

Government Decentralization Reforms in Developing Countries



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Institute for International Cooperation
Japan International Cooperation Agency

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Preface

The wave of decentralization of governments throughout the world since the end of the Cold War has fostered decentralization as a theme of political importance in many developing countries. This movement has the power to dramatically change the relationships between the central and local institutions in such countries. These relationships are a fundamental aspect of a state's institutional framework, along with an independent legislature, executive branch and judiciary. For those who are in charge of development assistance, decentralization itself is a new area for assistance; moreover, it requires us to re-examine existing assistance policies.

In this era of decentralization, the Study Team for Government Decentralization Reforms in Developing Countries was established as a primary step in guiding Japan's future technical assistance aimed at responding to the needs of recipient countries in this area. Specifically, this team was established for the purpose of investigating the status of decentralization reforms in developing countries, analyzing country-specific problems related to such reforms and ultimately, drafting proposals for effective assistance. Several developing countries have been selected as case studies in an effort to examine problems related to decentralization in such countries from the administrative and fiscal perspectives.

Three Southeast Asian countries have been selected for these case studies: Indonesia, Thailand and the Philippines. In these countries, systematic reforms toward decentralization have been launched and are now in progress. The reforms have been aimed at transferring administrative functions through the redeployment of personnel and redistribution of materials and funds; however, capacity building within local governments has come to the fore as a pressing issue that must be addressed. Under these circumstances, JICA organized an internal assistance committee led by the members of this study team, and started the Program for Local Administrative Capacity Building in Thailand.

The Program includes joint research with counterparts in Thailand, as well as a series of field investigations and seminars. Close dialogue on an equal basis between Thai and Japanese experts is intended to establish a new form of international cooperation to support policy that has a high level of feasibility. This was established in the belief that a spirit of collaboration will be the critical factor in providing assistance in areas such as decentralization, which affect the fundamental direction of the recipient country.

The six members of the study team, chaired by Mr. Michio Muramatsu, Professor of the Graduate School of Law, Kyoto University, have held a total of ten meetings. Papers written by each member on the basis of the team discussions have been compiled into this report.

The Japan International Cooperation Agency intends to make the most of the valuable analyses and proposals presented in this report for its future assistance, and to distribute copies of this report to the various organizations concerned, including the governments of the subject countries, so that it can be considered by all interested parties.

We would like to take this opportunity to express our thanks to Professor Muramatsu and the members of the Study Team, who contributed excellent reports. We would also like to express our gratitude to the various persons concerned who have functioned as resources and shared their valuable insight and opinions with us.

March 2001

Keiichi Kato
Managing Director,
Institute for International Cooperation
Japan International Cooperation Agency

Introductory Remarks from the Chairperson

This report is the product of the Study Team for Government Decentralization Reforms in Developing Countries. This team has examined the trends of decentralization in three Southeast Asian countries, namely Indonesia, Thailand and the Philippines, and has analyzed their ongoing reforms in comparison with the experience of Japan. In its pursuit of the most appropriate means of providing policy support with the greatest potential in this area, the team chose the decentralization process in Thailand as the primary subject of analysis, while conducting supplementary analyses of the same process in Indonesia and the Philippines.

The Study Team was primarily concerned with understanding the current conditions of the process of decentralization in developing countries. Each member endeavored to compile and analyze a substantial amount of data for the study. Prof. Katayama, as a member of the Third Country Study Team for Japan's Official Development Assistance to the Republic of the Philippines, Prof. Nagai and Mr. Okamoto, as JICA experts in Thailand and Indonesia, and other members, individually studied the trends in each country as well as in the international aid agencies. This report contains the results of their efforts. Meanwhile, experts in Japanese local government and finance examined how the Japanese experience could be useful for policy support in this area by comparing it with the information from the administrative and fiscal studies on Thailand and other developing countries.

Secondly, the Study Team analyzed international trends in the systematic reform of local government. Decentralization is a reform that reinforces local government. In reviewing the Japanese experience in decentralization, it became necessary to trace the history of the process of government decentralization reforms in developing countries in other countries. For this purpose the report has adopted the concept of a basic dichotomy of local governmental systems in the world: the 'integrationist' model vs. the 'separationist' model. The latter refers to local governments operated relatively independently from the central government, while the former means that the central government is concerned with local government and responsive to the demands of local governments.

In the early modern period in Japan, a definite 'integrating' form of local government system was constructed on purpose and was maintained throughout the reforms under the US occupation that were enforced right after the war. In the postwar reform of the local governmental system, Japan had a choice between the 'integrationist' model prevalent in European countries and the 'separationist' model of Britain and the US. On the whole, Japan chose the former in most of its policies and system designs, and consequently the present system in Japan has the character of an 'integrationist' model as a variation of the European model. These concepts of models and strategies were used in this report for the purpose of examining local government systems in developing countries and Japan and discussing local government in general.

This report has shared many pages with the analysis of central-local fiscal relations. Although many previous fiscal analyses have focused on the econometrics of this government function, this report provides the analysis of finance in relation to politics and administration.

Our earnest wish is that this document will be utilized as an important resource material for understanding of the central-local government relations and decentralizing reforms in developing countries.

Michio Muramatsu
Chairperson
Study Team for
Government Decentralization Reforms in
Developing Countries

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Chapter 1 Background and Purpose of the Study and the Participants

1-1 Background and Purpose

‘Decentralization’ is a current international political trend, and this includes developing countries. In these countries, decentralization is part of the priority political agenda. Along with economic development, the demand for the proper delivery of administrative services to the public has been growing so that it now requires decentralization to be more effective, which involves decentralization at the initiative of the developing countries themselves. At the same time, donors such as the World Bank sometimes require the promotion of decentralization as a conditionality of assistance. In either case, however, there has not been sufficient research on the actual condition concerning the effective measures of advancing decentralization, or the priorities that should be adopted in the process.

In Japan’s official development assistance, there has not been enough practical discussion concerning the feasibility of assistance in the area of central-local government relations. Today, European and US aid agencies tend to bypass inefficient central governments and to give direct assistance to local governments or local non-governmental organizations. Considering that even central governments in most developing countries are still in the process of becoming established, such an approach does not seem to be the only way to improve the efficiency of local governments. Rather, decentralization should be oriented towards cooperation between the central government and local governments to increase their respective capabilities and to assist them in sharing the public duties they are responsible for carrying out. With regard to this, the history of Japan’s central-local government relations since the Meiji era may provide valuable insights, including economic development and size of government.

The study for Local Development and the Roles of Government in 1996 was aimed at the theoretical framework for the analysis of central-local governments relations, economic development and the functions of the central and local governments. This time it was decided to go one step further and explore the kind of practical assistance Japan can offer.

With a view to providing technical assistance that responds to local needs that are clearly based on the actual situation, the primary objective was to examine the current trends and constraints of decentralization in developing countries. For this purpose, administration and finance in Thailand, the Philippines and Indonesia were examined.

Another objective of the study team was to recommend future directions for Japan’s development assistance. We tried to identify assistance needs so that the outcome of this study could provide basic resource material for future ODA and JICA projects in the area of decentralization.

1-2 Contents of the Study

The study analyzed the current condition of the administrative and fiscal systems in Asian developing countries, conducted a review, and tried to figure out problems to be resolved. In concrete terms, the study included: characterization of the administration in developing countries, analysis of the progress of decentralization, identification of the problems in the operation of systems for decentralization, understanding the assistance trends of other donors, and recommendation for responding to assistance needs and directing future assistance.

In the process, the following points were taken into consideration.

*Decentralization as the subject of this study included not only the transfer of authority from the central to local governments but also that from the central administration to field agencies within each government ministry or agency.

*Decentralization was studied from the viewpoint of policy making, system design and capacity building among the basic administrative units that should provide a viable alternative to the central government.

1-3 The Study Group Members

The study team was composed of experts outside of JICA, headed by a chairperson who was elected from among the team members. The team held ten meetings in total from April 2000 to February 2001, almost once a month. The meetings included presentations from the members, discussions about the subject items and lectures by external experts, as required.

As the secretariat of the study team, the Second Research and Development Division of the JICA Institute for International Cooperation took charge of the overall administration, including communication and coordination among the internal and external persons concerned, the arrangements for the meetings, reporting on individual research, and the preparation of this report.

Members of the study team and the staff of the secretariat are listed on the next page.

**Members of the Study Team for Government Decentralization Reforms
in Developing Countries**

	Name	Position
Chairperson	Michio Muramatsu	Professor, Graduate School of Law, Kyoto University
Finance	Nobuki Mochida	Professor, Graduate School of Economics, University of Tokyo
Finance	Masahisa Hayashi	Professor, School of Social Sciences, Waseda University
Administration	Kengo Akizuki	Professor, Graduate School of Law, Kyoto University
The Philippines	Yutaka Katayama	Professor, Graduate School of International Cooperation Studies, Kobe University
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Chapter 2 Trend towards Decentralization in Developing Countries

2-1 Decentralization in Indonesia: a Project for National Integration

2-1-1 Introduction

Indonesia, matching the United States in width, has a wide variety of religions, ethnic groups and languages. Decentralization had often been considered as a means of governing this diversity in Indonesia,¹ but its implementation in a real sense had to wait until the country's second president, Suharto, resigned in May 1998. This section summarizes how decentralization in Indonesia has been legally institutionalized.

Asia was hit by a major economic crisis in mid-1997, and Indonesia's economy reached a critical point. Unlike in Thailand or Malaysia, the crisis triggered extensive social and political unrest in Indonesia, which led to the collapse of Suharto's 32-year rule in May 1998. Before his government was dissolved, demonstrators, mainly students, frequently gathered in Jakarta, the capital of Indonesia and other major cities, demanding Suharto's resignation and denying the legitimacy of the Suharto regime itself. These demonstrators were united under the slogan of "Reformasi" or reform, which called for, among other demands, the elimination of "KKN"-Korupsi (corruption), Kolusi (collusion), dan Nepotisme (nepotism)-, an end to military intervention in political and administrative matters, and democratization.

B.J. Habibie, the then Vice-President, replaced Suharto and was inaugurated as Indonesia's third president. He needed to commit himself to "reform" partly because he assumed the country's top post without being elected by the people. What Habibie pledged in terms of democracy were free and fair elections and decentralization. Free and fair elections mean putting an end to the conventional elections in which the ruling government party, Golkar, supported by the national armed forces and civil servants, always won and the only issue was by what margin the governing party beat the Indonesian Democratic Party (PDI, Partai Demokrasi Indonesia) and the United Development Party (PPP, Partai Persatuan Pembangunan). On February 1, 1999, the general election act and the political party act were enacted. Under these acts, elections that were freer and fairer than before were held in June 1999, in which 48 parties participated.

Decentralization, on the other hand, gained momentum due to the following factors:

- (i) Under the centralistic Suharto regime, there had been little room for local governments to take the initiative in general. As a result, administration and economic development at the local level had become inefficient. Granting broad-based authority to local governments was expected to reduce such inefficiency.
- (ii) There were growing calls for independence in East Timor Province and the Special District of Aceh-where the national armed forces systematically resorted to violence and killings, as well as

in Irian Jaya Province. Decentralization is essential for averting declarations of independence by these provinces and settling issues within the framework of a unified country.

- (iii) There was deep-seated discontent with the central government in provinces rich in natural resources such as East Kalimantan, Riau, and Irian Jaya. These provinces claimed that the central government during the Suharto era took up all the rights to and interests in natural resources within their territories and left nothing to them. Decentralization was necessary to alleviate such discontent, which was turning into calls for a federal state or even independence.

Decentralization became a national policy only five months after Habibie assumed the presidency. In November 1998, the special session of the People's Consultative Council (Majelis Permusyawaratan Rakyat: MPR)-the supreme body of state power-adopted resolution No. 15 of the MPR concerning: the implementation of decentralization; fair regulation, distribution, and use of natural resources; and fiscal balance between the central and local governments within the framework of a Unitary State of the Republic of Indonesia. Decentralization in Indonesia became a national policy when this resolution was adopted, emphasizing, among others, the expansion of the amount of local finances and the redistribution of wealth to the provinces that produce natural resources.

Drafting of the bills concerning decentralization, under the initiative of the Ministry of Home Affairs, was launched between December 1998 and January 1999, when there were looming prospects of establishing the general election act and political party act. At the center of the drafting process was Prof. Dr. Ryaas Rasyid, the then Director-General of General Administration and Regional Autonomy in the Ministry of Home Affairs. GTZ, the German aid agency, also played a significant role here.² Five months after the drafting process started, the bill for Act No. 22/1999 and that for Act No. 25/1999 passed the parliament on May 7 and on May 19, respectively. These two acts, Act No. 22/1999 on the framework of local government and Act No. 25/1999 on the framework for a fiscal balance between central and local governments, were basic acts concerning regional autonomy, including the fiscal framework in the post-Suharto era.

Subsequent to the establishment of these basic acts, a constitutional amendment on local government and autonomy was made at the MPR's annual session in August 2000.³ With the revision of Article 18 and two additional provisions to the article, broad-based autonomy for local governments was laid down in the constitution.⁴ Before the amendment, local government and autonomy was mentioned in Article 18 only briefly.

The central government intended to complete the legislative arrangements by the end of 2000 so that the decentralization process based on the two basic acts could be launched in January 2001. As of late March 2001, the legislative arrangements have not yet been completed. Still, decentralization has been rapidly institutionalized over the past three years since the collapse of the Suharto regime.

As is suggested above, the decentralization process in Indonesia involves not only administrative reform for greater efficiency. It also implies political reform that would overcome the current political crisis. Therefore, unless the decentralization process based on these two basic acts produces the expected results in the short term, the regions may begin to call for a federal state or even independence in such a critical situation.

East Timor, where calls for independence have been traditionally strong, became independent after the referendum at the Habibie regime. Yet the central government does not admit to grant independence to the Special Territory of Aceh and Irian Jaya Province, where independence movements continue to emerge. Instead, the central government intends to grant to them special status whereby a broad-based autonomy will be permitted. It also intends to approve the application of Islamic act in the Special Territory of Aceh, which, despite its status as special territory, has not differed much from other provinces in terms of authority during the Suharto era.

The system of local government and finance to be established, based on Act No. 22/99, Act No. 25/99 and related regulations, is described below.

2-1-2 New local government system

The following is a review of the new local government system based on Act No.22/1999 in comparison with the one based on Act No. 5/1974 enacted under the Suharto regime.

1. Changes in the status of local government

The preamble to Act No. 22/1999 specifies the status of localities or local government. The preamble states: “Considering... whereas in the implementation of Local government, it is deemed necessary to emphasize further the principles of democracy, community participation, equitable distribution and justice, as well as to take into account the localities potential and diversity....” On the other hand, the preamble to Act No.5/1974 states: “Considering... that in line with the character of the Unitary State of the Republic of Indonesia, the status of the Local government should be uniform as far as possible....,” indicating the government’s intention to ensure that local governments across the country adhere to the unitary standard. Furthermore, there is no mention of democracy, community participation or regional diversity.

The preamble to Act No. 22/1999 also states: “whereas Act Number 5 Year 1974 regarding the Principles of Local government is no longer compatible with the principles of local autonomous bodies and the situation of development...” That means that it is no longer appropriate to emphasize centralization and the uniformity of the regions as stated in the preamble to Act No. 5/1974. Instead, Act No. 22/1999 calls for more emphasis

on regional diversity, broad local government, and local government based on democracy.

The preamble to the act states the basic policy or philosophy of that act. As far as the preamble to Act No. 22/1999 is concerned, it is obvious that post-Suharto Indonesia intends to grant autonomy to local governments with the emphasis on their diversity. This intention has led to the establishment of the State Minister of Regional Autonomy under the regime of the country's fourth president, Abdurrachman Wahid, popularly known as Gus Dur (from October 26, 1999), who assumed the presidency as a result of the general elections. Ryaas Rasyid assumed the post of the minister, and about 200 officials at the directorate-general of General Administration and Regional Autonomy at the Ministry of Home Affairs were transferred to the Office of the State Minister of Regional Autonomy.⁵

2. Distribution of authority and redistribution of personnel between the central and local governments

Regarding the relationship between the central and local governments, Act No. 22/1999 states that local governments have authority over all fields of governance, except in the fields of international relations, defense and security, judicature, monetary and fiscal policy, religion and authority over other fields (Article 7 paragraph (1)).⁶ Article 7 paragraph (2) states that "other fields" in paragraph (1) include policies on national planning and macroeconomic control of national development, fiscal balances, state administrative and state economic institutional systems, human resources development and capacity building, natural resources utilization as well as strategic high technology, conservation, and national standardization.

Because Article 7 paragraph (2) of Act No. 22/1999 is still too abstract, the concern of local governments regarding continued control by the central government has not been dispelled. This concern, in part, led to the May 6, 2000 issuance of Government Regulation No. 25/2000, which specifies "other fields" covered by the central government in Article 7 paragraph (2) of Act No. 22/1999. Article 2 paragraph (3) of Government Regulation No. 25/2000 classifies "other fields" into the following 25 fields:

1. Agriculture
2. The nautical sector
3. Mining and energy
4. Forestry and plantations
5. Industry and trade
6. Cooperatives
7. Capital investment
8. Tourism
9. Manpower
10. Health

11. Education and culture
12. The social sector
13. Regional planning
14. Land
15. The residential sector
16. Public works
17. Transport and communications
18. Living environment
19. Domestic affairs and public administration
20. Regional autonomy development
21. Fiscal balance
22. Population
23. Sports
24. Act and legislation
25. Information

Article 2 paragraph (3) specifies the services covered by the central government in detail within these 25 fields. Generally speaking, these services include securing coordination and establishing the framework for each field by means of guidelines, standards and principles. Depending on guidelines and standards, there remains the possibility that the central government will strengthen its supervision of and intervention in local governments, although that remains to be seen.

In line with the devolution, an increasing number of the central government employees are becoming local government employees. Before the transfer, the number of civil servants totaled about 3.9 million, of which 3.2 million were central government employees and the remaining 0.7 million were local government employees. In line with the transfer, 1.9 million central government employees are set to become local government employees, sharply increasing the number of local government employees to 2.6 million. Of the 1.9 million, 1.1 million are teachers and 0.2 million are employees of the Ministry of Health. The majority of the remaining 0.6 million will be transferred from field agencies of the national government to the relevant departments of the local governments under the integration program. Misgivings among these civil servants about their future will be discussed later. It should be noted here that because field agencies of the national government will be abolished except in five fields, there will be little room for the central government to intervene in the administrative affairs of local governments any more.

3. Types of the tasks of local government

The tasks of local governments can be roughly divided into the following three types:

(i) Decentralization (*desentralisasi*)

Decentralization is “the devolution (penyerahan) of the governance authority by the Government to Autonomous Regions in the context of the Unitary State of the Republic of Indonesia” (Article 1 (e) of Act No. 22/1999). The local governments have discretion over the fields to be decentralized, including the budgetary aspects. As discussed in subsection 2 above, Act No. 22/1999 states that local authorities cover the authority in all fields of government, except authority in the fields of international policies, defense and security, the judicature, monetary and fiscal aspects, religion and authority in other fields.

(ii) Deconcentration (*dekonsentrasi*)

Deconcentration basically means the delegation (pelimpahan) of authority by the central government to its field agencies. According to Act No. 22/1999, deconcentration is the delegation of authority by the Government to provincial governors as the Government’s representatives and/or central apparatus in the Regions (Article 1 (f)). In this case, the central government and/or ministries take charge of the tasks delegated and cover the costs for them. The costs are not appropriated in the budgets of local governments. Under the Suharto regime, regencies and municipalities as well as provinces were entities subordinate to the central government. Regents and mayors were not only the chief executives of the local governments in question but also representatives of the central government. Thus, there were field agencies of ministries even in regencies and municipalities.

(iii) Agency Delegation (*tugas pembantuan*)

Agency delegation is “the assignment by the Government to Regions and Villages (Desa) and by Regions to Villages to perform certain duties accompanied with finance, facilities and infrastructures as well as human resources supports with the obligation to report the implementation thereof and to take responsibility to the assigning parties” (Article 1 (g)).

4. Types and structure of local governments

Under the Suharto regime, the local administrative units include: provinces-first level autonomous regions (*Propinsi - Daerah Otonom Tingkat I*) (27); regencies and municipalities-second level autonomous regions (*Kabupaten/Kotamadya - Daerah Otonom Tingkat II*), (249/65); districts and administrative cities (*Kecamatan/Kota Administratif*); towns and villages (*Kelurahan/Desa*) (67,925); and villages (Desa) (61,668). (The figures in parentheses in this paragraph show the total number of the administrative units in question as of 1998.)

Of these administrative units, provinces-first level regions, regencies and municipalities-second level regions, and villages had autonomous status.⁷ First and second level autonomous units had an council made up of elected and appointed members. The first level local council (*DPRD Tingkat I*) elected the governor

from a number of candidates. The second level local council (*DPRD Tingkat II*) elected the regent or mayor (*Bupati/Walikota*) again from a number of candidates. The village headman (*Kepala Desa*) was directly elected by the villagers. As the title indicates, the provinces-the first level regions were placed above the regencies and municipalities-the second level regions, and the former had the authority to reject or postpone the implementation of regulations by the latter. The second level regions were emphasized for two reasons. One reason was that the second level regions were more directly engaged with local residents and were thus expected to understand and act on the requests of the local residents in the area in question (the note to Act No. 5/1974). The other reason was the government's concern that too much authority to the first level regions could jeopardize the political unity of the nation.

Under Act No. 22/1999, autonomous status has been granted to provinces (31), regencies/municipalities (268/97), and villages. (The figures in parentheses in this paragraph show the total number of the administrative units in question as of November 23, 2000.).⁸ Each autonomous region has a council. The Provincial Council (*DPRD Propinsi*) elects the governor (*Gubernur*), and the regent/municipal council (*DPRD Kabupaten/Kota*) elects the regent/mayor (*Bupati/Walikota*). The village headman (*Kepala Desa*) is directly elected by the villagers.

Emphasis is placed on regencies/municipalities as was the case under the Suharto regime. Act No. 22/1999 states that the fields of government that must be covered by regencies and municipalities include public works projects, health, education and culture, agriculture, transport and communications, industry and trade, capital investment, the environment, land, co-operatives, and manpower affairs, and these fields may not be devoluted to the provinces (Article 11 (2) and the note thereto). Municipalities also cover such fields as fire fighting, sanitation, parks, and city planning to better cope with their needs (the note to Article 11 (2)).

Act No. 22/1999 also defines the sea areas of autonomous regions. The sea area within twelve nautical miles from the coastline of a province constitutes the territorial waters of the province, while the sea area within four nautical miles from the coastline of a regency/municipality constitutes the territorial waters of the regency/municipality (Article 3 and 10).

Unlike under the Suharto regime, there is no longer a vertical relationship between the provinces and regencies/municipalities; the former and the latter have been placed on an equal footing as autonomous regions. The authority of provinces as autonomous regions include the authority in the fields of inter-regency and municipality governance, as well as authority in certain other fields of governance (Article 9 (1)).⁹ The authority of provinces as autonomous regions also includes authority that is not or not yet able to be implemented by regencies and municipalities (Article 9 (2)). According to the note to Article 9 (1), the authority in the field of inter-regency and municipality governance concerns public works projects, transport

and communications, forestry and plantations, among others. The authority in certain other fields of government concerns the following seven fields:

- (a) Macro regional development planning and control
- (b) Training in certain fields, assignment of promising personnel, and research that crosses provincial territory
- (c) Management of ports within the province
- (d) Environmental regulations
- (e) Promotion of trade, culture and tourism
- (f) Control of epidemics and pests
- (g) Space designing

Districts are entities subordinate to regencies or municipalities. The district officer is appointed by the chief executive of regency or mayor from among qualified civil servants upon the recommendation of the secretary of the regency or municipality. The district officer is accountable to the chief executive of regency or mayor (Article 66). Towns are entities subordinate to districts. The headman of a town is appointed by the chief executive of regency or mayor upon the recommendation of the district officer. The headman of a town is accountable to the district officer (Article 67).

Villages have the status of an autonomous locality. The village government consists of the headman of the village elected by the local residents and the village representative board (Badan Perwakilan Desa).¹⁰ The headman of the village is accountable to the village representative board, which has the authority to appeal to the chief executive of regency for dismissal of the headman of the village.

It has been decided that the field agencies of ministries set up as part of the deconcentration program under the Suharto regime will be abolished in principle. These field agencies embodied one of the negative aspects of the vertical structure of the public administration; they directed their attention only to their ministries in Jakarta-the main source of their funds, rather than trying to ensure coordination among themselves. Moreover, local governments had departments whose tasks were similar to those of the field agencies of the ministries. Coordination between these two types of entities was poor, reducing the efficiency of public administration. Under these circumstances, the abolition of the field agencies was designed not only to grant broad-based autonomy to local governments but also to eradicate the inadequacies of the public administration.

Kantor Departemen (Kandep) or field agencies of ministries in regencies or municipalities will be abolished or integrated into the relevant departments of these local governments in line with the objective of granting broad-based autonomy to them. Although provinces are not only local autonomous regions but also entities subordinate to the central government, Kantor Wilayah (Kanwil) or field agencies of ministries

in the provinces will be abolished or integrated into the relevant departments of the provinces. The tasks of these field agencies will be transferred to the relevant provincial departments (Article 63). However, field agencies of ministries managed by central government in the fields of international affairs, defense and security, judicature, monetary and fiscal aspects, as well as religious affairs will remain in place (Article 129 (2)). For example, the courts and field agencies of the Ministry of Religious Affairs will remain intact. Tax offices, which are field agencies of the Directorate General of Tax of the Ministry of Finance, will continue to collect national taxes. Field agencies of the Directorate General of the Budget will continue to take charge of accounting affairs and conduct audits of budget implementation concerning the regional allotments from the national budget.

5. Local councils and local government heads

Under the Suharto regime, local government heads were superior to local councils, the activities of which were not conspicuous. The reasons for this are:

- (i) The system in which the intent of the central government was more influential than that of the local councils in electing local government heads was in place.¹¹
- (ii) The head of a local government was accountable to the president of Indonesia through the Minister of Home Affairs, not to the local council.
- (iii) The regional budget over which a local council had auditing rights was small.
- (iv) The ruling Golkar Party, which consisted mainly of former government officials and veterans and the parliamentary faction of the national armed forces, took up the majority in local councils; the opposition camp was weak.

In line with decentralization, local councils now have more influence over local government heads. The reasons for this are:

- (i) The head of a local government is now elected by a majority vote of the local council in principle, leaving little room for the central government to intervene.
- (ii) The head of a local government is now accountable to the local council. If the fiscal year-end administrative report by the head is rejected twice by the local council, the head is forced to resign. As a result, the local council now has significant bargaining power over the head of the local government.
- (iii) The regional budget over which a local council has the auditing right has been increased after the regional allocations increased in absolute terms and the percentage of block grants to total subsidies from the central government has grown.
- (iv) The potential opposition within the local council to the head of the local government has increased because various political parties now have representation in the council after the system in which the Golkar Party coordinated and put together different opinions and interests collapsed.

The focus in the near future, therefore, will be the relationship between local councils and local government heads and also between local councils and local residents.

6. Intermediaries between the central and local governments

This subsection deals with formal institutional frameworks that act as intermediaries between the central and local governments.

Under the Suharto regime, the field agencies of central government ministries (those at the provincial and regency/municipal levels) served as the apparatus for top-down management rather than as intermediaries between the central and local governments. In addition, there was room for the Ministry of Home Affairs to intervene in elections for governors, chief executives, and mayors.

Under Act No. 22/1999, the field agencies of central government ministries have been abolished except for those in five fields, and in addition it has become difficult for the central government to intervene in elections for governors, chief executives, and mayors. Officials from ministries will no longer be loaned to the local governments. As a result, it is now difficult for the central government to intervene in the administration and politics of local governments, especially in the regencies and municipalities, except via government regulations and notices. The intermediaries through which local governments can present their requests to the central government are now in place. These intermediaries, the Consultative Council for Autonomous Regions and the associations of local governments, are discussed below:

<Advisory Board for Regional Autonomy (*Dewan Pertimbangan Otonomi Daerah: DPOD*)>

The DPOD existed even in the Suharto era, but it was made up of ministers only. In the post-Suharto era, the DPOD has been expanded to include regional representatives, making it easier for local governments to be heard. The DPOD is an advisory body of 15 members directly under the President of Indonesia. Regarding local governments, the DPOD has three functions as follows:

- (i) To conduct studies concerning recommendations for the establishment, abolition, merger, and division of provinces, regencies, and municipalities.
- (ii) To formulate policies on local government and to come up with reports on policies concerning the fiscal balance between the central and local governments.
- (iii) To monitor and evaluate the implementation of policies on local government and the fiscal balance between the central and local governments.

The DPOD is made up of the following 15 members:¹²

Chairman: Minister of Home Affairs and Regional Autonomy

Vice-chairman: Minister of Finance

Other representatives of the central government: Minister of Defense, Minister for Reform of the State Apparatus, National Secretary, and the head of the National Development Planning Agency

Regional representatives: the head of the association of provincial autonomous bodies (discussed later), the head of the association of regency autonomous bodies (discussed later), and the head of the municipal autonomous bodies (discussed later), and two representatives each from the provinces, regencies, and municipalities.

The secretariat of the DPOD is placed within the Ministry of Home Affairs and Regional Autonomy. The post of the secretary-general of the DPOD is assumed by the head of the directorate of regional administration and general affairs of the Ministry of Home Affairs and Regional Autonomy. The post of deputy secretary-general of the DPOD is assumed by the secretary-general of the Ministry of Finance.¹³ Under the secretariat of the DPOD are the subsecretariat in charge of regional autonomy and the subsecretariat in charge of fiscal balance between the central and local governments. The subsecretariats prepare reference materials in their respective fields. The secretary-general of the DPOD is assisted by an aide (the head of the directorate of regional autonomy, the Ministry of Home Affairs and Regional Autonomy), the deputy to the aide (full-time staff), and an assistant to the aide (full-time staff).

<Regional Government Associations (*Asosiasi Pemerintah Daerah*)>

These associations are designed to promote cooperation among local governments at the provincial, regency, and municipal levels.

The association of provincial autonomous bodies is headed by the Governor of West Java Province, the association of regency autonomous bodies by the Regent of Kutai Regency, and the association of municipal autonomous bodies by the Mayor of Surabaya.

At the moment, these associations seem to be maintaining a low profile, but it is quite possible that they will become pressure groups in relation to the central government. The United Nations Development Programme (UNDP) plans to support the development of these associations.

The above is an outline of the new institutional framework for local government. Described below are its characteristics in comparison with the comparable systems in Thailand and the Philippines, as appropriate. Regarding the design of the system for decentralization, the first characteristic is that the existing autonomous bodies, especially regencies and cities, which could be described as municipalities, have been granted greater

autonomy, while the framework of the existing system for regional administration remains in place. This is different from Thailand, where *Tambon*, totaling 7,255, were created and from the Philippines, where *barangay*, totaling about 42,000 were created. Secondly, while the status of the provinces in Thailand and the Philippines, which could be described as multi-municipality-based regional authorities, is unclear, the status of the provinces-the multi-municipality-based regional authorities in Indonesia is clear. A governor in Indonesia is not only the head of a province but also a representative of the central government. The system of regional autonomy in Indonesia is easy to understand, at least in its form; provinces are placed between the central government and the basic autonomous units of regencies or municipalities.

On the relationship between the central and local governments, decentralization in Indonesia is more like the separationist model rather than the integrationist model in light of the discussion regarding these two models in this report. The reason is simple. Firstly, authority is clearly distributed between the central and local governments. Secondly, personnel exchange between the two types of entities is not institutionalized even at the informal level. Thirdly, the kind and amount of Agency delegation is seemingly limited. The local governments are given the opportunity to exert pressure on the central government through their representation in the Advisory Body for Regional Autonomy (DPOD)- the supreme decision-making body concerning decentralization. The DPOD is similar to the National Decentralization Committee in Thailand.

Act No. 22/1999 has paved the way for judicial solutions to conflicts between the central and local governments. According to the Act, the central government can annul local ordinances and decisions by local government heads if they are considered to run counter to the public interest or superior legislation. The local governments, on the other hand, can file an objection to such an action by the central government with the supreme court.

The hierarchical structure of autonomous regions, the three-tier structure of provinces, regencies/ municipalities, and villages, did not change basically after decentralization. The Philippines also has a three-tier structure-provinces, cities/municipalities, and *barangay*. No autonomous bodies have been created as the result of decentralization in Indonesia, unlike Thailand, where *Tambon* have been created. Indonesian villages (*Desa*) do not have well-defined authority compared with the *barangay* in the Philippines.

Regarding the relationship between the executive and legislative at the regional level, it is likely that the political power will increase, politicizing the administration. Political power here means the power of local councils or their members, not the power of the members of national parliament who can distribute pork-barrel funds around to the regions as in the Philippines, where politics takes precedence over public administration. The power of local council members will become strong in Indonesia because:

- (i) The local council has the ultimate right to select the head of the local government.
- (ii) The local council has more leeway to intervene in the budget allocation because the funds over

which it has discretion have expanded.

It is unclear whether the increased influence of local councils will result in stabilizing local politics and society. Because the head of the local government is elected by the local council as shown in (i) in the previous paragraph, there are likely to be fewer occasions in which the council and the head confront each other than in the case of election of the head by popular vote—at least formally. Yet the situation in Indonesia is different from that in Japan, where confrontation between the legislative and executive is not so severe at the local level because the opposition camp in the local council is almost always negligible, even though the head of the local government is elected by popular vote. Moreover, the homogeneity of the local community is relatively high. In Indonesia, a variety of political parties are represented in local councils. The differences in political parties are often a reflection of differences not only in ideology but in ethnicity and religion in some parts of the country. In this sense, there is always a good chance that the head of a local government and the local council will be in conflict.

Indonesia lacks an institutional framework in which local citizens can make direct appeals to the local government. In Japan, local citizens have the right to demand the enactment of ordinances, dissolution of the local council, or the recall of council members. In Thailand, local citizens have the right to demand the dismissal of local council members and the enactment of ordinances. Such a system is not institutionalized in local governments in Indonesia. Rather, it tends to promote community participation in the formulation of development plans and in other administrative arenas.

A sharp rise in the number of local government employees is the most conspicuous change associated with decentralization; but such a surge has not occurred in Thailand and the Philippines. In Thailand, central government employees outnumber local government employees despite decentralization. The central government has clout in recruiting local government employees. In the Philippines, the number of local government employees has been increasing significantly since the Local Autonomy Act of 1991 was revised, but this increase is not so radical compared with the surge in the number of local government employees in Indonesia. In Indonesia, there is now little room for the central government to intervene in the personnel affairs of local government employees, unlike in Thailand.

2-1-3 New system of local government finances

This subsection looks at the state of local government finances under the Suharto regime and then provides an overview of the new system of local government finances.

1. Local government finances in the Suharto era

Under the Suharto regime, Indonesia's government finances were centralized. The expenditures and revenues of the central government were far larger than those of the local governments. And local governments were unable to develop independent revenue sources on their own initiative.¹⁴

At a rough estimate, the central government accounted for more than 90% of the nation's total revenues and more than 75% of the nation's total expenditures in the FY1996 budget. Independent revenues accounted for about 34% of the revenues of the provinces and around 14% of the revenues of the regencies and municipalities. The reasons for this large proportion of central government revenues are as follows.

Firstly, foreign aid, which accounted for 10% to 18% of the total revenues of the central government and the local governments at all levels combined, was part of the central government revenues.

Secondly, the central government collected 91.0% of all taxes and fines for the central government and the local governments at all levels combined in the FY1996 budget. The provinces and regencies/municipalities accounted for only 6.60% and 2.42%, respectively. In this way, the major tax revenue sources were controlled by the central government, leaving limited room for local governments to collect taxes and fines. In particular, Act No. 18/1997 defined the scope and the maximum amount of taxes and fines to be collected by the local governments, making it difficult for them to develop independent revenue sources on their own.

In connection with revenue sharing, if Act No. 32/1956 on the Fiscal Balance Between the State and Regions, which stated that about 75% to 90% of national taxes, including import and export levies, would be distributed to the regions, had been enforced, the expenditures of the local governments would have surely increased despite the limited sources of independent revenue. In reality, the Act was not enforced to its full extent due partly to the complexity associated with the calculation of the ratio of revenue sharing. Although the land and property tax and the tax on the acquisition of land and building rights were covered by the act, only 4.60% of these tax revenues were allocated to the local governments in the FY1996 budget.

Every year, *Subsidi Daerah Otonom* (SDO), or the subsidy for autonomous regions, and *Instruksi Presiden (Inpres)*, or presidential decree subsidy, were granted to local governments in accordance with government decisions. The SDO was allotted for the current expenditures of local governments to cover mainly the payroll for local government employees. Each fiscal year, the Ministry of Finance granted the SDO based on the number of local government employees, in consultation with the Ministry of Home Affairs. The SDO to cover the payroll of local government employees was granted every month and the SDO to cover other expenses was granted every four months. Local governments did not have the discretion

to decide how to use the SDO.

The *Inpres* subsidy, on the other hand, was allotted for the development expenditures of each local government. This subsidy was divided into two types. One type had to be used in certain sectors such as roads, irrigation, education, and health. The other type was allotted as block grants to the provinces, regencies/municipalities, and villages. Each fiscal year, the Ministry of Finance granted the *Inpres* based on such criteria as the local population, independent revenue sources of the local governments, the total length of roads, and other data, in consultation with *Badan Perencanaan Pembangunan Nasional* (BAPPENAS), or the National Development Planning Agency. The Ministry of Finance was supposed to grant 20% of the total allocations first and then the remaining 80% on request from local governments. The actual allocations, however, were significantly influenced by political considerations of the central government.¹⁵ Therefore, a local government that wanted to secure more *Inpres* subsidy had to maintain good relations with BAPPENAS, which had discretion over the allocations.

The central government controlled the bulk of the government revenues and expenditures while the local governments, lacking independent revenue sources, depended considerably on subsidies from the central government under the Suharto regime. As a result, regions rich in natural resources expressed dissatisfaction with the central government, saying that the profits the central government gained from natural resources were not disbursed to them. Apart from being dependent on the central government for their finances, local governments in general saw their initiatives hampered by the central government. The typical attitude of local government employees was to wait for instructions from above. To rectify the situation, Act No. 25/1999 was enacted in the era of reform. This Act was designed to expand the revenue sources of local governments and allow them to use such revenues at their own discretion to meet local needs.

