

LOCAL GOVERNMENT BORROWING
IN INDONESIA : PREVIOUS EXPERIENCES
AND ISSUES ON THE MANAGEMENT
OF FOREIGN LOANS TO THE REGIONS

Armida S. Alisjahbana

Abstract

Until now, local government borrowing has been an underutilized form of regional government expenditure financing due to heavy reliance on transfers from central government. Fiscal decentralization has changed the nature of central-regional fiscal relationship. Including the opportunity to finance regional capital investment through borrowing. This article attempts to highlight lessons learned from previous experiences and arrangements of local government borrowing in Indonesia. This is important to shed light on the mechanism through which regions receive finding indirectly from foreign sources, and how they had been or had not been borrowing in a direct manner under the system. Another objective of this article is to describe the current regulation on the management of local borrowing from foreign sources and issues arising from such an arrangement. This article concludes with several important aspects related to local borrowing. And in particular on the specific issues arising from the arrangement of local borrowing from foreign sources.

Introduction

Regional autonomy and fiscal decentralization started in January 2001 in principle has developed provision of most public good and services to the local level, on the fiscal side. Law 25/1999 on fiscal balance with its ensuing government regulations have laid the foundation for a new central and regional (local) Fiscal relationship. The law stipulates that Provinces/District revenues to implement decentralization function shall consist of Own revenue: Shared revenue (tax and. Non-tax) : General Allocation Fund or DAU : Specific Allocation Fund or DAK : Provincial/Local government borrowing and Other revenues.

Despite the new fiscal relationship between centre and the regions, most of provincial/district revenues sources will still come through central transfer in the form of shared revenues and general allocation fund. With the change nature of central and regional fiscal relationship, regional development expenditures that were formerly mostly financed through DIP-APBN, from now onwards has to be undertaken through APBD financing is still an underutilized source of regional local government expenditure financing in Indonesia. One estimates has put it less than 5% of total regional government expenditure financing (Shah, et.al, 1994). The small scale of local borrowing. Is in part a reflection of a system of local government loan finance which is only at its early stage of development and the fact that a sizable proportion of local financing needs. Including its capital investment were being met from central fund.

Local government borrowing has some potential advantages as a means for financing part of local government development spending needs. In the case of local public investment project (such as infrastructure investment) with benefits that extend to a number of years in the future, it is fair and efficient that the cost of financing of such project to be spread out to the future as well. Borrowing has another advantage as a way to finance large capital outlays without large, and undesirable variations in local tax rate and charges from year to year. In the case of Indonesia, where local public investment had predominantly been financed from central spending, a greater use of loan financing may serve as an incentive for improved cost recovery through user charges.

Fiscal decentralization that started in January 2001 has opened up the opportunity for local government to tap various borrowing sources to finance its local investment financing needs. Government has issued Regulation on Local Government Borrowing through PP 107/2000 effective since November 2000 specifying source and type of borrowing, utilization of borrowing funds, conditions, procedure and repayment of local borrowing. For local loan originating from foreign sources, there is the Minister of Finance Decree 35/KMK.07/2003 that regulates the “On-leading and On-grating of Foreign Loans to Regions”.

Although the issues of local borrowing are of utmost importance in the era of decentralization. The objectives of this article are more modest. Following this introduction, this article looks at previous arrangement and experiences of local borrowing in Indonesia prior to decentralization prior to the year 2001). This is important to shed light on the mechanism through which region receive funding indirectly from foreign sources, and how they had been or had not been borrowing in a direct manner under the system. In the third section, this article describes the current regulation on the management of local borrowing from foreign sources and issues arising from such an arrangement. Finally, this article concludes with several important aspects related to local borrowing, and in particular on the specific issues arising from the arrangement of local borrowing from foreign sources.

Previous Arrangement and Experiences of Local Borrowing

The Role of Local Government Borrowing

Borrowing is an underutilized source of financing regional government development spending in Indonesia, accounting for less than 5% of the total. Local government borrowing has been predominantly through the Central Government. Much of it to finance urban water supply projects. The small scale of local borrowing and the negligible use of loans from commercial source, is in part reflection of the local government’s weak revenue based. In part it reflects a system finance with the bulk of the local financing needs being met from grants, and in itself has been a factor in keeping local own-revenue mobilization low by providing weak incentives for cost recovery.

