

Local Public Finance in China: Expenditure Responsibilities of Local Governments

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December 2006

Overview

Expenditure responsibilities in China are highly decentralized. *The Budget Law* confers substantial autonomy to each level of sub-national government and quite broad expenditure responsibilities. However, expenditure assignments are far from being transparent and clear, mostly because of the presence of extensive concurrent expenditure responsibilities among different levels of government. This overwhelming presence of concurrent responsibilities can be traced back to the planned economy era when it was not considered necessary to separate the responsibilities of different spheres of government as providers of public services (local governments acted as agents of the central government - only carrying out assigned tasks), nor was it considered necessary to separate the expenditure responsibilities of governments from those of SOEs. The latter was due to the cohesive functions of the government in both the public and private sectors; in fact, fiscal expenditures and the expenses of the SOEs were jointly determined by government before middle of 1980s.

Extensive government responsibilities: differentiating between private and public sector activities

The market-oriented economic reforms that started in China in the late 1970s to a large extent contribute to separate SOEs from the government sector. During the process of transition from the planned economy to market economy, government gradually relied more heavily on market mechanisms and gave up direct intervention in the private sector. As part of the reform process toward a market economy, China's government started in the 1990s to build a framework of public finance which, among other things, tried to narrow down the responsibilities of government to what is more conventionally understood as public services.

However, government's expenditure responsibilities are still very wide. Currently, a significant number of enterprises are still owned (or belong) to governments at different levels, and there is still a variety of channels through which governments can directly or indirectly encroach into private sector activities through their SOEs.

The low level of development of laws regulating and restricting the behavior of governments and government officials still allows for high levels of administrative discretion. In particular, as governments at all levels have a formal responsibility for providing economic development and macro-economic management, they feel entitled to encroach into private sectors at will. Thus, currently China is still in the process of clearly differentiating between private and public sector activities and aligning the responsibilities of the government sector to fit the development of the market economy.

Highly decentralized responsibilities for basic public services with wide concurrent expenditure responsibilities in the public sector

Fiscal decentralization reforms provided local governments with significant local autonomy on various aspects such as the determination of their own spending priorities and the policies on relevant aspects of local budgets. However, there was no apparent change both in policy and practice in expenditure assignment between the central government and local governments and among sub-provincial governments from the times prior to the initiation of the market-oriented reforms. More specifically, the 1994 TSS reform restated the pre-reform expenditure assignment and provided only basic guidelines to define expenditure responsibilities between central or local governments. For example, *The State Council Regulations on the Implementation of the TSS* defined expenditure responsibilities of central and local governments as follows:

Central budgets are mainly responsible for national security, international affairs, the running costs of the central government, the needs for adjusting the structure of national economy, coordinating regional development, adjusting and controlling the macro economy, and others. Detail items include: national defense, cost of military police, international affairs and foreign aid, administration costs of the central government, central financed capital investments, the technical renovation of central enterprises and new product development costs, the costs of support to agriculture, debt, and the costs of central culture, education, and health, price subsidies and other expenditures.

Local budgets are mainly responsible for the running costs of local government, and the needs for local social economic development. Detail items include: running costs of local government, the needs of local economic development, a part of the running costs of the military police and militia, locally financed capital investments, the technical renovation of local enterprises and new product development costs, the costs of support to agriculture, urban maintenance and construction, and the costs of local culture, education, and health, price subsidies and other expenditures.

These guidelines illustrate that both the central government and local governments not only have very extensive expenditure responsibilities, but that these responsibilities are widely overlapping and very vague. The lack of clarity in expenditure assignments can lead to inefficiencies because of the over-provision of services in some cases and the under-provision in some other cases. The lack of clarity in expenditure assignments also detracts from public officials' accountability to residents, as officials at some government level can always blame officials at other levels for any deficiencies and inadequacies in service provision. Lack of clarity also tends to lead to frictions in intergovernmental relations and open opportunities for poor budgetary relations, such as unfunded mandates.

Clarity in expenditure assignments is generally enhanced through the assignment of exclusive (as opposed to overlapping) responsibilities at different levels of government. Fundamentally, in China exclusive responsibilities at the central and sub-national levels are few and far between; while the central government tends to be exclusively

responsible on national defense issues, local governments provide basically all local public services, such as urban maintenance and construction expenditures.