2. Local revenue sources based on Act No. 25

Local revenue sources mainly consist of independent revenue sources, the balance funds, and local government loans. An overview of each type of revenue source is given below.

1) Independent revenue sources

Independent revenue sources mainly consist of local taxes and fines. Strict restrictions imposed on local taxes under the Suharto regime have been eased after the above-mentioned Act No. 18/1997 was revised in line with decentralization. Local governments can now collect a wider range of taxes and fines. Regencies and municipalities, in particular, can impose taxes at their own initiative. As regencies and municipalities are emphasized in the decentralization program, their share of provincial tax revenues is larger than before.

2) Balance funds

The balance funds are funds allocated to local governments from the revenues of the central government. They consist of the revenue share, the general allocation fund, and the special allocation fund. The revenue share and the general allocation fund constitute block grants, while the special allocation fund is used for designated purposes.

Local governments receive their share of revenues from oil, gas, and other natural resources, land and property taxes, the tax on the acquisition of land and building rights, and income taxes. The percentage of this share depends on the type of revenue. Of the revenues from oil, for example, 85% goes to the central government and the remaining 15% to the local governments. Of the 15%, 3% goes to the province that produces the oil in question, 6% to the regency/municipality that produces the oil, and the remaining 6% to the other regencies/municipalities in the province.

The general allocation fund is a comprehensive subsidy that local governments can use at their own discretion. This fund is appropriated from the state revenues for the purpose of equalizing the fiscal capacity of local governments. At least 25% of domestic revenues are appropriated for this purpose. The amount of the general allocation fund actually allocated to a local government is calculated based on its needs and economic potential.

The special allocation fund is used for defined purposes, such as investment for installing or improving physical infrastructure and facilities.

3) Local government loans

Local governments can receive loans from the central government, banks, and non-banks and issue local government bonds if they obtain approval from the local councils. Local governments cannot obtain foreign loans directly but they can do so through the central government.

This is the description of the framework of local government finances. Its characteristics can be summarized as follows:

- Local governments now have easy access to loans;
- Major tax revenue sources have not been transferred to local governments;
- Revenues for local governments and fiscal balance among local governments have been secured through balance funds such as the revenue share, the general allocation fund; and
- The balance funds are provided in total as block grants.

The linkage of the general allocation fund to domestic revenues-set at 25% of domestic revenues-is designed to ensure that local government budgets can be established on a stable basis, as in the Philippines, where the internal revenue allotment (IRA) is linked to domestic revenues, and as in Thailand, where the proportion of local government expenditures out of total government expenditures is fixed.

2-1-4 The implementation program for decentralization and confusion in the implementation process

The two basic acts on decentralization were enacted by parliament in May 1999, as mentioned earlier. Act No. 22/1999 has a provision that the implementing acts shall be established no later than one year after the Act comes into force and it has another provision that local government based on the act shall be launched no later than two years after the act comes into force (Article 132). Act No. 25/1999, on the other hand, has a provision that legislative adjustments shall be made for a new local finance system no later than two years after the act comes into force (Article 30). If decentralization had proceeded according to these provisions, local government would have been realized fully with the local budgets compiled under the new local finance system by May 2001. The following subsections look at how decentralization based on the two basic acts was launched, what the achievements have been so far, and the confusion that has occurred during the process.

1. Implementation plan for decentralization

The central government desired to put in place local government under the new system that allowed for broad-based autonomy, even though there were no signs of the independent movements waning in the Special Territory of Aceh and Irian Jaya Province, as well as continuing calls for a federal state in East Kalimantan and Riau provinces. This stance of the central government was reflected in the establishment of the State Minister of Regional Autonomy under the regime of Gus Dur, as mentioned earlier. Decentralization is also a kind of international pledge for Indonesia. In its Letter of Intent to the International Monetary Fund (IMF) dated January 20, 2000, Indonesia has accepted decentralization as a conditionality for an IMF loan and the letter has also set the time schedule for decentralization.

The implementation of the full-fledged decentralization program based on the new administrative structure of local government and the new budget compilation system was brought forward to January 1, 2001 from May 2001. This is partly due to the fact that the fiscal year period was changed from the period that starts in April and ends in March the next year to that of the calendar year.

The period between the date the two basic acts came into force and January 2001 was set as a transitional period. It had been decided that during the transitional period, the necessary legislative arrangements,

structural reorganization and relevant personnel transfers would be completed. It had also been decided that the agenda items that could be put into practice would be implemented under the new system-including elections for local government heads. As a matter of fact, nine gubernatorial elections, 145 elections for regents, and 40 mayoral elections were held under the new system during the year 2000.¹⁶ During this year, campaigns for enactment of the decentralization acts were mounted across the country by means of representations and hearings.

Decentralization of the budget compilation started with the FY2000 budget. The period for the FY2000 budget was shortened to nine months because the FY2000 ended on December 31, 2000 instead of March 31, 2001. In the FY2000 national budget, the expenditure items of the SDO and Inpres were abolished and the item for fiscal balance funds was established as one of the items of central government expenditures based on Act No. 25/1999. This item included the sub-items for the revenue share, the general allocation fund, and the special allocation fund. Yet the fiscal balance funds were not allotted to local governments as prescribed by Act No. 25/1999, partly because detailed regulations for allocation of the funds had not yet been established. The local share of the revenue share was small. The general allocation fund was not a comprehensive subsidy, as its applicable use was the same as that of the Inpres. The total amount of general funds for local governments was below 25% of state revenues.

The People's Consultative Council Decision No. IV on August 18, 2000 called on the government and the parliament to draft a act designed to grant special autonomy status to the Special Territory of Aceh and Irian Jaya Province by May 2001. In addition, the decision demanded that government regulations necessary to implement Act No. 22/1999 and Act No. 25/1999 be established by the end of December 2000. Decision No. IV allowed local governments that could implement full-fledged autonomy to do so from January 1, 2001. The decision also called on the government and the parliament to allow local governments to draft ordinances for the implementation of local government even if the central government had not completed the legislative arrangements by the end of December 2000. Moreover, the decision called on the government and the parliament to allow local governments that had not yet prepared for autonomy to implement it at their own pace.

In response to the People's Consultative Council Decision, the central government decided that the implementation program for full-fledged decentralization would be launched in September 2000. On September 5, the government issued the Minister of Home Affairs and Regional Autonomy Notice No. 118/1379. The notice set out the schedule for decentralization by December 2000 including: the redistribution of authority and reorganization of governmental systems; arrangements concerning personnel, assets and public documents; preparations for fiscal decentralization; and capacity building of local governments.

According to the explanation by the Indonesian government made to its donors, the decentralization

program is divided into the following three phases:¹⁷

(i) Introduction phase (2001-2003)

During this phase, all local governments will fully implement decentralization measures. The year 2001 is the most important for initiating decentralization. During 2001, the central and local governments will plan and launch broad-based capacity building programs in cooperation with the donors. Special attention should be paid to ensuring continuity in the delivery of public services.

(ii) Consolidation phase (2004-2007)

During this phase, the decentralization process will be on track and irreversible. The main objectives of this phase are:

- (a) To reform governance and the fiscal framework,
- (b) To start to organize local associations, and
- (c) To extend intensive support to vulnerable local governments and to complete the first stage of capacity building programs designed to expedite the reform process.

(iii) Stabilization phase (2007-)

During this phase, decentralization will be firmly established with the organizations of the central and local governments gaining maturity. The decentralization process will remain an indefinite work in progress. New stages of the capacity building programs will be needed to deepen the decentralization process and strengthen local government.

The following subsection looks at what arrangements the central government is making to establish the systems necessary for decentralization. It should be noted that the Advisory Body for Regional Autonomy (DPOD) is omitted because it has been discussed earlier.

2. System development for decentralization by the central government

In June 1999, when Indonesia was under the Habibie regime, the central government launched a team for coordination among ministries as decentralization concerned a wide range of administrative affairs. This team was called the Coordination Team to Follow Up the Implementation of Act No.22/1999 on Regional Administration and Act No.25/1999 on the Fiscal Balance between the Central Government and the Regional Governments (herein after referred to as the Coordination Team). The Coordination Team was chaired by the Coordinating Minister for Development Supervision and Administrative Reform. The team's vice chairpersons were the Minister of Home Affairs and the Ministry of Finance. The other members included the Deputy Cabinet Secretary, the Head of Agency for State Personnel, the Head of the Financial and Development Supervision Agency, the Head of the Public Administration Institution, and the Secretary-

General of the Coordinating Ministry for Development Supervision and Administrative Reform.¹⁸ The Coordination Team changed its official name and membership under the Gus Dur regime but continued to exist.¹⁹

When the Coordination Team was launched, the Ministry of Home Affairs played a central role in devising measures for decentralization and local government. However, after the post of State Minister for Regional Autonomy was established under the Gus Dur regime, as mentioned above, a disagreement occurred between the Ministry of Home Affairs and the Office of the State Minister for Regional Autonomy concerning the initiatives and policies for decentralization, although both agreed on decentralization in principle. When the Office of the State Minister for Regional Autonomy was established, the directorate-general of the general administration and regional autonomy in the Ministry of Home Affairs was abolished. Thus, decentralization was expected to be outside the jurisdiction of the Ministry of Home Affairs. However, a directorate-general of general regional administration was established to replace the directorate-general of general administration and regional autonomy. The authority of this directorate-general and that of the Office of the State Minister for Regional Autonomy overlapped in relation to local government, institutionalizing a disagreement between the two. As a result, the Ministry of Home Affairs often failed to implement policies set out by the State Minister for Regional Autonomy.²⁰

State Minister for Regional Autonomy, Ryaas Rasyid, tried to integrate authority over local government by:

- Abolishing the post of State Minister for Regional Autonomy and changing the Minister of Home Affairs to the Minister of Home Affairs and Regional Autonomy in a cabinet reshuffle, and
- Establishing Badan Pengembangan Otonomi Daerah, or a regional autonomy promotion agency.

In the cabinet reshuffle on August 23, 2000, the post of Minister of Home Affairs and Regional Autonomy was established as Ryaas Rasyid wished. He desired to assume the post, but the post was assumed by the former Minister of Home Affairs, Surjadi Sudirdja. Moreover, against the strong wishes of Ryaas Rasyid, a regional autonomy promotion agency was not established. Local government thus came under the jurisdiction of the newly established directorate-general of regional autonomy in the Ministry of Home Affairs and Regional Autonomy.²¹ As the Office of the State Minister for Regional Autonomy was integrated into the Ministry of Home Affairs and Regional Autonomy, officials at the former were transferred to the latter. Due to the old confrontation between the two, it seems that many of these officials could not assume important posts.

The following subsection looks at the progress in legislative arrangements by January 2001, when full decentralization was to start, and also at the FY2001 budget.

3. Relevant legislative arrangements and the FY2001 budget

The implementation of decentralization was said to require a total of 118 acts and ordinances. The director for fiscal and financial analysis at the Ministry of Finance said in April 2000 that after legislative arrangements would be made for the structural reform of local government based on Act No. 22/1999, acts and ordinances for local government finance based on Act No. 25/1999 would be established. This was because it had to be made clear how much of the authority, and which of the tasks and personnel would be transferred from the central government to local governments after the reform of the local administrative machinery. Otherwise, there would have been the risk that the central government would be saddled with carrying out tasks related to local administrative affairs, while the funds were transferred to the local governments.²²

The first legislation in connection with Act No. 22/1999 was enacted on May 7, 2000. This legislation was Government Regulation No. 25/2000 mentioned earlier, defining the authority of the central government and that of the provinces as local autonomous bodies. The authority of neither the central government nor the provinces was defined as the same as that of the regencies/municipalities, thus clarifying the authority of each local autonomous unit. This ordinance had a provision that the policies, standards, procedures and guidelines concerning the local administrative authority that it defines shall be laid down by the central government no later than six months after it came into force (Article 9). In other words, the central government intended to complete the establishment of a series of measures for local government by November 7, 2000.

Four months later, on September 4, the central government issued Government Regulation No. 84/2000 on the guidelines for the system of local government. This means that local governments were given the outline for the reorganization of the local administrative machinery on this day. With the understanding that local government would be launched with the reorganized local autonomous machinery on January 1, 2001, local governments had been promoting the integration of the field agencies of the ministries in the provinces, regencies and municipalities into the relevant departments of the local governments and the reorganization of such departments on their own initiative. After Government Regulation No. 84/2000 was established, local governments were expected to reorganize the local autonomous machinery based on this regulation.

As of April 2000, five government regulations based on Act No. 25/1999 had already been drafted. They were regulations on:

- (i) the funds designed to ensure a fiscal balance between the central and local governments,
- (ii) local government loans,
- (iii) expenses for the devolution of authority and delegation of duties to local governments,

- (iv) fiscal management in local governments, and
- (v) the fiscal information system.

The Ministry of Finance planned to enforce these five regulations, thinking that these regulations should follow the drafting and enforcement of acts and ordinances in connection with Act No. 22/1999. An IMF schedule said that the five regulations would be come into force in September. On the other hand, the Ministry of Finance obviously wanted to enforce them one month earlier, that is in August, so that the ministry had enough time to compile the national budget by November.²³

The enforcement of the five regulations was delayed due to such factors as concern over local government loans, difficulties in formulating the distribution formula for the general allocation fund, and delays in enforcing legislation in connection with Act No. 22/1999. On November 10, the first four of the five regulations finally came into force. Act No. 18/1997 on local taxes and fines was eventually revised in December 2000, as mentioned earlier. Although the necessary legislative arrangements are far from complete, the basic framework of those for the local administrative machinery and local finance is being formed.²⁴

The following is an overview of the FY2001 budget.

The central government submitted the bill for the national budget for fiscal 2001 to the parliament on October 2, 2000. The bill, which was amended during the deliberations, passed the parliament on December 5. The original bill called for 24,299.67 billion rupiah for domestic revenues excluding aid (17.3% of the GDP), and 29,511.35 billion rupiah (21.0% of the GDP) for state expenditures, of which 7,489.63 billion rupiah (5.3% of the GDP and 30.8% of domestic revenues) for the balance fund. After the parliament adopted more optimistic forecasts on some of the basic data than those on which it had earlier agreed with the government, both revenues and expenditures eventually increased by two trillion rupiah each.

The amended bill sets domestic revenues at 26,322.66 billion rupiah (18.4% of the GDP) and state domestic expenditures at 31,575.61 billion rupiah (22.2% of the GDP), of which 8,167.65 billion rupiah are for the balance fund (5.7% of the GDP, 31.0% of domestic revenues). Of the balance fund, 2,025.93 billion rupiah are for the revenue share, 6,051.67 billion rupiah are for the general allocation fund, and 90.06 billion rupiah for the special allocation fund. The general allocation fund meets the standards defined by Act No. 25/1999, meaning that the fund is 25% or more of the basic revenues minus the sum of the revenue share and the special allocation fund.²⁵

In early December 2000, the regional autonomy council, in which consultants and experts also participated, decided on the amount of the general allocation fund that every local government will receive for FY2001. The council made sure that this amount would be greater than or equal to the previous transfer

from the central government through the SDO and Inpres.²⁶ Nonetheless, many local governments demanded an increase in the amount of the general allocation fund.²⁷

4. The negative and positive aspects of decentralization

If a country intends to change the political and governmental systems, the political relationships in the country will change. In this case, it is not uncommon for the following phenomena to occur even in industrialized countries.

- Confrontation occurs over the pros and cons of such changes.
- Confusion occurs in the implementation process.
- Institutional reform is described but not carried out, or its pervasiveness is diminished.

The decentralization process in Indonesia:

Confrontation over the pros and cons of decentralization was virtually non-existent in Indonesia. More precisely, no elements in the country explicitly opposed decentralization itself, even though confrontation occurred over the extent of decentralization. Even central government ministries, which could lose their authority, and thus their vested interests, as a result of decentralization, did not dare to voice any strong opposition.

In fact, decentralization was an international agenda item. After the end of the Cold War, democratization became an international trend, and decentralization was considered part of the democratization process. The IMF and the World Bank endorsed fiscal decentralization. Under these circumstances, the decentralization program in Indonesia was overwhelmingly welcomed by the international community when the program was announced.

After the framework for decentralization was gradually formed after the enactment of Act No. 22/1999 and Act No. 25/1999, the regions rich in natural resources and other regions expressed dissatisfaction with what they regarded as the limited scope of decentralization under these basic acts. The reasons for this are:

- (i) A priori judgement and deep rooted distrust on the part of local governments that the central government will never give up its authority and the interests that go with them.
- (ii) For regions calling for independence, devolution of authority within the framework of a unitary republic is insufficient in the first place.

As the decentralization legislation moved to the implementation stage with a part of it institutionalized, and as the reform of the local autonomous machinery was launched, confusion and unexpected situations began to appear in many parts of the country. Some examples of such cases follow.

Throughout Indonesia a redrawing of regional boundaries is occurring. Some regions are demanding the establishment of a new province. Others are in the process of demanding the status of a regency or municipality. One of the factors behind these moves may be that ethnic groups constituting a minority within a local entity want to redraw the regional boundaries so that they will become the majority. The second factor may be that regions rich in natural resources within a local entity want to form their own autonomous government to place the economic interests in such resources in their own hands. The third factor may be that administrative cities are now allowed to become promoted to municipalities with the status of an autonomous body.

The central government now allows for an increase in the number of provinces. President Wahid has indicated that the central government will allow the number of provinces to increase up to 50. As of late February 2001, the number of provinces was 32. After the number of provinces decreased by one from 27 when East Timor became independent, North Maluku Province seceded from Maluku Province to prevent a political confrontation based on religious differences in Ambon. Then the central government decided to divide Irian Jaya Province into three provinces.²⁸ After that, Banten seceded from West Java, Bangka-Belitung from South Sumatra, and Gorontalo from North Sulawesi, bringing the number of provinces to 32.²⁹

An outstanding development in many parts of the country, apart from the redrawing of regional boundaries, is the associated expansion of the authority of local councils. As local councils have the right to decide the salaries of their members, many local councils have increased their salaries. In some cases, the salaries of local council members have doubled. This was possible because even though the media and local residents were opposed to such moves, there were no systems to prevent salary hikes-until Government Regulation No. 110/2001, discussed later, was issued. Some local councils increased funds for council activities. Such funds were probably used for overseas trips for local council members. For example, the council members of the Jakarta Special Administrative District went to Europe on a fact-finding tour. The council members of Pandeglang Regency in the west part of West Java Province made a trip to Bali. Fact-finding tours in themselves are not problematic, but their timing may be, especially when the economic crisis is not over in Indonesia. Moreover, it is questionable as to whether these council members are required to report on the achievements of these tours and whether the tours will contribute to the development of the local governments.

The process of electing local government heads became politicized after the process in regencies/municipalities was completely put in the hands of the local councils and the process in the provinces was generally delegated to the local councils. Earlier, the candidates supported by the Ministry of Home Affairs and the ruling Golkar Party, which constituted the majority party in local councils, were sure to win, while other candidates were just stalking horses to maintain a facade of democracy. The Ministry of Home Affairs,

Golkar and the national armed forces ironed out their differences and agreed on the candidates they would support behind the scenes. Such differences rarely developed into explicit confrontation. However, the situation has changed. Rather, after free and fair elections in June 1999, a number of parties gained seats and they scrambled for the post of local government head. Newspapers and other media did not fail to report what party supported which candidates. Demonstrations by supporters of the candidates often took place in front of local council buildings.

The largest party in a local council that was short of a majority had to form a coalition with other parties. There seemed to be some cases in which a coalition was formed through the power of money, not by policy coordination; the media often reported stories of money politics in the process of electing local government heads. There were some cases in which a political party, through political maneuvering, succeeded in splitting the party with the largest number of members and other parties and won support for its candidate from some of the members of these parties, causing mutual mistrust within the parties. In a regency in Lampung Province, for example, the camp that did not receive money from the elected regent was at loggerheads with the camp that did. Fearful of an unpredictable assault, both camps were unable to attend sessions of the council.

Another problem associated with the expanded authority of local councils concerns the Laporan Pertanggung Jawaban (LPJ), or administrative report on accountability, that local government heads make at the end of every fiscal year to the local councils. Local government heads may be subjected to dismissal if their LPJ is rejected twice. Therefore, they have to garner support from local council members. On the other hand, LPJ provides local council members with bargaining power in relation to the local government heads. Confrontation between the two sides often occurred when local government heads elected during the Suharto era presented their LPJ to the newly elected local councils. However, there were not many cases in which the LPJ was rejected twice.

The political and administrative situation mentioned above prompted the central government to issue a series of government regulations in November 2000. Government Regulation No. 108/2000 regarding the accountability of local government heads is designed to prevent local councils from abusing the right to reject the LPJ. The regulation stipulates that local councils should assess the LPJ based on the strategic plan-the five-year plan setting out the vision, mission, objectives, strategies, programs, and activities of a local government.

Government Regulations No. 109 and No. 110 were issued on the same day that Government Regulation No. 108 was issued. Government Regulation No. 109 on the financial status of the heads and deputy heads of local governments was designed to impose a certain limit to the expenditures for the head and the deputy head of a local government by linking it to the amount of independent revenues of the local government.

Government Regulation No. 110 on the financial status of local councils was designed to impose a certain limit on the remuneration of local council members by linking it to the remuneration of the head of the local government. This regulation was also designed to impose a certain limit on the expenditures for a local council by linking it to the amount of independent revenues of the local government. The remuneration of the heads and deputy heads of local governments is regulated by another government regulation.

At issue in the administrative sector in the local governments are its reforms and the redeployment or transfer of personnel associated with it. Some of the central government employees at the following nine ministries are set to become local government employees:³⁰

- Ministry of National Education
- Ministry of Home Affairs and Regional Autonomy
- Ministry of Health
- Ministry of Agriculture
- Ministry of Forestry
- Ministry of Industry and Trade
- Ministry of Manpower and Transmigration
- Ministry of Transportation and Communications
- Ministry of Energy and Mineral Resources

Local governments are in the process of abolishing, integrating, dividing or establishing departments according to local needs. Moreover, field agencies of central government ministries are in the process of being abolished and integrated into the relevant departments of local governments. Naturally, the reorganization of the administrative machinery does not proceed smoothly based on rational decisions alone. Some departments are not only lobbying the persons in charge of the reorganization but also local councils, which have the final say, for their survival.

Regarding the redeployment of personnel, at issue is where civil servants in the departments of local governments and local ministry offices that are to be abolished will be transferred. These civil servants fear that the transfer will result in reduced salaries, demotion to lower ranks, and even dismissal due to cuts in posts. In a related development, *daerahisme* or regionalism is gaining momentum in some regions. In Riau and other provinces, for example, civil servants at field agencies of the ministries who are not from these provinces may be subjected to expulsion. To cope with these circumstances, the central and local governments plan to establish *the jabatan fungsional* or functional position and recommend early retirement. As of late February 2001, the process of reorganization differs from one local government to another. The number of departments and agencies will increase in some local governments and decrease in others.

Regarding local finance, a notice by the Ministry of Finance has imposed restrictions on domestic

borrowing for two years starting in FY2001. This action was taken under pressure from the IMF and the World Bank, which feared that borrowing by local governments in a haphazard way would result in a deterioration of macroeconomic conditions.

Some local governments have moved to impose local fines and collect *Sumbangan Pihak Ketiga*, or third party contributions. These third party contributions are monetary contributions made to local governments on a voluntary basis in form but rather on a mandatory basis in reality. Local fines and third party contributions are the shortest avenue to increasing revenues for local governments, but they may hamper the development of the local market economy. Local governments impose local charges on businesses according to their sales, or on road users. They also make appeals to businesses for third party contributions. However, if local governments just intend to increase revenues in the short term without sufficient explanation to the payers and contributors, such charges and fines may not only hamper business activities and new investment but also cause dissatisfaction with local government among the residents. If local fines and third party contributions remain unchecked, or even spread across the country, the central government may need to impose some kind of restrictions.

Some local governments have already compiled the local government budget due to be introduced in January 2001; others have not. Local revenues increased in absolute terms, but the development budget was curtailed in some local governments due to increased personnel expenses for civil servants transferred from central government ministries. As regencies/municipalities are given priority over provinces in terms of the allocation funds and the revenue share, the provinces in Sulawesi, for example, will likely have no choice but to reduce their development budget for FY2001 from the previous year.

The following describes some of the new constructive developments resulting from decentralization.

A new type of head of local government has been elected—a 37-year-old woman in *Kebumen* Regency of East Java. *Dra. Rustriningsih*, a member of the Indonesian Democratic Party of Struggle (PDI-P), was elected as the regent of Kebumen. At first, she did not run in the primary to select the PDI-P candidate for regent. However, a group opposed to the fact that the 24 candidates from PDI-P were former members of the Golkar Party, persuaded *Dra. Rustriningsih* to run for the primary only four hours before it, and she became the PDI-P candidate. In the election for the regent, *Dra. Rustriningsih* not only defied opposition from the Islam elements that were against the idea of electing women as leaders, she also won the election by a margin of two votes over the candidate backed by the National Awakening Party, which had been expected to win the race with a 90% probability.

The power base of *Dra. Rustriningsih* consists of the middle and lower classes who support the PDI-P. It remains to be seen what political leadership she will show or whether she will be able to do so. It is also

unclear whether similar cases will occur in other parts of the country. However, this is surely part of the new developments in local politics in Indonesia.

Some local governments are now trying to improve services for local residents and promote community participation in the development. In the Suharto era, services for local residents involved a lot of red tape, reflecting the negative aspects of the hierarchical structure of the public administration. Residents who wanted to have their population registration and other certificates issued needed to go to the departments in charge and wait for a significant number of days before obtaining the actual certificates. They usually needed to give some money to the persons in charge to obtain the certificates sooner. To reduce such waste of time and money, some local governments have streamlined the procedures so that residents can apply for various certificates at one office. Others have introduced computers to expedite the process and ensure transparency.

One such example is Takalar Regency in South Sulawesi Province. Calling itself an “electronic autonomous government,” the Takalar Regency has set up a website (<http://www.takalar.go.id>) and integrated the means for applying for 12 kinds of permits through computerization. As a result, the process of issuing the permits and other documents has been shortened and made transparent. It now takes only 15 minutes to have a population registration certificate issued. The regency’s revenues from fees for such procedures have increased threefold. Another example is the Kendari city in Southeast Sulawesi Province. This municipality has forcibly taken 18 kinds of rights to give authorization away from the related departments and has established a section to deal with all kinds of authorization. Fearful of losing their vested interests, these departments at first resisted such moves. However, the mayor eventually succeeded in persuading them after a year and half. As a result, the process of granting authorization was shortened and made transparent.

Attempts are being made by some local governments to hear the opinions of local residents. The heads of these local governments visit villages to listen to what villagers have to say. In some cases, the heads and secretaries of local governments or the directors of regional development planning agencies hold a dialogue with local residents through radio programs. Attempts are also being made to formulate bottom-up development plans with the participation of various kinds of groups—tricycle (becha) drivers, fishermen, farmers, and NGOs. Behind this lies the need to review the conventional process of formulating such plans—which guaranteed community participation in form but were driven by the government in practice. In fact, one of the objectives of decentralization in Indonesia is to abandon the top-down practices and promote community participation and to create the good governance in addition to the transfer of authority, tasks, funds, and manpower from the central government to local governments. Therefore, the above-mentioned examples of improvements in administrative services and community participation are signs that decentralization is producing constructive results.

2-1-5 Conclusions

Many analysts are expressing concern as to whether decentralization in Indonesia will succeed. In fact, after the Suharto regime collapsed, political stability has been reversed and social chasms have become exposed in many parts of the country. Social unity does not exist in Aceh and Irian Jaya, which are demanding independence. Even if they win independence, confusion will ensue. Political instability does exist in regions other than these pro-independence provinces. For example, the religious conflict in Ambon has not been settled yet in connection with political developments in the central government. The religious conflict in Poso in Central Sulawesi Province remains unresolved. Moreover, a conflict occurred in Central Kalimantan Province between the local people and immigrants. Without political stability, it is unlikely that the structural change called decentralization will take root in a desirable manner. Rather, decentralization may even intensify the existing conflicts.

In the first place, there may be a need for local and religious leaders to understand the disadvantages of conflicts and the use of force and agree to settle their differences through elections and other legitimate means. The use of force alone may restore order in the short term, but will not help dispel mutual distrust in a long term.

Some analysts point out that decentralization may foster mini-Suhartos, or mini-kings (*raja kecil*), even in regions with high political stability. In the regions, especially the regencies in rural areas, where power resources are generally not diversified and the social structure is rigid, a person who has all or any of (religious or cultural) charisma, good parentage, wealth, or force may seize monopolistic or oligopolistic power to become a mini-Suharto. In retrospect, even in the Suharto era, governors, regents and mayors were able to act like mini-Suhartos subject to approval from the central government, which had jurisdiction over personnel affairs. If decentralization is merely a transfer of human, physical and financial resources and authority to the regions, then it is quite difficult to preclude mini-Suhartos.

Measures should be taken. The most important factor here is that decentralization in the context of reform in Indonesia is, first and foremost, part of the democratization process. Therefore, it is important that local residents participate in politics through free and fair elections. The scope of community participation should be expanded to include participation in the formulation of development plans and in other administrative arenas. In fact, some regencies and municipalities have begun to substantively involve the local community in the formulation of development plans. Similar initiatives should be taken at other regencies and municipalities. In addition, it may be necessary to make legislative arrangements so that local citizens will have the right to institute a demand for the recall of council members and the enactment of ordinances.

Furthermore, it is necessary to increase the transparency and accountability of the local government,

including the activities of local government heads. To this end, local governments need to ensure disclosure of information on the assets, budget allocations, personnel affairs, public works projects and other matters and develop a system to assess the performance of the local government.

It should be noted that decentralization not only constitutes part of the democratization process but also implies the redistribution of wealth, especially for regions that are rich in natural resources, but have been left economically underdeveloped. In fact, these regions have been given priority in terms of revenue sharing. As a result, their revenues and expenditures will both increase.

However, increased revenues for local governments do not necessarily result in the rapid development of the local economy. This is because government expenditures account for less than 10% of the GDP or Gross Regional Domestic Product (GRDP) in Indonesia according to Bambang Brodjonegoro, Research Associate at the Institute of Economic and Social Research, University of Indonesia.³¹ As the central government's policy is to disallow local government loans as much as possible, it is unlikely that local governments will implement large-scale public works projects with funds gained by issuing local government bonds, rapidly increasing the percentage of government expenditures to GDP or GRDP. Such a procedure for local development is not necessarily appropriate even if local governments could resort to that way.

If so, it is critical that local development be led by the private sector. Local governments, for their part, need to create an environment conducive to business activities by the private sector in terms of information and physical distribution. At this stage, however, systems to financially support such local initiatives are underdeveloped. Former Finance Minister Mar'ie Muhammad said that the local branches of banks should be given decision-making power and that they should not always wait for directions from the head offices.³² Behind this remark lies the fact that banks do not have a credit creating function at the local level.

City banks operating in the regions and regional banks should be independent of politics as much as possible and actively extend financial assistance to healthy local businesses. It may take time, but the growth of such businesses will eventually activate the local economy. This in turn will result in a pluralistic local community, preventing the concentration of power. When horizontal and diversified social relationships take precedence over hierarchical social relationships in Indonesia, then the country will be decentralized in the true sense of the word.

Note

¹ Indonesia became a unitary republic in 1950, one year after the country gained international recognition as a sovereign federal state. The period of parliamentary democracy lasted almost a decade in Indonesia

until the period of Guided Democracy (Demokrasi Terpimpin) by President Sukarno. During this period in which Indonesia was insecure as a unified nation, there were growing calls for broad-based autonomy for local governments from political parties in the parliament and also from the regions. Amid signs of regional insurgencies, there was no major resistance to the idea of granting more autonomy to local governments. In January 1957, Act No. 1/1957, the basic act governing local government was established. A highlight of this act, among others, was that local councils gained the right to select the heads of local governments along with the abolition of the tentative system in which the central government appointed such heads. As a result, interior administrators, remnants of the colonial days, could no longer hold the posts of local government heads, through which the Ministry of Home Affairs controlled local governments. Instead, local people from political parties assumed such posts. Yet, granting the right to select local government heads to the regions stopped short of dispelling regional discontent with the central government. Regional insurgencies gained considerable momentum in such provinces as West Sumatra, South Sulawesi, and North Sulawesi. President Sukarno, who criticized parliamentary democracy as a cause of political instability, increased his influence under these circumstances. Calling for the establishment of a centrist “Guided Democracy,” Sukarno issued Presidential Decree No. 6/1959 in September 1959, under which the heads of local governments again came to be appointed by the central government. In this way, movements towards decentralization came to an end only two and a half years after the enactment of Act No. 1, 1957. For a description of developments in decentralization in the 1950s, see Legge, John D. 1974, *Central Authority and Regional Autonomy in Indonesia: A Study in Local Administration 1950-1960*, Ithaca, New York: Cornell University Press; and Maryanov, Gerald S. 1958, *Decentralization in Indonesia as a Political Problem*, Ithaca, New York: Cornell University, Modern Indonesia Project. Concerning studies on local government in East Java and other areas around the 1950s, see Walker, Millidge P. 1967, *Administration and Local government in Indonesia*, PhD Dissertation, University of California, Berkeley.

² Information from Mr. Kazuhisa Matsui at the Institute of Developing Economies/Japan External Trade Organization (IDE-JETRO)

³ This is the second amendment to the 1945 Constitution, which has been the nation’s supreme legislation except for the period between 1950 and 1959. The first amendment was made in 1999.

⁴ Before the second amendment, Article 18 was as follows:

Article 18: The division of the territory of Indonesia into large and small regions shall be prescribed by act in consideration of and with due regard to the principles of deliberation in the government system and the hereditary rights of special territories.

Article 18 has been revised as shown below:

Article 18 (1): The Unitary State of the Republic of Indonesia shall be divided into provinces and those provinces shall be sub-divided into regencies and municipalities, in which each

province, regency, and municipality possesses a local government, as regulated by acts.

Article 18 (2): The government of the province, regency, or municipality shall administer and manage their governmental affairs by themselves according to the principle of autonomy and duties for assistance.

Article 18 (3): The government of the province, regency, or municipality shall have a Regional House of Representatives whose members shall be elected through a general election.

Article 18 (4): The Governors, Regents, and Mayors, respectively, as the heads of government of the provinces, regencies, and municipalities shall be elected in a democratic manner.

Article 18 (5): The local governments shall execute the broadest possible autonomy, except in governmental affairs that by act shall be determined as being the affairs of the Central Government.

Article 18 (6): The local governments shall have the right to determine local regulations and other regulations to ensure autonomy and duties of assistance.

Article 18 (7): The structures and procedures for administering the local governments shall be regulated in acts.

Two provisions further added to Article 18 are as follows:

Article 18A (1): The relationship of authority between the central government and the provincial, regency, or municipal governments, or among the provinces, and regencies, and municipalities, shall be regulated in acts whilst noting the exclusivity and diversity of the regions.

Article 18A (2): The relationship regarding finances, public services, utilization of natural resources and other resources between the central government and the local governments shall be regulated and executed fairly and equitably based on the act.

Article 18B (1): The state shall recognize and respect the units of local government that are exclusive and unique in nature as regulated by the act.

Article 18B (2): The state shall recognize and respect the units of traditional society with their traditional rights as long as they still exist and are in accordance with community development and the principles of a Unitary State of the Republic of Indonesia, as regulated by the act.

⁵ Information from Mr. Naoyuki Shintani at Gajah Mada University. As a result of the cabinet reshuffle in August 2000, the post of the State Minister for Regional Autonomy was abolished and the Ministry of Home Affairs became the Ministry of Home Affairs and Regional Autonomy.

⁶ Act No. 5/1974 states that the central government may transfer all tasks to the local governments except in six fields: defense and security; judiciary; foreign affairs; finance; obligatory services performed by the heads of local governments; and services that can better be handled by the central government. Decentralization could have been legally possible even under Act No. 5/1974, although this act was based on the premise that the central government has all the authority, unlike Act No. 22/1999, which is based on

the premise that the local governments have all the authority in administrative fields. In reality, little progress was made in transferring authority to regencies and cities-prioritized local governments during the Suharto era. These circumstances are described in detail in Fukao, Yasuo. "Indonesia no Bunkenka-Suharto Seikenki Pairoto Purojekuto eno Kosatsu" ("Decentralization in Indonesia: A Study on a Pilot Project Under the Suharto Regime") (in Japanese), *The Shumei Journal of International Studies* Vol. 12, No. 1, April 1999.

- ⁷ A Kotamadya or municipality is outside the boundary of a Kabupaten or district/regency. A unit whose administrative affairs have expanded to a certain extent secedes from the district or regency to form a municipality.
- ⁸ As mentioned later, the total number of provinces stands at 32 as of February 2001 after Gorontalo seceded from North Sulawesi Province.
- ⁹ Government Regulation No. 20/2001 on the Fostering of and Supervision over the Implementation of Regional Administration issued on April 27, 2001 states that provinces shall foster and supervise the regencies and municipalities as representatives of the central government. It is not clear whether this regulation will serve as a catalyst for tighter control of the regencies and municipalities by the provinces. It remains to be seen whether the relationship between the provinces and regencies/municipalities, now said to be on an equal footing, will change in the future.
- ¹⁰ Apart from Act No. 5/1974, Act No. 5/1979 also constituted a basic Local Administration Act under the Suharto regime. Specifically, Act No. 5/1979 served as the basic act for village administration. The basic act for local government in post-reform Indonesia is Act No. 22/1999 only, which also covers village administration. As it remains to be seen how village administration will change under Act No. 22/1999, this paper does not go into detail concerning village administration. Regarding the state of village administration under the Suharto regime, see Shimagami, Motoko. "Jawa Noson ni okeru Jumin Soshiki no Inboryushon - Suharto Seiken ka no Sonraku Kaihatsu no Ichi Sokumen" ("Organizational Involution in Rural Java: A Characteristic of 'Village Development' under the New Order") (in Japanese), *Southeast Asian Studies*, Vol. 38, No. 4. March 2001.
- ¹¹ Regarding the developments in elections for local government heads under the Suharto regime, especially the process of politicization of such elections, see Fukao, Yasuo. "Chuo Erito no Naibu Tairitsu to Shuchiji Senkyo - 1990 nendai zenhan Indonesia no Jirei" ("The Internal Conflict of Central Elites and Gubernatorial Elections: The Case of Indonesia in the First Half of the 1990s") (in Japanese), *Journal of International Relations*, Vol. 8, No. 2. February 1999, Research Institute for International Relations, Asia University.