Historically, local government hardly borrow to finance for their development purposes, accounting for about 0,4 percent of GDP in 1999 with a total disbursed amount of Rp. 4,6 trillion through the regional Development Accounting (RDA) and Subsidiary Loan Agreement (SLA). Most. Cited other countries example of regional governments and enterprises debt amounts to GDP are 4,0% in South Africa, 4,9% in Mexico 18,8% Brazil, and 20% in Colombia.

There are several reasons why loan finance has been so little used by local government in Indonesia:

1. Firstly, regional governments in Indonesia have, in the past, borrowed very little and have tended to rely on (or been forced to rely on) direct central government investment (DIPs) or on intergovernmental transfer (INPRES, now DAU) for public capital development rather than on

borrowing. The low reliance on borrowed funds can also be seen in its very low proportion of regional government revenue, for example in provinces budget.

2. *Secondly*, it has been the policy of Central Government to restrict borrowing by local authorities by means of a balanced budget requirement. This requirement in effect precludes deficit financing, although it does not mean to preclude borrowing. However, there is also the prohibition for local governments to issue their own bonds or incur open-ended overdrafts with the bank.
3. *Thirdly*, local governments themselves opted for a very cautious attitude to borrowing. Local governments would consider loan finance only for directly revenue-generating projects with assured yield.
4. *Fourthly*, capital market development has not yet been adequate to accommodate local government demand for borrowed funds. Virtually all long-term loan finance comes either from donor agencies (via Central Government). Or from Central Government itself. For short term cash flow problems it is possible to be handled by the local governments bank, but only to very limited extent.

Uses of Loans

The use of loans have been largely to finance urban development projects for the following reasons. The first consideration relates to cost recovery nature of urban sector projects out of which loan payment is possible. Another reason is the relative strong position of urban areas local revenues out of which loan payments can be made. Foreign donor have poured their loan money to urban infrastructure finance due to their commitment, and cost recovery nature of the project.

Urban sector projects that have received loans are in the water sector, road construction, drainage, sewerage and sanitation, solid waste system, and kampong improvement. Other projects that have utilized loan finance were markets and PD Kebersihan.

The Regional Development Account

The major reform of the local borrowing system begun with the establishment of Regional Development Account (RDA) in 1988. The 1988 reform was intended to place local government borrowing on a sounder footing, by standardizing the loan terms and conditions.

The establishment of revolving loans account known as Regional Development Account (RDA) has consolidated into one channel several disparate central loan schemes, characterized by narrow earmarking and varying terms, that existed previously, local borrowing from central government funded by domestic sources are now implemented through a unified pool subject to uniform terms and rules of access.

The terms and conditions of central government-sponsored SLA and RDA/RDI loans have subsidized regional government and enterprise borrowing to a rather large extent. Interest rates have been consistently well below those offered by the private sector and grace periods and maturities have been significantly longer. Nominal interest rate on SLA loans, for example, had been varied in the range of 0%, 6 % and 10% through 1992. Grace periods and loan maturities for SLAs at a maximum is 20 years during the same period.

Lending Under the RDA and SLA total RDA and SLA loans from 1982 to 2000 amounted to about Rp 4.651 billion, and represents only a small fraction of local governments source of development expenditures from all sources (i.e., 3% of local government budget revenues).

Among the factors limiting the increase in regional government borrowing was a relatively rapid increase in central government

Table 1
Total Loan Disbursement to Prrovinces and Municipalites
In Indonesia by SLA and RDA Mechanism
(In million of Rupiahs)

Year	RDA	SLA	Total
1982	10,931.25	70,278.91	81,210.16
1983	20,530.10	62,129.71	82,659.81
1984	2,748.00	40,437.17	43,185.17
1985	11,026.87	9,523.65	20,550.52
1986	3,420.00	161,068.97	164,488.97
1987	16,762.14	284,384.87	301,147.01
1988	53,821.33	333,168.13	386,989.46
1989	10,931.25	132,281.25	143,212.50
1990	72,332.17	418,989.69	491,321.86
1991	71,885.50	308,838.92	380,694.42
1992	92,707.77	74,165.53	166,873.30
1993	155,150.43	85,901.06	241,051.49
1994	217,805.82	680,025.09	897,830.91
1995	87,136.26	240,771.07	327,907.33
1996	175,330.22	308,858.01	484,188.23
1997	137,620.98	93,129.93	230,750.91
1998	29,026.60	52,959.30	81,985.90
1999	17,080.41	8,808.69	25,889.10
2000	3,477.60	6,354.25	9,831.85
Total	1,189,694.70	3,372,074.20	4,561,76.90
%	26%	74%	100%

