INDICE

Preface	VVII
Acknowledgments	XXI
Abbreviations and Acronyms	XXIII
Executive Summary	XXIX
Chapter1 Introduction	1
I Political, Legal, and Financial Framework	9
Iohn Petersen and Mila Freire Chapter 2 Fiscal Devolution	11
Chapter 3 Market Setting and Lega\ Framework	29
Il Borrowing Instruments and Restrictions on Their Use	47
Iohn Petersen and Miguel Valadez Chapter 4 Subnational Governments	49
as Borrowers	
Chapter S The Nature and Design of pebt	63
Chapter 6 Debt Instruments and Methods oF Sale.	77
Chapter 7 Restrictions on the Issuance and Use of Subsovereign Debt	87
III Characteristics of Financial Market Regulation and Disclosure	111
Iohn Petersen	
Chapter 8 Financial Market Structure, Regulation, and Operations	113
Chapter 9 Disclosure and Financial Reporting	129
IV Evaluating, Monitoring, and Assisting	139
Subnational Governments	
John Petersen and Marcela Huertas	
Chapter 10 Credit Analysis and Credit Ratings	141
Chapter 11 Monitoring and Intervening in Subnational Government	155
Finances	
Chapter 12 Designing and Implementing Credit Assistance to Subnational	173
Governments	
V Policy Guidelines	203
John Petersen and Mila Freire	205
Chapter 13 Concluding Observations and Policy Guides	205
VI Country Case Studies	217
Latín America and the Caribbean Chapter 15 Brazil Rodrigo Trelles	261
Zabala and Giovanni Giovanelli	070
Chapter 16 Colombia Rodrigo Trelles Zabala	279
Chapter17 Mexico Steven Hochman and Miguel Valadez Sub-Saharan Africa	299
	313
Chapter 18 South Africa Matthew Glasser and Roland White	337
Chapter 19 Zimbabwe Roland White and Matthew Glaser Middle East and North Africa	331
	355
Chapter 20 Morocco Samir El Daher	333
Chapter 21 Tunisia Samir El Daher	365
Asia	300
Chapter 22 People's Republic of China.	375
Chapter 23 Republic of Korea	0,0
	4

John Petersen	
John Petersen	399
Chapter 24 India	413
Pryianka Sood	
Chapter 25 Indonesia	443
Robert Kehew and John Petersen	
Chapter 26 The Philippines	461
John Petersen	
Eastern and Central Europe	
Chapter 27 Bulgaria	487
Peter D. Ellis and Kremena Ionkova	
Chapter 28 Czech Republic	503
Jodo C. Oliveira and Jorge Martinez- Vazquez	
Chapter 29 Hungary	525
Pryianka Sood	
Chapter30 Poland	545
Miguel Valadez and John Pétersen	
Chapter 31 Russian Federation	571
Asad Alam, Stepan Titov, John Petersen	
Bibliography	593
Index	607
2.1. Devolving Responsibility for Elementary School Teachers' Salaries in	14
Romania	
2.2. Rio and the International Marketplace	23
3.1. Banks and Securities Markets: Are Both Needed for Development?	32
3.2. Brazilian Banks' Excessive Concentration in Government Securities	33
4.1. Defining and Controlling Public Debt	56
4.2. China: Off-Budget Finance and the	59
Transmuted Bond	
4.3. Restructuring Subnational Government: From Few to Many (But How	60
Many?)	
5.1. Importance of the Rate-Setting Pledge	67
5.2. Intergovernmental Transfer Payments as Collateral	69
5.3. Importance of Feasibility Reports: The San Pedro Sula, Honduras,	72
Sports Complex	
6.1. Selecting an Underwriter through Competitive Negotiation	84
6.2. Rigging a City's Bond Sale.	85
7.1. The Philippines: How Political Risks Can Inhibit Municipal Credit	89
Markets	
7.2. Examples of Language on the Binding Nature of Financial Obligations	90
7.3. The City of Cebu in the Philippines Considers a Deal	91
7.4. Johannesburg Comes Up Short	96
7.5. Example of Language Denying Central Government Responsibility for	106
Municipal Debt	
7.6. Example of Language on Securing Debt with Own Revenues	107
8.1. Commercial Banking in Transitioning Economies	116