- ¹² Information from Mr. Naoyuki Shintani.
- ¹³ As a result of the organizational change of the Ministry of Home Affairs and Regional Autonomy, the directorate-general of general regional administration has been abolished. It is likely that the head of the newly established directorate-general of regional autonomy will assume the post of the secretary-general of the DPOD.
- ¹⁴ Regarding local government finance under the Suharto regime, see Devas, N. 1989, *Financing Local government in Indonesia*, Ohio University Monographs in International Studies, Southeast Asia Series, No. 84, Athens.
- ¹⁵ Fukao, Yasuo. "Indonesia no Bunkenka-Suharto Seikenki Pairoto Purojekuto heno Kosatsu" ("Decentralization in Indonesia: a Study on a Pilot Project Under the Suharto Regime") (in Japanese), *The Shumei Journal of International Studies* Vol. 12, No. 1, April 1999, p. 52.
- ¹⁶ Remark by the then Director-General for General Regional Administration Sudarsono, as reported in *Kompas*, 23 December 2000.
- ¹⁷ The conclusion by the Ministry of Home Affairs and Regional Autonomy at the Pre-CGI (Consultative Group on Indonesia) Meeting on Decentralization on October 13, 2000.
- ¹⁸ The Coordination Team was set up by Presidential Decree No. 67/1999 dated June 2, 1999 (Keputusan Presiden Republik Indonesia Nomor 67 Tahun 1999 tentang Tim Koordinasi Tindak Lanjut Pelaksanaan Undang-Undang Nomor 22 Tahun 1999 dan Undang-Undang Nomor 25 Tahun 1999 tentang Perimbangan Keuangan antara Pemerintah Pusat dan Daerah).
- ¹⁹ After the post of State Minister for Regional Autonomy was established under the Gus Dur regime, the State Minister for Regional Autonomy was named the chairperson of the Coordination Team, and the Minister of Finance was named the vice-chairperson of the team in accordance with Presidential Decree No. 52/2000 dated April 7, 2000. After the cabinet reshuffle in August, the post of State Minister of Regional Autonomy was abolished, and title of the Minister of Home Affairs was changed to the Minister of Home Affairs and Regional Autonomy. Presidential Decree No. 157/2000 dated November 10, 2000, set up the Coordination Team chaired by the Minister of Home Affairs and Regional Autonomy. The team's official name is the Coordination Team of the Central Government to Implement Act No.22/1999 on Regional Administration and Act No.25/1999 on the Fiscal Balance between the Central Government and the Regional Governments (Tim Kerja Pusat Implementasi Undang-Uudang Nomor 22 Tahun 1999 tentang Pemerintahan Daerah dan Undang-Undang Nomor 25 Tahun 1999 tetang Perimbangan Keuangan

antara Pemerintah Pusat dan Daerah).

- ²⁰ *Tajuk* No. 21, Tahun III, 14 December 2000, hal.69. This is a remark made by Ryaas Rasyid, the then State Minister for Regional Autonomy.
- ²¹ The first Director-General for Regional Autonomy was Ir. Sudarsono Hardjosukarto, the former Director-General for General Regional Administration. According to Mr. Kazuhisa Matsui at IDE-JETRO, Ir. Sudarsono gained a PhD under the guidance of Yonosuke Hara, professor at the Institute of Oriental Culture, University of Tokyo.
- ²² Interview with Adriansyah, Director of Inter-regional Fiscal Adjustment and Analysis Department of the Fiscal and Financial Agency, on April 25, 2000.
- ²³ Interview with Adriansyah, Director of Inter-regional Fiscal Adjustment and Analysis Department of the Fiscal and Financial Agency, the Ministry of Finance, on April 25, 2000.
- ²⁴ According to Ryaas Rasyid, who resigned as the Minister for Reform of the State Apparatus, 197 presidential decrees concerning decentralization have not been issued (*Kompas*, 22 February 2001).
- ²⁵ As of April 2001, a bitter confrontation between President Wahid and the parliament is causing political instability. Amid the sustained depreciation of the rupiah, the government plans to review the FY2001 budget.
- ²⁶ Bambang Brodjonegoro, "Indonesian Intergovernmental Transfer in Decentralization Era: The Case of General Allocation Fund," paper presented at an International Symposium on Intergovernmental Transfers in Asian Countries: Issues and Practices, Asian Tax and Public Policy Program, Hitotsubashi University, Tokyo, February 9-10, 2001, p. 15.
- ²⁷ According to Director-General for Regional Autonomy Ir. Sudarsono Hardjosukarto, 18 provinces and 40 regencies/municipalities are demanding an increase in the general allocation fund as of April 2001. Local governments where the sum of the revenue share and the general allocation fund is below current expenditures will receive an additional fund if they meet certain conditions. The additional amounts will be financed from the emergency fund in the state budget (*Kompas*, 2 April 2001).
- ²⁸ It is unclear at this moment whether Irian Jaya will actually be divided into three provinces since Irian Jaya Province will be granted special autonomy status.

- ²⁹ Regarding the political process up to the establishment of Banten Province, see Okamoto, Masaaki. “Kaikakuha ni Tenkoshita Suhartoki Chiho Eritotachi: Bantenshu Shinsetsu no Seijikatei ni Shoten o Atete” (“Local Elites Under the Suharto Regime Who Converted to Reformists-With a Focus on the Political Process up to the Establishment of Banten Province.”) (in Japanese) *Asian and African Area Studies*. No. 1, March 2001.
- ³⁰ Remark by the then Director-General for General Regional Administration, Sudarsono, at the end of December 2000 as reported in *Media Indonesia*, 23 December 2000.
- ³¹ Bambang Brodjonegoro, “Indonesian Intergovernmental Transfer in Decentralization Era: The Case of General Allocation Fund,” paper presented at an International Symposium on Intergovernmental Transfers in Asian Countries: Issues and Practices, Asian Tax and Public Policy Program, Hitotsubashi University, Tokyo, Feb 9-10, 2001, p.24.
- ³² *Suara Pembaruan*, 24 February 2001.

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2-2 Decentralization in Thailand

2-2-1 Introduction: Characteristics of and background to decentralization in Thailand

Thailand is the only Southeast Asian country that was not colonized. The political framework of the central-local government relationship changed little for nearly a century after the Chakri reformation between the late 19th century and the early 20th century. Decentralization, however, gained momentum in the 1990s and is still under way at an unprecedented pace. Current decentralization is called by some *the second wave of local administrative reform*¹ after the first in the late 19th century. Indeed, the central government's authority and responsibility as well as financial and human resources are largely shifting to local governments.

This report aims to analyze the present condition of decentralization in Thailand. Until the 1990s, local autonomy in Thailand was established very slowly after democratization under the Constitutional Revolution that toppled the monarchy in 1932. It can be said that local autonomy in Thailand has been sustained for nearly 70 years. Such local autonomy, which was sustained and consolidated gradually, became a major political issue in the 1990s. In comparison, therefore, the process of local autonomy in Thailand is different from that in the Philippines where decentralization has been stable after the implementation of the new Local Administration Act of 1991; or from that in Indonesia, where decentralization has emerged developing rapidly after the resignation of President Suharto in 1998. In Thailand, local governments have experienced local autonomy to some extent before the rapid decentralization that is now under way.

Section 2 reviews the current conditions of decentralization in Thailand, from political and other perspectives; followed the local government organizational structures in Section 3; financial perspectives in Section 4; and the constraints of decentralization in Section 5².

2-2-2 Democratization and decentralization in Thailand

1. Public elections for governors and Provincial administration organizations (PAOs)

As is generally known, Thailand has experienced rapid economic development from the late 1980s to the 1990s: it experienced a period of "semi-democracy" under the Prem Administration (1980-88) and achieved a party-based cabinet after 12 years of its absence in the Chatichai Administration (1988-91). The economy gained more momentum than ever before. However, there was a military coup d'état led by General Suchinda Kraprayoon in February 1991, which ousted the Chatichai Administration. Suchinda did not get in but appointed Anand Panyarachun, who was the former Permanent Secretary of Ministry of Foreign Affairs, president of Saha-Union Company Ltd., and also chairman of the Federation of Thai Industries at

that time, as head of the interim cabinet, “the First Anand Administration” (February 1991- April 1992). A provisional constitution was instituted on 9 December 1991 and a general election was held in March, the next year. A leader of the Samakkhitham (Unity) Party, a political party which had affinity with the military, Narong Wongwan, gained the largest number of seats in the election.

It was soon after the election that the democratization movement occurred in Thailand. Narong, who was about to become Prime Minister, was charged with illicit sales of opium by the American State Department, which led to set-back of Narong. As a result, General Suchinda, although he had denied his ambition to become Prime Minister before, came to assume power on 7 April 1992. The new Prime Minister, Suchinda, appointed three corrupt MPs, who he himself had punished for illicit enrichment under the Chatichai Administration, as new cabinet members. This triggered national sensitivities that evolved into the Anti-Suchinda Administration movement through mass protest rallies and demonstrations from the end of April that year. The growing intensity of the movement involved even a bloody affair due to random shootings by the military and police on 17 May. Under the ruling of the King, the government and the pro-democracy movement group made a compromise; Suchinda resigned and finally Anand again took charge of the cabinet to organize an election, which constituted “the Second Anand Administration” (June-September 1992).³ The general election was held in September 1992 again and the Chuan Democrat Party cabinet, which consisted mainly of political parties that supported the democratization movement in the bloody affair, was launched in September 1992 and lasted till July 1995.⁴ Through these processes, democratization in Thailand politics became inevitable and the promulgation and implementation of the Constitution in October 1997 seems to imply that it had reached the highest point of democratization.

Decentralization in Thailand is strongly linked with the series of democratization efforts in the 1990s, which is shown clearly in the process for the promulgation of the Act of *Tambon* Councils and *Tambon* Administration Organizations in 1994. In the general election in September 1992, political parties supporting democratization made a campaign pledge of public elections for governors in major provinces.⁵ Prime minister Chuan announced that “Decentralization should be achieved through the implementation of public elections for the heads of local governments and executive bodies at any level” as a public demonstration of his views in the National Assembly on 21 October 1992.⁶ Governors were the Interior Ministry’s bureaucrats appointed by the central government and came to symbolize the domination of the central government over local governments. Because of the strong opposition from the Ministry of Interior against public elections for governors, provincial administration organizations were established, local government organizations with a uniformly granted judicial person’s status were established in “*Tambon*” or communes, which had been regarded as one of the lower units of local governments.⁷ As a result, nearly 6,000 new local governments rapidly appeared in the three years until 1997, although there were previously only just over 200 local governments⁸ in Thailand including the Bangkok metropolitan administration, provincial administration organizations, *Thesaban* (municipalities), and the city of Phatthaya.⁹

2. The Constitution of 1997 and decentralization

The establishment of *Tambon* Administration Organizations was the alternative measure for the issue of public elections for governors,¹⁰ the movement towards decentralization still continued. Article 78 of the Constitution of 1997 prescribed the promotion of decentralization as a basic policy of the government and added nine specific clauses, Article 282 to 290, which related to local autonomy and decentralization. Especially, Article 284 requires the definition of plans and procedures for decentralization as a separate act, the establishment of a committee of the three parties-representatives of affiliated government agencies, local governments, and intellectuals-as part of the process, and prescribes the allocation of administrative authority as well as taxation and surcharges between the central government and local governments in the committee.

After the adoption of the Constitution of 1997, Prime Minister Chuan, the leader of the Democrat Party, who was in office from November 1997 to February 2001, took over from Chavalit, the leader of the New Aspiration Party, who was in office from November 1996 to December 1997. He established the Committee of Revision of Local Government Acts and Decentralization Promotion, of which the Deputy Prime Minister became chairman, and implemented the enactment and amendment of local autonomy related acts during his first two years as Prime Minister in accord with the policies of the Constitution of 1997.¹¹ Among these acts, the most significant one in relation to decentralization is the Act of Decentralization Plan and Procedures, enacted in November 1999. Based on this act, the National Decentralization Committee (NDC) was established and discussed more specific and precise decentralization plans and procedures.¹² The Decentralization Plan and Procedures Act prescribes that local governments should be allotted at least 20% of the government budget for fiscal 2001 (October 2000-September 2001), rising to 35% by fiscal 2006 (October 2005-September 2006) and the transfer of administrative work, civil servants and budgets of the central government to local governments is now underway. The plan proposed by NDC was announced in August 2000, and through a process of revision after public hearings in local regions and approval by the cabinet, was reported on in the National Assemblies by the end of October 2000.

As mentioned above, through the enactment of local autonomy related acts up to 1999 and from the time of the promulgation of the Constitution of 1997 and promulgation of the decentralization plan and procedure act in 1999, it can be said that the trend towards decentralization in Thailand has come to a critical phase that requires more specific and practical implementation. The important issue here is the capacity of local autonomous bodies to implement government policies. The Ministry of Interior has made efforts to establish and restructure local autonomous bodies since the promulgation of the Constitution in 1997, and there seems to be two different aspects to the contents of these efforts.

The first aspect is the policy of restructuring and strengthening of the local administration organizations

in municipalities. It is noteworthy that *Thesaban*, the first full-fledged organizations of local autonomy in Thai political history, were restructured. The original *Thesaban* had their own councils and executive offices, and mayors were elected from among the council members who were elected by the residents through direct elections. It deserves to be called real autonomy since these municipalities provided various public services including population registration, primary education, primary health care and public sanitation.¹³ Although the number of *Thesaban* that were set up was 33 nationwide in the year 1935, when the system was first instituted, and increased to 115 in 1945, they numbered only 149 up to 1998, for almost half a century since 1945. However, in May 1999, sanitary districts¹⁴-sub-autonomous bodies which dealt primarily with waste disposal collection services-were upgraded all at once to *Thesaban Tambon* (towns), and as a result there are now 1,129 *Thesaban*, or municipalities (“The Act to Upgrade Sanitary Districts to *Thesaban*”1999). Moreover, although the heads of *Thesaban* (municipalities) were initially elected by the council members, it became possible for residents to elect the heads directly, and the first mayor was elected by the residents through direct election for the first time in Thailand in September 2000. Direct election for the head of *Thesaban Tambon* (towns), is a prospect for the near future.

The second aspect is the fact that Provincial Administration Organizations (PAOs), whose tax basis had decreased due to the birth of the *Tambon* Administration Organizations, made a fresh start as multi-municipality-based regional authority. The Provincial Administration Organizations (PAOs) were originally established by Prime Minister Phibun in 1955 in order to establish an administration organization in rural area that did not belong to either *Thesaban* or sanitary districts, since there were no local governments equivalent to *Thesaban* or sanitary districts in the rural area. Provincial councils were established at Provincial Administration Organizations (PAOs) and they were authorized to enact Provincial Administration Organization (PAO) measures individually. However, the Chief Executive of the Provincial Administration Organization (PAO) doubled as governor, who was dispatched from the Ministry of Interior, and the staff of the provincial administration organizations could not manage tax collection, development work and even day-to-day operations without the help of the bureaucrats at the provincial halls or district offices, who were dispatched from the central government. Under these circumstances, the establishment of the *Tambon* Administration Organizations (TAOs) was decided in 1994. The Provincial Administration Organizations (PAOs) had their sources of income taken by *Tambon* Administration Organization (TAO); as a result, the revenue of Provincial Administration Organizations (PAOs) which was always insufficient reduced even more, which threatened the viability of these organizations.¹⁵ However, based on the regulation in Article 285 of the Constitution of 1997 stating that “A member of a local administrative committee or local administrator shall not be a Government official holding a permanent position or receiving a salary or an official or employee of a State agency, State enterprise or local government organization”, the chief executive of Provincial Administration Organizations (PAOs) had to be elected from among the council members and also according to the Act of Provincial Administration Organizations (PAOs) of 1997 promulgated on 12 October 1997, a new tax source was granted, which enabled the Provincial Administration Organizations

(PAOs) to make a fresh start. Nonetheless, the future of Provincial Administration Organizations (PAOs) is still uncertain. Since Provincial Administration Organizations (PAOs) are not allowed to depend on provincial halls and district offices as before, it is questionable as to whether they can apply their capacity as multi-municipality-based regional authority.¹⁶ It became apparent that the Thai Rak Thai Party (Thais Love Thais), led by Prime Minister Thaksin, was examining the abolition of Provincial Administration Organizations (PAOs), which has currently raised a controversy.¹⁷ Thus, the future of Provincial Administration Organizations (PAOs) is closely connected with the question of the public election of governors and involves many delicate issues.

In the meantime, the issue of direct election of mayors has been long demanded by some scholars who have pushed decentralization, and the mutual elections for chief executives of Provincial Administration Organization was proposed by the Ministry of Interior when public elections for governors was a major issue from 1992 to 1994. As is apparent from this, the Ministry of Interior, which had been passive in the debate on the introduction of public elections for governors at the beginning, seems to have been promoting decentralization policies quite actively in the recent years.¹⁸ The intentions and power struggles behind the recently accelerated decentralization are described below.

3. Stakeholders who are promoting decentralization

(i) Response of the Ministry of Interior

As mentioned above, it was the political parties that promoted public elections for governors when it was a major issue from 1992 to 1994. However, the Democrat Party and the New Aspiration Party withdrew from a supportive position for public elections when they became the governing majority, and ever since there has been no major movement related to this issue. When *Tambon* administration organizations were introduced in 1994, *kamnan* and village headmen who had formed the backbone of the local administration as lower administration units campaigned against the installation of *Tambon* administration organizations and opposed the Ministry of Interior for fear of losing their authority. However, the Ministry of Interior incorporated the *kamnan* and the village headmen into *Tambon* administration organizations under an agreement that allowed them to become “appointed council members” automatically since they hold positions as *kamnan* and village headmen, and enacted the introduction of *Tambon* Administration Organizations. As a result, a *kamnan* was allowed to double as a chairman of the *Tambon* Administration Executive Board, and two people elected by mutual election from among village headmen were also included in the executive board members only for the first four years.

The establishment of *Tambon* administration organizations was not a pleasant event for the class of local notables such as *kamnan* and village headmen who had long served local administration in Thailand at

the grassroots since the late 19th century. They were involved in the formulation of development plans at *Tambon* Councils, but such functions would be transferred to *Tambon* administration organizations.¹⁹ However, generally speaking, the establishment of *Tambon* administration organizations should presently be regarded as being accepted by local communities.²⁰ In *Tambon* administration organizations, two council members are elected from each village, and this has enabled residents, if elected, to participate in budget planning for the development of *Tambon* Administration Organizations (TAOs) .

This is clearly shown in the response to the “Miyazawa Fund,” which was allocated to each *Tambon* administration organization nationwide from April to September in 1999. The “Miyazawa Fund” is the “new Miyazawa initiative”, namely 1) funds; yen loans to support measures for groups of socially vulnerable people and projects to create jobs from the Overseas Economic Cooperation Fund (OECF, now merged into The Japan Bank for International Cooperation, JBIC), 2) economic and finance restructuring loans from the Export-Import Bank of Japan (now merged into The Japan Bank for International Cooperation, JBIC, too), and 3) 36% of 53 billion baht in total of loans to support the second economic and financial restructuring-18.7 billion baht, which was allocated to the Ministry of the Interior. 100,000 baht per village and also for the main body of *Tambon* administration organization was allocated through *Tambon* administration organizations. Each village was required to hold village meetings to formulate development plans, participated in by residents under the guidance of *Tambon* administration organizations, and use the “Miyazawa Fund” for the development of water resources, community economic plans such as markets and common land, provision of infrastructure, natural environmental resources development, and daily life improvement projects such as sports facilities. In the experience of the author, the name “Miyazawa” is widely known even among *Tambon* administration organizations comprising mainly poor rural communities and residents in upland mountainous areas in Thailand and it has been often heard that the money was useful for the construction of waterworks, reservoirs, and stadiums.²¹

Along with questioning of its effectiveness by opposition politicians and some researchers, there was concern about the possibility of corruption in this plan. The government party was even criticized for buying votes before the election. On the other hand, as is evident in the alternative plan suggested by the opposition members that such money should be allocated to each party according to the number of seats in the Lower House, the “Miyazawa Fund” was tempting to politicians.

While local autonomous bodies are bolstering their independence under the Constitution of 1997 and their role and fiscal disbursements are increasing in the process of decentralization, it is inevitable that the role of the Ministry of Interior will decrease in the long term. The bureaucrats of the Ministry of Interior have repeatedly stated that “since the local autonomous bodies are independent, the Ministry of Interior cannot give orders to them”. However, at the same time, they never forget to add that, “the Ministry of the Interior has the authority to implement supervisory control, *kamkap duulee*, of local autonomous bodies”.

This authority is, as is mentioned later, clearly based on the regulations of the acts, and governors and district officers dispatched from the Ministry of Interior still enjoy broad authority such as for approval of annual development plans entailing detailed items in the budget for PAOs, *Thesaban*, and TAOs, dissolution of the councils of local autonomous bodies, and dismissal of council members from the local councils. Since most local autonomous governments such as *Tambon* administration organizations and newly upgraded *Thesaban* in 1999, have been established only recently, their administrative and financial capacity is not yet sufficient. Moreover, since there are only a few full-time staffs at most TAOs in the *Tambon* administration organizations and they lack experience of administration, they cannot compete with the number of other TAO council members. Indeed, the prescribed number for full-time staff of the 5th grade of *Tambon* administration organizations, which comprise about 90% of all *Tambon* administration organizations, is only three, namely a deputy mayor and chiefs of the civil engineering and finance divisions. Therefore, the Ministry of Interior looks after local autonomous bodies as their “big brother”. In order to carry out the supervisory control of about 8,000 local autonomous bodies all over the country, the Ministry of Interior has made efforts to enhance its functions at the provincial level. Starting with the assistant district officers designated to take charge of *Tambon* administration organizations directly, the number of officials in charge of local autonomous bodies at the provincial and district administration offices shows a tendency to increase, which gives the impression that the Ministry of Interior is taking initiatives in promoting decentralization. In other words, the Ministry of Interior seems to be promoting decentralization and at the same time carrying out a devolution of authority to the field agencies of the national government.

From the financial perspective, as a result of the financial crisis caused by the Asian currency crisis as well as the fact that the reimbursement of loans to international financial agencies is due, the financial state of the Thai government is in a more difficult situation. The grants for local autonomous bodies in the budget until fiscal 2000 were provided only through the Department of Local Administration (DOLA),²² of the Ministry of the Interior. However, from the budget for fiscal 2001, local autonomous bodies can receive grants from other ministries and agencies, and according to the regulations in the Act of decentralization plan and procedures of 1999, local expenditures must be increased at least to 35% of the total government expenditures in the budget for fiscal 2006. Although expenditures of the central government will decrease as a consequence, grants through the Department of Local government are still essential.

(ii) The trend in government agencies for adjustment and decentralization

As has already been pointed out, the Constitution of 1997 advocates the further promotion of decentralization, and the Act of decentralization plan and procedures was adopted in November 1999, prescribing that the expenditures of local autonomous bodies must be increased to at least 20% and 35% of the total government budget for fiscal 2001 and 2006 respectively. It is surprising to find such numeric objectives prescribed in acts. However, since this means not only a reduction of central government

expenditures but also the transfer of personnel and administration to local governments, it is not difficult to imagine that there will be “unspoken” resistance by bureaucrats of the government offices-the front liners in particular. However, since decentralization has been demanded in line with the furtherance of democracy, it is difficult to oppose decentralization openly. Therefore, the ministries tend to seek postponement of the transfer of administrative work or deconcentration as an alternative to decentralization on the grounds of the lack of the capacity of local governments and their right to execute administrative work in most cases.

While the bureaucracy is protesting implicitly, The National Economic and Social Development Board (NESDB), and the Office of the Civil Service Commission (OCSC), are actively involved in decentralization. Both organizations are implementing experimental projects in cooperation with international agencies such as the World Bank and the United Nations Development Programme (UNDP) as well as the Ministry of Interior. While the NESDB insists that decentralization is indispensable for the efficient implementation of development plans, ensuring transparency, and the implementation of “good governance”, the OCSC is making efforts towards privatization and reductions in the number of central government bureaucrats, aiming to establish “small government.” However, since these government coordinating bodies belonging to the Prime Minister’s Office do not necessarily have political power, it is difficult for these bodies alone to promote decentralization.

It is uncertain who the other forces are that actively support decentralization other than the bureaucracy of the central government. Among politicians, some Democrat Party²³ members have expressed considerable interest in decentralization; nonetheless, the majority of them do not show much interest. Politicians who belong to local governments, such as provincial councils, the legislative body of Provincial Administration Organizations (PAOs); *Thesaban* councils; and *Tambon* administration organization councils, perceive it as a perfect opportunity to shift more authority, and budget, to local autonomous bodies and demand even more authority and budget apart from the duties of taxation and more official work. Apparently this has often caused disagreement between the politicians and the representatives of the central government offices in the National Decentralization Committee. It can be said that many local politicians support decentralization since they are also local businessmen. However, in effect, they do not take any distinctive group action, but stay in a passive position, watching the transition. Although civic groups and NGOs appear to agree with decentralization in general, at the same time, they are concerned about the decentralization of corruption and place great importance on the assessment and formulation of development plans participated in by citizens. This is the same point that the Ministry of Interior and the NESDB have made. In addition, the perspectives of the military, Royal family, labor unions, and religious groups are unknown.

Of the forces that are actively promoting decentralization at present, one is the Ministry of Interior and the other seems to be a network of intellectuals made up of a scholar’s group that is making an attempt to promote further decentralization in the National Decentralization Committee, as well as technocrats such as

those at the NESDB and OCSC. The latter group of people, the scholars and technocrats creating a network of intellectuals, participate in the working groups to formulate specific plans and procedures for decentralization, which seems to mean that they are playing an important role basically. These two forces have the common aim of promoting decentralization at the nationwide level. However, at the same time, the focal points of the two seem to be slightly different. It can be said that while the Ministry of Interior has a tendency to emphasize its authority to implement supervisory control of local governments and the necessity of this, even in the process of decentralization, they admit that local governments are independent, while the scholars and technocrats put greater importance on participation as the elements to achieve democratic values.

As was mentioned at the beginning, decentralization in Thailand has been characterized by the development of the capacity of local governments and the formulation of outlines for decentralization plans. Since the transfer of the specific authority and responsibility as well as financial and human resources is planned to start in 2001,²⁴ it is impossible to judge whether decentralization can be implemented as planned at the time of writing this report. Although there is implicit resistance among the ministries and agencies, it is difficult to oppose decentralization publicly, since it was generated in line with the political trend. Therefore, it seems that although some modifications will be made, basically decentralization in Thailand will continue to be promoted in the future.

2-2-3 Local organizations

As is described in the last section, decentralization in Thailand has progressed along with political democratization since the beginning of the 1990s. The main objectives are the establishment of local autonomous bodies in rural areas and there has been a general restructuring and strengthening of these bodies to accord with the policies of the Constitution as well as the examination and formulation of specific plans to implement decentralization by the National Decentralization Committee (NDC), which aims to promote decentralization since the establishment of the Constitution in 1997.

In this section, the organizational structure of local autonomous bodies in Thailand is defined according to local autonomy related acts that had been formulated or modified by 1999. Thailand has never been colonized, in contrast to the Philippines and Indonesia, and for this reason the centralized local administration system remained for nearly a century since the Chakri reformation at the end of the 19th century. It is true that democracy was introduced after the monarchy was abolished in 1932. However, due to the continual military coup d'état and non-constitutional periods, local autonomy as well as parliamentary democracy have not progressed smoothly. For this reason, it can be said that domination of the central government over local governments in Thailand is still rigid, in contrast to the situation in the Philippines or Indonesia. For instance, the "province" in Thailand is not yet a local administration organization but a field agency of the

central government that is in charge of the supervisory control of local governments in that provincial area.²⁵

Despite the fact that local governments in Thailand have been enhancing their authority in line with decentralization, it can be said that this movement is not as radical as that of Indonesia and the relationship between the central and local governments is still stronger than in the case of Indonesia.²⁶ Therefore, in order to understand the current condition of the decentralization in Thailand, it is necessary to consider not only what authority local governments have come to acquire due to the decentralization, but also the aspect of the domination and supervisory function of the central government over local governments-the so-called “central-local government relationship”.

1. The three layers of national government organization in Thailand

According to the National Administrative Organization Act of 1991 (the second revision 1993), Thailand has three layers of administration-central, provincial, and local administration²⁷ (Article 4 of the National Administrative Organization Act of 1991). Such a classification is defined in the explanation that Pridi Bhanomyong, an ideological leader of constitutional revolution in 1932, who established the constitutional monarchy after toppling the monarchy, gave to the council when introducing the first National Administrative Organization Act in Thailand in 1933 (the act of the national administrative organization of the Kingdom of Siam). This is, namely, the central government such as the cabinet, and ministries and agencies, provincial administration to which full-time government officials are dispatched, and local administration called *Thesaban*.²⁸ Although the canton, or Mongton, which was ranked above the province, was abolished after the constitutional revolution, essentially the framework for the Thai national administrative organization has not changed since 1933. The central and provincial administration and local administration in order to understand the national administrative organization of Thailand are clarified as following.

1) The central administration (kaan pokkhroong suan klaang)

According to the existing National Administrative Organization Act of 1991, the central administration is defined as follows:

- (i) the Prime Minister’s Office
- (ii) ministries, or agencies whose status is equivalent to ministries
- (iii) agencies that belong to the Prime Minister’s Office or ministries
- (iv) departments, or other public organizations that have the same status as departments, regardless of whether they belong to the Prime Minister’s Office, ministries, or departments.

Each organization mentioned above has judicial person status.

2) Provincial administration (kaan pokkhroong suan phuumiphak)

According to the regulations in the National Administrative Organization Act of 1991, the provincial administration consists of provinces and districts (Article 51). Provinces and districts consist of offices of the various ministries, agencies, and departments of the central government, and governors at the provincial level and district officers at the district level have their respective authority of supervisory management. Governors and district officers are dispatched directly from the Ministry of Interior of the central government (Article 54 and 62). While provinces have judicial person's status, districts do not²⁹ (Article 52). According to the data of the Ministry of Interior dated 16 July 1999³⁰, 75 provinces excluding the Bangkok Metropolitan Administration (BMA), 795 districts, and 81 minor-districts were established.

As the lowest units of provincial administration below districts, *Tambon* (sub-districts), and muubaan (villages) have been established.³¹ The Local Administration Act of 1914 prescribes that *Baan* (houses)³² in a certain area should be under the same administration, and when the population reaches about 200, or there are at least five houses, although these houses may be located far from each other, a new village may be established (Article 8). Also, *Tambon* may be established after governors apply to Permanent Secretary of the Ministry of Interior when the number of villages has reached about 20 (Article 29). There are representatives, called "kamnan" or "village headmen"³³, who are elected by the residents in each *Tambon* and muubaan respectively, and certain authority and several duties are given to them as described in detail in the Local Administration Act of 1914. Although they are not officially government employees, they receive monthly allowances-which do not come from the budget for monthly salaries however. They deal with the services such as 1) maintenance of security and order in the village, 2) alleviation of the misfortune of residents, 3) prevention of disasters and infectious diseases, 4) transmission of notifications from the government ministries and agencies, 5) supplementary services related to population registration, 6) detention of criminals and suspects, and 7) other services related to development. As for kamnan and village headmen, these duties and responsibilities are based on the Local Administration Act of 1914 and the Act of the National Administrative Organization of 1991. According to the data of the Ministry of Interior dated 16 July 1999, there are 7,255 *Tambon* and 69,366 villages.

Although the local administrative system in Thailand is highly centralized, the top-down style of domination of the central government has come down to the district level and does not directly reach the *Tambon* and village level. *Kamnan* and village headmen who are elected through a bottom-up style of support serve as representatives of the central government in the *Tambon* and villages. However, one of the differences between the decentralization of Thailand and that of the Philippines or Indonesia is that the authority for supervising the local autonomous bodies in line with the provincial administration seems to have increased rather than decreased. In other words, although there were only *kamnan* and village headmen as the linkage point with the central government in the *Tambon* and villages before, since the institution of

Tambon administration organizations, bureaucrats of the autonomous bodies have come to stay full-time at the *Tambon* level and assistant district officers who are dispatched from the Department of Local Administration of the Ministry of Interior under the name of “supervision” have come to frequently visit *Tambon* Administration Organizations. Moreover, *kamnan* and village headmen still act as the low-end unit of provincial administration of the central government in the fields of maintenance of security and order and supplementary services related to population registration. From a different point of view, it can be said that since the conventional structure of the institutional authority in rural communities was forced to change to become pluralistic in the name of decentralization, the domination of the central government over rural communities is progressing steadily, though indirectly, to the *Tambon* level.

3) Local administration

Meanwhile, separated from the ‘provincial administration’ line, ‘local administration’ (*suan thoongthin*) have been established in Thailand. In Article 70 of the National Administrative Organization Act of 1991, local autonomous bodies were categorized into four as follows:

- (i) Provincial Administration Organizations (PAOs)
- (ii) *Thesaban* (municipalities)
- (iii) *Sukhaphiban* (sanitary districts)
- (iv) other organizations that are stipulated by acts

However, *Tambon* Administration Organizations (TAOs) were instituted on 2 March 1995 and Article 43 of the *Tambon* council and *Tambon* Administration Organization Act of 1994 prescribed that *Tambon* Administration Organizations (TAOs) should have judicial person’s status, and defined it as a local autonomous body. Furthermore, since *Sukhaphiban* (sanitary districts) were abolished and upgraded to *Thesaban* in May 1999, the content relating to local autonomy in the National Administrative Organization Act has been changed.

For the present, it can be said that local autonomy is roughly divided two layers - multi-municipality-based regional authority and municipalities. Compared to the local administrative organizations of the Philippines, which consist of three layers-provinces, cities/towns, and barangay (villages), and that of Indonesia which consists of three-provinces, districts/cities, and desa (administrative villages), Thailand has one less layer. Multi-municipality-based regional authority means Provincial Administration Organizations (PAOs), and municipalities mean *Thesaban*, which were instituted in urban areas including the new ones upgraded in May 1999 and *Tambon* administration organizations which were instituted in rural areas. Among other types of autonomous bodies are the Bangkok metropolitan administration (BMA), where the head is elected through direct election and which has the functions of both a province and a *Thesaban*, and Phatthaya city where the head is also elected by direct election and which is a resort area located in Chon Buri province, in

the eastern part of Thailand.³⁴

2. Relationships between the central and local governments

In the connections between ‘provincial administration’ and ‘local administration’, the Ministry of Interior plays the most significant role. According to the National Administrative Organization Act of 1991, governors, vice governors, and assistant governors are prescribed as belonging to the Ministry of Interior. Although the governor of the Bangkok Metropolitan Administration is a head elected by public election and does not belong to the Ministry of Interior, the governor has to be supervised by the Minister of Interior as well (the Bangkok metropolitan administrative organization Act 1985, Article 123, the second revision 1991). Governors and Vice-Governors belong to the Office of the Permanent Secretary of the Ministry of Interior, and provincial offices (Samnakngaan Cangwat) take charge of general administration as well as provincial development plans in the provinces (the National Administrative Organization Act of 1991).

However, in effect, real authority over ‘provincial administration’ and ‘local administration’ is not in the Office of the Permanent Secretary of the Ministry of Interior, but in the Department of Local Administration (DOLA) of the Ministry of Interior. Originally, most governors are from the Department of Local Administration and district officers are all bureaucrats who belong to DOLA. District officers are prescribed to supervise the bureaucrats of district offices according to the Article 62 of the National Administrative Organization Act.

The Department of Local Administration has extensive responsibilities such as 1) maintenance of local security, 2) population registration services, 3) supervision of local autonomous bodies, 4) allocation of grants to local autonomous bodies, and 5) primary education in urban areas. Governors and district officers have extensive authority and duties such as 1) admission of annual as well as five-year development plans for the autonomous bodies, 2) admission of regulations including regular and supplemental budget plans, 3) opening, extension, and dissolution of the local councils, and 4) appointment and dismissal of the heads of executive offices of autonomous bodies and executive committee members. The chief of the local government branch, who work under these governors and district officers, and the officials in charge of the supervision of local autonomous bodies at the district level are all bureaucrats who belong to the Department of Local Administration. The highest rank among the posts to which these officials are dispatched is as Deputy Governor, called *palat cangwat*, who oversees a provincial administration office at the provincial hall and also directly supervises the bureaucrats of the Department of Local Administration, such as district officers and assistant-district officers who work at district offices in each province.

3. Organizational structure of the local autonomous bodies

As the forms and authority of local autonomous bodies have been already mentioned several times, this section only briefly describes the organizational structure of the local autonomous bodies.

As mentioned already, there are five forms of local autonomous bodies in Thailand at present. Although each form is based on a different act, a multi-municipality-based regional authority, Provincial Administration Organizations and municipalities, *Thesaban* and *Tambon* administration organizations consist of councils and executive offices, and the executive members are elected by mutual vote in local councils.³⁵ On the other hand, as for the autonomous bodies of special regions-the Bangkok metropolitan administration and Phatthaya city, their heads are elected directly by residents and they are independent from councils, whose members are elected by residents through direct elections.

While each province has one provincial administration organization and there are 75 provinces in total, there are some specific requirements for the establishment of *Thesaban* and *Tambon* administration organizations. As for *Thesaban*, according to the level of economic prosperity, i.e. revenue, population, and population density, *Thesaban Tambon* (towns), *Thesaban Muang* (cities), and *Thesaban Nakohn* (cities), have been established.³⁶ *Tambon* Administration Organizations (TAOs) are categorized into five grades according to the level of revenue. As of the year 2000, 1,129 *Thesaban* and 6,746 *Tambon* Administration Organizations (TAOs) have been established.