Table 2
Loan Disbursement by RDA Mechanism to Four Provines
(In million of Rupiahs)

Year	West java	DKI Jakarta	North Sumatra	East Java	Indonesia
1981	3,332.00	-	-	1,166.00	14,050.00
1982	-	-	-	-	10,931.25
1983	-	18,930.10	150.00	500.00	20,530.10
1984	-	-	-	30.00	2,748.00
1985	300.00	500.00	250.00	-	11,026.86
1986	-	-	-	3,420.00	3,420.00
1987	5,461.85	-	3,630.48	1,866.82	16,762.18
1988	14,609.70	-	13,034.26	2,809.63	53,821.33
1989	649.36	4,852.00	4,159.98	-	14,844.47
1990	24,595.58	25,756.87	18,041.92	-	72,332.09
1991	12,667.69	-	8,507.03	10,549.56	71,855.50
1992	22,566.66	19,125.78	3,916.29	7,446.46	92,707.38
1993	18,313.72	3,500.00	3,223.45	31,591.37	155,149.37

1994	1,284.02	64,415.45	10,357.32	30,730.45	217,805.79
1995	-	-	2,866.57	53,268.94	87,136.25
1996	14,998.65	-	9,260.40	57,741.18	175,330.21
1997	-	-	16,748.35	15,976.43	137,620.99
1998	4,779.1	17,706.44	2,056.64	-	29,026.61
1999	-	-	-	3,746.25	17,080.41
2000	-	-	-	3,477.60	3,477.60
TOTAL	123,558.36	154,789.64	96,562.69	224,590.69	1,207.656.39
%	10%	13%	8%	19%	100%

Grants during this period that had the effect of reducing regional government demand for loan finance. The foregoing amounts do not include external loans, which, as noted above, are channeled through SLA separately from the RDA.

As much as 80%, of the reported RDA lending during the period was in water sector. This concentration is partly explained by the relative focus off INPRES and DIP programs on the other activities-roads, sanitation and drainage. Kampung improvement and other –potentially eligible for RDA financing. These programs supplied funding to regional government at no charge.

Much of the borrowing from the RDA has been undertaken by the more developed and financially better-off regional and urban areas, which is to be expected in view of their greater capacity to support loan finance. During the 1822000 period. Four provinces accounted for over 50% of total RDA loans, namely East Java 19%. DKI Jakarta 13%. West Java 10% and North Sumatra 8%.

As has been mentioned previously, most regional borrowing has been carried by provincial and kabupaten/kota government-owned enterprises, particularly water ENTERPRISES (PDAMs). About two-thirds of the total SLA and RDA/RDI disbursed credits have gone to PDAMs (Pure RDA loans- i.e. not including those from the RDI are even more heavily concentrated in the water sector, about 75% of disbursed RDA credits have gone to PDAMs). There has been relatively little borrowing by regional governments themselves (see table 1).

Table 3
Total Loan Disbursement to Local Government and Local Enterprise
by SLA Mechanism (In million of Rupiahs)

Year	Local Government		Local Enterprise		Total
	Provincial	Municipal	PDAM	PD Kebersihan	
1982	12,301.04	14,107.93	43,869.94	-	70,278.91
1983	-	-	62,129.71	-	62,129.71
1984	1,087.00	39,350.17	-	-	40,437.17
1985	-	-	9,523.65	-	9,523.65
1986	2,302.37	16,197.56	129,603.24	12,965.80	161,068.97
1987	2,515.79	23,965.82	257,903.26	-	284,384.87
1988	202,735.74	3,890.43	129,603.24	-	333,168.13
1989	2,584.96	38,914.37	83,202.55	7,579.37	132,281.25
1990	154,929.34	14,131.05	249,929.30	-	418,989.69
1991	30,128.45	31,985.43	246,725.04	-	308,838.92