Concurrent or overlapping expenditures responsibilities among different levels of government may be unavoidable and even in some cases desirable (for example, if there are comparative advantages for some attributes of a service at different levels of government). However, in the case of concurrent responsibilities clarity can be considerably enhanced when different levels of government are assigned explicit responsibilities for each of the attributes in the provision of the service, including norms and regulations, financing, and actual implementation. The current assignment of expenditure responsibilities between the central and provincial governments in China is clearly deficient in this respect.

What muddles expenditure assignments further in China is that there are no explicit formal assignments below the province level. The expenditure assignment for sub-provincial governments is at the discretion of the provincial government. To improve the expenditure at the sub-provincial government level, the central government announced “*Suggestions on Improving Sub-provincial Fiscal Relations*,” issued by the Ministry of Finance in December 2002, with the objective of providing further guidelines on sub-provincial expenditure assignment.

Although all sub-national governments at different levels have many overlapping expenditure responsibilities, in practice the main responsibilities for some basic public services such as basic education and health care are concentrated at the county and below levels of governments, while some other public services such as social security are concentrated at the provincial and prefecture levels of governments. In the paragraphs below we discuss in more detail some of these assignments.

(a). Education. Fundamentally, education is mainly the responsibility of sub-national governments. Education services can be divided into basic education, higher education and vocational education. Vocational education has been mostly left to private market institutions in China.¹ For basic education, the role of the central government is that of the policy-maker and overall planner. In addition, the central government has responsibilities for setting up special education funds for subsidizing basic education in poor, minority areas and teachers’ (or normal) education. The provincial government has the overall responsibility for formulating the development plan for basic education and providing assistance to counties to help them meet recurrent expenditures in education. The responsibility for actually implementing compulsory education programs, including financing basic education, lies with the cities or districts of large cities in the case of urban areas, and with counties in the case of rural areas.

The provision of basic education services in rural areas is one of the major current concerns for the central government because of the generally worse service conditions, especially in poor rural areas. Some new initiatives, especially the *Decision of*

¹ See the Implementation Suggestions of the State Council on the Guidelines for the Reform and Development of Education in China issued in July 1994.

Strengthening Rural Education, issued by the State Council in September 2003 expanded the expenditure responsibilities of the central government on basic education. This basic service was defined as a shared responsibility with the goal of supporting students from poor families by waiving their textbook, tuition, and miscellaneous fees, and by subsidizing housing expenditures for elementary and secondary education students. The central government as well as sub-national governments started setting up special funds for the support of this program in 2003. All students who meet the requirements of the poverty standard are supposed to enjoy the listed benefits by 2006.

The assignment of expenditure responsibilities for higher education differs from that of basic education. In general, private institutions of higher education in China are few and they account for a very small portion of these services; private institutions tend to concentrate on vocational training. Public higher education institutions are divided into two groups: one belongs to the central government, and the other belongs to sub-national governments; thus, expenditure responsibilities for higher education are shared between the central government and the provincial governments. The central government has responsibility for the plan of national development of higher education, and provides direct support to the higher education organizations which belong to the central government. The provincial governments have responsibility for the plans of provincial development of higher education, and support the higher education institutions that belong to the provincial government.

(b). Health care. The central government has continued to commit to its responsibilities for public health care, and it requires that public spending on health care of both central government and sub-national governments needs to increase at a higher growth rate than that of general budgetary expenditures.² In practice, the responsibilities for public health care are concentrated at the sub-national level, particularly at the county and below levels of government.

The major concern of the central government about health care in China is the actual coverage of rural health care. The *Decision to Strengthen Rural Health Care* issued by the central government in October 2002 provided detailed responsibilities for the provision of rural health care services among different levels of governments. The central government now has the responsibility for designing the overall plan for rural public health care, the provincial government has responsibility for planning its implementation, and the county (city) governments take the overall responsibility for rural public health care delivery. In addition, the central government has the responsibility of subsidizing programs for the prevention and control of infectious disease, endemic diseases, occupational diseases and so on, in poorer areas; provincial governments have responsibility for subsidizing health programs of county (city) governments and to pay for the costs of planned immunity vaccinations; and county (city) governments have responsibility for the delivery of all rural public health services.

² See Decision on Public Health Reform and Development by the Central government issued in January 1997.