These categories are essential in any attempt to understand the organizational structure of local autonomous bodies, since a fixed number of council members as well as personnel, job rankings, and organizational structure are prescribed based on these categories. For instance, the fixed number of council members of *Thesaban* is 24 for special cities, 18 for cities, and 12 for towns, and the number of council members of Provincial Administration Organizations (PAOs) is prescribed according to the population; 1) 24 for less than 500,000, 2) 30 for 500,000 to one million, 3) 36 for one million to one and a half million, 4) 42 for one and a half million to two million, and 5) 48 for two million or more. The fixed number of personnel of *Tambon* administration organizations decreases from 21 to 12, six, four, or three as the job ranking decreases from the first to the fifth, and so do the numbers for provincial administration organizations. As for *Thesaban*, classified with the specific requirements for institutions, there are another seven grades and according to these grades the allocations and job ranking of personnel of the autonomous bodies are specified. The provincial administration organizations also have three categories-large, medium, and small scale-and the prescribed fixed numbers for each category are 115, 82, and 50 respectively. However, the organizational structure and job ranking of the personnel are uniform.

4. Authority of local autonomous bodies: Points to note in the related is

As is mentioned already in “1. The three layers of national administration organization in Thailand” in the last section, “2-2-3 Local organizations”, there are three layers-central, provincial and local administration-comprising the administrative organizations in Thailand. This framework has hardly changed since the first National Administrative Organization Act was promulgated in 1933, and is now prescribed in Article 4 of the National Administrative Organization Act of 1991.

As regards the ‘local administration’, the local administration Act of 1914 provides the prescription for districts, *Tambon*, and villages, and today’s provincial administration is still based on this act. On the other hand, as for local governments, there is no such unifying act as a Local Autonomy Act in Thailand. Instead the provincial administration organization Act of 1997, the *Thesaban* Act of 1953, the *Tambon* council and *Tambon* Administration Organization Act of 1994, the Phatthaya City Administration Organization Act of 1999, and the Bangkok metropolitan administration organization Act of 1985 have been adopted separately according to the type of local autonomous body. Therefore, when identifying the authority of these local autonomous bodies from the legal viewpoint, it is necessary to refer to specific articles of the individual acts.

Referring to these individual acts relating to local autonomous bodies does not necessarily cover all the legal aspects in detail however. This is because Chapter 9, “Local autonomy” in the existing Constitution of 1997, provides a specific prescription for local autonomy. In Thailand, the Constitution has been repeatedly revised due to the continual military coups d’etat since the first constitution was promulgated in 1932, and 17 different constitutions have been established, including interim constitutions, often called charters, which were formulated after a coup d’etat. Among these many constitutions, the Constitution of 1975, which was promulgated during the era of democratization from 1973 to 1976, was the first constitution to create an independent chapter for local autonomy. Since then, new constitutions generally have provided constitutional clauses for local autonomy in accordance with the Constitution of 1975. However, the contents of the clauses for local autonomy were only a prescription of the organization of local autonomy based on the will of local residents, the principles of self-governance, public elections for the heads of local autonomous bodies, and direct elections by residents for local council members, and did not go further to prescribe the direction of decentralization or the organization of the local authority.

In contrast to the past constitutions, the Constitution of 1997 provided specific and precise prescriptions for local autonomy. As these required the establishment of a “National Decentralization Committee”, the formulation of specific decentralization plans, and the revision of the acts related to local autonomous bodies within a definite period of time, it must be noted that the change in the authority of local autonomous bodies was even included in the contents. In fact, according to the Constitution of 1997, major acts such as the Act of decentralization plan and procedures of 1999 and the local authority personnel Act have been promulgated

and implemented consistently. Decentralization is still under way and will proceed based on these acts in the future, as will be mentioned in the later section, 2-2-5 “In conclusion”.

As far as the regulations in the Act of decentralization plan and procedures of 1999 are concerned, there seems to be the intent to clarify the division of the authority and duties between the provincial administration organizations as multi-municipality-based regional authority, and *Thesaban* and *Tambon* administration organizations as municipalities. For example, while Article 16 of this act defines the formulation of development plans of the autonomous bodies as the primary authority and duty of *Thesaban*, *Tambon* administration organizations, and Phatthaya city, Article 17 of the same act, which prescribes the authority and duties of the provincial administration organizations, defines, along with the formulation of their own development plans, coordination of provincial development plans, and the provision of support to other local autonomous bodies in their local development plans. Moreover, as regards public services, prescriptions differ between these two. While for *Thesaban*, *Tambon* administration organizations, and Phatthaya city, 1) facilitation and maintenance of roads, water and sewage works, 2) public services and other construction work, 3) construction and maintenance are prescribed, for the provincial administration organizations, 1) coordination and cooperation with other local autonomous bodies in executing their duties, 2) facilitation and maintenance of channels of inland waters to connect with other local autonomous areas, 3) establishment and maintenance of integrated sewage treatment systems, 4) support or assistance for the government or other local autonomous bodies in local development are prescribed.

However, the municipalities and multi-municipality-based regional authority do not have completely separated authority and duties, and in fact, much of the authority and many of the duties overlap. The development of industry, tourism industry, and sports and local culture, protection of social vulnerable groups of people, disaster prevention and alleviation, maintenance of regional security, conservation of natural resources and environment are prescribed as the authority and duties of both *Thesaban* and *Tambon* administration organizations as well as provincial administration organizations.

The reality is much more diverse compared to the prescription of these acts. Each local authority related act prescribes its own duties and work that is allowed to be carried out within the local area. *Thesaban* seems to be more functional than *Tambon* administration organizations, among *Thesaban*, the new ones that were upgraded from sanitary districts in May 1999 mostly lack a sufficient financial base to function as autonomous bodies and cannot adequately provide public services. As for *Tambon* administration organizations, while the first to the third grade of them generally seem to function, the rest, which is more than 90% of the total, of the fourth and fifth grade ones have only three or four full-time officials to begin with, and have difficulty in formulating development plans by themselves. In regard to the provincial administration organizations, budget cuts due to the establishment of *Tambon* administration organizations combined with the introduction of mutual elections for heads of the provincial administration organizations

from among PAO council members will result in the work of the organizations, which has been carried out by governors and district officers in addition to their primary duties, being transferred to officials of the organizations. This in turn will lead to a situation in which the public services of the organizations will not have the capability to execute the work.

Therefore, for the administrative and financial improvement of local governments, it is essential to ensure the transfer of authority and financial and human resources from the central government to local governments. Then, at the same time, it is necessary to promote the amalgamation of local governments, while promoting mutual cooperation among the autonomous bodies to fulfill their primary duty of improving the quality of public services.

2-2-4 Financial resources and the flow of funds

Finally, this chapter gives an overview of the financial resources and flow of funds of local autonomous bodies in Thailand.

It is not easy to conduct research into the flow of annual revenue and expenditures of the local autonomous bodies and grants from the central government. To begin with, there is no organized data on the revenues and expenditures. For example, “*The Financial State of the Local governments*” (Raaingaan Kaanpramuan Khoomuun raaidai lae raaicaaicing Khoong nuairaatchakaan suanthoongthin) issued by the NESDB only shows the totals for each form of local autonomous body and it is impossible to understand how much tax revenue, sharing tax, and grants the individual autonomous bodies receive. Moreover, since there is no unified act for local taxation, it is necessary to refer to individual acts such as the *Thesaban* Act of 1953 and the *Tambon* council and *Tambon* Administration Organization Act of 1994. Furthermore, as for the taxation that local autonomous bodies collect individually and the sharing tax, which is collected and allocated by the central government, as these are based on different acts according to tax sources, tracing back to these individual acts and describing them here is beyond the author’s capacity.

Since the local financial administration of Thailand is analyzed by two experts in local finance, Professor Masahisa Hayashi at Waseda University and Professor Nobuki Mochida at the University of Tokyo, in Chapter 3 in this report, the legal basis of taxation and grants are mentioned only briefly here.³⁷

1. Legal basis of taxation

(1) *Thesaban*

The sources of revenue are prescribed in Article 66 of the *Thesaban* Act of 1953 (the 10th revision

1999), namely; 1) prescribed taxes, 2) prescribed charges, admission fees, fines and penalties, 3) revenue from property of the *Thesaban*, 4) revenue from public services and commerce of the *Thesaban*, 5) prescribed loans or debts, 6) debts from the ministries and agencies, organizations, or corporations, which have the approval of local councils and the Minister of Interior, 7) grants from the central government or provincial administration organizations, 8) other donated money and property, and 9) other prescribed revenues.

Meanwhile, according to Article 67 of the same act, expenditures of *Thesaban* are defined as follows: 1) monthly salaries, 2) employment expenses, 3) other allowances, 4) general expenses, 5) supplies expenses, 6) stationery expenses, 7) cost of land and construction, and other property, 8) grants, and 9) other expenditures based on the restrictive clauses, acts, and regulations that are prescribed by the Ministry of Interior. Among these, as for expenditures for grants and for investment in the *Thesaban*, the agreement of the *Thesaban* council and the approval of governors are required (1st added Article to Article 67).

(2) Provincial administration organizations

In Article 60 of the Provincial Administration Organizations Act of 1997, provincial administration organizations are allowed to collect local maintenance tax, land and building tax, advertisement tax, and slaughter tax as well as tax on its related profits in areas within the region of the provincial administration organizations where there are no other autonomous bodies. In addition, part of that tax is prescribed to be allocated to *Tambon* councils according to the regulations of the Ministry of Interior. Article 61 of the PAO Act prescribes that the car and other vehicle tax as well as fees should be allocated to provincial administration organizations according to the concerning Acts. Article 62 prescribes that five percent of the amount of the value-added tax collected within a province should be sent to the provincial administration organizations. Also, Article 63 prescribes that the mineral tax and petroleum tax should be allocated to provincial administration organizations. In the prescription of Article 64, provincial administration organizations are allowed to collect a tax for petroleum benzine and similar products, a tax for diesel oil and similar products, and a tax for petroleum gas of up to five satang per liter (100 satang is equal to one baht), and as for cigarettes, they are allowed to collect a tax of up to five satang per roll. Finally, Article 65 prescribes that provincial administration organizations should have the authority to issue regulations in order to collect a hotel tax from the guests of hotels as a maintenance charge for provincial administration organizations according to the hotel Act.

(3) Tambon Administration Organizations (TAOs)

(i) The *Tambon* council

The annual revenue of the *Tambon* council can be divided roughly into two parts. One is that which is

allocated by provincial administration organizations; 1) tax for the maintenance of land, land and building tax, advertisement tax, the slaughter tax as well as tax on the related profit, which are collected in *Tambon*, 2) charges and admission fees, and fines and penalties which are prescribed to be collected in the *Tambon* concerned, 3) processing fees for permission to conduct gambling based on the 1 for gambling, which is collected additionally in the *Tambon* concerned according to the provincial regulations, 4) value-added tax and specific project tax which are received through and allocated by provincial administration organizations, and 5) a liquor tax as well as a domestic products consumption tax, which are both received through and allocated by provincial administration organizations, and 6) a car and vehicle tax as well as the related fees that are received through and allocated by provincial administration organizations (the *Tambon* council and *Tambon* administration organization Act of 1994: Article 29: the third revision 1999).

The other is the revenue of the *Tambon* council that is prescribed in Article 31 of the Act mentioned above and there are five, namely; 1) revenue from the property of the *Tambon* council, 2) revenue from public services provided by the *Tambon* council, 3) donations and donated property, 4) other grants and revenue which are allocated by the central government or governmental organizations, and 5) other revenue which is prescribed as that of the *Tambon* council.

As regards the expenditures of the *Tambon* council, these are prescribed in Article 33 of the Act; namely; 1) monthly salaries, 2) employment expenses, 3) other allowances, 4) general expenses, 5) supplies expenses, 6) stationery expenses, 7) cost of land and construction, and other property, 8) public works, and 9) grants for other organizations, and 10) other expenditures based on the restrictive clauses, acts, and regulations that are prescribed by the Ministry of Interior.

(ii) *Tambon* Administration Organizations (TAOs)

The revenue of *Tambon* administration organizations is prescribed in detail in Article 74 to 80 and 82 of the Act above mentioned. Although the revenue that provincial administration organizations had allocated to *Tambon* council was, with the birth of *Tambon* administration organizations, placed with *Tambon* administration organizations, there is more revenue that is not included in the revenue of *Tambon* council. For example, there are charges for processing, admission, and legal work relating to underground water, fishery, forestry, and the sale of liquor, patent project tax for mineral mining and petroleum mining, an allocation tax based on the national park act, and supplements to the value-added tax.

Meanwhile, as for expenditures these are prescribed by Article 85 of the Act as follows: 1) monthly salaries, 2) employment expenses, 3) other allowances, 4) general expenses, 5) supplies expenses, 6) stationery expenses, 7) cost of land and construction, and other property, 8) public works, and 9) grants for other organizations, and 10) other expenditures based on the restrictive clauses, acts, and regulations that are

prescribed by the Ministry of Interior.

(4) Autonomous bodies of special regions

(i) Bangkok metropolitan administration (BMA)

Bangkok metropolitan administration is the wealthiest autonomous body in Thailand. As for its revenue, this is prescribed in Article 109 to 114 and 117 of the Bangkok Metropolitan Administration Act of 1985 (the second revision 1991), and there is no significant difference in the revenue items between these and those of other autonomous bodies.

On the other hand, as for its expenditures, these are prescribed in Article 118 of the Act; namely, 1) monthly salaries, 2) fixed employment expenses, 3) temporary employment expenses, 4) allowances, 5) general expenses, 6) supplies expenses 7) materials expenses, 8) stationery expenses, 9) cost of land and construction, 10) grants, 11) other expenditures based on the Bangkok Metropolitan Administration Act or the regulations, and 12) other expenditures based on the restrictive clauses.

(ii) City of Phatthaya

The tax revenues and items of expenditure of Phatthaya city do not differ from those of other local autonomous bodies. On the general accounting for fiscal 1997 (1 October 1996 - 30 September 1997) at in terms of the revenue base, local taxation covered 40.8%, the highest proportion, then came grants at 39.45%, with charges and admission fees, and fines and penalties at 6.6%, and property income at 4.0%. When the breakdown of local taxation is referred, tax collected independently, such as the local development tax, land and building tax, taxes for signs, and the slaughter tax, accounted for 62%, and allocation taxes such as the value-added tax, liquor tax, commodity tax, and car and vehicle tax accounted for 38%.

2. Government grants³⁸

This section describes grants that the central government provides to local autonomous bodies. Since the source material is restricted, provincial administration organizations, *Thesaban*, and *Tambon* Administration Organizations (TAOs) are mainly described.

(1) The Division of Local Finance and the Division of *Tambon* Administration of the Department of Local Administration

Among the divisions of the Department of Local Administration of the Ministry of Interior, there are

two divisions that manage the portion of the grants to local autonomous bodies except for the Bangkok metropolitan administration. One is the Division of Local Finance and the other is the Division of *Tambon* Administration. The former is in charge of grants to *Thesaban*, of which those that were upgraded from sanitary districts in May 1999 are included, provincial administration organizations, special forms of autonomous bodies, and the latter division deals with grants to *Tambon* administration organizations. The Division of Local Finance has been in existence since the original Division of Local Finance (koong khlung suwan thongthin), was divided into the Division of Local Finance (suwan kaankhlang thongthin), and the Division of Local Revenue Development (suwan kaanpathanaa raaidai thongthin). The Division of Local Finance consists of three sections and has over 70 staff, half of whom are employees. As regards the establishment of local taxation systems and taxation, the Division of Local Revenue Development is in charge, not the Division of Local Finance .

(2) Grants to *Tambon* administration organizations

(i) Modification of the grant system

It was decided to change the system of grants that the central government allocates to *Tambon* Administration Organizations (TAOs) starting from the budget of fiscal 2001 (1 October 2000 - 30 September 2001). More specifically, the general grants and specific grants cases are designed to be allocated concurrently in the budget for fiscal 2001, about ten billion bath and 23 billion baht were designated for the former and latter, respectively, at first. While the former, the general grants, are allocated directly to *Tambon* administration organizations by the Department of Local Administration of the Ministry of Interior, the latter are allocated to *Tambon* administration organizations from the budget designed for the Office of Accelerated Rural Development, the Department of Public Health of the Ministry of Public Health, and the Public Works Department of the Ministry of Interior. In other words, every *Tambon* administration organization has also come to receive grants from several government bodies other than the Department of Local Administration directly. When the author visited *Tambon* administration organizations at various times between May and September 2000, additional notes, such as “the Public Works Department of the Ministry of Interior grants” or “Office of Accelerated Rural Development, the Ministry of Interior grants”, to the items of central government grants could be found in “the budget for fiscal 2001”. Considering that local autonomous bodies could receive grants only through the Department of Provincial Administration of the Ministry of Interior before, it can be said that this is a significant change.

According to the fourth section of Article 30 of the Act of decentralization plan and procedures of 1999, the annual revenue of local autonomous bodies should be increased to at least 20% of the national revenue, which includes that of both central and local governments, according to the budget for fiscal 2001, and to at least 35%, according to the budget for fiscal 2006. As has already been pointed out, the National

Decentralization Committee proposed a decentralization plan in October 2000. This cannot be described in detail here. However, it is apparently based on three concepts; 1) to increase the amount of the specific grants, 2) to raise the existing tax rate, and 3) to introduce new taxes.

As mentioned above, the grants that *Tambon* administration organizations could directly receive for fiscal 2000 (1 October 1999 - 30 September 2000), came only through the Department of Local Administration of the Ministry of Interior. In addition, there were two periods for data on grants; one was from fiscal 1995 to 1997, and the other was from fiscal 1998 to 2000. In the first period, since there was insufficient data on *Tambon* administration organizations, grants were uniformly allocated on a flat rate basis regardless of the size of the TAOs. In other words, 1.20 to 1.30 million baht was allocated to every TAO nationwide. However, in the second period, since there were more data on TAOs, grants were allocated according to the variables of area, population, the revenue of TAOs, and the number of villages under these TAOs.

(3) The grant allocation method for *Thesaban* and PAOs

There are two types of grant for *Thesaban*. One is the general grant, which is 150 baht per capita. The other is the specific grant, which is allocated to projects. In contrast, there are no general grants and only grants for specific cases allocated to PAOs. These grants are all provided through the Department of Local Administration of the Ministry of Interior. Criteria for the allocation of these grants are the contents and necessity of projects and the amount of funds needed for the projects. Decisions on which projects the grants are allocated are made through discussions between officials in charge of the Division of Local Finance and of the Bureau of Budget.

(4) Decentralization and grants for local autonomous bodies

In the budget for fiscal 2000, about 40 billion baht, which is equivalent to about five percent of the budget for the central government, was provided to local autonomous bodies as government grants. In the budget for fiscal 2001, this was increased to 72 billion baht. Of the grant, 40 billion baht covered general grants, and the grant for specific cases was the same as before. The rest, 32 billion baht, was designated for the budget for ten government bodies and allocated to local autonomous bodies through them. The ten government bodies are; 1) the Ministry of Interior, 2) the Ministry of Agriculture and Cooperatives, 3) the Ministry of Transportation and Communications, 4) the Ministry of Public Health, 5) the Ministry of Education, 6) the Ministry of Industry, 7) the Ministry of Labour and Social Welfare, 8) the Ministry of Science, Technology and Environment, 9) National Enterprises, and 10) other agencies which do not belong to any ministries. As regards the Ministry of Interior, projects for the facilitation of infrastructure handled through the Office of Accelerated Rural Development, the Public Works Department, and the Department of Local Administration have become the major objects of grants.

The use of nearly 32 billion baht depends on the government bodies mentioned above, and these bodies will lose their authority over local autonomous bodies to specify the use of the grants by fiscal 2006, who will then be able to decide the use of the grants at their own discretion. Thus, it is expected that the role of the Division of Local Finance of the Ministry of Interior will also shift to one of supervision and assessment of expenditures by local autonomous bodies.

2-2-5 Conclusion

This chapter has attempted to analyze the current condition of decentralization in developing countries, while introducing the case of Thailand. As has been seen so far, decentralization is underway in Thailand, and legislative bills relating to local autonomous bodies commencing with the Constitution of 1997 have been established and revised one after another over the last five years. In other words, the trend of decentralization was promoted through the revision and establishment of local autonomy related laws in line with the policies of the Constitution of 1997 by 1999, and then the Act of decentralization plan and procedures of 1999 was promulgated in November 1999. When the decentralization plans were approved at Cabinet meetings in October 2000, it can be said that the legal framework for decentralization was basically completed. Aspects to be focused on in the future may be whether the authority and financial and human resources will be transferred smoothly in conjunction with improvements in the administrative and financial capacity of the local autonomous bodies.

1. The trend towards decentralization: authority and financial and human resources

As regards the measure to increase expenditures for local autonomous bodies to at least 20% of national expenditures by fiscal 2001, although there is a difficulty in absorbing these funds, it seems that this is being achieved at this moment (April 2001). This is because the increased proportion of expenditures for local autonomous bodies is based on the expanded amount of grants and budget that is being transferred concurrently with the transfer of the work from the central government ministries and agencies. The content of the work is mostly related to expenditures for small-scale public services, such as the facilitation of roads, bridges, irrigation canals, waterworks and drainage, and school catering and milk supply services, which is a long way from the full-scale transfer of administrative and financial authority to local autonomous bodies. The transfer of the authority for taxation has not been yet been decided on.

One problem is that plans for the transfer of the human resources are not even ready yet. The related parties in the Office of the Civil Service Commission state that "They think that if the budget moves to the localities, people should move to the localities as well. However, in their individual minds, they are generally negative about going to local areas as civil servants due to the problems of the treatment they will receive and their social status. Together with reasons related to the historical background, it is very difficult to force

civil servants to move to local areas. It can be said that it is almost impossible.” It is true that the National Decentralization Committee has reached agreement on an outline plan for the transfer of personnel. However, in the decentralization plans, while there is a description of which authority of the central government will be transferred to local governments, there is no description of how many officials should be transferred. When the National Decentralization Committee once conducted a survey of how many officials were designated to be transferred from each government ministry and agency, it is reported that none of them gave numbers in their answers.³⁹

Furthermore, another problem is that it is not decentralization but “deconcentration” of the authority that is about to be executed under the name of decentralization. Since attention has been paid more to the legal framework of local autonomous bodies in the momentum toward decentralization, the trend among other government ministries and agencies should be focused on here.

2. The trend in the Ministry of Education and the Ministry of Public Health⁴⁰

In the fields of education and public health, there seems to be a trend not towards decentralization, but towards the deconcentration of authority. The Ministry of Education seems to have a plan to divide the country into 295 “education areas” based on the unit of districts, and establish “education area offices” in these areas to delegate the authority related to local education. The Ministry of Public Health seems to have a plan to provide regional health services through establishing an “Area Health Board” in each province and to recognize local autonomous bodies and private bodies as members of the Board. It seems that these trends show that attention is being paid more to recovery from the problems caused by excessive centralization in educational and health services rather than decentralization as part of democratization. More specifically, they are aiming to foster competitiveness, local initiatives, efficiency, and a better quality of the services by delegating authority to the board established in each locality.

In the case of the Ministry of Education, there seems to be a reflection on their past conduct in the excessive centralization since 1980, which did not necessarily succeed in raising educational standards. The Ministry has planned to leave decisions related to monthly salaries and personnel, including promotions, to the discretion of the “Area Education Board” and each school, and to delegate the authority for establishing or abolishing schools to them as well. It also has planned to delegate the authority for supervising to them in order to maintain harmony (*eeakphaap*), among the education areas, and leave the selection of educational subjects to their discretion. Moreover, it has planned to establish educational centers in local areas and delegate the authority for monitoring and providing follow-up support to each school to these centers. As regards the transfer of educational agencies to local autonomous bodies, it is expected that it will be carried out for the Bangkok metropolitan administration, Phatthaya city, and *Thesaban* Nakhon (special cities). Since other local autonomous bodies do not have the capacity to operate educational institutions, the plan is

to be implemented when they are ready. Thus, the involvement of local autonomous bodies in education will stay at the level of sending their representatives to the Area Education Boards.

In the case of the Ministry of Public Health, although there have not been any concrete policies like those of the Ministry of Education, it has already set out to downsize the central office in the direction of decentralization. More specifically, it has established Area Health Boards (AHB), each of which consists of representatives of the three parties; 1) local autonomous bodies, which are provincial administration organizations, *Thesaban*, and *Tambon* administration organizations, 2) the Ministry of Public Health, hospitals, and facilities for health services such as public health centers, 3) regional *prachakho* including civil society, NGOs, and intellectuals. Each of the AHB is designed to involve delegation of the authority for the formulation of public health measures, development of health services, formulation of regional health development plans, evaluation of regional health services, supervising of health services, and to establish standards and policies for the development of the health service system to the Area Health Boards. Apparently the Ministry of Public Health itself intends to provide not only financial and technical support but also establish general standards and orientations for the AHB. The establishment of AHBs already started in 17 provinces from the beginning of 2001. In ten provinces within October 2001, it is planned to pursue full-fledged implementation of the AHB capacity building project to develop the system, including management of information system (MIS) operation, assessment, and monitoring systems, the improvement of training curriculums for monitoring system, since conventional curriculums of seminar style training have limited effectiveness, and provide training to training instructors. AHBs will be established in 75 provinces nationwide by 2005 with a view to having them build up sufficient experience by 2010.

According to personnel involved in the promotion of the AHB project, it establishes local residents, civil society, people related to hospitals (*klum roongphayaabaan*), as the target groups and aims to establish a “strong civil society”. The purpose is to establish a better public healthcare system for the health of local communities. It is therefore essential to create relationships between the local autonomous bodies and local residents, and establish trust in the healthcare system, which is based on knowledge acquired by carrying out research and development and through sufficient allocation of material and human resources to the local areas. The promotion of decentralization will possibly lead to improvements in the quality of life as well.

These trends in the Ministries of Education and Public Health cannot be regarded as a transfer of authority to local autonomous bodies, although they themselves admit that there will be involvement of local autonomous bodies in the area boards to a certain extent. This transfer of authority was something that was implied by the Constitution of 1997 and stipulated by the Act of decentralization plan and procedures of 1999 in the narrow sense. The Ministry of Education in particular, on condition that the operational management of schools is the authority to be transferred to local autonomous bodies, has publicly stated that local autonomous bodies will be ready to take up the devolution of authority. However, such statements

require considerable caution since they can be an excuse for holding back the transfer of authority. Prime Minister Thaksin, who has come in after the former Prime Minister Chuan of the Democrat Party in February 2001, stated positively, “If local autonomous bodies are not ready, they should not be forced to hurry to accept decentralization”⁴¹. In addition to this, since the National Decentralization Committee is not being convened at the moment (at the end of March, 2001), and even one and half month after the new administration was established there were some calls to the effect that the driving force for decentralization may be decelerated. Nonetheless, the stance that the Thaksin Administration is taking toward decentralization is not clear yet and it is impossible to go further at this stage.

3. Future issues in decentralization

As has been pointed out several times before, local administration still plays an important role in a structure that consists of the three layers-central, provincial and local administrations in Thailand. It is true that the transition of authority and budget is about to come. However, where the personnel administration and fields of education and public healthcare of the local autonomous bodies are concerned, it appears not only that “decentralization,” but also “deconcentration” are proceeding simultaneously.

If “decentralization” cannot effect on the improvement of the capacity of the local autonomous bodies as planned, and “provincial administration” (suan phuumiphak) still has a large part to play, the role of such bodies may hardly change. To begin with, the number of local autonomous bodies in Thailand is substantial. There are about 8,000 of them in a country of almost 63 million people. This is clear considering that there are only about 3,300 local governments in Japan, where the population is more than twice that of Thailand. In addition, as has been pointed out, since most of the local autonomous bodies are new *Thesaban Tambon* (towns), which were upgraded in 1999, or fifth grade *Tambon* administration organizations, there is a limit to their administrative and financial capacity. If not “decentralization” but “deconcentration” alone is proceeding, the administrative and financial capacity of each local administration organization will remain limited. Although the Ministry of Interior intends to merge *Tambon* administration organizations where the population is less than 2,000 with neighboring ones, this is not progressing smoothly. The Ministry of Interior is currently tackling a project to strengthen *Thesaban Tambon* (town), and new *Thesaban* in particular, and it plans to establish taxation registers and population registration offices using the Miyazawa Fund by May 2001. Such a movement should be welcomed. However, it is too simplistic to think that this will lead to extensive improvements in administrative and financial capacity. Under the present circumstances, it is difficult to make such mergers a reality, and if rapid advancement of the administrative and financial capacity of local autonomous bodies cannot be expected, it may be better to put in place a horizontal coordination system, for instance, by establishing associations along with the mergers.

As a matter of fact, it is not necessarily true that there is no future for local autonomy in Thailand. Of

significance here may be a system designed to put in place not only a horizontal but also a vertical coordination system among the local autonomous bodies. Referring to the argument of Professor Akizuki in Chapter 3, if the system of local autonomy in Thailand is the “separated type” rather than the “integrated type,” the role of intermediary bodies to coordinate among the local autonomous bodies should consequently become of significance. The provincial administration organizations seem to have the potential for taking on such a role. However, considering their spheres of authority and available financial and human resources, the capacity cannot be regarded as particularly sufficient.

As was evident in the case of Nong Yai town, which was the result of a successful merger in Chon Buri province,⁴² the leadership of local autonomous bodies was indispensable in the course of the merger. The *Thesaban* Act of 1953 was revised last year and in cities, *Thesaban Nakhon and Muang*, the direct election of mayors was instituted,⁴³ which will probably enable them to exercise their leadership. There have been only three cases of mergers in Thailand, and there is not enough experience in this respect (at the end of March, 2001). Meanwhile, Japan has more experience in promoting the merger of local governments, which will quite possibly serve as a useful reference for mergers in Thailand. The cooperative relationship that involves not only government organizations but also intellectual input, including from academic experts, between Thailand and Japan seems to have the potential for intellectual international cooperation. The development of international cooperation in this field is anticipated in the future.

Notes

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all of whom were involved in the Department of Local Administration of the Ministry of Interior of the Thai government concerning the relationship between the Ministry of Interior of the Thai government and local autonomous bodies of Thailand.

- ¹ Kitahara 2000:376.
- ² This paper is a summary of the Japanese version, and due to space limitations, it was necessary to omit or abstract some parts. More specifically, descriptions of the authority and duties, the acts and the actual state of local autonomous bodies in this paper, about 50 figures, and the translation of the whole of Chapter 9 of the Constitution of 1997, which were attached to the Japanese version, had to be omitted. It should also be noted that since some changes were added to other descriptions and notes, the Japanese version is not exactly the same as the translation.
- ³ Suehiro 1993: 109-116. See also Kato: 1995, Chapter 7 “Seeking to Understand Party Politics in Thailand” in particular, and Tamada 2001a:15-53.
- ⁴ Chavalit, the leader of the New Aspiration Party; Chamlong, the leader of the Palang Dharma Party, and the Solidarity Party, all of whom supported the pro-democracy movement, participated in power-sharing. On the other hand, the Chart Thai (Thai Nation) Party, Social Action Party, Seritham (Liberal Democratic) Party, Muan Chon (Mass Party), and Prachakorn Thai (Thai Citizen) Party, were in opposition. The Chart Pattana (National Development) Party, which was newly established by Chatichai was also in opposition. The Samakkhitham (Unity) Party, which was supported by the military, was disbanded after the bloody affair of May, and the members dispersed into the opposition parties.
- ⁵ Thanet 1997:286-288.
- ⁶ Hashimoto 1999a:19.
- ⁷ To put it more precisely, this was not the first establishment of *Tambon* administration organizations (*Ongkaan boorihaan suan Tambon*). In the Phibun Administration, the Act of *Tambon* Administration Organization of 1956 was promulgated, and according to the criteria of revenue, land area, and population density, 59 *Tambon* administration organizations were established by 1972. However, since the revolutionary order of No.326 was declared by the Revolutionary Party in 1972, the following three; 1) *Tambon* administration organizations which were established according to the 1956 Act, 2) *Tambon* councils, which were established according to the order No.222/2499 of the Ministry of Interior of 1956, as well as 3) that of the order No.275/2509 of 1966, which differed from that of the No.222/2499 in that there was an organization for promoting development, of the administration organizations of *Tambon* level were abolished

and combined into *Tambon* councils alone. This form of *Tambon* council, which was established according to the Revolutionary Order promulgated in 1972, existed until the implementation of the Act of *Tambon councils and Tambon Administration Organizations* of 1994 (Meechai 1994:11).

⁸ However, if *sukhaphiban* (sanitary districts) are included, the number will amount to nearly 1,200. As for the details of the sanitary districts, see note 14.

⁹ However, as a transitional measure, for four years after the establishment until the next election for council members, *kamnan*, the head person of a *Tambon*, who was elected from among village headmen directly by the residents, was to become the chairman of the committee of the *Tambon Administration Organizations*, and less than three of the village headmen were to become members of the executive committee, which had seven members, including the chairman, in total. Although *Tambon* administration organizations were established in 617 places in 1995, 2,143 in 1996, and 3,637 in 1997, there were *Tambon* councils that were not counted as local autonomous entities in 568 places as of 31 December 1998.

¹⁰ According to Thanet 1994: 59, after the three months starting from September to November in 1992, the public rapidly lost interest in the public elections for governors.

¹¹ Apart from the revision of the acts relating to the organizational structure of local autonomous bodies, new acts were promulgated as follows: the Act for the Signing of Public Proposals for the Regulations of Local Autonomous Bodies of 1999, the Act for the Poll for the Dismissal of Local Council Members and Executive Committee Members of Local Autonomous Bodies of 1999, and the Act for the Personnel Administration of Local Autonomous Bodies of 1999.

¹² As for the organization structure, activities, and lists of the representatives and experts of the subcommittees of the National Decentralization Committee, see Nagai 2001:23-24.

¹³ However, the authority for the management of the personnel of local autonomous entities was not given completely to local autonomous bodies, and the provincial local governments personnel committee, which were established in each province, were involved in this matter.

¹⁴ *Sukhaphiban* (sanitary districts), were the first sub-autonomous bodies to be established in Thailand. They were established as an experiment when King Rama V returned from Europe in 1897 by a royal decree for the establishment of the Bangkok sanitary district of the year 116 in the *Rattanakosin* Calendar. Later in 1906, Tha Cha-lom sanitary district was also established in the Muang district of Samut Sakhon province. It was a sub-autonomous body that dealt with urban sanitation projects primarily, and was operated by *kamnan*, village headmen, and local merchants who were appointed as sanitation committee

members, being financed by a housing tax collected from local residents. In the next year, 1907, the Act on operations of sanitary districts was promulgated (Choowong 1996:164-6). Although King Rama VI, who throned 1910-25, gave sanitary districts the status of “schools of democracy”, since there were many residents of Chinese origin in urban areas, and the King was concerned about the ramifications of the Chinese Revolution in relation to Thai Nationalism. Apparently, He exhibited a reluctance towards promoting further democratization. The number of sanitary districts came to over 35 by 1935. However, since they were all upgraded to *Thesaban* in 1935, they all disappeared at the same time. However, new sanitary districts were established in urban areas by Prime Minister Phibun in 1952, and then the number increased in the 1980s. In 1985, when the act was revised, the number of elected council members of sanitary districts also increased from four to nine. In May 1999, due to the Act to Upgrade Sanitary Districts to *Thesaban* of 1999, they were finally abolished.

¹⁵ For example, the revenue of Phetchaburi Provincial Administration Organizations (PAOs) decreased from 103.51 million and 9,406 baht in fiscal 1994 to 98.30 million and 1,121 baht in fiscal 1995, 84,355,744 baht in fiscal 1996, and 51.91 million and 795 baht in fiscal 1997, which was nearly half of that of 1994 (Nagai 1999:163). This was because, although *Tambon* councils used to receive financial support from the Provincial Administration Organizations (PAOs), such financial sources were devolved to Provincial Administration Organizations (PAOs) .

¹⁶ Generally speaking, provincial administrative organizations have little visibility. As far as the author is aware, it is often the case that the Provincial Administration Organizations (PAOs) offices are housed at the side or rear of splendid provincial hall buildings where the governors are located. Since provincial administration organizations do not provide administrative services directly to residents, even residents sometimes do not know where Provincial Administration Organization (PAO) offices are. According to the explanation from staffs in *Pathum Thani* Provincial Administration Organization, while the set number of *Pathum Thani* Provincial Administration Organization is 108, the real number is 55. There are 23 departments and about 300 officials work in Phatum Thani provincial hall. In addition, generally only five departments are established in each provincial administration organization (Interview at *Pathum Thani* Provincial Administration Organization on 28 July 2000).

¹⁷ Tamada 2001b:15-16.

¹⁸ This observation has been made by several researchers. See [Hashimoto 1999a:23]. Osamu Akagi mentioned as follows: “The establishment and activation of *Tambon* administration organizations, are not of the kind to be generated according the needs of local residents. Although they appear to represent decentralization, the real objective may be to strengthen the authority of *kamnan* (head-persons of *Tambon*, an administrative village) and strengthening or sharing the authority of the “districts” (the Ministry of

Interior), through establishing government offices at *Tambon* level as a backup system” (Akagi 2000:18).

