



# IMF Working Paper

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## Fiscal Decentralization and Governance: A Cross-Country Analysis

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**IMF Working Paper**

Fiscal Affairs Department

**Fiscal Decentralization and Governance: A Cross-Country Analysis**

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**Abstract**

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

Based on cross-country data for up to 78 countries, this paper shows that fiscal decentralization—the assignment of expenditure and revenue mobilization functions to subnational levels of government—is associated with various indicators of governance, such as corruption, rule of law, and government effectiveness. Unlike previous studies in the decentralization/governance literature, which focus primarily on expenditure-based measures of decentralization, the results reported in this paper show that the relationship between decentralization and governance depends on how subnational expenditures are financed. The higher the share in total subnational revenues of nontax revenues and grants and transfers from higher levels of government, the stronger the association between decentralization and governance.

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Contents	Page
I. Introduction .....	<a href="#">3</a>
II. Literature Review .....	<a href="#">4</a>
III. Data and Preliminary Findings .....	<a href="#">7</a>
A. Decentralization Indicators .....	<a href="#">7</a>
B. Governance Indicators .....	<a href="#">8</a>
C. Preliminary Findings .....	<a href="#">9</a>
IV. Main Findings .....	<a href="#">9</a>
A. Testable Hypothesis .....	<a href="#">9</a>
B. Baseline Regressions and Sensitivity Analysis .....	<a href="#">12</a>
C. Dealing with Reverse Causality .....	<a href="#">15</a>
V. Decentralization and Subnational Revenue Mobilization .....	<a href="#">16</a>
A. Revenue Mobilization Capacity .....	<a href="#">16</a>
B. Does the Level of Decentralization Matter? .....	<a href="#">18</a>
C. More on the Level of Decentralization .....	<a href="#">21</a>
D. Discussion .....	<a href="#">22</a>
VI. Conclusions and Policy Implications .....	<a href="#">23</a>
Tables	
1. Descriptive Statistics .....	<a href="#">10</a>
2. Expenditure Decentralization and Governance: Cross-Sectional Analysis, 1980–1998 .....	<a href="#">13</a>
3. Instrumental Expenditure Decentralization and Governance: Cross-Sectional Analysis, 1980–1998 .....	<a href="#">17</a>
4. Financing Source Decentralization and Governance: Cross-Sectional Analysis, 1980–1998 .....	<a href="#">19</a>
Figure	
1. Governance and Decentralization: Period Averages, 1980–98 .....	<a href="#">11</a>
Appendix	
I Governance Indices: More Information .....	<a href="#">26</a>
References .....	<a href="#">27</a>