The new initiative of building a new rural collaborative health care system got started in January 2003, and it expanded the responsibilities of both the central government and local governments regarding health care. It established, among other measures, that from 2003 on, the central government should pay US\$ 1.2 a year for each rural resident in the central and western regions who joins the rural collaborative health care system. Meanwhile, sub-national governments need to pay no less than US\$ 1.2 a year in total for each rural resident who joins the rural collaborative health care system, leaving it to the discretion of provincial governments to arrange the sharing into this contribution among the different sub-national levels.

(c). Social security. Social security is mainly the responsibility of sub-national governments. The main component of current social security expenditure is the minimal living standard paid to urban dwellers. For this reason, the expenditure responsibilities in this area are more concentrated at the provincial and prefecture levels, and less responsibility at the county and below levels of governments where the vast majority of the population are rural residents, who have much less coverage under the social security system.

(d). Capital investment on infrastructure. The assignment of expenditure responsibilities on economic development shows mixed patterns in China. Capital investment in infrastructure is the shared responsibility of the central government and sub-national governments, both levels playing equally important roles. Among sub-national governments, the higher the level of government, the more the responsibilities.

(e). Agriculture development. The responsibility for agriculture development is mainly placed at the sub-national level. We must stress that agriculture development is one of the most important tasks of China's government because currently over 60 percent of the population in the country are rural residents. In general, local governments at or above the county level are responsible for the relevant agricultural development and the extension services. Local governments at and above county level are responsible for establishing special agricultural funds for agricultural development, forest cultivation, and construction of special projects such as water conservancy facilities, and for the steady increase of expenditures on agricultural science, technology, and agricultural education to promote agricultural development. Meanwhile, the central government is responsible for the nationwide agricultural works and the relevant nationwide works in the service of agricultural production and operation. In particular, the central government is committed to increasing its overall input to agriculture development, and the growing rate of the annual overall expenditures on agriculture by the national finance should be higher than that of regular national revenues.³ However, in practice local governments, particularly at the county and below levels, take on the main responsibilities for agricultural development.

The actual division of the main expenditure responsibilities among the different levels of government is summarized in table 2.1.

³ See Agriculture Law of the People's Republic of China issued July 1993

Table 2.1 Actual division of main expenditure responsibilities: 2003

	Central	Provincial	Prefecture	County and under
Total	30	18	22	30
Capital Investment	44	23	22	11
Agriculture Expenditure	12	46	11	30
Education	8	15	18	60
Scientific Research	63	23	9	5
Health Care	3	22	32	43
Social Security	11	39	32	18
Government Administration	19	11	22	48
Expenditure for Public Security Agency, Procuratorial Agency and Court of Justice	5	25	34	35
National Defense	99	1	0	0
Foreign Affair	87	13	0	0
Foreign Aid	100	0	0	0
Others	29	16	25	31

Source: China Statistical Yearbook and MOF.

It is worth noting that traditionally expenditure at the sub-provincial government in China has followed a pattern that first meets current spending needs. Currently, the predominant expenditure pattern at the county level poorer areas is still regarded as “*feeding finance*” (Chi Fan Cai Zheng) or just meeting government administration costs. The relative shares of components in total expenditure for government at different levels are shown in figure 2.1.

Figure 2.1. The relative share of components in total expenditure for government at different levels

Central	Provincial	Prefecture	County and below
● National Defenses	● Capital Investment		
● Capital Investment	● Agriculture Expenditure	● Capital Investment	● Education
● Government Administration	● Social Security	● Education	● Government Administration
● Education	● Education	● Government Administration	● Expenditure for Public Security Agency, Procuratorial Agency and Court of Justice
● Scientific Research	● Expenditure for Public Security Agency, Procuratorial Agency and Court of Justice	● Expenditure for Public Security Agency, Procuratorial Agency and Court of Justice	● Capital Investment
● Social Security	● Government Administration	● Social Security	● Agriculture Expenditure
● Agriculture Expenditure	● Health Care	● Health Care	● Health Care
● Expenditure for Public Security Agency, Procuratorial Agency and Court of Justice	● Scientific Research	● Agriculture Expenditure	● Social Security
● Foreign Affair	● National Defenses	● Scientific Research	● Scientific Research
● Foreign Aid	● Foreign Affair		

- Health Care

Source: authors' computations

The main expenditure components for most of county-level governments are salaries of civil servants and elementary and secondary public school teachers. These expenses always take priority over other outlays but they have been difficult to meet for some county governments in the central and western regions. Typically, sub-national government use simple rules to prioritize expenditures. An example of these rules is shown in Box 2.1.