- ¹⁹ Since in 1975, under the name of the *Tambon* capital circulation project (Tambon development fund), the Kukrit Pramoj Administration allocated 500,000 baht to each *Tambon* as a development fund and left the formulation of development plans in the hands of *Tambon* councils (Sapaa *Tambon*), elections for *kamnan* became politically charged. A *Tambon* council consisted of *kamnan*, village headmen, sub-district medical practitioner, and elected representatives from among the villagers, and the *kamnan* becomes the executive committee chairperson of the council. Government officials or intellectuals who were working for the *Tambon* concerned, were appointed as secretaries by district officers through resolutions of the *Tambon* councils. As for *Tambon* councils, see also Note 7.
- ²⁰ “Villagers and Village headmen welcome decentralization. This is because, provided that money is allocated to local areas, development is made possible.” (Comment from the Interior Ministry official in the explanation to the delegation of dispatched short-term experts of the Japan International Cooperation Agency “Strengthening Local Administration in Thailand”, of which Prof. Michio Muramatsu was the representative, at the Department of Local Administration of the Ministry of Interior on 23 March 1999).
- ²¹ Article 3 in the supplement to Article 28 of the Local Administration Act of 1914 (the 30th revision 1999), prescribes the establishment of a “Village Committee” for each village. It also prescribes that the village committee should provide advice and consultation to village headmen about activities to be carried out based on the authorities and duties of village headmen. The village committee consists of a village headman, an assistant village headman in charge of administration (two assistant village headmen are selected from among the residents by the village headmen after discussions with the *kamnan*, since an assistant village headman in charge of administration and another assistant village headman in charge of maintaining security are both selected and appointed by village headman after discussions with *kamnan*), and more than one intellectual who district officer considers appropriate, who are elected by residents for a five year term.
- ²² The Department of Local Administration of the Ministry of Interior is called *Krom kaan pokkhroong* in Thai, which does not mean “local” or “administration” but means “protect” and govern”. However, in this paper, according to the general use of the term, the term “the Department of Local Administration” is used.
- ²³ The Democrat Party was in power from November 1997 to February 2001. It is said that among the party members, Chamni Sakdiset, Deputy-Minister of the Ministry of Interior at that time, and Abhisit Vejjajiva, Minister of the Prime Minister’s Office at that time, had enthusiasm for decentralization.
- ²⁴ As a matter of fact, budgetary transfer from the central government to local governments had already

been under way experimentally since fiscal 1999. For example, the budgets for the Office of the Accelerated Rural Development (ARD) of the Ministry of Interior and Public Works Department (PWD) of the Ministry of Interior were cases.

²⁵ The “province” and “Provincial administration organization” (PAO), which are often mixed up, are separate organizations in Thailand. The “province” is a unit of local administration, or field agency of the central government, and governors are bureaucrats of the central government, who are dispatched from the Ministry of Interior. On the other hand, the “provincial administration organization” is a local autonomous body, whose head is elected by mutual election among provincial council members elected directly by provincial residents. The fact that governors doubled as the heads of local autonomous bodies until 1997 may be the main reason for such confusion.

²⁶ In answer to the question, “How often do you go to Bangkok?”, which was posed by Prof. Michio Muramatsu, chairman of the Japanese committee of the Thailand-Japan Joint Research Project on Capacity Building of Thai Local Authorities, the Mayor of Phuket City said, “twice a week”, and the Chairman of the Provincial Administration Organization (PAO) Executive Committee of Phuket said, “twice a month”. The mayor of Phuket City also said, “Because field agencies of the national government cannot make any decision, I have to go to Bangkok. Except for affairs of national security, they should focus on the efficiency of administration.” (Comment in the discussion at the Thailand-Japan joint research workshop at the City Hall of Phuket on 26 March 2001).

²⁷ Original Act defines *Kaan Pokkhrong sung klaang*, *kaan Pokkhrong suan Phuumiphaak* and *Kaan Pokkhrong suan thoongthin*. DOLA’s official translation is central administration, provincial administration, and local administrations. But as is implied, “local administration” means “the administration by local governments”. In this paper, different from DOLA’s translation and wording, the another defines local administration as administration by field agencies of central government.

²⁸ Kovit 2000:79.

²⁹ It was in 1952 that judicial person’s status was granted to provinces. (Kovit 2000:79).

³⁰ The Division of *Tambon* Administration of the Department of Local Administration of the Ministry of Interior 1999:1.

³¹ It is often the case that villages or *Tambon* are not established in the urban autonomous areas such as that covered by the Bangkok metropolitan administration and *Thesaban* in principle. Instead wards (*kheet*), smaller wards (*kawiang*), and communities (*chumchon*), have been established instead. There are some

cases in which *kamnan* remain in the outer edge of the wards inside the Bangkok Metropolitan Administration.

³² According to the Local Administration Act of 1914, “houses” (*baan*) here are collectively referred to dwellings regardless of whether they consist of a single house or a tenement, as long as the owners live independently in the same area.

³³ Village headmen have been elected directly by residents since the promulgation of the Local Administration Act of 1897. On the other hand, *kamnan* were elected mutually among village headmen until 1972. However, after 1972, due to the adoption of a new system in which *kamnan* were elected by residents from among the village headmen who ran for the post, elections for *kamnan*, which used to involve a strong suggestion that *kamnan* was an honorary post, became more politically charged. However, elections for *kamnan* have not been held frequently since the mandatory retirement system at age 60 was applied to *kamnan* and village headmen until 1992. After the promulgation of the Local Administration Act of 1914 (the ninth revision 1992), elections for *kamnan* were prescribed to be held every five years in principle, although *kamnan* and village headmen who were already assigned before the promulgation, were allowed to continue until the retirement of age 60.

³⁴ Due to the promulgation and implementation of the administration organization Act of Phatthaya city of 1999, the conventional system of city manager was abolished and changed to the direct election system.

³⁵ However, as for *Thesaban*, the act was amended to allow residents to vote directly for mayors on condition that the necessary procedures are completed.

³⁶ However, there are some cases in which *Thesaban* could be established even though these requirements were not met. For example, the seats of provincial hall buildings are cities or special cities, and among towns, there are many of the former sanitary districts, which were upgraded uniformly in May 1999. Many of the new *Thesaban* do not meet such requirements for the “level of economic development”. Translation of *Thesaban Tambon*, *Thesaban Muang* and *Thesaban Nakhon* into towns, cities and special cities is my own. *Directory of Agencies and positions* edited by DOLA in 1999 gives translation as ‘Sub-district City’, ‘Town Municipality’ and ‘City Municipality’, respectively.

³⁷ Although there is a precise prescription for tax items which local autonomous bodies may collect in the Act of decentralization plan and procedures of 1999, this paper could not be reflected.

³⁸ The description of governments grants refers to the interview to Mr. Panchai, the head of the Division of *Tambon* Administration of the Department of Local Administration of the Interior’s Ministry conducted

on 6 June 2000 and the interview to Ms. Amphai, the group leader for government grants of the Division of Local Finance of the Department of Local Administration of the Interior's Ministry conducted on 8 June 2000 by Fumio Nagai.

³⁹ Circumstances as of the end of March, 2001

⁴⁰ Circumstances as of the end of March, 2001

⁴¹ Interview with Mr. Sirichai at the Local Government Development Administration Division of the Department of Local Administration of the Ministry of Interior, which was conducted by the author.

⁴² Discussion at the Thailand-Japan joint research workshop held at Nong Yai town on 27 March 2001.

⁴³ As regards towns (*Thesaban Tambon*), direct elections for leaders will be introduced from 2007 according to the need.

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2-3 Decentralization in the Philippines

2-3-1 Overview: Administrative systems and central-local relations in the Philippines

1. Administrative system of the Philippines

As is often the case with developing countries, the governmental system of the Philippines was strongly affected by the period of colonial domination. Spain, its first colonizer, introduced a modern state political framework for the purpose of territorial governance. This included concepts and realities that the Philippines had never recognized, such as governance by the law and regulations, and an administrative system with clearly defined functions of each unit. The most characteristic legacy of the Spanish conquest over three hundred years is the dual ruling structure of the Church and the Government as well as the centralization of all state functions in the capital. The Church played an important role in colonial state governance in terms of security, taxation, and labor conscription. This led to the weakness in governance system in Philippine administration. This is evident from a comparison with the Dutch rule of East India (now Indonesia) and the British rule of Malaysia. The Spanish rulers lived within a fortress called 'intramuros,' and military as well as administration and judiciary were concentrated in Manila. Consequently, their ruling system was extremely centralized.

The influence of American rule is greater in the Philippine formal administrative system. Governmental administration generally consists of two parts: the executive part and the administrative part. The former refer to the activities made by the top leader, for example, in the United States (US), this is the President. The administrative part is different. It is a group of public employees very vulnerable to the influence of Congress while the executive sector is independent from Congress. In the American system, administrative agencies are basically tasked to implement laws, and the President does not have overall control over departments and committees. Consequently, there are a huge number of positions that are politically appointed. In marked contrast, in the parliamentary cabinet system of the United Kingdom and Japan, the administrative part is integrated with the executive part. The administrative part performs a supporting function to the executive part. In Japan, the administrative part is placed under the Diet.

As in the US, the function of the administrative sector in the Philippines is limited to the implementation of laws, including the appropriations law, enacted by Congress, except that the Philippine President has stronger powers over the administrative sector than the US President. Due to the 'general supervision' of local governments provided for by the 1935 Constitution, the President has the authority to dismiss and suspend the heads of local government units.

Therefore, in contrast to administrative officials in Indonesia, Thailand and Malaysia, whose functions include policy-making and even a part of the judiciary, administrative officials of the Philippines have only limited authority and a small degree of discretion. They are always under pressure from the President and Congress, and are paid relatively less than employees in the private sector. It is problematic that such conditions are not attractive for highly qualified people.

The Philippine central administrative organization headed by the President consists of the Office of the President, nineteen Departments, three constitutional commissions and other agencies. The Office of the President, just like that of the US, functions as the staff of the President, supervised by the Executive Secretary. The Office has a press secretary, a spokesperson, an executive secretary and other special advisors covering different fields, and so no particular position is necessarily the most influential with regard to the President. Each Department is headed by a Secretary, followed by an Undersecretary and Assistant Secretary. Generally, these three positions are for political appointees. The positions of the Director and below are ‘career’ officials with tenure. ‘Career’ officials are classified into the ‘closed career’ of special skilled occupations (e.g. a university professor) and the ‘open career’ of general officials, each of which is divided into three standards. The third (highest) standard career level officials that includes from department directors up to directors-general have been called career service officers since the Marcos era.

Early in the martial law period, the Career Executive Service Board was established, apart from the Civil Service Commission, for the purpose of the qualification and training of high-ranking officials. Their employment and payment was systemized and operated on the basis of objective evaluations of performance and qualifications. Within several years, however, this system was ignored by President Marcos himself and was not enforced. No change has occurred in this from the Aquino administration up to the Estrada administration: the highest positions are assigned politically while middle or low-ranking officials generally remain in the same position for five to ten years unless the position just above becomes available.

2. Central-local government relations

(1) Types of local government units and organizations

Local government units are classified roughly into three layers: provinces, cities/municipalities, and ‘*barangays*.’ Cities are divided into ‘highly-urbanized cities’ that are outside the jurisdiction of and practically at par with provinces and ‘component cities’ belonging to the provinces. All municipalities are under the jurisdiction of the provinces. Cities and municipalities play the most important role in local autonomy in the Philippines. So among all the local elections, those for city and municipal mayors usually generate the most competition. On the other hand, ‘*barangays*’ were placed under every city and municipality early in Marcos’s martial law regime. They have been increasing in importance as the form of government closest to the citizens.

These local autonomous organizations are classified in accordance with their revenue, population and area, and these criteria are used for consideration of the foundation or consolidation of local units.

Besides these local government units, the Philippines has the category of 'region,' which is not a local government level. Before the martial law regime, there had been eight regions in the country. They were reorganized into eleven regions in 1972, and into thirteen later. However, it was only after martial law that a regional office was established in each region at which a regional director and other executive officers are stationed after being dispatched from national departments to play a coordinating role between the central and local governments. Among such regions, the Manila Metropolitan Region is an exception. In 1975, the position of the governor of Manila was prepared for Imelda Marcos who had previously held no public office. Since then, the new-called Metro Manila Development Authority (MMDA) has played an important role in waste disposal and urban transportation management. Today, there are a total of thirteen regions, plus three special regions: the MMDA, the Autonomous Region of Muslim Mindanao, and the Cordillera Administrative Authority.

(2) Members of the local legislative councils

All local government units have both publicly, elected members and sectoral and appointed members.

2-3-2 History of decentralization after independence

As we have seen so far, the Philippines has extremely 'top-heavy' centralized government system. Since its independence, however, decentralization has been a constant trend.

There are three types of decentralization, each of which has a different origin and nature: (1) 'administrative decentralization' or deconcentration of powers, (2) 'fiscal decentralization' and (3) 'devolution' or democratic decentralization.¹ In terms of this classification, the Philippines tended toward administrative deconcentration since independence in 1946 until 1972 (before martial law was declared). After the collapse of the dictatorship of Marcos in 1986, the process of devolution started.

1. The Third Republic (1946-1972)

Among the many laws related to local autonomy in this period, the most important are the Local Autonomy Act in 1959 (Republic Law No. 2264), the Barrio Charter in 1959 (Republic Law No. 2370 as amended later by No. 3590), and the Decentralization Act in 1967 (Republic Law No. 5185). These three aimed at expanding the functions and authority of local governments. The Supreme Court also showed a tendency to interpret the general supervision of the President over local governments more strictly.

It is worth noting that there was a movement for centralization at the same time in this period. One example is the abolition of the Department of the Interior in 1950, which transferred local autonomy, related agencies to the Local Autonomy Authority under the Office of the President.

Nevertheless, decentralization was the trend of this period. This is clearly seen by the fact that both the Integrated Reorganization Plan and the draft of the new Constitution that were set up late in this period had 'Local Autonomy' as a separate chapter.

2. Marcos's dictatorship (1972-1986)

In September 1972, President Marcos placed the whole nation under martial law. In spite of its formal lifting in 1981, his absolute authority continued until he was dislodged from his position by People Power in 1986. The central-local relationships in this period increased the trend towards centralization in the actual allocation of power, although a local autonomy system was formally promoted. In particular, Congress was totally closed down until 1978 when the Interim Batasang Pambansa (interim national council) was established. Legislation took the form of executive orders or presidential decrees issued by the President, whose power became as extensive as was possible.

The key to central-local government relations in this period was the region and *barangay* systems.

(1) Region system

The Integrated Reorganization Plan established in 1970 could not be cleared by Congress. It was implemented as an administrative order after the proclamation of martial law. Its principal objective was the introduction of the 'region' system. The whole nation was divided into eleven regions (twelve later), for each of which a regional center was established to locate the regional offices of central government departments. The structures of government offices were standardized at the same time. Such regional offices were aimed at (1) dispersing central government agencies that had become concentrated in the Manila Metropolitan Region, (2) coordinating development plans made by each office through the Regional Development Council, and (3) increasing the participation of local governments in making and implementing development plans by including governors and mayors in the Council. The secretariat of the Council consisted of the regional offices of the National Economic and Development Authority (NEDA). This means that the administrative sector started to handle the coordination of local interests with the intention of making local development plans effective and non-political. This coordination used to be carried out exclusively between the members of Congress and the President.

(2) *Barangay* system

In December 1972, the President ordered the establishment of a Citizens Council in local areas all over the nation (Presidential Decree No. 86), the name of which was changed to '*barangay*' in January 1973 (Presidential Decree No. 86A). Another order in September 1974 renamed all the barrios (villages) in the Philippines to *barangays* (Presidential Order No. 557). The *barangay*, as a unit of self-government, was placed under the city or municipality, and the three-layered structure of local government units was thus established. This structure was clearly defined in the Local Autonomy Act of 1983. At present, there are about 42,000 *barangays* throughout the Philippines, and all the people belong to one of the *barangays*.

This formation of the *barangay* system was in good part the result of political calculation. Because President Marcos suspended Congress with the proclamation of martial law, he needed some means to justify his regime, and used the Citizens Council system. The Councils were established in all parts of the country, and a show of hands or clapping was regarded as approval for important policies.

As we will discuss later in detail in the section on the 'pork barrel' system, the most significant aspect of the region system was that the coordination of local development plans between central and local governments, which had been mostly handled by politicians, came to be handled by the administrative sector without political intervention. Although the system itself had been prepared before the establishment of Marcos's dictatorship, it was not accidental that the system and the martial law came into being at the same time. It was little more than a diversionary policy of Marcos-style 'developmental dictatorship.' The *barangay* system contributed considerably to the involvement of local grassroots politicians in the ruling party alliance, called Kilusang Bagong Lipunan (KBL, New Society Movement). Strong control over local opinions secured Marcos's long-lasting dictatorship. While the region system was a typical form of administrative decentralization, the *barangay* system was directed towards centralization by eliminating intermediary powers, although it had the appearance of political decentralization.

3. After 1986

In February 1986, People Power forced Marcos to flee the country. Under the Presidency of Corazon Aquino, reforms were instituted with the intention of redemocratizing Philippine politics and strengthening political institutions which were weakened by martial law.

(1) Policy Agenda for People-Oriented Development

Right after her inauguration, President Aquino presented a Policy Agenda for People-Oriented Development. In the agenda, she asserted that the function and structure of the government should abide by

certain organizational principles, one of which was decentralization. In order to pursue a decentralizing approach to development, the Policy Agenda presented the following decentralizing procedures that the government should adopt:

- (i) To strengthen the organizations at region and local government levels, by passing authority and functions to them;
- (ii) To strengthen the organization of the regions so that they can facilitate and coordinate the development plans of regions and local governments;
- (iii) To transfer supervision over national plans carried out at the local level from the central government offices to the heads of local governments, in order to strengthen local autonomy;
- (iv) To improve the planning capacity for the preparation of development plans at the region and local government levels by activating the Regional Development Council. The Council should be given sufficient authority;
- (v) To employ qualified experts and train existing staff for the continuous improvement of development planning; and
- (vi) To facilitate the participation of local organizations and NGOs in planning and implementing processes and achieve active local participation.

(2) The 1987 Constitution

Article II: Declaration of principles and state policies

Section 25 “The State shall ensure the autonomy of local governments.”

Article X: Local government

Section 1. The territorial and political subdivisions of the Republic of the Philippines are the provinces, cities, municipalities, and *barangays*. There shall be autonomous regions in Muslim Mindanao and the Cordilleras as hereinafter provided.

Section 5. Each local government unit shall have the power to create its own sources of revenues and to levy taxes, fees and charges subject to such guidelines and limitations as the Congress may provide, consistent with the basic policy of local autonomy. Such taxes, fees, and charges shall accrue exclusively to the local governments.

Section 6. Local government units shall have a just share, as determined by law, of the national taxes, which shall be automatically released to them.

Section 7. Local governments shall be entitled to an equitable share in the proceeds of the utilization and development of the national wealth within their respective areas, in a manner provided by law, including sharing the same with the inhabitants by way of direct benefits.

Section 14. The President shall provide for regional development councils or other similar bodies composed of local government officials, regional heads of departments and other government offices, and

representatives from non-governmental organizations within the regions for the purposes of administrative decentralization to strengthen the autonomy of the units therein and to accelerate the economic and social growth and development of the units in the region.

(3) The Local Government Code of 1991

As provided for by the 1987 Constitution, “The Congress should legislate for local autonomy, and set provisions about capable and responsible local self-governing bodies which have systems for decentralization, recall, proposal by citizens, consent by vote (Article 19, Section 3).” The law or code to achieve this was prepared under the Aquino administration.

Due to successive coup attempts after Aquino’s inauguration, important policies of the new administration were delayed and could not yet bear fruit. In the early 1990s, the Aquino administration intended to put into effect the Code that the Constitution had provided for, so that it could be promulgated as their greatest achievement. With the 1992 presidential election close at hand, the first Secretary of the Interior and Local Government of the Aquino regime, Senator Aquilino Pimentel worked aggressively to pass the bill. Local governments also wanted to ensure that the Code was in their favor if any changes occur.

From the macro-point of view, there were other reasons for the establishment of the Code such as: (1) a series of democratization movements under the Aquino administration (a break from Marcos), (2) the introduction of an economic structural reform policy in 1989 and (3) global trend of decentralization. A typical example of the first set of reasons is the restriction on the general supervisory powers of the President, which had already been included in the Free Constitution issued right after the inauguration. Concerning the second reason, the central governmental agencies had become bloated and dysfunctional under the Marcos regime and the need to downsize and reorganize them was urgent. As for the third reason, decentralization had been an important agenda item for international assistance agencies since the late 1980s. The Philippines was a nation in which such an agenda could be anticipated, and for international organizations it was a good laboratory to test this new agenda.

Leaders of the Mayors’ and Governors’ Leagues (such as Osmena of Cebu and Villafuerte of Camarines Sur) also played a major role in the process of enactment. On the other hand, there were various reactions to the draft of the new Law in the central government. Some offices opposed and successfully avoided their devolution or budget and personnel reductions. Others whose heads did not oppose the draft (such as the Department of Health) were devolved and their personnel were transferred to the local governments as mandated by the Code.

Observation of the process of formulation of the Code reveals the profound influence of the US

government. It seems that there were careful and prudent discussions on the expansion of assistance from the US after enactment of the Code, and the actual assistance that should be employed to support decentralization. In fact, the US Agency for International Development (USAID) supported efforts to craft the Code before its inception in 1991 and efforts to implement it afterwards.

In short, it was during the Aquino administration that the Philippines for the first time set up the full-fledged ‘democratic decentralization’ combined with ‘fiscal decentralization.’

2-3-3 Characteristics and effects of the Local Government Code of 1991

1. Characteristics

(1) Basic services and facilities devolved to local autonomous bodies

The responsibility for the delivery of some basic services was devolved to local autonomous bodies. These included services for public health, agriculture, environment and natural resources, public works and social welfare service. As many as 70,000 personnel were transferred to local governments.

(2) Enforcement of certain regulatory powers

Among many regulatory and licensing authorities transferred, the most important were those for the reclassification of agricultural lands, inspection of food products and operation of tricycles as a form of public transportation.

(3) Increased local share of the Internal Revenue Allotment (IRA)

Before the Act, 20% of the domestic revenue that was not included in the general fund had been allotted to local governments. Out of this amount, 10% went to barangays, and the other 90% was shared by the municipalities, provinces and cities in the proportion of 45%, 30% and 25% respectively. According to the new Local Government Code, the proportional allotment should be calculated based on the average tax revenue in the previous three years, and the rate was set at 30% for the first year after enactment, 35% for the second year and 40% for the third year²

As Mochida points out in this report (Chapter III, Section 2), because the IRA system fixes the total amount of fiscal transfer at a certain proportion of national revenues, local finances do not disturb macro-economic stability at the nation level.

The points of the amendment in 1991 were (1) to increase the proportion for the barangay from 10% to 20%, (2) to change the share of the rest to 80%, with more for cities and less for provinces and municipalities, and (3) to change the criteria of allotment. The proportion of the population-based allotment was decreased from 70% to 50%, and that of the area-based allotment was increased from 20% to 25%, while the proportion of the equal allotment was increased from 10% to 25%. According to Mochida and Hayashi, the population-based allotment is a representative criterion for the fiscal demand for personal services, the area-based one is for investment in infrastructure, and the equal allocation is for fixed expenditures. The amendment to decrease the population-based allotment and to increase the area-based one strengthened the function of fiscal adjustment. The increase of the allotment for *barangays* was intended to assign greater importance to governing units in direct contact with the public. Giving more to the cities rather than municipalities, however, was retrogressive in terms of fiscal adjustment. It was also a retrograde step that the provinces lost a considerable part of their share, even though they are expected to act as a mediator between the central government and local municipalities.

(4) Framework for the direct participation of NGOs and ‘people’s organizations (PO)’ in governance

The new Local Government Code provides for the inclusion of sectoral representatives in local councils; NGO and PO representation in local development councils and local boards; NGO and PO participation in political exercises like plebiscite, referendum, and recall; and NGO and PO involvement in the planning and implementation of development plans. These provide the legal and institutional infrastructure for the participation of “civil society” to play an active role in local governance.

2. Effects of the Local Government Code of 1991

The following impacts can be pointed out with regard to the Local Government Code of 1991:

- *Expansion of local government revenues as a result of the IRA increase and change in the criteria
- *Automatic transfer from the Department of Budget and Management to local governments
- *Improvement of barangay administration
- *Technical assistance plans for the 5th and 6th class municipalities and *barangays*
- *Recognition of the importance of development councils in municipalities and *barangays*
- *Change in the relationship between the Department of the Interior and Local Government and local governments (from regulation to support, particularly in the form of training local government officials and employees through the Department’s Local Government Academy)
- *Change in the relationship between central and local governments: the latter as the leading component of plans and the former as the supporting component
- *Promotion of entrepreneurship in local governments as a growing number of local governments engage

in nontraditional local activities such as bond floatation, loans, and built-operate-transfer arrangements.
*1,600 NGOs and POs were accredited.

2-3-4 Review of the Local Government Code of 1991

1. Services and fiscal allotment between the central and local governments

Even after the new Local Government Code, the Philippines remains a top-heavy administrative structure. The most typical example is the Department of Health, which transferred many of its staff to local governments. Its estimated budget did not decrease; on the contrary, it has substantially increased.

Overall, the share of local government expenditures to total government expenditure has not decreased very much since the new code. The share of local government expenditures to total government expenditures expanded greatly right after the code, but has stagnated since then.

These facts suggested the following:

The share of administrative expenditures (central plus local) to total GDP dramatically increased at the beginning of the Aquino administration in comparison with the Marcos regime. It is noticeable, however, that the share of local government expenditures to total government expenditures declined greatly in the Aquino administration. This means that the relative fiscal scale of local governments shrank during these years. Contrary to popular belief, the central government under Aquino was overwhelmingly stronger as far as finance is concerned.

In 1993, after the implementation of the Local Government Code of 1991, the share of local expenditures to total government expenditures increased significantly (almost doubled). It increased again in 1994, and, in spite of a small drop in 1995, has maintained a share of around 17% up to now. This is clearly a direct impact of the 1991 Code, which was in a sense completed in 1996. Meanwhile, the share of total government expenditures to the GDP stayed constant in spite of the Code. After all, not only the Department of Health but also the whole of the central government maintained the same extent of activities even after decentralization.

Viewing the central-local share in terms of personnel, the number of local officials increased dramatically in comparison with that of central government officials. The new Code provided a substantial change in the central-local relationship from the aspect of personnel. After 1995, however, the share was stable, with just a small increase. This is another reason to conclude that the new Code fulfilled its objectives by 1995 or 1996.

2. Deeply-rooted coordinating function of politicians: ‘pork barrel’ funds

An examination of why the Local Government Code of 1991 could not change the central-local share, especially in terms of budgetary aspects, in spite of the radical institutional reform towards decentralization shows the reason to be that the budget for public works is still included in the national government expenditure. In Japan, such public works budgets for the police and fire services account for a major part of local government expenditures. Moreover, in the Philippines, such public works are assigned to local governments through individual negotiations between the President and members of Congress.

Just as in the United States, the Philippines does not have such a thing as an ‘administration’ as in the Japanese case. For the Philippines, the administration is merely an implementing arm of Congress. It does not have the function of ‘interest aggregation,’ or the coordination of various stakeholders and mediation between them and Congress, as the Japanese administration does. This function is carried out by politicians (both central and local) in the Philippines, and in most cases they provide administrative services directly to their voters. So when people have some specific request in relation to their daily life, they do not visit the local or central administrative agency (bureaucrats) but go to the politicians (a member of Congress, the governor, or the mayor) to directly petition them. People do not expect administrative services from the city office or a branch office of the national government, but only the issuance of certificates and the receipt of applications. Therefore, in people’s daily lives, the importance of central and local administrative agencies is quite limited. This is obviously seen in the existence of ‘pork barrel’ funds in rural development. In selecting development projects, deciding on budgets and implementing the projects, the President and members of Congress play an essential role.

The history of ‘pork barrel’ politics originated in the era of American colonialism.³ In 1922, public works budgets were separated from the general budget account, and several projects came to require the approval of a joint committee of the two Houses of Congress (Law No. 3044). These included the construction and maintenance of public facilities for the police, army and schools, roads, bridges, wells, ports and piers, levees and telecommunications. Members of Congress then came to have a huge influence on the selection and execution of public works. Even after independence, pork barrel politics continued to thrive, and in 1950 each member of Congress selected the public works (although there was no legal basis for this). Republic Act No. 1411 (1955-1956, Public Works Act) in 1955 provided that a Representative should be able to select community projects and a Senator, nationwide projects. Since then, up to 1972, when Marcos proclaimed martial law, public works-related laws in the same form were enacted every year.

Under martial law, Congress was suspended at first, and pork barrel funds were abolished. Then, with the establishment of the supporting single chamber system, called the ‘Interim Batasang Pambansa,’ in 1978, pork barrel politics was revived. After the Aquino regime (1986-1992), when the two-chamber system,

which had been employed before 1972, was restored, the Ramos administration (1992-1998) brought a complete revival to pork barrel funds. The average budget per member of Congress reached fifty to sixty million pesos. Late in the Ramos administration, this huge amount of funds came to be criticized by the newspapers. In the Estrada administration (1998-2001), the system was formally abolished, but in practice it even expanded and still exists.

Because ‘pork barrel’ politics is an issue concerning the allocation and implementation of the national budget, it is not at all an issue of fiscal transfer from the central to local governments. But still, for rural people, this is the case. Actually when visiting rural areas, you can see many small-scale public facilities, such as basketball courts, that are named after the members of Congress who brought these projects to the community.

Therefore, this convergence of the interests of the central government and politicians in perpetuating pork barrel funds is the reason why the budget of the central government did not decline even after the Local Government Code of 1991 .

Fiscal transfers between governments in the Philippines in a broad sense has two conflicting ‘aspects.’ One is the well-defined intergovernmental fiscal transfer system that has the function of a rational and proper redistribution of income, as seen in the criteria of the IRA. The other is the extremely murky fiscal transfer based on individual negotiations between the President and members of Congress. The problem is that the proportion of the latter is much larger than that of the former.

3. Successful cases of decentralization: exploring the possibilities

From the discussion so far, it may be concluded that the Local Government Code of 1991 strengthened the authority of local governments only formally, and that it had no effect on the centralized structure at all, but this is not necessarily true. The author studied a municipality with a population of 20,000, called Leganes in Iloilo Province. The former mayor (Jaen) of this small municipality proceeded with a project for land reclamation from the sea and the construction of huge port facilities and industrial sites with an area of 1,000 hectares on a build-operate-transfer (BOT) arrangement. The project was about to be completed. The ex-mayor ignored or bypassed the formal systems such as the Local Development Councils (LDC) and appealed to the central government through an influential politician in order to realize this reclamation project with private sector participation.⁴

In Naga City in the Bicol Region that Takeshi Kawanaka studied, a similar case was reported. Supported by the growing urban middle class, the young entrepreneurial mayor of the city (Robredo) shunned traditional personal patronage politics, and aimed for the efficient management of local government in close cooperation

with NGOs. While becoming immersed in the idea of transparency in the administration, he tried to meet the various demands of the citizens as a whole.⁵ Such new type of mayors appeared not only as a result of the enactment of the 1991 Code, but also due to the trend towards an abhorrence of conventional national and local politicians (called ‘trapo’), at least by urban residents, after the Aquino regime. Many of these mayors had taken advantage of the transfer of authority, and dramatically expanded the range of activities of local governments. In this sense, the central-local government relationship in the Philippines has great potential for improvement.

There still remains the problem that the central-local government relationship is being understood only as a political issue, not as an administrative one. The amount of administrative services a local government can provide for its citizens has not changed so much; besides, the rural developments in most demand, which used to be dealt with exclusively by national politicians, especially by these representatives through pork barrel funds, have come to be handled in part by the local chief executives. In other words, local demand for rural development has been expressed and coordinated between members of Congress and the local chief executives in an extremely political way, not through the formal system such as the LDCs. It can be concluded that the role of the administration in the Philippines has constraints in terms of its response to local demands.

2-3-5 Conclusions

As mentioned at the beginning of this chapter, the Philippines is a nation where politics takes precedence over administration. The nation is distinct from other Southeast Asian countries in that its local autonomy has been guaranteed by the constitution for a long time. Therefore, the problems of decentralization in the Philippines are different from those in other countries. The following sections present conclusions that will introduce arguments about the evaluation and amendment of the 1991 Code, and raise several questions.

1. The Local Government Code of 1991 and the movement for its amendment

The Local Government Code of 1991 declares that Congress should review the implementation of the act every five years. Congress actually started reviewing it in 1997, and both Houses have proposed amendment bills on the agenda, but which have not yet been put to the vote. In the mid-1990s, there were also efforts to recentralize health services but then President Ramos vetoed the proposed measure, which was passed by the two Houses of Congress. Meanwhile, the Ramos administration cut the IRA by 10% in 1997-98 due to the growing fiscal deficit, and the Estrada administration also instituted a larger IRA reduction. However, in October 2001, President Arroyo declared that the national government is paying back the local autonomous bodies 4.05 billion pesos representing the IRA portions held back by the national government since 1999. Judging from the trend in public opinion, decentralization was assumed to have been completed

and the political momentum for reform appears to have been lost.

Bills for amendment of the 1991 Code do not require a fundamental revision but relatively small modifications (House Bill No. 78 and the Senate Bill No. 2064 both aim at promoting decentralization). A summary of the Senate bill, which was prepared by Senator Pimentel, a primary advocate of the 1991 Code, is as follows:

- *To increase the IRA from 40% to 50%.
- *To devolve responsibility for fire services to local governments.
- *To transfer the management and operation of public works projects to local governments.
- *To transfer the authority to appoint a local assessor to the local chief executives.

The bill from the Lower House can be summarized as follows:

- *To increase the IRA from 40% to 60%.
- *To transfer the police authority to local governments.
- *To transfer the authority to appoint a local revenue officer to the heads of local governments.
- *To transfer the regulatory authority for port facilities and transportation to local governments.
- *To include territorial waters as well as land area into the criteria for the IRA.

2. Reinforcement of the local fiscal administration

Although the new Code increases the financial resources available to local governments, except for those in highly urbanized area, are more dependent than ever before upon the central government for their discretionary budget. This condition can be observed not only in developing countries but also in the transitional countries of the former Soviet Union and Eastern Europe.⁶ To facilitate self-reliance, there should be some standard to monitor the tax collection efforts of local governments, and the standard should be used to decide the allocation of grants. Such a system can be implemented through a central government agency or some intermediary organization between the central and local governments. This could correct the preset mechanistic and uniform allotment in the Philippines. However, when considering the fact that 80 to 90% of the budget and personnel of the Department of the Interior and Local Government is devoted to the police system, another organization in the central government should take charge of the decisions for grant allotment.

3. Dilemma between state formation and decentralization

‘State formation’ is still a major issue common to many developing countries. ‘State formation’ here means, as perceptively formulated by Migdal,⁷ to improve ‘state capabilities’ for regulation and resources allocation. Many developing ‘states’ can penetrate societies and extract resources successfully to some

extent, but they are incapable of regulating societies and appropriating the natural and human resources effectively. Migdal attributes such incapacity of states to the independence of powerful intermediate groups separate from the central government. They originated in the colonial era and survived the era of state independence and foundation up to now. The Philippines is a typical example of Migdal's definition. From the colonial era to present, local influential people politically rule the society fairly independently of the central government.

The Local Government Code of 1991 runs the considerable risk of strengthening the formal authority of these local authority centers. Actually, some local chief executives have assumed greater dominance than before over their locality by enabling such influential people to take advantage of the transferred authority. One means of countering the risk of such phenomena is the participation of NGOs and local citizens in local politics, although whether the extent of their involvement is sufficient is still questionable.

For a fundamental solution, it is necessary to improve the capacities of the central government as well as local governments, since the present decentralization tends to bypass the central government. Close contact and cooperation between these two levels of government is also essential.

More concretely, the following measures should be taken.

- (1) To facilitate personnel exchanges between the central and local governments.
- (2) Not to institute a clear division of the roles of the central and local governments; rather have them overlap each other to some extent, so that each can make the most of limited resources to provide administrative services more efficiently.

Note that this issue is closely related to the issue to be discussed next.

4. Re-examination of the local government structure

As mentioned above, the local governments of the Philippines have a three-layered structure of provinces, cities/municipalities and barangays. In a land area that is smaller than that of Japan (300,000 square kilometers), there are 89 provinces, 83 cities, 1,525 municipalities and 43,000 barangays. It is quite doubtful if this large number of administrative units is appropriate.

Decentralization that has been promoted throughout the world has the uniform element that some aspects of central authority should be devolved to local governments. There are two views on which level of government this authority should be devolved to. One view aims at giving most authority to the grassroots level of government that is closest to the citizens, while the other view favors intermediate level organizations (regions or sub-regions). There are cases in which devolution to these two levels is being promoted at the

same time. Until recently, international assistance agencies such as the World Bank adhered to the former view, but recently they have been shifting to attaching greater importance to intermediate organizations (some are local governments but others are not). This is because they have recognized the significance of the coordinating role of such organizations between the central government and grassroots local governments.⁸

In this context, the roles of the provinces and barangays in the Philippines should be reviewed. It seems that there are too many provinces (or the scale of these provinces is too small). In terms of fiscal scale, and in terms of their intermediary function between governments and their integrated administration to cover a broader area, it is desirable to consolidate a number of provinces into several provinces. Theoretically, this is a good solution but realistically speaking, the political costs of such an option are very high. Consolidating small provinces into bigger ones will be vehemently opposed by both politicians and constituents. One possible compromise solution is the strategic coordination among contiguous local autonomous bodies on specific tasks or issues, e.g. medicine procurement, environmental and infrastructure projects, etc. Some cooperative schemes are already being carried out by several local autonomous bodies in the Philippines.

In terms of functions, the boundary between the cities/municipalities and barangays is becoming blurred. The 1991 Code appears to give more of the IRA to barangays in order to build up their capabilities as local autonomous organizations. A natural consequence of this is that the functional distinctions between barangays and cities/municipalities (especially municipalities) have become ambiguous. It is necessary to decide which functions are to be the core functions of local governments.

5. Political coordination or administrative coordination

This section will conclude with a discussion of the essential characteristics of the central-local government relationship in the Philippines. As mentioned in the part related to 'pork barrel' funds, the main actors in decentralization at present are not government officials but politicians. In other words, this is not a contest between central government officials and local government officials, but between members of Congress and the local chief executives. Although, from a democratic point of view, the main actors should be the politicians elected by public vote, there are quite a few problematic aspects of the situation resulting from the fact that most central-local coordination is carried out through political channels.

The independence of the administration from politics was one of Marcos's 'developmental dictatorship' policies, which resulted in dismal failure. The Philippine people still feel a strong resistance towards it. The decentralization launched right after the collapse of dictatorship and the democratization process during the Aquino regime proceeded under the watchwords of 'people's participation,' 'transparency' and 'accountability.' The independence of the administration from politics was expressed only in the term 'capacity

building.’ In this sense, the Philippine reform was a product of the worldwide decentralization movement that began in the late 1980s.