8.2. The Bank for International Settlements' Reserve Requirements and	117
Capital Rules	404
8.3. What Is a Security?	121
8.4. After 60 Years, Municipal Bonds Return	124
to Romania	404
9.1. Disclosure over the Internet.	131
9.2. Accounting for Accounting Differences	134
9.3 Why Did Czech Municipal Debt Grow So Fast?	135
10.1. Emerging Market Ratings and Bond Insurance	143
11.1. Example of Information Provided in the Debt Annex of French	163
Subnational Government Budgets	100
11.2. In Argentina Trustees Make a Difference 166	166
11.3. Debt Adjustment and Subnational	168
Insolvency in Hungary 168	169
11.4. Financial Stabilization to Address Subnational Bankruptcy in Latvia 12.1. The Subnational Government Retreat from the Private Credit Market	175
	175
in the Czech Republic	
12.2. Moving from Soft to Hard Credit through Enforcement of Loan	183
Collections:	103
South Africa's Experience	
12.3. The Philippine Local Government Unit Guarantee Corporation	183
12.4. The Tamil Nadu Urban Development Fund, India	185
12.5. Assisting Small Bond Issuers: The Bond Bank Option	189
12.6. A Brief Illustration of Grant-Loan Integration: An Example from	194
Indonesia	
18.1. A South African Parable 316	316
24.1. Recent Projects Financed by the Tamil Nadu Urban Development	435
Fund	
24.2. Basis for the AA+ Rating of the Madurai ' Municipal Corporation	438
Bond Issue	
3.1. Market Structures and Sources of Capital for Local Government	37
Borrowing~	
3.2. Stages of Development in Credit Market Access	39
4.1. General Government Obligation 49	49
4.2. Government Limited Obligation 49	49
4.3. Public-Private Project Financing 50	50
4.4. Matrix of Subnational Government Financing Capacity	52
6.1. Debt Service Structures	79
12.1. Retail On-Lending by the Government Financing Institution	180
12.2. Wholesale On-Lending by the Government Finance Institution	181
12.3. Securitization of a Loan Pool.	187
12.4. Mechanics of a Liquidity Facility	192
14.1. Distribution of Shareable Taxes under the Coparticipation Scheme,	223
Argentina.	
14.2. Relative Fiscal and Debt Situations of	226

Provinces, Argentina, 2001	
14.3. Provincial Indebtedness by Type of Debt or	227
Lender, Argentina, December 2001	
14.4. Impact of the Devaluation on Provincial Debt, Argentina	230
14.5. Disbursement of Coparticipation Revenues, Argentina	231
14.6. Provincial Bond Debt Outstanding by Type, Argentina, Endof2001	233
14.7. Flow of Funds for the Salta Hydrocarbon Royalty Trust Bonds	241
14.8. Selected Debt Indicators, Salta and All Provinces, End-2001	243
14.9. Selected Debt Indicators, City of Buenos Aires and All Provinces,	240
End-2001	250
14.10. Selected Debt Indicators, Buenos Aires and All Provinces, End-	256
2001	200
15.1. Distribution of the Debt Stock in Bonds by State, Brazil, End-1996	272
15.2. Subnational Debt as a Share of GDP, Brazil, 1998-2002	274
16.1. Fiscal Balance as a Share of Total Revenue by Department,	284
Colombia, 2000	204
16.2. Direct Subnational Debt, Colombia, 1996-2001	287
16.3 Allocation of Credit from Findeter 1989-99	289
16.4. Debt Stock, Capital District of Santa Fe deBogotá,1995-2001	296
17.1. Borrowing by Three State Governments, Mexico, 1994-98	304
18.1. Outstanding Municipal Debt, South Africa, 1997-2000	235
18.2. Outstanding Municipal Debt by Form, South Africa, 1997-2000	326
22.1. Typical Cooperative Joint Venture Arrangement for Expressway	385
Development	40.4
24.1. Funding Approvals and Disbursements by the Tamil Nadu Urban	434
Development Fund by Sector, as of 31 March 1.999	40.4
24.2. Value of Capital Works Executed by Municipalities with Funding	434
from the Tamil Nadu Urban Development Fund, 1993/94to1998/99	4.4.4
24.3. Simplified Flow of Funds in the Pooled Financing Scheme	441
27.1. Local Government Expenditure as a Share of GDP, Selected	492
Countries, Various Years, 1998-2002	500
28.1. Municipal Debt Outstanding, Czech Republic, 1993-99	509
28.2. Local Fiscal Deficits, Czech Republic, 1993-2000	509
28.3. Composition of Municipal Debt Outstanding, Czech Republic, 1993- 99	511
	F40
28.4. Average Composition of Municipal Debt Outstanding, Czech	513
Republic, 1998-99	F20
29.1. Sources of Local Government Revenue, Hungary,1995-2000	530
30.1. Own-Source Revenue as a Share of Total Revenue, Szczecin,	552
1998-2002	
30.2. Local Government Debt by Source, Poland, 1999-2001	555
30.3. Concepts of Surplus from Operating Revenues as a Source of Funds	559
for Capital Spending	50 '
30.4. Structure of Operating Revenue, Wroclaw, 2001	561
30.5. Budget and Debt, Wroclaw, 1996-2002 562	562
30.6. Structure of Operating Expenditure, Lodz, 2001	564