Box 2.1 Rules for prioritizing spending in Nanning City

Nanning city in Guangxi province uses the following rules to prioritize expenditures:

1. Guaranteed spending (what takes priority)
 - i. administration spending of local governments, local public security agency, procuratorial agency, and court of justice; education and scientific research spending; social security expenditure;
 - ii. City maintenance; extra-educational expenditure; supporting agriculture production; agriculture comprehensive development; supporting less developed areas.
2. Conditional spending (if additional funds are available)
 - i. Administrative fee for less important departments; health care; these categories should be discounted at 90 percent of the expenditures planned.
 - ii. Capital investment; this category should be discounted at 80 percent of the expenditures planned.
 - iii. Innovation and science & technology promotion of local SOEs; these categories should be discount as 70 percent of expenditures planned.

Source: Nanning government, Document 15 of 2003

Although there are significant regional disparities in fiscal resources, there tend to be marked similarities in expenditure structure across sub-national governments. For example, in the case of townships, a significant feature is that the expenditures of government administration count for a high percentage in total expenditure, and expenditures on administrative personnel account for 50-70 percent of total expenditure in some townships, while expenditures on public services are generally low. Another feature is the high relative importance of expenditures on public relations, in particular for guest expenditures, in both rich and poor townships.

Box. 2.2. The allocation of expenditures in the Shuang Qiao townships in 2004

Total fiscal expenditure of Shuang Qiao township was 1.46 million Yuan in 2004. The total expenditures were allocated as the follows:

Expenditure Items	Amount (in thousand)	As % of total
Agriculture	291	19.9
Culture, sports development and broadcasting	23.3	1.6
Health care	32	2.2
Government Administration	504	34.5
Other administration	512	35.1
court and justice	3	0.2
Other	94	6.4

Source: Field investigation in Guangxi

Hierarchical expenditure managing model

Fiscal decentralization reform over the last two decades has contributed significantly to improving local autonomy. In particular, nowadays each sub-national government has its own budget. Practically speaking, the budget of each government includes its own budget and the consolidated budget. This consolidated budget of any government includes its own budget and all consolidated budgets of the governments at the next lower level. For the lowest government, for the township government, the own budget is equivalent to the consolidated budget. The government budget at each level is approved by the people's congress at that level; the people's congress at each government level also checks the consolidated budget. The approved own budget of a sub-national government is submitted to the upper government, and so on to the MOF for the record and for the compilation of the upper level government's consolidated budget and eventually the national consolidated budget. The national budgets are the last to be approved.

Local residents' input into the shape and content of local expenditure budgets is limited. Instead, local expenditure management is conducted mostly through the bureaucratic hierarchy, and budget management through the bureaucratic hierarchy is still common practice. The legal system framing China's fiscal decentralization process gives the provincial governments discretion to determine budget management for all sub-provincial governments. At the same time, the central government has also increasingly provided guidelines for local expenditure management. *The State Council Regulations on the Implementation of the TSS* in 1994 reform required provincial governments to define the expenditure responsibilities for sub-provincial governments. *The Suggestions on Improving the Fiscal Management System in Counties and Townships Experimenting with Rural Tax-Fee Reform* by MOF in August 2000 required that: (a). a clear definition of expenditure responsibilities between the county and township governments; (b). the

improvement of the structure of township government, and strict control of the quota of township employees; (c). the monitoring of fiscal risks of county and township governments. *The Notice about Eliminating Fiscal Difficulties of County and Township Government* by MOF in 2005 tried to build a monitoring and expenditure performance system.

Currently there are two types of sub-provincial fiscal management systems in China:

(1) The “province-managing-county” (or bifurcated) model in which the provincial government directly (and separately) manages the cities (prefectures) and counties. In this model there are direct intergovernmental relations between the provincial government and the city (prefecture) government, and separately between the provincial government and the county government in revenue assignments, expenditure assignments, intergovernmental transfers, special subsidies, final account subsidy, borrowing and adjustment of budgetary funds, and so on. The particularity of this model is that there is no fiscal relationship between the city (prefecture) government and the county government. This type of model is followed in Zhejiang, Anhui, Hubei, Hailongjiang, Fujian, Hainan, and Ningxia provinces plus in Beijing, Shanghai, Tianjin, and Chongqing, the 4 provincial level cities, and Dalian, Qingdao, Shenzhen, Xiamen, and Ningbo, the 5 separately planned cities, where no prefecture government exist.