Even the World Bank, which has established the goal of decentralization and promoted it in many developing countries, knows that decentralization has not achieved as successful result as expected in the countries of the former Soviet Union, Eastern Europe and Africa. Within the World Bank some hold the view that the top-down decentralization that Japan once attempted may be more effective in some countries than bottom-up decentralization.⁹ After all, decentralization is an issue that requires a long-term vision and persistent endeavors.

Notes

¹ Manor James, *The Political Economy of Democratic Decentralization: Directions in Development*, The World Bank, Washington D.C., pp.4-8.

² Hiraishi, Masami, “The Philippines,” in Morita, Akira eds. *Asia no Chiho Seido (Local Systems in Asia)* (in Japanese), Tokyo University Press, 1998, pp.130-131.

³ For this paragraph I owe a lot to the study by Kenichi Nishimura. I would like to express my gratitude here.

⁴ For details see: Katayama, Yutaka, “Filipin no Chiiki Kaihatsu to Shin Jichiho - Iloilo no Jirei Kenkyu” (“Regional Development and the New Local Autonomy Act in the Philippines: Case Study in Iloilo”), Mizuguchi, Norihito; Kitahara, Tetsuya; and Akizuki, Kengo, eds., *How should the change be explained? - Local Systems in Asian Countries* (in Japanese), Bokutakusha, January 2000, pp.193-215.

⁵ Kawanaka, Takeshi, “The Robredo Style: Philippine Local Politics in Transition,” *Kasarinlan*, Vol.13 No.3, 1998, pp.5-36.

⁶ Bird, Richard M., Ebel, Robert D. and Wallich, Christine I., *Fiscal decentralization: From command to market*, in *Decentralization of the Socialist State: Intergovernmental Finance in Transition Economies* (World Bank Regional and Sectoral Studies, 1995), pp.7-9.

⁷ Migdal, Joel S., *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World*, Princeton, New Jersey, Princeton University Press, 1988.

⁸ Manor, *op.cit.* Chapter V.

⁹ In an interview with Robert Ebel, who is in charge of decentralization at the World Bank (March 12, 2001 at the World Bank).

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Chapter 3 Characteristics of Decentralization in Developing Countries from Case Studies

3-1 Decentralization in Developing Countries from the Administrative Perspective

3-1-1 Introduction: Values of local autonomy

1. Multiplicity

Local autonomy is an extremely complex concept. Or it is a compound of miscellaneous ideas. Many people demand many things to local autonomy. People hardly ever say, “I am against local autonomy.” This complexity of autonomy is, in fact, making it possible to promote the political agenda of decentralization in spite of the various obstacles that it has.

Therefore, the institutional frameworks that would realize local autonomy are difficult to comprehend from the perspective of both academic studies and actual politics. People define a variety of reasons for the existence of and the justification for local autonomy.

Bryce’s well-known words “Local autonomy is a school of democracy” express only some aspects of local autonomy. These words mean that training for democracy for the elite population in a particular area is useful if democracy is going to be practiced in a large state. Although they are developed side-by-side as the words suggest, local autonomy or local governments and democracy are not inseparable, at least theoretically. For example, in early modern Japan, Aritomo Yamagata and other politicians designed a local system in the Meiji era, but they did not have faith in democracy. Rather they tried to implant their influence in local societies to forestall the inevitable democratic trends (including the establishment of the Imperial Diet and the growth of political parties). Another extreme example is Nazi Germany, where there were actual administrative districts and some elements of autonomy.

As will be discussed below, local autonomy is the “Child of many hopes and mother of many disappointments.” Even though the concept of local autonomy and the existence of autonomous systems are widely supported, people have different reasons for their support, so they always feel dissatisfied with the existing systems.

It seems appropriate to classify these various reasons for its existence and reasons for support into two kinds; one relates to autonomy as an objective and the other to autonomy as a tool. The former desires autonomy itself as the ultimate goal, while the latter uses autonomy to realize some other values.

2. Local autonomy as an objective

(1) Self-rule

People have a natural and strong desire to decide their own destiny. When boarding an airplane as a passenger and buckling ourselves up, most of us feel some indescribable uneasiness. This may be because we feel that in the next few hours our lives will be totally in the hand of others (i.e. the abilities and mood of the pilots and other attendants, ground crew, controllers, pilots of other planes, etc.). When we drive a car by ourselves, we do not feel such uneasiness. Although driving is much more dangerous in term of probability, the thought that we are controlling our own risk (in many cases, this is just an illusion) makes us feel relieved.

Ruled people have a similar feeling. A governor cannot fully satisfy people when he/she promulgates policies that are somewhere beyond people's reach, even if the policies are beneficial for the people. Some excellent governor may say, "You will be totally satisfied if you just accept this policy. You will never ever fail with this." Citizens will then answer, "No, we want the freedom to fail!"

One political solution to responding to this desire for self-rule is to give as much authority as possible to the form of government that is closest to the people. (In passing, another solution is to promote direct participation in every aspect of politics, from the selection of governors to decision making. This has been systemized along with the development of local systems.) The system of local autonomy can respond to this natural human desire.

If self-rule is pursued to the extreme, this leads to anarchism. Then, if it does not reach this, sufficient power will be given to a local government that is psychologically and physically closer to us than the national government. This is the origin of the strong prescriptive nature of the term 'local autonomy' and its theory.

(2) Regional autonomy

For historical, cultural, ethnic or religious reasons, one particular region may insist on its uniqueness within a nation, and the nation may allow a certain degree of autonomy to such a region. In such a case, a region 'a' is permitted not only a certain degree of autonomy within state 'A,' but also greater autonomy than other regions 'b' and 'c' in state 'A.' The state's intention is to use the conferred autonomy as an effective means of pacification to avoid the possibility of the region rising in revolt and becoming independent. From the region's point of view, greater autonomy from the state is a benefit worth pursuing.

Scotland in Britain, Quebec in Canada, the Basques in Spain, the Northern Alliance in Italy, and Timor in Indonesia are all pursuing autonomy, and their states have systematized autonomy to some degree or other. Among these, Quebec in Canada is the most advanced case where independence may be achieved depending on the results of a referendum.

In comparative studies on local systems and decentralization reforms, an important factor is whether regional autonomy exists or not, and whether it is strong or weak. In recent years in Europe there has been a trend towards reforms that promote regional autonomy. The background to this trend is the unification of states under the European Union. The EU has taken over authority for several important functions that had been monopolized by the individual states, such as customs, trade and currency, and unsurprisingly the nature of the 'state' has changed as a result. More precisely, the absoluteness and exclusiveness of the sovereign state has become diluted. In such a context, Scotland, for example, wishes to form its identity not from its being a part of the United Kingdom, but as a part of Europe.

When a region seeks autonomy, even if it is only within the area, the acquisition, maintenance and expansion of autonomy can be a meaningful 'objective.'

3. Local autonomy as a tool

(1) Efficiency

There is a hypothesis called 'limit of the empire.' No matter how much the technology of transportation and communications develops, the range of the area or population that a single power or political unit can rule or govern over is limited both physically and psychologically. In history, Rome, Spain and British Empire expanded their territory excessively, and collapsed in the end. Local autonomy was an effective ruling strategy to overcome the limits to the empire. In this sense, local autonomy existed long before democratic governance.

An early modern version of this type of local autonomy is the mobilization system in the Meiji era in Japan, and a modern version is the allocation of resources in postwar Japan. Both systems used local autonomy as a tool for other objectives, such as to use limited resources efficiently for the maintenance of independence, to win a foreign war or to achieve economic recovery. As will be discussed later, this feature is obviously seen in the theory of utilitarianism, including that of John Stuart Mill. This advocates that for the efficient use of limited resources, the central government should not manage all of the resources but should devolve part of its authority to local governments and promote local autonomy.

(2) Multiple access points

James Madison and other proponents of classical American pluralism were not necessarily in favor of self-governing autonomy by local units. They feared power politics by the majority, and they thought this could become possible if local autonomous bodies were given excessive authority. It is said that the internal confusion right after American independence occurred because states were given authority over customs and currency and also because farmers who formed the majority in the local councils implemented unreasonable economic policies. For this reason, in preparing the Constitution, Madison aimed at a more powerful central government while recognizing the necessity of having central and local governments.

In their efforts to achieve a multifactor political society, the pluralists expected local governments to function as multiple access points. They found significance in local autonomy from the aspect that it guarantees a chance for the defeated to retrieve something. Assume that a political group (of black people) is treated unfairly in a town and start a movement to correct the treatment (they try to elect a black mayor), but fail. Then the group appeals to the state legislation (requiring it to make a state law to protect the human rights of black people), and fail again. Finally they bring an action to the federal court and win. This is a scenario made possible by the system of multiple access points.

In short, local autonomy was given significance as a systematic tool for the realization of a multifactor political society, combined with the separation of the three powers.

(3) Alternative choices for the public

It is said that a system of local autonomy has several advantages in terms of policy making.

The first is its function as a testing ground. A drastic program that may not be applicable nationally can be tested in a physically limited local society where the consensus of the population can be more easily obtained. In reviewing the results of the test, other local governments may follow or modify the program. The second advantage is the stimulation of competition between local governments. Stimulated by each other, policy-making bodies may launch an epoch-making policy or study policies in other regions. This will tend to improve the quality of policies as a whole. The third is that the public, as consumers of policies, can have alternative choices. People have a certain amount of influence on policy-making in their local government by voting and other means, but it is still limited. With local autonomy, people can exercise their choice to the greatest extent by moving out of the region if a policy of the local government runs counter to their beliefs or threatens their life.

The issue of alternative choices has been developed most systematically by the theoretical model of

rational choices. Even without this model, the diversity of policies is a prospective benefit for the public.

4. Contradictions of local autonomy

So far some of the expectations and principles that support autonomy have been introduced. Note that such diversified justifications are not something established and absolute. Apparently, the idea that local governments can provide administrative services more efficiently than the central government depends largely on the type of the services. Also, the affinity between local autonomy and democracy is controversial. From the perspective that democracy functions well in a homogeneous local community (e.g. Jefferson in the era of the foundation of America), there is no contradiction between local autonomy and democracy. On the other hand, from the perspective that democracy only functions in the collision between different values (e.g. Madison), democracy should be expected from a larger scale of government (i.e. the central government), and excessive authority devolved to local units involves risks.

The more important aspect of diversified values may be that there is always a contradiction between two sets of values when they are both acceptable to some extent. Such mutual contradiction can be found in the examples mentioned above.

In the market analogy with citizens as consumers and local governments as the providers of policies, citizens have the right to choose their governments. This is one of the ideas of local autonomy as a tool. On the other hand, the origin of local autonomy was closely tied in with areas or lands that were named after local families. Therefore, some may say, "Give more authority to local government because people move from one area to another," while others say, "Give more authority to local government because people are closely involved with the local area (more than with the nation)."

The idea of multiple access points designed to establish a multifactor society places importance on the existence of many points of ties in the governing structure between citizens and the central government. From this point of view, there should be complex layers of government agencies between them. On the other hand, again, in the idea of self-rule as an extreme purpose, the ideal is that problems should be solved by individual citizens. A second best approach is problem solving by a local community, in which case it is even less ideal to give authority to a local government.

It is now clear why systems of local autonomy have been and continue to be adopted everywhere in the world regardless of the size of the nation or the nature of the government. The point is what the expectations from local autonomy are, and what the priority is among the values that support local autonomy. There can be only one local system in response to the thousands of opinions in the nation. Therefore, everyone feels some dissatisfaction, and talks at cross-purposes about system reform.

3-1-2 Undercurrents of the decentralizing reform ‘boom’

1. Changes in international trends

Environmental changes are unavoidable in any era. Today many intellectuals say that the world of the new century is changing at a rate and a scale that humankind has never experienced before. In such times, a number of nations with various social, economic and geographic conditions, history and culture are trying to reorganize their internal systems for greater decentralization. The rapid changes in the world may be having some common influence on such efforts.

The American political scientist, Peterson, has constructed a model to describe the structural gap between governments. He says that local governments cannot manage the movement of people and resources but the state (central government) can. This was correct at least in the 1960s and 1970s when Peterson studied this, but some say that, in the 1980s and 1990s, when the international economy is rapidly becoming unified, states are losing their control over the movement of labor and resources. Even if it is not as easy as inter-city movements, the international migration of labor is rapidly increasing in the markets of the developed countries. Nations are becoming open systems like cities, and are required to maintain and develop their economies under severe competition. In other words, the capacity of today’s states to implement policies is limited by external social and economic factors.

It is possible to safely say at least the following about the extent to which this international trend affects central-local government relations and local autonomy. First of all, this trend will not affect each part of the world evenly, or rather unevenly within one nation. Secondly, the dichotomy of open and closed governments is no longer warrantable as the state framework is wavering, and the superiority of the central government compared to local governments may become relative. In order to understand and respond to such environmental changes, the central governments may willingly give up their functions in relation to lower level politics or supervision over local governments, and specialize in foreign policy and the macro economy.

2. ‘Anti-central’ strategies

The decentralization movement is sometimes underlain by ‘anti-central’ political strategies. A typical example is the trend towards decentralization in Central and Eastern Europe. Influenced directly by the reformist and open policy of the former Soviet Union, the collapse of the Berlin Wall and the disintegration of the Soviet Union, countries in these regions have had to reorganize themselves as fast as possible. In this context, governments often try to rid themselves of their old regulatory systems and hierarchical structure, and with the objective of thorough decentralization and equality among local governments. Meanwhile the changes in the international environment mentioned in the previous section have made the authority and

rule of the states 'relativistic.' Accordingly, under the theme of 'multiculturalism', 'politics by identity' and 'politics of difference,' groups of minorities or local citizens who cannot fit any category of the nation have come to demand recognition of their diversity and difference in terms of race, ethnicity, culture, religion and language that have been oppressed and violently assimilated in the early modern sovereign nations. Moreover, although this is only the case in Europe at present, cross-border unification by the EU, such as in the common currency and labor market is reducing the authority of each central government, and arousing the consciousness of minorities. Some central governments give them a level of comprehensive autonomy or systematic security (often limited to within their region) that used to be impossible. Such cases will potentially lead to systematic decentralization, combined with the issue of autonomy in regions where the majorities reside.

3. Changes in accordance with the maturity of the social economy

There is a question of which government should decide the contents of public services. For any service providing welfare, education or urban infrastructure, it amounts to a choice between standardized impartial services without regional differentiation and individual unique services taking regional conditions into consideration.

In Japan, stress is laid on the former, and the central government holds the authority and control over standardized services, which are often critically referred to as 'kintaroame (Japanese candy any cut end of which shows the same pattern throughout).' The writer once used this word in a negative meaning, and then a foreign student from a developing country said, "In my country, only a part of the urbanized area has well-established education facilities, roads and hospitals. Many children suffer from malnutrition, but neither the central nor local governments can solve the problem. Antigovernment guerrillas occupy some parts of the country, and public services are the last thing to imagine being provided there. I don't know what is wrong with the 'kintaroame' at all." His opinion should be kept in mind as a sharp criticism against the haughtiness of people who are too used to physical affluence to appreciate nationwide uniform services. This teaches us that the balance between standardization through centralization and differentiation through decentralization varies according to the level of development. When there is a wide disparity between areas in, for example, whether there is a school to go to or not, whether the school building is of reinforced concrete or prefabricated materials, or whether school lunch is served or not, then centralization for standardization should be the priority. On the other hand, after the full establishment of basic infrastructure, a variation in added values occurs, such as how students should be directed concerning their leisure time, or how computers should be utilized in the classroom. At this phase, decentralization for differentiation should be the objective.

After these considerations, it can be concluded that the worldwide trend towards decentralization that first appears to be simple in fact reveals a wide variation in terms of background factors. Firstly, 'changes in international trends' affect every part of the world, but the degree varies. Secondly, 'anti-central strategies'

exists in some countries, but not at all in other countries. Thirdly, ‘changes in accordance with the maturity of the social economy’ also occur unevenly due to varying extent of economic development. For Japanese decentralization, for example, the first factor is only an indirect influence and the second factor is extremely rare. In Japan, decentralization has been promoted on the basis of the third factor only.

3-1-3 Centralization vs. decentralization and sharing vs. self-executing¹

1. Two axes for analysis

Akira Amakawa proposed a leading model of centralization/decentralization and sharing/self-executing that deals with mutual dependence and decentralization separately. In examining the central and local government relations, he uses the second axis of sharing/self-executing in addition to the axis of centralization/decentralization. Originally he designed this model to analyze the modern government systems of Japan chronologically, but it is often used for comparison between systems of different countries. The axis of centralization/decentralization indicates which is more influential in policymaking, the central or local governments, while the axis of sharing/self-executing is defined by Amakawa on the basis of a kind of job allocation. It indicates whether decisions made by the central government are implemented by its field agencies or by local governments. The central-local government relations of Anglo-American countries tend to be ‘self-executing,’ while those of continental countries tend to be ‘sharing’ ones that use local governments as executive agencies of the central government.

If the division between sharing and self-executing is made according to job allocation only, this puts too much stress on this aspect of the system. To avoid this imbalance, here the writer defines ‘sharing’ as the conditions in which the range of concerns of the central and local governments broadly overlap each other, and ‘self-executing’ as those in which the range of each hardly overlaps.

With the two axes, there are four quadrants: ‘centralized sharing,’ ‘decentralized sharing,’ ‘centralized self-executing’ and ‘decentralized self-executing.’

Because the concepts of sharing and self-executing are not familiar to many people, a short explanation is given here. Here, ‘self-executing’ means that each level of government has a clear range related to their roles. The following are the examples of the political fields. The postal service is one of the most important basic functions of the state. Due to the growth in private enterprise home-delivery services it is doubtful whether it should be a part of the public sector. The postal system is still under the authority of the central government, and in Japan the network also covers every part of the nation. Local governments have no authority or interest in this system, because it is nonsense to say ‘Let’s set up a unique postal service for our town with a population of five thousand.’ As a means of communication, the system must have some extent

of coverage. From the standpoint of the executive agencies of the postal function of the central government, a local government is just one of the major users.

A contrary example is the fire service system. Although the days of this service as a public sector monopoly came to an end when a town in Arizona, namely Scottsdale, started the privatization of fire fighting, it is still generally a public service to be provided by local governments, especially by the municipalities such as cities and towns. It is nonsense again to say, 'Our fire fighters should turn out everywhere in the US as soon as possible!' In Japan, too, fire fighters at the fire stations are municipal employees, although training institutes are operated by the prefectures. Cooperation between cities or between prefectures is needed because a fire (especially a major forest fire) may spread beyond the boundaries. And the Fire and Disaster Management Agency of the Ministry of Public Management, Home Affairs, Posts and Telecommunications takes charge of coordinating functions including mutual technical exchanges. In spite of some roles played by the state and some overlap of the interests of governments, basically fire services are a function of local governments. Therefore, both postal and fire services are 'self-executing' in the above sense. The former service is provided exclusively by the central government, and the latter by local governments. Such an allocation is decided naturally by the nature of the services, and there is not much variation between countries.

There are many policy areas, however, in which the functions that the central government should handle and those that local governments should are mixed up. The case of elementary and secondary education can be considered. The right to receive education is uniformly available to all the people, and its maintenance and management is to some extent a function of the central government. In Japan, it is handled by the Ministry of Education, Culture, Sports, Science and Technology. There is another view that each community should take responsibility for educating its own children. People may wish the contents of education to be unique to the community (e.g. education of a unique ethnic culture, local history and dialects or minority languages), or the practice of education suitable for the climate (e.g. the periods of summer or winter vacation). If the former view is stressed, education should be handled by the central government, while if the latter is stressed, it should be provided by local governments. It is not possible to properly decide which is right.

A policy area can change its nature as time goes by. When airplanes were invented, few people considered that the public sector should establish airports. After planes became an important facilities of transportation between regions first in the US, the establishment of airports as a public facility became a part of the business of local governments. Later, air transportation was connected with two major functions of the central government, postal and military services, and the government came to have an interest in airports. After the cross-Atlantic Ocean flight by Lindbergh, air transportation became the most important means for international travel. Airports increased in importance even more. As aircraft became larger, airport facilities needed to be enlarged; such highly advanced technological development sometimes cannot be managed by local

governments alone. Such dynamic socio-economic development and technological innovation changed the nature of the service itself, and now the types of management and maintenance of airports vary between countries, and even within a country. Some are directly managed by the government, and others by local governments, by public enterprises, by private companies or by organizations like the Chamber of Commerce and Industry. There are cases of joint management by the military authorities and a local government. Money for the construction and management of airports is generally provided both from the national budget and from national funds made up of contributions by the users (passengers and airlines).

If one particular project or a policy is handled by either the central or local government only, it is 'self-executing.' If the roles of the different governments overlap or are mixed up, it is a 'sharing' type of project or policy.

There are two ways to judge whether the governing system of one country is a 'sharing' type or a 'self-executing' type. It is possible to look at each policy area of the country and the determination of each area can be added to form a comprehensive assessment. However, to define the type of state it is possible to make a judgment about particular projects or policy areas that can be committed either to the central or local governments. If either government is selected for management, the system of the state is 'self-executing.' If both governments are expected to cooperate with overlapping roles, the system is a 'sharing' type. This model is often used for comparison between countries. In many cases, Japan is classified as 'centralized sharing,' while Britain as 'decentralized self-executing.'

This model is also useful for the analysis of intergovernmental relations and of a particular policy area in a single country. For example, Amakawa himself defined the systematic changes in the Meiji era in Japan as a shift from 'strong centralized sharing' to 'weak decentralized self-executing.' Peterson, mentioned earlier in this chapter, proposed that the federal government should prepare a standard of welfare and should guide local governments by utilizing subsidies. This aims at a reform toward a centralized-sharing type.

The settlements of Native Americans used to maintain their unique governing system with guaranteed independence. However, as they were left behind in the socio-economic development of the US and their military influence became weak to nil, people began to rely on the federal government and the government lost its interest in the issues of the settlements. This case is a shift from 'decentralized self-executing' to 'centralized self-executing.'

2. Issues in self-executing and sharing systems

There is no clear division between 'self-executing' and 'sharing' systems. Rather, every existing governing system involves aspects of both sharing and self-executing. When considering which is more

desirable or which is superior as ideology, we find that neither is superior, and both have advantages and disadvantages.

In a self-executing system, communication between the agencies of government is often limited. In this system, ideally, the political cycle from policy-making, through implementation to evaluation, or the cycle from political input to feedback should be completed within a single government unit. A perfect self-executing system would not need any intergovernmental communication, but in reality, it does, at least to some extent. It is instructive that the so-called 'executive gap' in the US (a phenomenon in which the intention of policy makers at the federal level is obstructed because it is not understood or supported by executive officials at the state or region level) has become a subject of systematic study. In the US there is no organization for the coordination of inter-governmental relations, nor a system of personnel exchanges between the two levels of government. This is because such an organization or a system may be regarded as interference in local autonomy.

The more essential and serious aspect of self-executing systems is that the fixed allocation of particular roles to each level of government is becoming difficult under the current governmental and administrative environment. For example, the responsibility for self-defense and security should be provided by the state, as agreed by even the most radical decentralizationists in Japan. However, as seen in the issues related to defense in Okinawa, the cooperation of local governments has become indispensable. For Okinawa Prefecture, the location of US bases in Okinawa is both a hindrance (leading to problems in transportation, such as road traffic, land usage and the environment) and assistance (leading to subsidies from the national government and employment). For municipalities, it is a threat to their safety and education (e.g. inappropriate conduct by soldiers). Each government has different interests and concerns, and this issue of security, self-defense and foreign affairs is not the exclusive preserve of the national government any more. Therefore, governments at different levels should exchange opinions and information, and sometimes negotiate or remain opposed to each other, in order to cope with this kind of problem.

The disadvantages of sharing systems are the opposite of the second problem above; that is, the problems of participation of various levels of governments. Firstly, it is often unclear which government should bear the final responsibility. This is one of the most important subjects for the establishment of a democracy. Secondly, intergovernmental negotiations always involve various kinds of costs. There is a risk of corruption of governments such as the entertaining of central government bureaucrats at municipal expense. There are also administrative costs in obtaining national subsidies (in making applications and reports and lobbying those in charge of local government affairs in the capital). Another problem is that the operation of the sharing system is often complicated and tends to be conducted by a limited number of participants. People's opinion can then hardly be reflected in the process. Because matters are not concluded in each region, regional autonomy, which should include input from the grassroots, is suffocated.

3-1-4 Decentralization in developing countries-case study in Thailand, Indonesia and the Philippines

This report includes detailed country reports on Indonesia, Thailand and the Philippines. The writer of this chapter is not specialized in regional political science or Southeast Asian studies, and so this section will just summarize the information and knowledge the writer has obtained from the three experts.

1. Characteristics common to the three countries

The first characteristic to mention is that the trend towards decentralization is obviously of intense interest in all these three countries, mentioned above as a 'boom.' Even in the Philippines, whose process of decentralization has a long history and has already been consolidated, the Local Government Code of 1991 includes the expansion of local finance resources and devolution in important policy areas such as public health and urban development. Thailand is advancing large-scale decentralization with the 1997 Constitution taken as the chance to do this. While experiencing the Asian economic crisis, Indonesia is discussing decentralization as an important scheme contributing to political reform.

The second common characteristic is that there has been no visible opposition to decentralization in these countries, although decentralization may accompany comprehensive system reforms and changes in profit allocation, or has the potential for a fundamental reform of the idea of governance. This is closely related to the diversity of values backing up local autonomy, as mentioned at the beginning of this chapter. The irresistible trend of democratization is also moving ahead with decentralization, even though they are not equivalent. Note that even the people who will lose their authority as a result of decentralization (typically the central government bureaucrats) are apparently promoting, supporting or accepting decentralization. Some may consider that they are just waiting for the chance to block it secretly or for the political enthusiasm to cool down. However, the writer assumes that they cannot resist the general and comprehensive decentralizing reform, and moreover cannot judge what will happen to their interests. Or if the trend is inevitable, they may think it wise to strengthen their position and to direct the reform to benefit their interests. For example, in Thailand, the Department of Local Administration of the Ministry of Interior that has controlled local governments is now taking the position of promoting the institutional reform for decentralization. Other central agencies that have special functions are trying to establish local organizations like the boards of education to take care of interests in their policy area. Promoters of decentralization are making the most of the advantages of such comprehensive reform.

The third is that the problem of low local capacity has not been addressed yet, while only institutional reforms are going ahead. (The issue of alternative government is often discussed in Japanese decentralization. It may be a universal problem for decentralization.) The lack of local capacity is serious in Thailand and

Indonesia whose history of decentralization is very short. Local governments are expected to bear the responsibility for policy making with the participation of the Council and the people; local finance, personnel and management of administrative documents; and provision of actual administrative services. It will take more time for them to build up experience and to be sufficiently capable for the central government and their people to rely on them.

2. Characteristics of each country

Decentralization processes in these three countries have unique characteristics besides those common to all. There are differences in their historical backgrounds. Thailand, saved from colonialization, promoted its modernization by adopting various administrative cultures from Britain, France and other Western countries. Indonesia became independent through unification of the Dutch colonies. The Philippines came under the protection of the US after Spanish rule, and acquired American institutional frameworks and legislation. These differences in background have a strong influence even today. All the three countries belong to ASEAN, but no consequent interaction was observed. They are rivals without major differences, and they do not follow each other's example in the reform of their own system. (However, it is natural that these neighboring countries influence each other. As decentralization proceeds, such mutual influences may become more explicit. This will be the subject of future study.)

This section leaves analysis of the individual countries to the three experts, but several characteristics of each country are pointed out here.

In Indonesia, the link between the Asian economic crisis and decentralization is more obvious than in the other two countries. When Suharto's centralist regime was forced to resign, the succeeding regime could not help but accept the demands for decentralization that had been proposed since 1990s, and started a large-scale decentralizing reform. Therefore, decentralization in Indonesia is characterized by, above all, its powerful socioeconomic motivation that strongly supports decentralization. Because of this, if the government fails to show some good results over a short period, local governments may demand more radical reforms (i.e. a federal system or independence for the regions). This background gives decentralization in Indonesia an 'anti-central' color, and directs it toward the 'self-executing' type, at least as an institutional model. This is clearly seen in the fact that the 1999 Local Administration Basic Law lists the functions of the central government restrictively in Article 7, Paragraph (1), and leaves all other types of authority to local governments.

Unlike Indonesia, Thai decentralization does not have an 'anti-central' nature. On the contrary, some politicians, scholars and bureaucrats at the central government are leading the administrative reform. This must be because Thailand has a popular king instead of a strong leader like Marcos or Suharto. Nevertheless,

the Thai reform is undoubtedly very radical in terms of administrative management, though it is politically mild. The reform created ‘*Tambon*’ as municipalities, and designated new *Tambon* with populations of a little less than 7,000 all over the country. The Decentralization Act of 1999 imposed a fiscal mandate that 20% of the national budget in the 2001 fiscal year and 35% of the budget in 2006 should be disbursed through local governments. This means that decentralization in Thailand will develop in the near future to a more substantial level than in Indonesia. In other words, the issue of alternative government will be thrust to the fore more drastically in Thailand. Therefore, it is necessary to look closely not only at the development of institutionalization at the central government level (e.g. the establishment of the National Decentralization Committee), but also at how well local governments can manage with the new radical requirements (i.e. how they can use the 35% of the national budget properly).

The Philippines started to develop institutional frameworks for decentralization, including reforms of the Constitution, earlier than the other two countries. Consciousness of the norms of local autonomy has become rigidly consolidated at both the elite and public levels. This seems to be the most conspicuous characteristic of decentralization in the country. This means at the same time that the decentralizing reform does not seem as vivid as in Indonesia or Thailand. Also, in comparison with these two countries, the central administration of the Philippines is weak, and decentralization in the form of the devolution of central authority is likely to be meaningless. Under such circumstances, ‘local autonomy’ may solely mean that numerous local ‘strongmen’ control their local governments and enjoy relative political independence from the central government. If so, additional decentralization may strengthen the rule of such strongmen, or just encourage their rent-seeking activities. However, citizen’s campaigns, NGOs and international organizations are very active in the Philippines, and inputs from these activities can, at least potentially, help to achieve significant decentralization.

3-1-5 Assistance for decentralizing developing countries: Implications from an administrative viewpoint

Considering the cases above, donor countries should not advocate decentralization in developing countries as something absolutely good or desirable, but should consider it as an intellectual challenge or a set of practical problems. In the conclusion of this section, some important points for conducting assistance will be listed on the principle of decentralization.

1. Decentralization as a long-term trend

Decentralizing reform is a long-term trend. Many developing countries that are now promoting decentralization will experience various kinds of failures. Some political parties that have started reforms may fall from power. As mentioned above, however, this reform is not a passing campaign, but a continuous

trial-and-error endeavor that requires a very long span of time. Moreover, decentralization changes many institutional frameworks, practices and profit allocation. Assistance agencies need to carefully observe these changes in decentralization and the surrounding politics, administration and finance. They should also give appropriate advice when necessary.

2. Effectiveness of the sharing/self-executing axis

Although the axis of centralization vs. decentralization is popular, the axis of sharing vs. self-executing is a new concept except for those who study politics and administration. This concept is instructive for people in charge of analyzing decentralization reform in developing countries. The reform changes many institutional frameworks and practices, not only the intergovernmental exchange of resources and authority but also mutual relations and communications through structural levels. By using this new idea of 'local autonomy with completeness in one government' vs. 'intergovernmental cooperation and dependency for greater problem-solving ability,' it is possible to identify the characteristics of the governing systems of developing countries more clearly than only through the simple dichotomy of centralization and decentralization.

3. Administrative capacity building in local governments

The ideal is for systematic decentralization and capacity building at the local level to advance side by side. In actual reform processes, the former often precedes, and the local capacity for proper administration and decision-making sometimes remains undeveloped. There are two approaches, again, for strategic capacity building: the sharing approach and the self-executing approach. The former means to send personnel from the central government or to exchange personnel; the latter means to select and train personnel among local citizens. In either case, building administrative capacity must be fully emphasized in decentralization reform.

4. Local strongmen

In any part of Indonesia, Thailand and the Philippines, a negative influence on decentralization is the powerful local strongmen, which may lead to a territorial, inflexible governing system. Since local governments are small in scale and homogeneous, ruling political groups have a chance to gain strong control over the region, and profit allocation in the region tends to be fixed and centered on these groups. There is a fear that international assistance will be overwhelmed by such an imbalance of interests.

This is an issue that has a direct affect on the performance of international assistance. One possible countermeasure is tighter monitoring. It is not certain if the monitoring of local governments is any easier than that of a central bureaucracy, but still such monitoring can be more detailed than monitoring conducted

through a service agency in the central government, a key person in the central political world, or a financial authority. Another measure is to use conditional central control from the 'sharing' point of view. In most developing countries, the central government attempts to maintain some control even if it is apparently directing free decentralization. It is a highly political decision as to whether such an attempt at resistance to decentralization should be regarded as something to be removed or made good use of for fairer decision-making. The issue of local strongmen has the potential to become so serious that such a political technique is required.

Notes

¹ Here is an explanation of why 'sharing,' not 'integrating,' is used as the antonym for 'self-executing. In the system-making period after the war, the Japanese government had a choice between (1) establishing field agencies of the central departments and separating them from local governments ('self-executing' strategy) and (2) entrusting the existing local governments, prefectures and municipalities ('sharing' strategy). Japan chose the latter, but some departments had their own field agencies and adopted the 'self-executing' strategy, such as the Ministry of Construction (present Ministry of Land, Infrastructure and Transport), the Ministry of Posts and Telecommunications (present Ministry of Public Management, Home Affairs, Posts and Telecommunications) and the Ministry of International Trade and Industry (present Ministry of Economy, Trade and Industry). The terms of 'sharing' and 'self-executing' for the choice of systems are also useful in analyzing systems in other countries, although the general terms used in studies of local autonomy are 'integrationist model' and 'separatist model.' This report uses 'sharing strategy' and 'self-executing strategy' to show that the concepts are quoted from Amakawa.

3-2 Fiscal Decentralization in Developing Countries: Thailand, Indonesia and the Philippines

3-2-1 Acceleration of decentralization reform and its background

Rapid decentralization in Asian developing countries has recently become an established fact. Japan has provided assistance for various fields such as agriculture and rural development, education, healthcare, and regional infrastructure (roads, running water and sewerage). Decentralization, regardless of its purpose and background, imposes a cross-sectoral consideration in these fields of assistance. For example, a local government will be able to contact a donor directly in applying for assistance. Especially in the process of development assistance there is a need for investigation, and direct contact with the local government is indispensable, since it will not be sufficient to only consult with central agencies. Sometime in the near future, assistance will be given to NGOs who bypass local governments. Furthermore, resources will be allocated not only for physical assistance to provide basic social services and improvements in income standards but also intellectual assistance to support policy-making in the central government and capacity building at the local government level.¹ Such an approach to local governments and a shift towards policy support constitutes new direction of Japan's assistance, and the current condition and problems of decentralization in developing countries must be fully understood for the assistance.

This section will provide an overview of the characteristics and problems of decentralization in developing countries from a fiscal point of view. At first, it analyzes the background (Subsection 1) and impact (Subsection 2) of decentralization. Then, division of responsibility (Subsection 3), local taxation (Subsection 4) and intergovernmental transfer (Subsection 5) will be examined. The subject country is mainly Thailand, with supplementary references to Indonesia and the Philippines. Comparison with the Japanese institutional framework and its historical background will help understanding, since intergovernmental fiscal relations are very complicated. This section will give priority to an understanding of what is actually happening, but offer some proposals for desirable assistance as a conclusion (Subsection 6).

1. Linkage with democratization

The background to decentralization in Asian developing countries is very complex. As the society matures and the amount of expenditure required to provide a given level of public service will vary by locality, centralized systems becomes unable to respond efficiently to different preferences. Thus, decentralization will enable a public service to be tailored to local preferences. In developing countries, however, the first priority is for basic human needs to be satisfied, and so the demand for decentralization evolves from some other factors. One is democratization. Non-democratic systems in these countries have

justified themselves by claiming that top-down unification was needed because there were wide social gaps or that state-initiative economic development was needed because there was inadequacy in the sectors that could support industrialization. The failure in development due to import substitution policies and the trickle-down model has negated the second justification for authoritarian rule. This led to a demand for decentralization as the establishment of an environment in which development plans suitable for the actual conditions in each region would be made. On the other hand, the end of the East-West Cold War has broken the orthodoxy of one-party rule and negated the first justification. This led to demands for democracy from those whose political rights had been restricted. The end of authoritarian rule and the movement for democracy were the driving forces behind the devolution of authority from central government to local governments from the late 1980s to 1990s, that is, decentralization.

In Thailand, for example, the trend toward democratization became unquestionable when Chuan Likphai of the Democratic Party became the Prime Minister in 1992. Decentralization was accelerated by the establishment of local governments in rural areas by the Act of *Tambon* Council and *Tambon* Administration Organization (TAO)s of 1994 in 1994, and by the definition of local autonomy in the 1997 Constitution. In Indonesia, the collapse of President Suharto and the establishment of the Habibie regime defined democratization. The consequent two acts, the Act on Regional Administration and the Act on Fiscal Balance between the central and regional governments in May 1999, formed a milestone in decentralization. The functions of the central government and its field agencies were transferred to the regencies and municipalities. Some say that decentralization process in the Philippines has been completed. Decentralization was one of the most important elements in the 'People Power' or the platform of the Aquino regime, and was clearly defined in the 1987 Constitution. This was the beginning of the decentralization reform under the Local Autonomy Act of 1991 and there was a radical devolution of administrative authority to local governments. For example, in accordance with the devolution of healthcare service, tens of thousands of national public employees were transferred to become local employees. Generally speaking, decentralization in developing countries is accelerated by its linkage with the trend towards democratization at the national level.

2. Downsizing

The fundamental driving force behind decentralization in developing countries is the end of authoritarian rule and the movement for democratization. Seen from a short-term perspective, there is another force promoting decentralization reform. This is the demand for downsizing in the public sector after the Asian currency crisis.