1992	15,843.42	28,243.50	30,078.61	-	74,165.53
1993	-	4,298.90	81,602.16	-	85,901.06
1994	-	195,318.69	484,706.40	-	680,025.09
1995	-	61,981.94	178,789.13	-	240,771.07
1996	8,041.95	149,827.62	150,988.44	-	308,858.01
1997	-	31,233.85	61,896.08	-	93,129.93
1998	-	30,292.83	22,666.47	-	52,959.30
1999	-	4,379.84	4,428.85	-	8,808.69
2000	-	4,443.13	1,911.12	-	6,354.25
TOTAL	432,470.06	692,563.06	2,226,495.91	20,545.17	3,372,074.20
%	12.83	20.54	66.03	0.61	100.00

Past Local Government Borrowing Performance

Despite the favorable conditions forth in the RDA and SLA lending such as interest subsidies and loan repayment terms, the record on its performance has been poor. At the end of 1999, over 40 percent of total amounts due (on principal, interest, penalties, etc), for SLA and RDA loans were in arrears.

Since that time, the overall arrears rate has increased significantly, reportedly reaching over 50 percent by the year 2000 (Varley, 2001). Table 4, below summarizes some information on regional borrowing performance from SLA and RDA mechanism.

Interestingly, repayment on loans does not appear to be closely related to borrowers ability to repay. Recent studies of SLA and RDA portfolios show an approximately bimodal size distribution of loan repayment arrears rate. From table 4 and 5, it can be seen.

Table 4
SLA and RDI Loans Arrears Enterprise
Trough FY 1999 (Rupiah figures in billion)

	SLA	RDA
Number of Loans	379	430
Total Disbursement (Rp)	2980.0	1609.1
Percent Disbursement in PDAMs (%)	66.8	61.0
Total Maturities (Rp)	1,61.0	545.1
Total Arrears (Rp)	615.2	219.6
Arrears Rate (arrears/payment due -%)	42.1	40.3
Note: Arrears for RDA/RDI are inclusive of some on loans made under earlier programs (PER.,PR I, and SKU) but now administered under RDA		

Table 5
PDAM Arrears Rates by Debt Coverage Ratios
For a Sample of 35

Debt Coverage Ratio	Number of PDAMs	Arrears Rate (%)
Less than 1.3	13	78.90
Between 1.4 and 2.2	3	49.30
Between 2.3 and 3.2	7	23.60
Greater than 3.3	12	65.10
Total	35	60.20

Note: Debt coverage ratio is defined as net operating income to debt service obligations. By regulation, PDAM is supposed to have a debt coverage ratio of at least 1.3 before it receives an SLA or RDA loan.

The sample of places is based on the availability of both debt coverage ratios and SLA/RDA loan information

that loans are to quite a large extent (especially for SLAB) either repaid in full, as payments become due, or completely in arrears. This observation suggests that some of the borrowers may make an priori decision (and perhaps a complicity of central government)

There has been studies that try to link the relationship between the repayment of SLA an RDA loans made to PDAM and their ability to repay loans as measured by standard financial indicators. See Table 5, for example, for a comparison of a sample of PDAM arrears by debt coverage ratio. Nate that the highest rate of arrears is in fact, found among those PDAM with debt coverage ratio of less than 1.3 . Unfortunately PDAMs in this group should not have received loans in the firs instance under the relevant borrowing regulations for BUMD (which insist on coverage ratios greater than 13) The next highest arrears are found among those PDAMs those with the highest debt coverage ratios.

In general, the above observation reveals the reason for arrears in the PDAMs case is not related to the ability to pay loans, but rather that the failure to repay loans might be best explained by borrowers unwillingness to repay and the central governments inability to make them do so.

Although at a more specific analysis, the unwillingness to repay the loans are not the whole reason for high arrear rates in the RDA and SLA loan portfolio. There are additional problems common to all loan types as well as those more commonly associated with particular loan programs including for RDA and SLA loans (varley-2001)

Issues on the Current Management of On-Lending and On-Granting of Foreign Loans to Regions.

The current regulations on the managements of local borrowing from foreign sources are based on PP 107/2000 and Minister of Finance Decree 35/KMK.07/2003 that regulates the “On-lending and On-granting of Foreign Loans to Regions.” Prior to decentralization, all local borrowing had to go trough the centre. Most of foreign borrowed funds were channeled to the regions trough central projects using mechanism such as DIP (development projects through line ministries), or INPRES projects (specific

grants to the regions). The DIP mechanism is still in use for centrally managed development projects, and the specific transfer comes in the form of DAK (Dana Alokasi Khusus).