(2) The “city (prefecture)- managing-county” (or hierarchical) model in which there are direct intergovernmental fiscal relations between the provincial government and the city (prefecture) government and there is no direct fiscal relationship between the provincial government and county level government. The rest of the provinces (other than those listed above under the “province-managing-county” approach) follow this model.

The central government appears to favor the “province-managing-county” model (Zhang, 2005). At lower-levels, the central government also appears to encourage a “county-managing-township” model in poor jurisdictions. Under this model, township fiscal expenditures are managed by the county government.

Wide administrative autonomy for local expenditure decisions

Although decentralization provided sub-national governments with significant autonomy, sub-national government officials still practice “administrative autonomy” to increase their effective autonomy and go beyond the confines and constraints imposed by the local budget and related regulations. In general, the management of funds is through a “distributive model,” whereby various government agencies and divisions of the finance department make their own expenditure decisions, and some of them may not be included in the budget.

One manifestation of the “administrative autonomy” at the sub-national government is the use and prevalence of extra-budgetary funds at the sub-national level. Quite importantly, a significant portion of sub-national government expenditures do not go through the regular budget channels. Fundamentally, extra-budgetary expenditure do not differ that much from ordinary budgetary expenditures. As shown in table 2.4, the largest

share of extra-budgetary funds is spent on government administration, 63 percent for 2002. Other uses of extra-budgetary funds overlap considerably with those of ordinary budgetary funds.

Table 2.4 Extra-budgetary Items: 1996-2002
(in billion Yuan)

Year		1996	1997	1998	1999	2000	2001	2002
Total		383.83	268.55	291.83	313.91	352.9	385	383.1
Capital	Volume	149.02	50.2	39.4	42.62	35	26	42.62
Construction	%	38.83	18.69	13.5	12.08	9.09	6.79	12.08
Special	Volume	30.73	31.16	42.36	0	0.00	0.00	0
Expenditure	%	8.01	11.6	14.52	0	0.00	0.00	0
Public	Volume	125.44	128.02	158.83	222.51	250.00	265.50	222.51
Administration	%	32.68	47.67	54.42	63.05	64.94	69.30	63.05
City	Volume	0	0	0	14.64	15.00	16.00	14.64
Maintenance	%	0	0	0	4.15	3.90	4.18	4.15
Township	Volume	13.64	28.87	33.53	38.74	40.00	26.80	38.74
Expense	%	3.55	10.75	11.49	10.98	10.39	7.00	10.98
Others	Volume	65.01	30.3	17.72	34.4	45.00	48.80	34.4
	%	16.94	11.28	6.07	9.75	11.69	12.74	9.75

Source: China Statistic Yearbook, various years

As the central government took various measures to transform its extra-budgetary expenditures into budgetary expenditures, extra-budgetary funds at the central government level have decreased dramatically. In contrast, extra-budgetary expenditures still play a very important role at the sub-national level, despite the central government long-time efforts to reduce their use and importance and transform extra-budgetary funds into ordinary budgetary funds. Actually, the ratio of extra-budgetary to budgetary expenditure is still around one fourth in 2002. Table 2.5 shows extra-budgetary and budgetary expenditures for local government over the period 1985-2002. The evolution of extra-budgetary funds is discussed in the appendix to this paper by Li Zhang.

Table 2.5 Extra-budgetary and Budgetary Expenditure for Consolidated Local Government: 1985-2002

(in Billion Yuan)

Year	Budgetary	Extra-budgetary	The Ratio of Extra-budgetary to Budgetary Expenditure
1985	120.9	81.298	67.24
1990	207.912	166.937	80.29
1991	229.581	182.899	79.67
1992	257.176	205.709	79.99
1993	333.024	111.543	33.49
1994	403.819	148.537	36.78
1995	482.833	197.988	41.01
1996	578.628	280.34	48.45
1997	670.106	254.163	37.93
1998	767.258	277.857	36.21
1999	903.534	297.432	32.92