Decentralization involves three factors: human resources, responsibility for service delivery and fiscal resources. In developing countries, devolution related to the first two factors is preceding, while the last one remains unclear. In a sense, decentralization enhances the balancing of the national budget. Right after

adoption of the 1997 Constitution that stresses decentralization, Thailand was thrown into fiscal crisis. In addition to the existing heavy burden of external debt, the currency crisis diminished the tax revenue substantially and increased the amount of repayments.² This deflationary effect triggered a personnel cut of 90,000 national employees. From the Ministry of Finance, the sections in charge of the monetary policy and the balance of payments were separated, and the budget of the Ministries of Education and Interior were cut. In short, the personnel and budget of local administration-related sections in the central government were reduced, and their services were transferred to local governments without sufficient fiscal support. In the Decentralization Plan and Procedures Act, Thailand adopted a radical plan to increase local revenue from 10% to 20% in the 2001 budget and to 35% in the 2006 budget. The basis for this plan is not apparent to us, but it seems to indicate how urgent the fiscal situation is.

3. Maintenance of national unity

In some developing countries, authoritarian governments use decentralization as a concession to the nationwide demand for democratization and autonomy that arises in relation to ethnic issues. Local autonomy is a political cost for them to avoid the breakup of the nation and to maintain its unity.

In the period of high economic growth in post-war Japan, leftist local governments appeared in many parts of the nation, and they were in advance of the nation in welfare and environmental policies. This often caused intergovernmental conflicts, but never disturbed the basis of the unity of the nation. In societies with ethnic or language differences, needless to mention the Quebec issue in Canada, Scotland in Britain and the Basques in Spain, 'national unity' is always a top priority on the political agenda.

In Asia, India is often referred as a typical example, but Indonesia and Thailand are not exceptions. In Indonesia, a referendum was held for the independence of East Timor in 1998, and was approved by the People's Consultative Council. Besides this area, the movement for independence has surged in provinces such as Aceh. East Kalimantan and other provinces rich in natural resources are demanding revenue from gas/oil and autonomy while advocating separation and independence. In response, President Wahid created a new position of State Minister for Regional Autonomy in October 1999 for the promotion of decentralization. Here decentralization is a concession to avoid the breakup of the nation after the centralized authoritarian Suharto administration.³

Thailand is also attempting to pacify radical demands for democratization by using decentralization reform. When the military-backed regime fell in the beginning of 1990s and a new coalition cabinet was formed, the movement demanding democracy reached a peak. The cabinet included radicals who advocated public elections for governors who have been a key person of local control by the central government. An influential university professor also demanded elections for governorship. Some people pointed out that the

Tampon system was established in 1994 as a concession for these pressures,⁴ and others that the Ministry of the Interior was nervous about the separatist movement in Southern Thailand where the Muslim population is concentrated.⁵ Actually more than 6,000 *Tambons* as governing units have been designated in rural areas. An influential Thai scholar mentioned that the Tampon system was one of the tactics of the Ministry of Interior to divert the democratic movement from demanding elections for governorships.

3-2-2 Side effects of decentralization

1. Economies of scale

The side effects of decentralization can be seen as being something incurably intrinsic to decentralization, or as being correctable by changes in the system design. The following provides examples and a discussion of the adverse effects of decentralization on ‘economies of scale,’ ‘equity among regions’ and ‘macroeconomic stability.’

It is not always appropriate to leave the responsibility to deliver public services to existing local autonomous bodies. One reason is their ‘diseconomies of the small scale’.⁶ This occurs not because public services by local governments require larger fixed capital, but because they do not have the ‘freedom of exit.’⁷

Newly established local autonomous bodies in developing countries are sometimes not designed for the efficient provision of public services. *Tambon* governments in Thailand, for example, are in a sense a political compromise to partially concede to the demand for full democratization. It is said that they might become a hotbed of concessions to family business run by influential people in each local area. The Act of *Tambon* Administration Organization (TAO)s of 1994 enacted that local autonomous organization whose average revenue over last three years was more than 150,000 bahts should qualify as a Tampon. Since revenue was the only qualification, there were wide disparities among them in terms of population and area.⁸ According to research on *Tambons* by Phetchaburi Province, the smallest Tampon has a population of seventeen. In a few years, Thailand, whose population is only a half that of Japan came to have twice as many rural governments as Japan has. As a result, the fifth-grade (the smallest) *Tambons*, which account for 90% of all *Tambons*, are very weak in terms of fiscal capacity. It is also necessary to consider if *Tambons* can be independent from natural villages as an administrative body. All administrative services are provided on the basis of population registration in Japan, Korea and Germany, while there is little relationship between registration and entitlement to public services in Britain and America.⁹

These problems are not inherent in decentralization, but rather problems in institutional design and its implementation. The diseconomies of a small scale can be precluded to some extent by the merger of cities

or by the partial cooperation for certain services. In Thailand, the Department of Local Administration of the Ministry of Interior is trying to merge *Tambons* with a population of less than 2,000. In the Philippines too, municipalities are smaller than towns and villages in Japan, and provinces than prefectures. Mergers always require a carrot-and-stick approach, and developing countries wish to learn such an approach. Population registration and the tax roll are required as a minimum to form a local public body. Actually, an objective of Thai reform is for population registration to be handled by *Tambons* in the future.¹⁰

2. Fiscal equity among the localities

As mentioned above, as a result of the failure of development policies through import substitution and the trickle-down model, decentralization is now called for as providing an institutional framework for development planning that can respond to the local preferences. In this sense, decentralization is expected to ease and narrow regional disparities. On the other hand, considering the prominence of the capitals in economic development, decentralization may enhance a greater disparity in the service standards and tax capacity among the regions.

There is a wide disparity in fiscal resources between urban areas such as Bangkok and rural areas such as Northeast Thailand, based on the fact that the surtax on value-added tax is sufficiently provided to *Thesaban* and Bangkok, but not at all to Tampon governments in rural areas. In the Philippines, too, there is a distinct difference in fiscal resources between Manila and other areas. The regional disparity is more serious when natural resources are dominant in local revenues. Indonesia promulgated the Law on Fiscal Balance between the central and local governments in 1999, and profits from oil and gas, which had belonged to the national treasury, were added to the pool of revenue sharing. This was partly to respond to the claims of the natural resource-producing provinces that are tending to move towards separation and independence, such as Special Territory of Aceh and Riau Province. Since the distribution of natural resources is quite imbalanced, differences in fiscal capacity are expected to widen further between the regions.

Some measures are available to ease the regional gaps that have been widened by initial decentralization. Intergovernmental fiscal transfers including fiscal equalization payment will achieve horizontal equality to secure the fiscal capacity to provide public services of a comparable level of service everywhere in the country. The Indonesian Republic Law No. 25 in 1999 implemented an institutional framework of 'general allocation funds,' which allocates 25% of the national revenue to the provinces (10%) and the regencies and municipalities (90%) in proportion to the difference between fiscal capacity and need. It is important that the framework of intergovernmental fiscal transfers impact on the extent of the disparity among local governments in service delivery including education, public health and infrastructure.

3. Macroeconomic stabilization

It has been emphasized lately that the success of decentralization in developing countries is a very exacting task. Decentralization involves the risk of failing to improve public services, and, moreover, the risk of causing chaos for the whole national economy. Argentine in the 1980s is a typical example, and a similar situation can be easily found in the economies in transition of Eastern Europe. It has been said that China took advantage of such lessons from other countries in its tax reform in the 1990s.¹¹

There seems to be no such case in Asia, as decentralization actually did a lot of harm to macroeconomic stabilization, although there is no direct evidence. But still there is a potential risk. Indonesia has decided to provide at least 25% of its national revenue to local governments, but the delivery of public services that are to be devolved to local governments will require further fiscal transfers. This is expected to increase the fiscal deficit of the central government, and consequently, may have some impact on the repayment of public debt. It is necessary to control intergovernmental fiscal transfers while sustaining the sources of revenue of the central government that are indispensable for macro-economic stabilization.¹²

3-2-3 Devolution to local governments

1. From ‘deconcentration’ and ‘delegation’ to ‘devolution’

A provisional conclusion of this chapter is that the characteristics of decentralization in Asian developing countries involve a shift from ‘deconcentration’ and ‘delegation’ to ‘devolution.’ Although the concept of decentralization cannot be defined easily, one important distinction is between ‘deconcentration,’ ‘delegation’ and ‘devolution.’ The first, ‘deconcentration,’ means to disperse the functions of the central government to its field agencies, while the second, ‘delegation,’ is to give authority to local governments as agents for the implementation of policies formulated by the central government and for feeding back local information to the central government. The last, ‘devolution,’ means to devolve both decision-making and fiscal authority to local governments that have their own financial sources of revenue and publicly elected councils.

‘Devolution’ in Asian developing countries has been limited under the authoritarian political system. The Thai administrative structure consists of three layers: the central government, provincial administrations as agencies of the central government and various kinds of local governments. The first two are predominant, and sectionalism is rife among the field agencies of the national government. In terms of the above-mentioned definitions, ‘deconcentration’ and ‘delegation’ are predominant. The rapid decentralization after the 1997 Constitution, however, reduced the functions of such field agencies, and the National Decentralization Committee is planning devolution to local governments (*The saban*, Provincial administration organization, Tampon administration organization, the Bangkok Metropolitan Government, and Phatthaya city). In

Indonesia, the Local Administration Act in May 1999 initiated devolution from the central government and its field agencies to regencies and municipalities. In the Philippines, too, the Local Government Code of 1991 achieved devolution from the central government to *barangays*, cities and municipalities in several policy areas, including healthcare.

In the traditional fiscal federalism models, ‘externalities,’ ‘economies of scale,’ ‘income redistribution and ‘minimum standards’ are points of consideration in designing devolution of the function to provincial and municipal governments. If the public service of one local government extends beyond its area and confers benefits on the surrounding areas, which are called ‘externalities’, then the decision of the local government concerning the public service standard is short of the socially desirable level. This is the case for education and roads that cover a wide area. On the contrary, if negative externalities occur, the government’s decision becomes excessive. One example is illegal garbage dumping. As the population grows, the average cost for public services per unit decreases. This defines ‘economies of scale.’ When the population is small, ‘a diseconomies of the small scale’ occurs and costs increase. This is the case when fixed costs are large, such as for water supply and sewerage. Such public services as public health, social welfare and trunk roads should be provided uniformly everywhere in the country. When a local government tries for an ‘income redistribution’ through cash benefit, the consequence is likely to be an influx of the poor and fiscal bankruptcy.

In short, services with relatively small ‘externalities’ and ‘economies of scale’ and those that are free from ‘minimum standards’ and the ‘income redistribution’ are appropriate for local governments. Roughly speaking, such services as libraries, parks, streets, fire services and garbage collection are appropriate for municipalities, interregional transportation and garbage treatment for intermediate level governments, and social welfare, education and public health for the central or state governments.

This well-defined allocation of functions between the central and local governments based on the criteria of ‘externalities,’ ‘economies of scale,’ ‘income redistribution’ and ‘minimum standards’ is very useful. Considering the peculiarities of the institutional frameworks in Asian developing countries, however, such a separationist model of allocation can be justified only with a lot of expositions.

2. Citizen participation and fiscal accountability

First of all, in many Asian developing countries, a democratic representative system, which should take responsibility in the transferred authority does not work properly. Especially Southeast Asia countries have a weak representative decision-making process and local elites are often deeply entrenched. Political businesses appropriate public resources as their private property by using their influence in the process of development planning (in Thailand), or ‘mini Marcoses’ approach central politicians to obtain subsidies (rent seeking in the Philippines). These problems of local ‘strongmen’ are too significant to ignore.

In Thailand, in the three years from the Act of *Tambon* Council and *Tambon* Administration Organization (TAO) of 1994 to 1997, more than 6,000 municipalities were created. The Department of Local Administration of the Ministry of Interior is anxious concerning its capacity to formulate development plans since the academic background of publicly elected council members is generally low. To prevent corruption and rampant political manipulation, the Department claims to be able to enhance the transparency of *Tambon* administration organization so that they can be monitored by informed citizens. This claim has been realized in part by a system of public hearings, typically the *Prachakhom* system. This system is expected to function both as a democratic mechanism to include the intentions of the community into development plans and as a monitoring system for the budgetary activities of the local autonomous bodies. A third-grade *Tambon* near Chiang Mai City the writer visited in 1999 was very creative. However, it is generally said that even in areas that have a high participation rate in the *Prachakhom*, citizens just submit to the *Tambon* executives that mostly consist of building contractors. The Department may be right in this sense.

In order to promote citizen participation and fiscal accountability, it is essential to introduce some indirect supervisory system in the place of the representative system. This could be a public hearing at the planning stage or a transparent, competitive bidding process. A new methodology is also needed for deciding the order of priority among development projects.

3. Cooperation between local governments

Secondly, in many developing countries, the intermediate levels of government that should coordinate the interests and plans of municipalities do not work properly. This results in a lack of consistency in policies and inefficient resource allocation. The basis of this is the 'externalities.' Since municipalities tend not to consider benefits (or a poor economy) that accrue exclusively to residents of other jurisdictions, the standard of public services actually provided is likely to be lower (or higher) than the socially desirable level. For example, by ignoring the benefits of passing traffic, there is a shortfall in investment in roads. By ignoring the inconvenience to people in other districts, the final disposal site for garbage is planned to be located somewhere out of the district. The presence of externalities depends on the nature of the services and the scale of municipalities. Externalities typically appear in such services as economic development, environment and garbage treatment, and when the administrative district is small. One way to cope with externalities is coordination by intermediate governments that cover a wide area including several municipalities.

Coordination in development planning between local governments is an urgent matter in Thailand. Even when one province aims at a trade-oriented or tourism-oriented future, it will not be able to use resources effectively if local autonomous bodies in the province develop separate projects. Moreover, it is not sufficient to coordinate plans within one province alone. When planning a road across several provinces, one province may plan a two-lane paved road and another a one-lane unpaved road. This will be extremely inconvenient.

Cooperation between local autonomous bodies is also necessary for garbage treatment and wastewater treatment. The 1999 Decentralization Law stipulated that garbage and wastewater treatment should be dealt with by local governments, and issues that cut across districts should be taken care of by the provincial governments. However, as seen in Chiang Mai, some cities still cannot build an incinerator within the area, which has developed into a political issue. It is necessary to study how we can avoid disagreement between local governments or between governments and citizens so as to achieve good cooperative relations.

4. Monitoring and coordinating functions of the central government

Thirdly, devolution to local governments does not mean freeing the central government of its responsibilities. The functions of executing and monitoring the process of decentralization essentially belong to the central government, especially in such areas as healthcare and education that are directly related to economic development and poverty reduction. Decentralization in developing countries means that the role of the central government changes from being a provider of public services to a monitor and coordinator for effective service provision by local governments. However, unfortunately, in some countries, rapid decentralization has resulted in a critical deterioration in services since the related functions of the central government have been totally removed.

This is typically seen in the decentralization of healthcare services in the Philippines. As national employees, midwives had previously provided various rural health services. Then, the total devolution of responsibility in this field has resulted in low accessibility to medicines and nonpayment of wages, and activities for family planning came to a halt in some provinces. Public healthcare (family planning, vaccination, etc.) is a national issue, and the central government should bear the final responsibility even if local governments are given some discretion in their operation. Decentralization in healthcare should be appreciated in general, but in the Philippines the functions of the Ministry of Health were totally transferred to local governments that do not have sufficient administrative capacity, almost through an extreme form of the separationist approach. This indicates an absence of coordination.

The monitoring and coordinating functions of the central government include cross-sectoral coordination of decentralization. In Thailand, authorities of the central government agencies are devolved not to *Tambon* governments or *thetsabans*, but to local committees established by the agencies themselves. The Ministry of Education organized hundreds of committees for educational reform all over the country, and is giving them the right of personnel management in relation to teachers. The relationship between these committees and the existing *Tambon* governments is not clear. The Ministry of Public Health created healthcare committees for every province to transfer authority over hospitals, but again their relationship to existing provincial governments is not clearly defined.

To maintain the monitoring function of the central government, it is necessary to build an information system to support the budget activities of provincial administration organizations and to ensure the superiority of the central government by adopting a system of special subsidies.

3-2-4 Mobilization of local tax revenues

1. Allocation of the sources of taxation

The magnitude of local government expenditures is very small in developing countries. Independent revenue sources (local taxes and non-tax revenues) are a low proportion of total revenues. To make up the difference between revenues and expenditures, local governments depend heavily on fiscal transfers from the central government. This section will discuss decentralization in relation to local revenues.

In Indonesia, for example, up to 93% of the total tax revenue accrues to the central government. Reliable taxes such as income tax, the value-added tax and the natural resources tax are 100% national taxes. Provincial governments receive the automobile tax, and municipalities the entertainment tax and the hotel/restaurant tax. In the Philippines too, local taxes account for only 11% of total tax revenues. This is mainly because the expansion of local expenditures initiated by the Local Government Code of 1991 has been conducted through Internal Revenue Allotment (IRA) alone, and the local tax system itself has not been developed. The rate of IRA (transferred funds) to local revenue was 36% in 1990 but jumped to 63% in 1994, while the rate of the fixed property tax, which is the main local tax, fell from 14% to 6%. In Thailand, the Ministry of Finance proposed a local revenue buildup plan to the Chuan Cabinet in August 1993 and it was approved in July 1994. The plan consisted of nine principles, including (1) to decrease the collection fee of the value-added tax, (2) to decrease the share of the value-added tax allotted to the Bangkok Metropolitan Government, (3) to set up a 10% surtax on the tobacco tax and (4) to start new 'property-related taxes': that is a building tax and a land development tax. Local taxes as a proportion of total tax revenues increased only a little, from 8% in 1993 to 11% in 1997.

The basic constraints in developing countries are that the central governments themselves are confronted with a lack of revenues and are not willing to transfer potentially elastic sources of tax, that the tax administrative capability of local governments is inferior to that of the central government, and that the potential sources of tax available to local governments (incomes and natural resources) are distributed unevenly throughout the country.

2. Property-related taxes as a fundamental tax

Local taxes in developing countries include many small-scale specific indirect taxes. Property-related

taxes are the most fundamental tax source. These property-related taxes are the key to the expansion of local tax revenues for devolution.

Thailand has two kinds of property-related taxes; a building tax and a land development tax. They account for 16% of the total revenues. Almost half of the revenue from property-related taxes comes from Greater Bangkok. These taxes also form a key source of revenue in the Philippines and account for 60% of the revenues. The property-related tax system in Indonesia is a little irregular in that the tax is granted by the central government as tax revenue sharing.

In general, property-related taxes are collected as a local tax because the administrative costs can then be kept relatively low; the revenue is predictable; it can be collected as a user fee for public services; and the tax basis will not take flight with changing tax rates.

Some point out that the actual revenue from property-related taxes is much less than the potential.¹³ This proposition can be examined using Thailand as an example. The tax base for property-related taxes comprises land and buildings, but the taxes are imposed only on land and buildings available for rent, not on owner-occupied property. According to the estimation by the Department Local Administration of the Ministry of Interior, tax exemption for owner-occupied houses reduced the tax base down to 30% of the potential amount, which is a huge 'loophole.' The tax is not paid by the owners of the property but by the tenants. The incidence of the tax is regressive, because the owners shift the responsibility for payment of the fixed property tax to the tenants by raising the rent. Moreover, the taxation base is assessed not according to the capital value but the rental price, and so there is no way of imposing a tax on owner-occupied houses. The rates of such property taxes are as high as 12%. Tax administration is another problem. In most countries assessment of fixed property is generally made according to an inventory system, in which local governments prepare a land register, identify the ownership, assess the land according to a certain standard, and impose the tax. However in Thailand, fixed property is assessed by the owner through income tax filing. The introduction of an inventory system has been attempted several times, but has not always been successful. In practice, the property-related tax is imposed on the basis of rental income reported in tax returns. Although detailed examination is to be carried out, this problem in Thailand has some universal characteristics applicable to many developing countries.

It is also true that there are many technical obstacles to improving the system of property-related taxes. In order to expand property-related taxes in urban areas, measures such as the abolishment of tax exemption for owner-occupied houses, a shift to assessment on the basis of capital value, and the introduction of an inventory system are necessary. In fact, many international organizations have given this kind of advice. However, it is not possible to ignore the warnings of researchers on developing countries that the introduction of certain property-related taxes may result in political conflicts. In some cases, there is a traditional power

structure in which landowners or local strongmen provide individual preferential tax measure to supporters in exchange for votes (e.g. in the Philippines). In other cases, the royal family is a huge landowner (e.g. Thailand). In these cases, the issue of property-related taxes may go far beyond that of local taxation to become a serious political issue.

3. Uneven distribution of tax bases across the country

In many developing countries, socioeconomic indices have shown for years a clear predominance of the capitals and serious regional disparities. These regional disparities indicated in the economic indices means a biased distribution of tax sources towards urban areas, and this is the main obstacle for tax base transfers to local governments. This is especially problematic when local governments try to add a local tax onto the flexible tax base of the central government ('piggy-backing' taxation). For example, Indonesia has given priority to the development of Eastern Indonesia where the level of income is quite low. Nonetheless, the capital of Jakarta gathers 72% of the income tax and 62% of the value-added tax, and 90% of private income tax is paid by 0.5% of the taxpayers nationwide. In this case, a surtax on income tax will widen the regional gap in tax revenues. In Thailand, there is a significant income disparity between Bangkok and Northeast Thailand, and so is there in the Philippines between Manila and other regions. The question is whether or not there is a way to expand the sources of revenue. No one can find a textbook answer to this question. Any solution must take the situation of each country into full consideration, especially the balance between the interests of the rich regions that have a good revenue source and the equality for the nation as a whole.

3-2-5 Evaluation of intergovernmental fiscal transfers

1. Fiscal transfer system

Intergovernmental fiscal transfer is the main source of revenue for local governments in developing countries, and so the design of the fiscal transfer system is a crucial issue for decentralization. The Philippines introduced a fiscal equalization system in 1967, and takes pride in its long history of application. The system was reinforced by the Local Government Code of 1991, and the tax sharing ratio of internal revenue allotment (IRA) was raised to 40% at the same time. Of the total amount, 23% is allotted to the provinces, 23% to cities, 23% to municipalities and 20% to *barangays*. Each government receives the allotment according to its population (50%), area (25%) and equal share (25%). In practice, additional revenue required with regard to devolution has been covered mostly by the IRA. The allocation formulere changed to put greater stress on the equal share and less on the population. From this, it appears that fiscal equalization was improved, but some say that the disparity between the IRA received by the cities and that received by the municipalities has become wider and wider.

Indonesia is also preparing a fiscal equalization system, as a key solution to the issue of national unity. The General Allocation Fund (GAF), which was introduced in May 1999 under the Law on Fiscal Balance between the central and regional governments, is effectively a fiscal equalization system. The main principles of the GAF are: (1) to secure at least 25% of national revenues for the financial pool of transfers, (2) to allocate 2.5% of the total to the provinces and 22.5% to the regencies and municipalities, and (3) in allocation, to take into consideration local needs and economic potential. At present, a technical study is under way on the methodology to identify the needs and capacity, and soon a new system based on objective criteria will come into being.

In Thailand, UNDP and the Thailand Development Research Institute (TDRI) jointly submitted a final report on fiscal equalization and municipal performance indicators to the Department of Local Administration of the Ministry of Interior. The title is "Revenue Sharing and Municipal Performance Indicators." The report points out that the current system favors major cities that are good at preparing application forms, even though general grants should be provided on the basis of objective criteria such as population and area. It gives the advice that there should be a fiscal equalization system based on a calculation reflecting needs and tax collection efforts. More precisely, the report proposes; (1) to establish the superiority of general grants (the ratio to special grants should be 7:3), and the total of general grants should be fixed to a certain proportion of general revenues, (2) to allocate 50% of the total to local governments in accordance with fiscal need calculated on the basis of the number of the population, (3) to allocate the remaining 50% in accordance with the performance indicators and (4) to design six performance indicators that include service delivery, fiscal operations and human resources management so that they can reflect the efficiency of the local government.

2. System design for fiscal transfers

The significance, design and impact of fiscal transfers vary depending on the political, and economic institutional frameworks of each country.¹⁴ In spite of such peculiarities, there are some features common to many successful cases.¹⁵

The first is that fiscal transfers should be determined on the basis of an objective, reasonable and ideally well-recognized allocation formula. It should not be affected by secret political negotiations. For this to occur, decisions on the transfer system should be made by the central government, a neutral organization or an official intergovernmental committee. Of course, it is usually difficult to find out whether a decision is made under the allocation formula or by political negotiation from the provisions of the law. The 'pork barrel funds' in the Philippines, in which members of the Congress play a major role in every stage of rural development from project selection, budgeting process, to implementation, is an exceptional example of such negotiations, since it is visible.¹⁶ In most developing countries, the revenue seems to be allocated in

obscurity, with assumed objectivity, by political negotiations.

Thailand is actually addressing this issue of intergovernmental transfers. Thai intergovernmental fiscal transfers consist of tax revenue sharing and grants. The subject taxes of the sharing are the value-added tax, the special business tax, the excise tax and the liquor tax. However, its allocation criteria are arbitrary, and sometimes out-of-date with no consideration for recent economic developments. The grants consist of general subsidies (40%) and special subsidies (60% in 1996), each of which is supposed to be allocated according to the criteria of equal allocation, equal per capita, and the population, density, area and total revenues. However, as UNDP and TDRI pointed out in their joint research, the subsidies are actually provided at the discretion of the government, and so large local governments in major commercial and industrial areas that are good at preparing application forms have an advantage over small-scale remote governments.¹⁷ This is why the Fiscal National Decentralization Committee under the Chuan Regime that recognized this weakness proposed the redesign of the allocation formula with the calculation of fiscal need and tax efforts.

The second feature is that governmental fiscal transfers should be stable every year so that local governments can draw up appropriate budgets. At the same time, the transfers should be flexible so as to avoid a situation in which local finance is harming macroeconomic stability. These two conflicting conditions can be met if the total amount of fiscal transfers is fixed as a certain proportion of national revenues and the proportion is regularly reviewed (every three to five years) through official negotiations.¹⁸

Recently, in Asian developing countries, there has been a desirable tendency for a linkage to be created between national revenues and fiscal transfers. This can be seen in the Philippines whose IRA reserves 40% of domestic revenues for fiscal transfers, and in Indonesia whose GAF reserves 25% of national revenues. Thailand's plan is for basically the same conditions. In actual operation, however, the government often has the discretion to determine the total amount of the pool. For example, even in the case of the Philippine IRA, which is often referred to as the better example of fiscal transfer systems, there is a problem of inflation-related devaluation since the total amount is decided based on the internal revenue of three years before. The Lower House has proposed an amendment to use the internal revenue of two years before as the base for calculations. In 1997 under the Ramos Regime and in 1998 under the Estrada Regime, the total amount was reduced according to the provision that the IRA can be cut when the fiscal deficit is serious. In response to protests by the local governments, the Supreme Court ruled that the provision is unconstitutional. Even among countries that have established a fixed proportion between the total pool and the national revenue, few have institutionalized regular renegotiations on the total amount and allocation formula, as India, Pakistan and South Africa already do.

The third feature of a good fiscal transfer system is that its allocation formula is simple and reliable, and consideration is given to reasonable parameters. Complicated formulas are not feasible or reliable in

these countries where even the number of the population is always a point of argument. In most developing countries, it is quite difficult to obtain accurate numbers for the parameters used in formulas. Without data, fiscal need tends to be assessed by simple expedient using the number of the population or local government classification (scale and type). For example, in Thailand, all urban governments are classified into five categories based on the amount of revenue and given a fixed amount of general subsidies according to the classification.

There are few developing countries that have a clear formula that reflects the fiscal capacity of local governments.¹⁹ As a matter of course, fiscal capacity is worth considering only when the local governments have decisive authority over taxation rates. The major obstacles to a formula that reflects fiscal capacity are the lack of decisive authority over the taxation rate and the availability of data.

This can be considered in more detail using the example of the Philippines. With the rise in the ratio of IRA to domestic revenues of up to 40% in 1994, the vertical fiscal imbalance was corrected but the horizontal imbalance was left unsolved. The IRA is made up of 50% of the total to be given based on population, 25% on area and the remaining 25% as an equal share. Each is a typical indicator of fiscal need in accordance with social services for people, investment in infrastructure and fixed cost respectively. However, it can still be said that equity in terms of fiscal capacity is far from ideal.²⁰ Subsidies are also provided in large amounts to the third and fourth grade urbanized areas and the capital area on Luzon Island, but only at a rate that is less than the average to the seventh or eighth grade undeveloped areas. For densely built-up areas with a high fiscal need such as Manila, the amount of subsidies per capita is small. Moreover, because cities are given favorable treatment, municipalities are applying for promotion of their status and strive to be among the foremost candidates. In short, because fiscal capacity is not included in the allocation formula as a criterion, the situation has become at variance with the objective of the fiscal equalization system in the sense that it discriminates in favor of highly urbanized or industrialized areas.

In designing a fiscal equalization system, the common sense practiced in developed countries is never applicable to developing countries, a typical example of which is the issue of confidence in the allocation formula. Even if fiscal capacity is considered in the formula, the amount of subsidies is not automatically accepted by the receiving regions in developing countries. For instance, because the revenue from natural resources was included into the list for revenue sharing in Indonesia, the design and enforcement of the equalization system has become an urgent issue. If an insufficient design of institutional framework should cause the disaffection of local governments towards the allocation, it could be a source of risk in the maintenance of the unity of the republic. The Law No. 25 in 1999 provided that 25% of the national revenues should be provided as general allocation funds (GAF) to the provinces (10%) and regencies and municipalities (90%) in proportion to their fiscal capacity and fiscal need. However, due to the limited availability of data, the central government could not decide on a nationally uniform unit cost, like the one used in the Local

Allocation Tax in Japan. Instead, as an expedient, the fiscal need of the local governments is calculated based on population, area, geographic conditions and the number of the poor. For fiscal capacity, the potential revenue raising capacity is estimated based on their gross regional domestic product (GRDP), manufacturing industry, natural resources and human resources. To avoid a rapid change, the year 2001 was determined as a transition period, and the new formulas applied to one fifth of the total amount. The rest was allocated as traditional SDO and Inpres.²¹

Apparently, such an allocation formula for the GAF is rational with an objective assessment of need and capacity. However, since this is an attempt being made in a country that limits reliable data and has few history of formula-driven transfer systems, the determination of the formula itself tends to be affected by political considerations. According to information available, the Indonesian government has a plan to prepare a formula in favor of Aceh Special Province and Jakarta Special City. If such an arbitrary formula causes discontent among other provinces, general subsidies will be increased to appease them, which may adversely affect the stability of the macroeconomics. Other information indicates that even if the central government uses a new formula for assessment, the receiving provinces and districts are making the calculations in their own way. There will be many constraints before confidence in the allocation formula has been established.

3. Consensus concerning interregional equalization

A fiscal equalization system is needed for two reasons. One is to deal with the ‘vertical imbalance’ between the functions transferred to local governments and the amount of own revenues; the other is to deal with the ‘horizontal imbalance’ between regions due to differences in their needs, fiscal capacity and cost. It is natural that the extent of fiscal equalization does not perfectly match the reality of regional disparities. Among Western industrialized countries, some provide an excessive adjustment in spite of small regional disparities in reality, and others carry out little balancing to resolve serious economic disparities between regions. Australia is an example of the former, and the United States of the latter. Postwar Japan, while accelerating economic growth, has shared the fruits evenly among the regions through the local allocation tax system with a sophisticated allocation formula which has satisfied the sense of egalitarianism of the Japanese.²² In contrast, China has adopted a policy of expanding the income gap between the interior areas and urban areas. After all, the design of a transfer payment system is not a matter of pure theory, but depends on the enthusiasm of people for horizontal equity.

In many Asian developing countries, such consensus or enthusiasm is still in the process of being developed, and conditions do not seem to be ready for the direct application of the Japanese model. The following indication provides some circumstantial evidence for this.

One indication that conditions are not ready is that within the framework of local taxes, surtaxes are

imposed on a national tax that is unevenly distributed. A typical example is the surtax on the value-added tax in Thailand. This is a local surtax introduced in 1992 in place of the former business tax. It imposes a 10% surtax on the value-added tax (a national tax) to be distributed to local governments through the Ministry of Interior. The criterion for allocation is the same as that for the business tax revenue in 1960, which is advantageous to major cities with an active transaction of goods and service. It is the largest local tax in volume, but is remarkably unevenly distributed since 95% is concentrated in Metropolitan Bangkok.²³

The second indication is that a revenue sharing system, if there is one, has little equalization function, but it is allocated heavily to the region where the tax is collected. In a sense, revenue sharing systems in developing countries have the characteristic of a tax refund. For example, in Indonesia, the revenues from natural resources and natural gas that had been totally monopolized by the central government were added to the list of items for revenue sharing in 1999. Interestingly, the money has been allocated generously to the producing provinces, since demand for gas and oil revenue is very strong in Indonesia today. Theoretically speaking, natural resources are the least desirable source of a local tax, since they are likely to be distributed unevenly and are unstable. Their prices fluctuate widely and sometimes become out of control.

Considered from a politico-economic point of view, the interests of regions rich in natural resources must be admitted, just as in the case of Canada. Natural resources in Indonesia are distributed quite unevenly and unstably, but as a political cost to avoid the breakup of the nation and to maintain its unity, the government must still meet the needs of the producing provinces that have hinted at separation and independence.

The third indication is that even a full-scale fiscal equalization system has only a weak effect on horizontal imbalance, and can possibly expand regional disparities. This is typically seen in the case of the IRA in the Philippines. From these fragmentary facts, it is possible to establish a tentative point of argument; that is, that in spite of the expanding regional disparities in tax revenues under the predominance of the capital and variations in regional economies, the consensus for interregional income redistribution has not been well-established in developing countries, as it has in Japan. Alternatively, in such countries, earmarked grant that are decided by negotiations may assume the role of redistribution in practice.

3-2-6 Concluding remarks

1. System design of decentralization

In order to control the side effects of rapid decentralization in Asian developing countries and to make the most of the advantages of decentralization, the proper design of a fiscal system is essential. This section summarizes proposals for both recipient and donor countries that can be drawn from the discussion so far.

Firstly, considering the peculiarity of Asian systems, a great deal of explanation is required to justify the separationist type of service reallocation in this area. It may be useful to distinguish the services of local governments from those of the central government in order to define administrative responsibility. However, the issue is not so simple. In many cases, a democratic monitoring system (a representative system), which should take responsibility for the transferred authority, does not work properly. To promote citizen participation and fiscal accountability, some indirect monitoring system instead of the representative system must be introduced. This can be a public hearing at the planning phase or a transparent, competitive bidding process. A new methodology is also needed to determine the order of priority among development projects.

In developing countries, intermediate level governments that should coordinate the interests and plans of the basic local autonomous bodies do not work properly either. It is necessary to examine the measures that can be taken to avoid a disagreement between local governments or between the governments and citizens, and to promote cooperation.

Furthermore, in some developing countries, as a side effect of rapid decentralization, the monitoring and coordinating functions of the central government have been abandoned, and consequently public services have deteriorated markedly. The functions to execute and monitor the process of decentralization essentially belong to the central government, especially in such areas as healthcare and education that are directly related to economic development and poverty reduction. Decentralization in developing countries means that the role of the central government changes from being a provider of public services to a monitor and coordinator for effective service provision by local governments.

Secondly, it is very important to boost the fiscal accountability of local governments for the citizens. Despite accelerated decentralization, fiscal systems in Asian developing countries are still centralized. Local finance is small in scale and low in terms of the proportion of independent revenue resources (local taxes and non-tax revenues), depending largely on fiscal transfers from the central government to make up the difference between revenues and expenditures. This is partly because the central governments themselves are confronted with a lack of revenue and are not willing to transfer potentially elastic tax resources, and because the tax administrative capability of local governments is inferior to that of the central government, and also because potential tax resources available to local governments (incomes and natural resources) are unevenly distributed throughout the country.

This chapter has provided the tentative conclusion that the key to the accountability of local governments to their citizens is a system of property-related taxes. In postwar Japan, as seen in the era of the 'Remodeling of the Japanese Archipelago' in the 1970s and the era of the 'lost decade' in the 1990s, municipal finances have been separated from various macro-economic crises and operated in a relatively stable way. The main reason for this is that municipalities have a fixed property tax as their fundamental tax after the Shoup

Recommendation, unlike prefectural revenues, which are easily affected by business fluctuations. Therefore, the basic strategy to secure property-related taxes in developing countries is the reduction and abolishment of loopholes (e.g. tax exemption for owner-occupied houses), a change in the assessment to one based on the capital value, and the introduction of a property inventory system. Possible obstacles will be the insufficient tax administrative capacity (for registration, assessment and collection) of local governments and the resistance of vested interests. It would be more meaningful if developing countries themselves could research and examine the experience of Japan and Europe and voluntarily choose policy packages that are most appropriated to their own political background and institutional frameworks.

The third is that rapid decentralization without proper income redistribution will widen interregional income gaps. In many Asian countries, as decentralization is accelerated, income disparities tend to widen. If this exacerbates ethnic and cultural differences, the nation might find itself on the verge of disintegration like the former Soviet Union and Yugoslavia, and presently in Indonesia. A proper intergovernmental fiscal transfer system will prevent interregional income disparities from expanding further.

At the base of intergovernmental finance in postwar Japan was the strong preference of the Japanese that people wherever they were living in the country should have equal access to and the duty of payment for public services. The Japanese hoped for the sound development of local autonomy in accordance with the Constitution and the Shoup Recommendation, but the redistribution of income continued to be the core of Japanese local finance. The system of Local Allocation Tax is often criticized for the fact that its calculation is too complicated or that it reduces the tax efforts of local governments. However, it is true that the system has redistributed to undeveloped areas the fruits of the high economic growth, which tend to be siphoned off by the urbanized areas, and that it has prevented the development of wide disparities in local fiscal capacity. The fund is reserved at a fixed proportion of the national revenues, and allocated based on the difference between the standard fiscal need and the standard fiscal revenue calculated using an objective formula. This was quite fair, at least until the 1970s.