Based on the regulation, local governments are not allowed to borrow directly from foreign sources, but should be through the subsidiary offshore loans to regions. There are two channels under this mechanism. The on-lending and the on-granting. On both accounts, it is the local government that has to submit project proposal to the centre, the centre then decided whether the proposal is eligible to be financed through either the on-lending or on-granting mechanism basically pass-on the loan terms to the local government, except the foreign exchange risk since the currency of loan from central to local is in Rupiahs.

Negotiations with the creditor are done by the centre. On the hand, on-granting mechanism is when centre grants the funding for the projects to the local government.

There are specific issues, each related to the “On-lending and On-granting of Foreign Loans to Regions”. The issues related to : (i) regional classification : (ii) types of projects : (iii) regions borrowing historical records : (iv) regional government counterpart fund: (v) relationship with the overall central-regional fiscal framework”

1. Regional classifications

Based on the Ministerial Decree, regions (provinces and districts) are to be classified based on its fiscal capacity relative to other regions. Fiscal capacity is defined as general revenues subtracted with wages/salaries. Regions are to be classified into high, medium and low capacity. Regional classification based on fiscal capacity is especially needed for the on-granting mechanism to calculate how much the regions should contribute in terms of matching fund towards the grants received.

Two issues related to the regional classification are on the exact way to do the categorization, and what would happen if capacity of a region changes during project preparation (Simanjuntak, 2004). Each of the categorization scenarios would result in different categorization of regions. Therefore, further to the Ministerial Decree there should be technical.

Guidelines that the exact way of the classification. Aside from the exact formula to calculate fiscal capacity, another issue is on the treatment of outlier regions, for example: DKI Jakarta and the treatment of regions rich with non renewable resources.

2. Project types.

The classification of projects into revenue generating and non revenue generating. The classification is important to enable the distinction for projects that are eligible for on-granting (non-revenue generating) versus those that should be for on-lending. (non-revenue generating). It should be further clarified whether revenue generating means the project has to be financially (as opposed to socially) cost recoverable (for example, using the criteria $NPV > 0$).

To evaluate how many the regions should contribute, project classification is then matched with the regions fiscal capacity classification. The ministerial Decree stipulates that high fiscal capacity regions will only receive 30 % of project value as grant; medium fiscal capacity regions will receive 60% as grants ; and low fiscal capacity regions will receive 90% of project value as grant portion. It is suggested by Simanjuntak (2004) that these exact percentages could prove to be inflexible, and rather should serve as ceilings for the grant portions.

3. Regional borrowing historical records

The Ministerial Decree stipulates the proposed regions should not be in arrears, or will pay off all the arrears as shown with funds allocated in the APBD. Further clarification is needed on whether this pertains only to borrowing by the regional government, or also include borrowing by the regional corporation (BUMD). If past data until 2001 is the basis, then most regional governments do not have any past direct borrowings, because most borrowings at the time were carried out by certain BUMD. Such as PDAM.

4.Relationship with the overall central local fiscal framework.

It is important to put the new local borrowing, including the ones from foreign sources within the overall context of central local fiscal relationship. In the current central local fiscal relationship. There are the balancing fund and most notably the Dana Alokasi Khusus (DAK). The question is whether funds directed to the regions through the on-grating mechanism will become part of the DAK (the grants part).

Aside from the above issues, it is clear that the Ministerial Decree on On-Lending and On-Gating has provided guidelines and restrictions on local foreign borrowing. Although this would feel restrictive, but at this point in time it is the best to keep the fiscal condition of the economy towards sustainable level. Unregulated local borrowing has proven to be the cause of many fiscal crisis in other parts of developing countries, especially in Latin America.

Concluding Remaks

The management of local government borrowings from foreign sources is only one issue in the overall local government borrowing in Indonesia in the decentralization era. The following is the summary of the overall local government borrowing management issue, one source of which is from foreign lending”

With present central budgetary problems, central government skill needs to impose total local government regulation that has been issued is on local government borrowing from foreign sources . Other government regulations are skill pending, for example government regulation on bonds financing, and government regulation on BUMND. These pending government regulation are of utmost importance if local borrowing is to take place in a careful manner.

