



Abstract

A Study on the Improvement of the System for the Utilization of Local Bonds

The purpose of this study is to suggest measures to improve the system for the effective utilization of local government bonds. To this purpose, the status of local finance and issuance system of local bonds were analyzed due to the strengthening of the government's expansionary fiscal stance and rapid increase in the local government spending demand under the recent economic recession caused by COVID-19 pandemic effects.

The central government sought to strengthen the role of local finance in responding to COVID-19. Furthermore, as a measure for balanced regional development of Korea New Deal, it emphasized revitalization of the local bonds and restructuring of the local finance expenditure in relation to the investment in regional investment of about 75 trillion won, which is 47% of the input capital. In the case of local finance, demand for the local bonds is expected to expand as demand for spending is soaring, while the local government faces difficulties in securing tax revenues due to the continued economic slump caused by the COVID-19.

There are three main reasons why the local governments are reluctant to use local bonds: First, traditional practice of maintaining the fiscal management integrity by the central government. Second, the political burden for the local government heads. Third, negative perceptions such as the deterioration of local finance integrity due to the increase in local debt and expansion of the current budget.

Local bonds need to be actively utilized as a means of procuring public investment funds from local government. The use of local bonds can ensure inter-generational

equity of the financial burden by allowing the current and future generation to shoulder both benefits and expenditures for specific projects. In addition, Stable secure of investment resources and planning of financial management through the issuance of local bonds are considered important policy activities of local government. It is possible to promote social welfare through continuous regional development and provision of public services. Local governments also can issue local bonds as a flexible and quick way to financing method for disaster recovery and securing investment funds. However, Financial pressures may bring in compliance with on internal and external economic conditions.

Four measures were proposed to improve the system for revitalizing local bonds. First, it is necessary to expand the scope of life SOC projects that can be utilized through local bonds. In particular, the increase in population density and traffic volume is due to the need to expand infrastructure public facilities. Second, introduction to a system of residents' participation in the regional and living SOC expansion of utilization of local bonds. It is to prioritize through a survey of residents demand and go through procedures for residents consent in issuing local bonds. Third, the expansion of the use of local bonds using regional development funds. Management is required to enhance the profitability of the regional development funds, and the ordinance is required to be revised to expand the scope of loans. Finally, it is necessary to establish an organization specializing in local government financing and lending from a long-term perspective to ensure stable procurement of local public-sector investment funds. This is because local government administrative and financial conditions have led to a surge in demand for local finance.

Keyword Local Bonds, Public Investment Funds, Local Finance, Resident Consent