30.7. Budget and Debt, Lodz, 1996-2002.	564
30.8. Debt Burden as a Share of Operating Revenue, Lodz, 1996-2002	565
30.9. Budget Balance and Debt, Szczecin, 1998-2002	566
30.10. Debt and Debt Service as a Share of	567
Operating Revenue, Szczecin, 1996-2002.	
30.11. Budget and Debt, Krakow, 1998-2002	568
31.1. Administrative Structure for Executing the Debt Strategy, St	589
Petersburg	
Tables	
7.1. Municipal Debt Limitations in Selected Eastern and Central European	102
Countries	
10.1. Credit Rating Volatility in Asia: Selected Standard and Poor's Long-	149
Term Foreign Currency Sovereign Ratings	
14.1. Allocation of Responsibilities among Levels	224
of Government, Argentina.	005
14.2. Terms and Conditions of the Typical Consolidation Bond, Argentina.	235
14.3. Provincial Bond Issues in Domestic and International Capital	005
Markets, Argentina, 1994-2001	235
14.4. Features of the Bond Issue by the Salta Hydrocarbon Royalty Trust.	241
14.5. Debt by Source, Salta, 1995-2001	243
14.6. Key Features of the Bond Program of the City of Buenos Aires	247
14.7. Main Characteristics of the Bond Issues by the City of Buenos Aires	248
14.8. Debt by Source, City of Buenos Aires, 1995-2001	250
14.9. Access to the Bond Market by the Province of Buenos Aires, 1994-	254
2001	050
14.10. Debt by Source, Province of Buenos Aires, 1995-2001	256
15.1. Municipal Sources of Funds, Brazil, 1999	275
16.1. The "Traffic Light" System for Regulating Subnational Borrowing, Colombia.	286
	200
16.2. Potential Borrowers from Findeter	288
16.3. Terms and Conditions of Findetet Loans	289
16.4. Features of the Bond Issue by the Capital District of Santa Fe de Bogotá.	293
16.5. Revenues and Expenditures, Capital District of Santa Fe de Bogotá,	294
1995-2001	294
16.5. Debt Service, Capital District of Santa Fe deBogotá,1995-2001	296
17.1. Spending and Own-Source Revenues as a Share of GDP by Level of	301
Government, Mexico, Selected Years, 1991-97	301
17.2. Subnational Bond Issues, Mexico, 2002	310
19.1. Assets of Deposit-Taking Institutions, Zimbabwe,1992-97	339
15.1. Assets of Deposit Taking Institutions, Elimbabwe, 1552 57	000
	343
19.2. Local Government Revenues by Source, Zimbabwe, 1995-98	J -1 J
19.3. Gross Public Debt of Local Authorities, Zimbabwe,1994-97	345
	346
19.4. Bond Issues by Local Governments, Zimbabwe,1990-2001	270
19.4. Bond Issues by Local Governments, Zimbabwe,1990-2001 22.1. Sub national Revenues and Expenditures, 1993 to 2001	379

22.3. Market Capitalization, Bonds, and Domestic Bank Credit as Percentages of GDP: 1995-2000	389
22.4. Outstanding Domestic Bonds and Issuance in 2001	390
23.1. Debt and Capital Spending of the Seoul Metropolitan Government, Republic of Korea, Fiscal Years 1996-2001	410
24.1. Third Tier of Government, India, 2000	418
24.2. Fiscal Decentralization, India, 1997/98	419
24.3. Finances of Local Bodies, India, 1990/91 and 1997/98	419
24.4. Terms of the Bond Issue by the Ahmedabad Municipal Corporation	425
24.5. Estimated Gap in Urban Infrastructure Financing, Tamil Nadu, 2002	428
24.6. Infrastructure Investment Requirements by Type of Urban Local Body and Sector, Tamil Nadu, 1996-2001	428
24.7. Lending Terms of the Tamil Nadu Urban Development Fund since 1998/99	433
24.8. Terms of the Bond Issue by the Madurai Municipal Corporation	437
24.9. Financial Indicators for the Tamil Nadu Urban Development Fund as of March 2002	439
24.10. Terms of Issue of the Water and Sanitation Pooled Fund	441
25.1. Central Government Lending to Local Governments, Indonesia, Selected Years, 1980-99	446
25.2. Banking Sector Assets by Type of Bank, Indonesia, End of March 2001 449	449
26.1. Local Government Loans and Deposits with Selected Financial Institutions, Philippines, 2000	467
27.1. Financial Performance Indicators for Sofia, 1996-2001	498
27.2. Credit Ratings of Selected Local Governments,2001	499
28.1. Public Debt Outstanding, Czech Republic, 1993-99	507
28.2. Municipal Bonds Issued, Czech Republic, 1992-99	512
29.1. Equity and Debt Markets, Selected Countries in Central and Eastern Europe, End-1995	532
29.2. Terms of the Bond Issue by the Municipality of Budapest	539
29.3. Terms of the Bond Issue by the Municipality of Pecs	540
30.1. Current Structure of Subnational Government, Poland	551
31.1. Standard & Poor's Credit Ratings of Subnational Borrowers, Russian Federation, 1997-2002	578
31.2. Debt by Type, St Petersburg, 1994-2001	581
31.3. Structure of Debt, St Petersburg, 1994-2001	582
31.4. Debt Indicators, St Petersburg, 1997-2001	583
31.5. Credit Ratings, St Petersburg, 1998-2002	586