laws 239
 China Banking Regulatory Commission 240, 241
 fiscal risk of local government revenue 223–49
 conclusion 246
 impact of fiscal transfer 228–35
 government size 234–5
 infrastructure 229–34
 land finance, local government debt, fiscal transfer 235–46
 fiscal risk of finance 236–9
 intergovernmental transfers 241–3
 local government debt 239–41
 potential source of local revenue: property tax 243–6
 policy implications 246–8
 tax reform and evolution of fiscal transfer system 225–8
- Goldman Sachs analysis report on financing platform 240
key issues of central and local government finance 250–75
background of fiscal relations between central and local governments 250–51
current situations and problems that need to be addressed 254–5
evaluation of innovative initiatives to increase local government revenue 256–9
 innovative initiatives to increase fiscal revenue of local governments 256–9
 local government financial distress under tax-sharing fiscal system 256
fiscal stability and sustainability 264–7
 major factors influencing 264–5
 mechanisms to monitor and ensure 265–7
innovative approaches for infrastructure investment spending capability 267–71
influence of innovative financing channels 268
influence of tax allocation reform 267–8

- and public–private partnership (PPP) models 268, 269–70
- innovative financing models of
 - local government 259–64
 - local government bonds 260–61
 - pilot program of public–private partnership (PPP) project 261–2
 - transfer payments from central government 262–4
- legislation (PRC)
 - Budget Law (2014) 261, 268, 271
 - Regulations of People’s Republic of China on Environmental Protection Tax 259
 - Revised Provisional Regulations of People’s Republic of China on Resource Tax (2011) 258
- major recent reforms 251–4
- Ministry of Finance 241, 273
- policy implications and suggestions 271–3
- Regulations of People’s Republic of China on Environmental Protection Tax 259
- Revised Provisional Regulations of People’s Republic of China on Resource Tax (2011) 258
- Standing Committee of the National People’s Congress 273
- Philippines 4, 6, 7, 9, 12, 13, 14, 18, 21, 22, 27, 32, 33, 36, 47, 52, 67, 73, 75, 82
 - Marcos era in 80
 - Seal of Good Housekeeping and Performance Challenge Fund 86–7
- public–private partnership (PPP)
 - model 248, 261, 267, 269–70, 273
- Saunoris, J.W. 395, 406, 407, 416
- Smoke, P. 4, 6, 7, 8, 21, 37, 56, 64, 69, 72, 74, 77, 79, 91, 92, 93
- Spain 130–60, 165, 166, 173, 174, 175
- Sri Lanka 67, 73, 75, 82
 - decentralization of central power in 80
- Standard and Poor’s 169–70
- standard fiscal federalism model (Oates and Musgrave) 14
- studies
 - cash surplus holdings (Reserve Bank of India Study on State Finances, 2011–12) 120
 - foreign aid in 107 countries from 1970 to 2000 (Gupta et al.) 106
 - US data on strength of fiscal rules 105
- subnational borrowing regulations 161–219
 - conclusion 208–13
 - empirical analysis and findings 180–208
 - data on subnational borrowing regulations 180–81
 - determinant variables of subnational borrowing regulations 185–6
 - determinants of subnational borrowing regulations 184
 - empirical methodology 182–3
 - results of determinants of subnational borrowing regulations 186–90
 - results for general government fiscal performance 190–207
 - results for subnational government fiscal performance 207–8
 - in the international experience 168–79
 - ex ante regulations 168–78
 - administrative regulation 176–7
 - cooperative regulation 177–8
 - fiscal rules 173–6
 - market discipline 169–73
 - ex post regulations 178–9
 - central elements of 179
 - literature review
 - evidence from single country studies 167–8
 - fiscal decentralization, fiscal sustainability and macroeconomic stability 163–4
 - moral hazard 164
 - regulation of subnational borrowing and its effects 165–6

- supply and demand for borrowing 164–5
- Suharto, President 276, 283–4, 288; *see also* Indonesia, government decentralization program
- Switzerland 8, 173, 175–6, 398
- Thailand 4, 6, 7, 9, 12, 13, 18, 21, 22, 27, 32, 36, 47, 55
- Thirteenth Finance Commission Report 108–9, 120
 - recommendations 109
- Trinh, L.Q. 3, 92, 93, 333
- Twelfth Finance Commission Report (2004) 108, 121, 376
- two-period model (von Hagen and Harden, 1996) 105
- United Kingdom (UK) 174, 176–7
- United States (US) 50, 166, 171, 173, 174, 179, 307, 309, 325, 330, 399
 - Agency for International Development 284
 - definition of insolvency 50–51
- Viet Nam 4, 6, 7, 8, 12, 18, 21, 22, 27, 32, 35, 67, 73, 75
 - debt sustainability in Ho Chi Minh City 352
 - fiscal decentralization and local budget deficits 333–68
 - budget laws 334–6, 338–40, 348, 366
 - conclusions, policy implications and recommendations 366–7
 - empirical analysis of deficit sustainability in local governments 354–65
 - fiscal decentralization since 1975 334–6
 - fiscal sustainability in local governments 351–4
 - debt sustainability in Ho Chi Minh City 352
 - local development investment funds (LDIFs) 351–3
 - sources of contingent liabilities:
 - public financial funds (PFFs); local state-owned enterprises (SOEs); banking sector stress 351, 353
 - intergovernmental fiscal transfers 343–8
 - local government borrowing 348–50
 - local government system, four tiers of 333–4
 - modern fiscal decentralization 336–42
 - expenditure decentralization 336–9
 - revenue decentralization 339–42
 - Public Debt Management Law (2009) 348
 - State Budget Law (1996) 333
 - local administrations in 80
 - Ministry of Finance 335, 342, 346, 348, 354, 355
 - Ministry of Planning and Investment 346
 - National Assembly 335
 - Public Debt Management Law (2009) 348
 - State Budget Law (2004) 9
 - tiers of government in 334
 - Vietnamese Communist Party (VCP) in 75, 80–81
 - see also* World Bank
- Vulovic, V. 43, 44, 45, 161, 213
- Wan, G. 33, 223
- World Bank 103, 107, 284, 336, 350, 352, 353, 354
 - and contingent liabilities in Viet Nam (2014) 351
 - review on adjustment lending 106
- Yoshino, N. 288
- Zhang, Q. 250, 256