On the ministerial Decree 35 KMK.07/2003 on the “On-lending and On-granting Mechanism of Subsidiary Off-shore Loans to the Regions”, survival issues need further clarifications. The issues are on : Regional borrowing historical records ; Overall relationship within the central fiscal framework. Other issues include; the exact terms pass on from the central government to the local government.

References

Alisjhabana, Arminda S. 2004, Comparative Study on the Development of Municipal Credit market and Its Relevance to Indonesia”, paper presented at the Seminar on Local Borrowing and Regional Inflation. Organized by LP3E Faculty of Economics, Padjadjaran University, Bandung. March 18 2004.

- Alisjahbana, Armida S. et al 2003, local Government Borrowing, Report subnited to the IRIS. The University of Maryland.
- Ahmad . E and A. Mansoor,2000, Indonesia ; Managing the Decentralization, Conference of Fiscal Decentralization, IMF.
- Bird, Ricahard, Inter-govermental Fiscal Relations : Universal Principles, Local Applications. Working Paper, Word Bank.
- Dillinger, William and Sistem B. Webb, 199,Decentralization and Fiscal Management in Columbia.
- Glasser, Mattewet all, 1998, Formulation of a Regulatory Framework for Municipal Borrowing in South Africa. Final Report, Draft. RTI.
- Government Regulation on Local Borrowing : PP107/2000.
- Lewis, Blane, 2001a, “Some Comments on Regional Borrowing in the Context of Decentralization : Regulatory Framework, related Programs and Policies, and IMF Conditionality” . Paper prepared for Seminar Nasional tentang : Hubungan Keuangan Pusat dan Daerah Universitas Airlangga.
- , 200b, Local Government Borrowing and Repayment in Indonesia : Does Fiscal Capacity Matter ?. December.
- Maknum, 2000., “Obligasi sebagai salah satu Alternatif Sumber Pendanaan Daerah dalam Era Desentralisasi”. Kajian Ekonoimi dan Keuangan . Tahun IV No. 4 Manister of Finance Decree. Regional Development Account Management, SK Menkeu 347a/KMK017/2000.
- , Planing, Implementation , Administration and Monitoring of On-lending and On- Grating Of Foreign Loans to Regions, SK Mnekeu 35/KMK07/2003.
- Noel. Michael, 2000, Building Sub-national Debt Markets in Developing and Transyition Countries : Framework for Analisis, Policy Reform and Asistence Strategy.
- Pakpahan, Arlen T,Raksaka Mahi and Robert Simanjuntak, 2002 “Managing Local Government Borrowing : The Case of Indonesia”, Paper Presented at the World Bank Workshop on Inter-govermental Fiscal Relations in East Asia, Bali.
- Peterson, George, 2000 Building Local Credit Systems, World Bank.
- Regional Financial Analysis Bureau-MOF, Pengembalian Pinjaman Pemda dan BUMD.
- Riphath, Singgih dan Parluhutan Hutahean, 1997, “Strategi Pemantapan Keuangan Daerah dan Kebijakan

- Desentralisasi : Suatu Analisis tentang Pinjaman Daerah Sebagai Alternatif Pembiayaan Pembangunan”, Jurnal Keuangan dan Moneter Volume 4 No. 2.
- Shah Anwar and Zia Qureshi, 1994, Inter-governmental Fiscal Relations in Indonesia, World Bank Discussion Paper.
- Simanjuntak, Robert, 2003, “Recent Issue on Indonesia Government Subsidiary Off shore Loans to Regions”, paper presented to the seminar on local Borrowing and Regional Inflation, organized by LP3E Faculty of Economics, Padjadjaran University, Bandung, March 18, 2004.
- Simanjuntak, Robert and Muliadi, Khoirunroflic, 2000, Laporan Akhir Kajian Atas Kemampuan Pemerintah Daerah untuk Meminjam di Era Otonomi Daerah, LP3E FE-UI.
- Subiantoro, Heni, 2001, “Pembiayaan Eksternal Daerah”, Paper Prepared for Seminar Membedah APBD Menyongsong Desentralisasi.
- Varley C, G, Robertt, 2001, INDONESIA : Financing Small Scale Urban Infrastructure In the Era of Decentralization, Asian Development Bank.
- Weist, Dana, 2002, “Borrowing and Capital Financing”, Paper presented *at The World Bank Workshop on Intergovernmental Fiscal Relations in East Asia Bali*.