2000	1036.665	331.828	32.01
2001	1313.456	359.187	27.35
2002	1528.145	357.200	23.37

Source: China statistic yearbook 2004

Another manifestation of “administrative autonomy” has been the use of the so-called “illegal fees” by sub-national governments, in particular rural taxes and surcharges. This type of revenue source had been particularly important in township government budgets. These funds, of course, lack transparency; for example, there is no formal definition or statistics about rural fee charges. However, the amount can be roughly estimated by the tax and surcharges directly by farmers because of the revenue-driven attribute of these expenditures. In 2001, total rural tax and surcharges amounted to more than 120 billion Yuan.⁴ Because the sources of funds lack transparency, it is also assumed that the uses of funds may be less efficient than in the case of regular budget resources. But there are no data to validate these conjectures.

One factor that has facilitated the broad use of “administrative discretion” in China has been the relatively weak institutions of budget execution and ex-post budget audit and control. Although the National People’s Congress is authorized to approve the budget, the execution of the budget until recently has not been strictly monitored in China. The State Council issues both the fiscal discipline and fiscal policy regulations, but most of the time fiscal policy issues are more emphasized. Currently, the Audit Bureau, a department under the State Council, is authorized to audit government accounts and impose fiscal discipline; also all sub-national governments except township government have their own audit bureaus.

In recent years the central government has taken significant steps to improve expenditure management processes. Some of these main measures include the following:

- a. The creation of *budgeting departments*, by which each government agency or public service unit has a single budget which combines all budgetary and extra-budgetary funds together.
- b. The *introduction of a treasury system and the centralization of payment administration*, by which all expenditure funds for each government are controlled in a single account of the central bank with payments going directly to the sellers or service providers (and the elimination of all other accounts at commercial banks and of extra-budgetary account) This reform started in 2001 with the *Notice on Issues of Fiscal Treasury Management Reform* by the State Council and *Experimental Methods on Fiscal Treasury Management Reform* by MOF and the Central Bank in 2001.
- c. *Standardizing governmental purchasing*, by which all government purchasing of products, projects and services over a defined amount should go through standard tendering procedures. Until 2003, the year for which we have the most recent data, these

⁴ Press Conference of Premier Zhu Rongji in the Fourth session of the Ninth National People's Congress, People's Daily, March 16, 2001.

procedures had not caught up very markedly. Table 2.6 shows the amount and percentage of standardized government purchases from 1998-2003.

Table 2.6 Standardized government purchases from 1998-2003

Year	Standard Government Purchasing	Total Government expenditure	As % Total
1998	31	10798.2	0.3
1999	130	13187.7	1.0
2000	328	15886.5	2.1
2001	653	18902.6	3.5
2002	1,009	22053.2	4.6
2003	1,500	24650.0	6.1

These measures have restrained, to some extent, the administrative discretion of local governments. However, fundamental problems, such as the wide use of extra-budgetary funds, still remain; it is fair to say that sub-national governments are still actively pursuing administrative autonomy within the limited existing legislative autonomy.

The existence of a soft-budget constraint in China

Currently, there are several forms of a soft-budget constraint in China. One manifestation of a soft-budget constraint is in the dealings between SOEs and government; some SOEs are generally less competitive and rely heavily on government to survive. For example, in 2003, government spent 2 percent of total revenues to compensate for the losses originating in SOEs. Although this support is the cause of important distortions in many cases, government cannot abandon these SOEs in the short term because of the potential social problems associated with the massive unemployment of SOE employees; currently 27 percent of total labor in the country is hired by SOEs. A typical approach in the past to deal with this issue has been more government investment to improve the competitiveness of SOEs. However, direct bailout and a soft budget constraint has become more of an issue. These problems are likely to continue as long as government does not change the whole strategy on SOEs.

According to China's 1994 Budget Law, sub-national governments are forbidden from borrowing on the capital market except with special approval from the central government.⁵ However, as we have already discussed above, sub-national governments can effectively borrow through SOEs. These SOEs, which depend on various kinds of government subsidies and are often regarded as de facto government agencies, can and do borrow from banks and on the capital market. In fact, it is the case that sub-national governments create such SOEs for borrowing purposes to finance particular projects.

⁵ Borrowing from the central government is quite significant. Sub-national governments' debt with the central government was estimated at US\$1.2 billion in 2005, representing 12 percent of total government debt in that year.

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