Fiscal transfers should be decided by an objective, reasonable and, ideally, widely accepted allocation formula. It should not be affected by secret political negotiations, but the decision on the transfer system adopted should be made by the central government, a neutral organization, or an official intergovernmental committee. The extent of governmental fiscal transfers should be stable every year so that local governments can draw up appropriate budgets. At the same time, the transfers should be flexible so as to avoid a situation in which local finances are adversely affecting macroeconomic stabilization. These two conflicting conditions can be met when the total amount of fiscal transfers is fixed at a certain proportion of the national revenues and the proportion is reviewed regularly through official negotiations. The allocation formula is simple and there is a reliable basis for it. Complex formulas are not feasible or reliable. To include fiscal capacity into the allocation formula, it would be a good idea to use a simple substitute index such as the Gross Regional

Domestic Product (GRDP).

2. Policy support for decentralization

Next, proposals are offered for donor countries to consider. The recent rapid decentralization has given rise to new challenges and chaotic conditions for developing countries in Southeast Asia. The background to this decentralization varies from country to country; the linkage between the end of authoritarian rule and democratization, the demand for effectiveness in the public sector derived from the currency crisis, and the concessions to avoid the breakup of the nation and to maintain unity. On the other hand, it is evident that decentralization will have a cross-sectoral influence on basic services in these countries, such as poverty reduction, education, healthcare and infrastructure. Most of these sectors are priority areas for Japanese assistance, and in future local governments will be able to directly approach donors for assistance. Alternatively, assistance may bypass local governments, with NGOs as the recipient bodies. However, if the insufficient administrative capacity of local governments, the expanding regional disparities, and the ad hoc changes in central-local government relations are left as they are, the side effects of decentralization could lead to political instability (breakup of the nation), confusion in the macroeconomies or regional partiality. Nevertheless, it is not productive or desirable that donors should discuss the merits or demerits of decentralization. The decision to commit to decentralization always lies with the recipient countries.

Accepting the decentralizing trend as an established fact, JICA and other Japanese foreign assistance agencies should allocate more resources to 'intellectual assistance' for policy-making at the central government level and capacity building in local governments. Some explanation may be useful on this point. International organizations (e.g. UNDP, World Bank, GTZ and CIDA) started their policy support for decentralization in developing countries a relatively long time ago, and they have already achieved some good results. However, as far as the writer is aware, the experience of East Asia has not been fully examined in terms of the decentralization model by these agencies. Therefore, it should be sufficiently significant to make more widely known the fact that Japan, as an Asian country, has experience and proven ability concerning the role of governments at various levels in economic growth and development.

Decentralization models in European countries and U.S. tend to depend on 'fiscal federalism,' which deals with fiscal resources, allocation of responsibility and intergovernmental transfers. There already exist several useful proposals in these areas. However, finance is only one of the important factors in assistance for decentralization in developing countries. Among other important areas, administrative and capacity building in local governments is a key issue. Decentralization without 'good governance' and 'transparency' will nurture a hotbed of corruption, which brings into question the effectiveness of assistance and consequently squanders the goodwill of taxpayers in donor countries. In this aspect, Japan has an advantage in that it has wide-ranging experience in personnel management at the local government level and in personnel transfers

from the central government in order to improve the standards of capacities in local governments.

Policy support is new ground for Japanese foreign assistance. There are, therefore, some points requiring further consideration. One is that policy support for decentralization should never be imposed on the recipient countries, but ideally should be provided to just help them change their central-local government relations of their own free will. It is especially meaningful that Japan, an Asian country that has adopted fiscal systems in European countries and U.S. and central-local government relations, is able to provide policy support for decentralization. Historically, Japanese local autonomy was totally destroyed during and after World War II, and people expected its restoration from the new Constitution and Shoup Recommendations formulated on the basis of the experience of Western countries. The problems that Japan was confronted with in this transitional period, such as growth and income disparities, lack of local government capacity, and undeveloped and confused legislation, had the same way of emerging as those that Asian developing countries are faced with today. However, imposed lessons provoke a reaction. Japan should always maintain the stance of providing support in policy-making to help developing countries design their own institutional frameworks appropriated to the conditions of the country.

The second point is that policy support for decentralization always requires dialogue on policies with the recipient countries and research on institutional frameworks unique to the countries concerned. There have been cases in which reform without thorough research and mutual confidence has resulted in failure and the donor practically got shut out by the recipient. Here it is strongly proposed that a permanent forum be established consisting of experts from both the donor and the recipient countries.²⁴ The forum should not be absorbed in studies, but its outcomes must be connected to technical cooperation and grant aid. Also it should include not only a limited number of representatives of the agencies of the central government, but also a variety of actors (local governments, related agencies, university researchers, NGOs, etc.) that will be affected by decentralization. Persistent efforts to obtain the understanding of the recipients is necessary; it should never amount to a series of 'visiting experts.' The forum will promote incentives for the recipients and increase the feasibility of proposals. This kind of joint research is new for Japan's assistance, and if it succeeds it will set a new direction.

Other points to be considered are proposed by Fumio Nagai in Chapter IV in this report. These include: (1) in applying the outcomes of joint research to existing sectoral technical assistance and grant aid, site selection should be carefully conducted; (2) experts should be dispatched utilizing resources in areas in which Japan has an advantage; (3) projects should not be hard to understand and easy to put into practice (e.g. The 'One specialty for one village' campaign in Thailand). The principle of site selection is to choose one local government that actively responds to the donor's proposals from several areas whose socioeconomic backgrounds are different. However, the central government may not have information on such 'ambitious' local governments, and a new information network may be needed. JICA has good capacity to assist in rural

projects. It has as an advantage over other countries and a good accumulation of resources, as well. It is also effective in dispatching experts directly from local governments in Japan, since they are usually highly motivated and these governments have a chance to develop a good continuing relationship with their counterpart governments.

Notes

¹ For trends and perspectives of Japanese assistance, see JICA [1997].

² At a suggestion by Akira Suehiro (Professor of Tokyo University) of August 18, 2000, in Bangkok. According to the Fiscal Policy Office [1999] of the Thai Ministry of Finance, the revenue of the national government in 1996-97 was 844 billion bahts, but declined sharply to 727 billion bahts in 1997-98.

³ For the background on decentralization in Indonesia, see the case study on Indonesia in Chapter II in this report and JICA [2000].

⁴ See Noranit Setabutr and Niyom Ratamarit [2000]

⁵ At the suggestion of Fumio Nagai (Associate Professor of Osaka City University).

⁶ 'Economies of scale' usually occur when the cost for fixed capital is large, such as in electricity, gas and railroads. The fixed cost does not change according to the output, and when the price is the same, increased demand leads to decreased fixed costs per unit. The dominance of local governments in their region, however, does not directly result in 'economies of scale.' Local governments do not always need a large amount of fixed capital like those of electricity, gas and railroad companies; they are more labor intensive than private companies. There is another reason why 'diseconomies of small scale' occur in public services. This can be expressed in terms of the 'freedom of exit' in economics. Private companies can exit from an unprofitable business with low demand, but public services have no freedom of exit. A typical example in Japan is the issue of depopulated areas.

⁷ There are some cases in local administration that require a huge fixed capital. 'Economies of scale' works in the cases of garbage incineration and sewerage systems.

⁸ *Charas Suwanmala* [1999] is a good subjective case study on the fiscal system of Tampon governments.

⁹ At the suggestion of Michio Muramatsu (Professor of Kyoto University).

- ¹⁰ At the suggestion of Fumio Nagai (Associate Professor of Osaka City University).
- ¹¹ For the influence of decentralization on the macroeconomics, see Bird and Vaillancourt [1998], pp.5-8.
- ¹² For the impact of decentralization on the public finances of the Indonesian government, see JICA “Report of the 4th Country Assistance Research on Indonesia (in Japanese),” November 2000.
- ¹³ For the taxation methods of property-related taxes and their problems, see *Sakon Varanyuwatana* [1995].
- ¹⁴ For a theoretical examination of the case for and system design of intergovernmental fiscal transfers in the light of decentralization, see Robin W. Boadway, Paul A.R. Hobson and Nobuki Mochida.
- ¹⁵ For the system design of fiscal equalization, see Jennie Litvack, Junaid Ahamad and Richard Bird [1998] and Harry Kitchen [1997].
- ¹⁶ At the suggestion of Yutaka Katayama (Professor of Kobe University).
- ¹⁷ For intergovernmental fiscal transfers in Thailand, see Thailand Development Research Institute [1999].
- ¹⁸ For desirable intergovernmental transfers, Litvack Jennie, Junaid Ahmad and Richard Bird, [1998] gives a basic overview and is full of suggestions.
- ¹⁹ See Jennie Litvack, Junaid Ahmad and Richard Bird [1998].
- ²⁰ For an allocation formula for the IRA, see *Milwida M. Guevara* [2000].
- ²¹ For intergovernmental finance in Indonesia, see Bambang Brodjonegoro and Shinji Asanuma [2000]. For an allocation formula for the GAF, see ‘Decentralization in Indonesia (Masaaki Okamoto),’ in Chapter II in this report.
- ²² For the outcomes of the Japanese local allocation tax, see Mochida Nobuki [1998].
- ²³ For the allocation of the value-added tax, see *Sakon Varanyuwatana* [1995].
- ²⁴ One example of this kind of forum is the Thailand-Japan Joint Research Project on Capacity Building of Local Authorities (August 2000 to August 2002), the Thai Government and JICA.

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3-3 Fiscal Decentralization in Developing Countries: Case Study of the Present State of Thailand and Issues of Decentralization

3-3-1 Allocation of administrative functions and local expenditures

1. Principle of the allocation of administrative functions among different tiers of government

Although Thailand and Japan are classified as unitary states, the central government and local governments both contribute to the enhancement of the welfare of the people, cooperating with each other and playing separate roles. Even though there was a high degree of centralization of power in Japan before the Second World War, since local autonomy was stipulated by the new postwar Constitution, several systems were instituted. For the establishment of local autonomy, it is first of all essential to make a clear distinction between the roles of the central government and those of local governments, and this is recognized as an issue of the allocation of administrative functions in the fields of local autonomy and local government finance. The principles and criteria for the allocation of administrative functions that have been adopted to promote local autonomy in Japan can also provide appropriate guidelines for Thailand and other developing countries that are planning to promote full-fledged decentralization.

The Shoup Mission, which played a significant role in the postwar promotion of local autonomy, regarded the state of the allocation of administrative functions prevailing then among the central government, prefectures, and municipalities as injurious to local autonomy as well as local responsibilities, and recommended reallocation of the functions between the three tiers of government. The principles involved may be summarized as follows: 1) to make a clear distinction between the administrative functions of the three tiers of government as far as possible and to fully allocate certain functions to one particular tier of government; consequently, the administrative body at the appropriate tier would fulfill the functions allocated to it and also take full responsibility for covering the costs involved from its general fiscal resources; 2) to allocate each function to the tier of administrative body that is most capable of assuming it in terms of its size, efficiency, and fiscal resources, in order to ensure the efficient implementation of all administrative functions; 3) to allocate each administrative function to the most appropriate and lowest tier of administrative body in order to strengthen local autonomy. Functions that can be performed by municipalities should not therefore be allocated to prefectural authorities or the central government. In this sense, municipalities are given the first priority. Prefectural authorities come second and the central government should only assume those functions that cannot be carried out efficiently under local administration. These principles are referred to as the “principle of the identification of administrative functions”, the “principle of efficiency”, and the “principle of priority to the local governments and to the municipalities”, respectively.

With these three principles as a general guideline, the Kanbe Recommendation, which designed the

policy for the allocation of administrative functions between the central government and local governments, as well as the allocation of functions between prefectural authorities and municipalities, was submitted and the specific criteria were suggested as described below. As for the allocation of functions between the central government and local governments, apart from some functions that must be carried out by the central government due to their nature and those that are necessary to maintain the viability of the state, all functions within the boundaries of local governments should be carried out by local governments, and the central government should discharge only those functions that cannot be carried out efficiently by local governments.

According to this criterion, the functions of the central government are as follows: 1) functions necessary to maintain the viability of the state, 2) functions related to comprehensive projects on a nationwide basis as a matter of national policy, 3) functions that extend beyond the boundaries of prefectures, and that cannot be carried out efficiently by prefectural authorities, 4) functions that should be managed from a nationwide viewpoint regardless of the intentions of the local governments, and 5) the management of facilities that are to be provided for the public convenience without involving any considerations of political power, and that would be inefficient or inappropriate for local governments to perform. As for other functions, overlaps between the central government and local governments are acceptable to some extent. However, the central government should be careful not to hinder the initiatives of local governments. All functions other than those that are allocated to the central government should be regarded as the functions of local governments.

As regards the allocation of functions between prefectural authorities and municipalities, 1) since municipalities are local governments that are closest to citizens, it is recommended to institute a policy in which the functions defined as those of local governments should be allocated to the municipalities in principle. 2) Prefectural authorities are in a position to supervise over municipalities in terms of geographical coverage. In this sense, functions that must be performed across the boundaries of municipalities and that are inefficient or inappropriate for municipalities to carry out, should be allocated to prefectural authorities.¹

Since there is a plan to increase the share of local revenues in total public revenues from less than 10% up to 20% by 2001 and to 35% by 2006² in Thailand, local governments should be assigned as many as possible of the functions that the central government is currently taking responsibility for. It is necessary to make decisions on which functions should be transferred from the central government to local governments, and how these functions should be allocated among the different tiers of local governments - provincial administration organizations being the first tier local governments, and the second tier local governments such as *Thesabans* (municipalities) and *Sukhaphibans*, which were upgraded to *Thesaban* in May 1999, and *Tambon* local organizations. These criteria may provide appropriate guidelines for the allocation of functions among them.

2. Allocation of functions and local government expenditures by purpose in Japan

The arguments about the principles for the allocation of functions are qualitative in nature, but the data on local expenditures by purpose provide quantitative information for each function of local governments. In the settled accounts of the central government and the local governments for the fiscal year 1998, if no adjustments for the overlapping expenditures of the central government and the local governments are made, the total central government expenditures amounted to 92 trillion yen, and is almost the same as the total expenditures of local governments, 100 trillion yen. However, the central government transfers such fiscal resources to the local governments as local grant taxes as fiscal equalization grant, and specific grants which are called national treasury disbursements for such purposes of local expenditures as land conservation and development, social security, and education. On the other hand, local governments bear part of the expenditures for local land conservation and development projects by the central government and pay the local share of these expenditures to the central government. When deducting such overlaps and calculating the net amounts, 58 trillion yen is accounted for by the central government, and 98 trillion yen by local governments, which indicates that local governments have a greater role in the provision of public services in Japan.³

As for the details of public sector accounts, it is necessary to determine the allocation of functions appropriately between the central government and local governments. If the proportions of the central government and the local governments in the net total public expenditures are examined, the relationship between the two in terms of the allocation of individual functions becomes quantitatively clear. The central government makes expenditures exclusively for foreign affairs, expenditures for local autonomy (fiscal equalization grant) and national defense. Among the expenditures for which the proportion allocated to local Governments is high, are social education expenditure, included as part of education expenditure, at 93%; general administration expenditure at 89% and expenses for the police and fire fighting services at 80%, both of which are included as part of the expenses for administration; school education expenditures at 85%, included as part of the education expenditures; and public health expenses at 93%, included as part of social security related expenses. As for many other expenditures, the central government and local governments share the expenditures, rather than bear full responsibility for them exclusively.

Such forms of allocation of functions are not fixed, and a reform of the local government system, including decentralization, is designed for more appropriate forms of allocation of functions. The national expenditures for local governments are made in the form of national treasury disbursements made as specific grants for such local expenditures as land conservation and development, industrial and economic development, education and social security related expenses. The specific grants have been criticized severely as a major factor restraining local independence and hindering the nurturing of healthy local autonomy. The other major form of central government expenditures for the local governments is the expenditures for local grant tax (fiscal equalization grant) granted to equalize the fiscal capacity among local governments.

The objective of local autonomy is to respond to the needs of the local conditions and carry out local functions on the basis of the choices made by local residents, and the result is reflected in the expenditure structure. Since there are a great number of items of expenditure, which creates complexity and makes it difficult to get a comprehensive picture, the classification of expenditure by purpose or by nature is usually used. When the allocation of functions between the central government and local governments is discussed quantitatively, it is convenient to use the classification of expenditures by purpose. Although it cannot be argued in detail here, when either the indicator of the per capita expenditure by purpose or a ratio to total expenditures, is examined, a great variation among local governments can be found at both prefectural and municipal tiers.⁴ There are some differences among the local governments in the expenditures for performing individual functions, even when the same functions are allocated among them. This means that the objective conditions faced by individual local governments and the preferences of local inhabitants are reflected in these expenditures, which should be expected in line with the promotion of local autonomy and decentralization.

3. Functions of local governments in Thailand

Before the full-fledged reform of the local government system in Thailand started in 1992, the central government had exercised powerful central control over the whole country in order to maintain national independence. This is evident in the fact that the proportion of local government expenditures in Thailand accounted for less than 10% of the net total public expenditures on average, in contrast to Japan where the proportion is nearly two thirds. However, there is a plan to increase local government revenues as a proportion of total government revenues up to 20% by fiscal 2001, when the Eighth National Social Economic Development Plan is completed, and up to 35% by 2006, when the Ninth National Social Economic Development Plan is completed. Since comprehensive statistics on local government finance equivalent to those compiled in the Local Government Finance White Paper in Japan, or the data for individual local governments are not available to the author at this stage, unfortunately local government finance in Thailand can only be described here in qualitative terms.

Although the system is rather complicated at present, Thailand has also basically adopted a two-tier local government system and the first tier comprises PAOs or the provincial administration organizations. The 75 provincial administration organizations were created by the Provincial Administration Organization Act of 1997 as the broad area in which local governments are comprehensively responsible for the local autonomy and administration of all kinds of local governments within their boundaries. In the left hand column in Table 2, the share of the revenues for provincial administration organizations of the total revenues for all local governments is shown, and since the total revenues are essentially equal to total expenditures, this may also indicate the shares of expenditures of various kinds of local governments to the total expenditures of all governments. The proportion of revenues received by provincial administration organizations is only

8.75% of the total local revenues, which is very low compared to the significance of the first tier local governments in Japan, as is indicated by amount of 56 trillion yen for prefectural authorities, with 54 trillion yen for municipalities out of the total local government expenditures. In future, it is expected that the process of decentralization will improve the capacity of provincial administration organizations in accordance with the promotion of local autonomy as local administrative functions are transferred to prefectural administration organizations from the central government. In provincial administration organizations, provincial council members, who are elected through public elections by the residents, elect a head by mutual vote among the council members, who serves as the head of the executive branch of the provincial administration organization. Governors of the local administrative machinery of the central government which exists alongside the provincial administration organizations, still have the authority to execute provincial administration and have supervisory powers over the provincial administration organizations. Provincial administration organizations have the authority and responsibility to perform assigned functions within the provincial boundaries, such as the enactment of provincial ordinances, as long as they comply with national laws, the formulation of provincial development plans as well as the implementation of such plans, and the execution of development plans that are formulated by the central government, cooperation for development and administration among other local governments within the province, the allocation of funds to local governments within the province, and the protection and conservation of natural resources and the environment.

Municipalities called *Thesaban* number 1,129 in total. Although there were only 149 as of May 1999, among which there were nine special cities, 89 cities, and 51 towns, 981 *Sukhaphiban*, excluding one that was devastated due to a flood, were upgraded to *Thesaban*, and the number of these increased to 1,129. *Thesaban* now comprise the center of the local government system in Thailand, and the criteria for their establishment are based on the population and population density. Since data subsequent to the upgrading of *Sukhaphiban* to *Thesaban* are specified in terms of population and population density. The data on *Sukhaphiban* after they were upgraded to *Thesaban* could not be obtained, and therefore the data on *Sukhaphiban* and *Thesaban* used in this paper are the data before the upgrading of *Sukhaphiban* to *Thesaban*. *Thesaban* were established based on the *Thesaban* Act of 1953, which has gone through several amendments up to the present. As is shown in Table 2, of the total local government revenues and expenditures, *Thesaban* account for 21.64%.⁵

Thesaban consisting of towns are the most basic local autonomous bodies, consisting of twelve council members, and the functions they are responsible for within their jurisdiction are: maintenance of public order; development and maintenance of the land and water transportation systems; cleaning of roads and public facilities; waste disposal and drainage; prevention of communicable diseases and related countermeasures; facilitation of firefighting equipment; education; and official functions that are defined as such in the *Thesaban* Act or regulations of the Ministry of Interior. In addition, among the functions that are

not obligatory but are allowed within the area under their jurisdiction are; water supply; the construction of slaughter houses, markets, boat landing places and ferries, and graveyards and crematoria; employment support; establishment of clinics, electric power plants, and sewage systems as well as their maintenance; and commerce. *Sukhaphiban* that were upgraded to *Thesaban* towns in May 1999 are supposed to be in charge of the same functions as those of the established *Thesaban*.

Thesaban comprising cities are larger scale organizations with 18 council members, and the implementation of official functions that are optional for towns are obligatory for cities, such as functions related to water supply systems, slaughter houses, clinics, drainage, public lavatories, and electric power supply. Moreover, due to the amendment of the 1974 Act, pawn broking business, or the establishment of local money lending as loan projects, became obligatory. The optional functions of: maternal and child support; establishment of hospitals and support for these; establishment of public facilities; health control; establishment of vocational schools and their management; establishment of parks, zoos, and recreational facilities and support for these; and the improvement and management of inner city areas, were also added.

Thesaban comprising special cities are the largest organizations with 24 council members, and maternal and child support and medical and sanitary affairs are added to the obligatory functions of cities. Other optional functions are the same as those of cities.

In such *Thesaban*, issues that have become more serious recently due to economic growth are waste disposal, drainage, environmental problems, and traffic problems. Due to soaring land prices, administration organizations cannot afford new landfills for the rapidly increasing amount of garbage, and are in difficulties with financial problems and the increased environmental consideration of residents.

Although Bangkok Metropolitan Administration was established in 1972, it is currently based on the Bangkok Metropolitan Administration Act of 1985.⁶ It has the functions assigned to both provincial administration organizations and *Thesaban* cities and has a high level of autonomy, with only a few field agencies of the national government. Its revenues as a share of total local government revenues account for 36.08%, which is very high. The scope of its administrative functions is extensive, reflecting the size of its population as well as the budget, and includes: the maintenance of public order; public works; various registration procedures such as population registration and the possession of firearms; the issuance of identification that citizens must carry when they reach the age 15; cleaning services; medical services; health care; social welfare; disaster prevention measures; land and water transportation and traffic; water and sewerage; transportation; management of markets and ports; housing and inner city improvement; management of buildings, parks, parking areas, environmental conservation, graveyards, and slaughter houses; city planning; flood control; education; unemployment measures; public utilities; and agency delegated functions.

Phatthaya City is based on the Phatthaya City Act of 1978, which introduced the city manager system that is established in the United States, with the adoption of a special form of autonomy in which a city manager, employed under contract, is in charge of administrative functions that are commissioned. Since the act was modified in 1999, this system was abolished. Direct elections for the city mayor and regulations related to re-election and academic background have been introduced and the city receives special treatment that differentiates it from other *Thesaban*. It is located on the coast and the primary administration function relates to its function as a seaside resort and to the promotion of tourism and conservation of the surrounding environment as a resource for tourism. Its revenues as a proportion of total local revenues account for only 0.36%.

Tambon administration organizations, numbering 6,746, are based on the *Tambon* Council and the Administration Organization Act of 1994 and are local governments that were established to coincide with *Tambon*, an administrative division that acts as one of the units of local administration of the central government.⁷ Accounting for nearly 97% of the national land and nearly 70% of the population, *Tambon* administration organizations comprise the center of the reform of local government system in rural areas in line with the *Thesaban* in urban areas. Their revenues as a proportion of total local revenues account for 25.38%. Considering the total number of *Tambon* administration organizations, it is clear that these organizations are very small in scale. Since *Tambon* administration organizations are in a state of flux, their future development is uncertain. Under the present state of affairs, the kamnan (head-person of the administrative division) and village headmen are in charge of security and the maintenance of public order as representatives of the local administrative divisions of the central government ministries and agencies, especially of the Ministry of Interior, and *Tambon* administration organizations are in charge of development. Although *Tambon* administration organizations were established formally as local governments and were assigned a broad range of functions and responsibilities, due to the shortage of financial and human resources and lack of administrative capability, they are having difficulty in carrying out so many functions. The means of nurturing and developing these rural *Tambon* administration organizations is a major issue for the future. Besides developing *Tambon* administration organizations based on plans and budgets compiled by the councils, and submitting proposals to the central government in relation to the development of the *Tambon*, the *Tambon* council has the authority and responsibility to implement the official functions of the *Tambon* executive committee and other functions that comply with acts. In addition, the *Tambon* council may carry out certain functions, based on the act, such as ensuring water supplies for daily life and agricultural use; ensuring the security and maintenance of waterways as well as overland routes and drainage; cleaning as well as waste disposal in relation to roads, waterways, pavements, and public spaces; supervising and conservation of natural resources and environment; maintenance and promotion of employment; and support for women, children, youth, the elderly, and the disabled.

Sanitary districts, called *Sukhaphiban*, numbering 981, were local sub-autonomous bodies with

insufficient population and administrative capacity and with a small-scale financial basis, and had the characteristics of *Thesaban* in their preliminary stages. After promulgation of the new Constitution, the Ministry of Interior started preparations to change *Sukhaphiban* into *Thesaban* and upgraded them, except one that was devastated due to a flood, to *Thesaban* towns in May 1999. Since data after upgrading cannot be obtained, according to 1996 data, the proportion of their revenues to total local revenues was 7.88%.

3-3-2 Local taxes

1. Principles of local taxation and the tax system of Japan

Expanding the local tax revenues is a major issue in Thailand that has to raise the importance of local governments in the process of decentralization. In the theory of local government finance, the requirements for local taxes have been propounded as the principles of local taxation.⁸ The principle of sufficiency in revenues requires the collection of revenues according to fiscal needs, and since decentralization may turn out to be illusionary unless the revenue resources are sufficient, this may be of special significance as a principle of local taxation. There are many local revenues other than tax revenues, and in Japan, when the proportion of local tax revenues to total revenues is viewed as a whole, 31% is accounted for by taxes for the prefectures and 34.7% for the municipalities, which is the substance of so called “thirty percent local autonomy”. From this share, it is possible to come to the conclusion that the principle of sufficiency is not met. Since there are clear financial disparities among the local governments and all local governments are required to provide a certain national minimum standard of services, in reality local taxes alone cannot meet the fiscal needs.

The principle of universality asserts that it is more desirable for local taxes to be levied on a tax base that is distributed broadly and equally among all local governments rather than a tax base that is unevenly distributed to only particular local governments. However, there will inevitably be a certain degree of inequality of distribution regardless of which tax base is chosen, and when the various kinds of local taxes in Japan are analyzed using the Lorenz curve and Gini coefficient, various degrees of inequality of distribution are observed.

In the field of public finance, the “law of rising public expenditures” which is also called the “Wagner’s Law” is well known, and the local government expenditures also have a tendency to rise. The principle of expansiveness asserts that local tax revenues should expand in accordance with the increase in fiscal needs. Since an increase in tax revenues is easily accomplished by raising the tax rate, it can be said that according to this principle the tax base rather than the tax rate should grow along with the growth of the economy as a whole and of local expenditures.

Local taxes with wide fluctuations in the revenues are not desirable, and the principle of stability

requires that tax revenues be stable. Many goods and services that governments provide are difficult to cut, and besides, local government finance is basically not responsible for economic stabilization, this principle is critical for local taxes rather than national taxes.

In response to cases in which temporary fiscal needs arise due to natural disasters and other factors, such fiscal resources as the proceeds of sales of local government bonds, special local grant taxes, or specific grants from the central government are used. However, it is desirable that tax revenues should also be easily expanded and contracted .

One of the principles of local taxation that cannot be found in the principles of national taxation, is the principle of broad burden sharing. An indispensable requirement for the practice of local autonomy is that residents become involved in the politics and administration of the local governments they belong to and acquire a sense of participation. If the adage, “There is no taxation without representation” is the basis of fiscal democracy, it can be expected that a broad sharing of the burden among residents will heighten their interest in local politics and administration and subsequently raise their sense of participation. This principle is reflected in the system of poll tax as part of local residents taxes, as well as the lower amount of income deductions for the local resident income taxes than for the income tax of the central government, and the progressiveness of the local resident income tax is more gradual, even in cases where a progressive tax system is adopted.

As one of the principles of local taxes, it is more desirable to have taxation on immobile tax bases that cannot be easily moved to other local authorities to avoid the tax burden imposed by a particular local government. Although all tax bases, except for land, are movable in the long term, taxation on a fixed tax base that cannot be moved to other local governments on a large scale in the short term is desirable as a local tax.

In Japan, both tiers of the prefectural and municipal local governments collect various kinds of taxes, which can be called a tax system. This does not necessarily have advantages only. Three tiers of government impose taxes on the same tax bases consisting of individual as well as corporation incomes. It may be argued that it is inevitable that two or more tiers of government should impose taxes on such a comprehensive tax base as income. In cases in which the same tax base is shared among two or more tiers of government, there is a greater likelihood that the amount of tax will be affected by the decisions of other tiers of government. Since even without this factor, the elimination of excessive government control and the promotion of the independence of local governments are the requirements difficult enough for the achievement of local autonomy in the first place, local taxes should be independent from the influence of national taxes as far as possible.

2. Local taxes in Thailand

The problems of local taxes in Thailand can be summarized as follows; 1) the tax revenues of local governments as a share of total revenues is low, as it was only 7.7% in fiscal 1996; 2) the tax bases for local taxes are not comprehensive, and have the characteristics of partial taxes and are only few; and 3) the capacity for tax collection on the part of local governments is poor.⁹

There are four types of tax that are collected by local governments, and the tax on land and buildings is the largest among them. The tax on land and buildings is levied at a 12.5% tax rate, with the rental value of the houses and buildings for commercial and industrial purposes taken as the tax base. However, since owner-occupiers are exempt from the tax, which is a major exception for this tax base, there is not much tax revenue. Tax on land development is imposed on the value of the land as the tax base and the landowners are the taxpayers. Local governments are responsible for the assessment of land, employing the current market value of land sales as the tax base and undertake a revaluation every four years. The sign tax is imposed on the tax base of the area of the advertising signboards and the number of foreign characters. The slaughter tax is levied on the slaughter of animals and the tax rate is set depending on the kind of animal being slaughtered. The land and building tax, the regional development tax, and the sign tax are property taxes which are basically taxes imposed on stock. But these taxes on stock are paid from the net product of the economy or the income which constitutes the ultimate tax sources. The rates which form the traditional local tax in England, and the property tax which is a common local tax in the United States, are also property taxes, and they include all properties as the tax base and increase significantly if the tax rate is raised substantially. However, this is subject to a guarantee of fairness in the assessment of the tax base and the administration of tax collection, as well as improvement of the capacity for tax collection.

Among the taxes that account for a large portion of local revenues in Thailand, there are five taxes which are surtaxes in nature, namely, the business tax, the value added tax, the liquor tax, the commodity tax, and the gambling tax. These are imposed on the same tax bases with the tax bases of national taxes with local tax rates added by local governments. The central government collects the national and local taxes together and returns the local taxes to the local governments. This method is used when the capacity of the local governments for tax collection is poor, and the local governments depend on the tax collection system of the central government which has a greater capacity to collect taxes. Even in countries including England and the United States where the local governments have sufficient capacity for tax collection, the dependence on a central government or a particular tier of local governments that is more efficient in tax collection is very common. Although tax collection is entrusted to other organizations, local governments can choose the tax rates. It is not clear whether such a choice of tax rates by local governments is permitted legally in Thailand and whether it is common for local governments to set a tax rate by exercising such freedom or even if it is allowed legally. Even in Japan where the limits on locally set tax rates for local taxes have been

virtually abolished legally, this freedom is hardly commonly exercised. In order to achieve decentralization, such a freedom of choice to determine the tax rates for local taxes by local governments is an issue for the future in Thailand as well.

The automobile tax is collected by the Ministry of Transport and Communications and is defined as a local tax by act. The collected tax is divided among the provinces, paid to the Ministry of Interior, and allocated as a local tax. At this stage, if the amount refunded to each province is the same as that of the collected tax in the same province, the fiscal equalization among the provinces is not accomplished. The ratio of the allocation to *Thesaban*, and Provincial Administration Organizations and *Tambon* in each province is 2:1:1, and this proportion is decided politically, which reflects the element of fiscal equalization.

The characteristics of something between a local tax and a local grant tax similar to the local rebate taxes in Japan are observed in these four surtaxes and the automobile tax which is called a share tax, and they are allocated to various local governments according to political discretion, rather than being refunded fully to the local governments where they are collected, which involves an element of reallocation of the respective revenue sources. However, as is shown later, since general grants are granted to implement fiscal equalization at the same time, it is recommended that local taxes should be refunded on a neutral basis to the places where they are collected, without mingling them with elements of a fiscal equalization system, and a clear distinction should be made between local taxes as independent revenue sources and general grants which are dependent revenue sources, even if they are unearmarked.

3-3-3 Fiscal equalization system and earmarked grant

1. Significance of general grant

The government allocates grants to local governments for various reasons. The term general grant refers to the grant that is allocated without earmarking to a specified use and can be freely used by local governments. On the other hand, an earmarked grant refers to a grant that is earmarked for a specified use. In Thailand which is classified as a unitary state like Japan, there is a requirement to ensure a national minimum standard of various local administrative functions, although decentralization is to be promoted.. Taking into consideration the wide fiscal disparities that are likely to be observed between local governments, fiscal equalization of some kind is essential. In the case of Japan, among the 46 prefectural authorities, excluding the Tokyo metropolitan government, there is a disparity in the amount of per capita tax receipts; the minimum is 65,000 yen and the maximum is 161,000 yen, as well as in the share of local tax receipts to total revenues; the minimum is 10.4% and the maximum is 55.6%.¹⁰ Among municipalities, the disparity is very large, as indicated by the amount of tax receipts per capita with a minimum of 30,000 yen and a maximum of 1,200,000 yen. As for the share of local tax receipts to total revenues, the minimum is 0.92%

and the maximum is 74%.¹¹

The local grant tax system of Japan is perhaps the most precise fiscal equalization system in the world, and is designed to ensure national uniformity in local public goods and services, regardless of fiscal disparities, by assessing standard fiscal needs or the expenses necessary for local governments to provide local public goods and services at a reasonable and appropriate level, and standard fiscal revenues or the tax revenues projected under standard conditions, and to make up for the difference between them. The local grant tax system which allocates general grant aims to enhance the independence of local governments as well as contribute to fulfilling the objective of local autonomy by equalizing fiscal resources.

The fiscal resources of individual local governments can be secured by covering the amount by which the standard fiscal needs exceed the standard fiscal revenues as assessed for each local government. The standard fiscal revenue for each local government is obtained by multiplying 80% for prefectures and 75% for municipalities to the standard tax revenues calculated by applying standard tax rates to the tax bases. The stress must be given to the application of standard tax rates even though local governments are free to apply tax rates higher or lower than standard tax rates. Another important aspect of the calculation of the standard fiscal revenues is the multiplication of 80% or 75% to the standard tax revenues thus calculated. These rates which are not 100% are multiplied to promote the autonomy of local governments by providing an incentive to local governments to raise the necessary revenues themselves as much as possible by nurturing the tax sources in their jurisdictions. The incentives are similar to those of the negative income tax designed for the redistribution of income among individuals.

There are two types of local grant taxes, one ordinary local grant taxes and the other special local grant taxes. The amount of the ordinary local grant tax is defined as the amount equivalent to 94% and the special local grant tax 6% of the total amount of local grant taxes. The ordinary local grant tax is provided on the basis of an annual assessment of the standard fiscal needs and standard fiscal revenues of the individual local governments, in order to compensate for the deficit of these local governments where the needs exceed the revenues. The method of calculation is shown in the following formula:

$$\text{Standard fiscal needs} - \text{Standard fiscal revenues} = \text{Deficits} = \text{Ordinary local grant taxes}$$

Standard fiscal needs represent the total amount necessary for each local government to provide a reasonable and appropriate level of administrative functions and maintain necessary facilities. The standard fiscal needs are calculated for the current expenditures and the capital expenditures of each administrative function by the following formula:

$$\text{Unit cost} \times \text{units of service} \times \text{adjustment coefficients}$$

Since the unit of service must be the most appropriate one for a reasonable assessment of the fiscal needs of each administrative function, it is chosen both for its current expenditure and capital expenditure for each administrative function so that it correlates very closely with the necessary expenses for the administrative function and enables an accurate measurement of the expenses to be made; and 2) the figure should be based on publicly available reliable statistics and must be objective for the assessment, or leaving no room for arbitrary intervention.

A unit cost is calculated for each administrative category both for current expenses and capital expenses for the prefectures and municipalities separately of the benchmark fictional local authority operating under the standard conditions that performs the specific category of administration at reasonable and appropriate standard or maintains the standard facilities. The so called specific fiscal revenues such as specific grants, shares of the central government, fees, charges, contributions are deducted from the total required expenses in order to arrive at the required amount of general fiscal resources, and the unit cost is calculated by dividing the required amount of general fiscal resources by the units of service of the benchmark local authority. The local government with standard conditions is a regular local government without any special natural or social conditions, whose figures for the unit of service, population density, and conditions are standard, and which is not located in cold or snow-covered regions. It is a fictional local government for the sake of convenience in assessing the ordinary local grant tax. The “reasonable and appropriate level” and “standard facilities” are both based on the assumption of the present economic, social, and cultural standards of Japan. The quality and quantity of administrative functions are determined according to the social and economic conditions of the time and the nation, and the standard of administrative functions in the assessment of the standard fiscal needs is a realistic one based on the present financial and economic conditions of Japan. The prerequisite of such a calculation method is the fact that even though local governments do provide a variety of local public services, the standards of these services are under the strict control of the responsible central government agencies by laws and ordinances. Standard fiscal needs are calculated for each administrative category by multiplying the unit cost to the adjusted units of service and the total fiscal needs for each local government is calculated by totaling the standard fiscal needs of all administrative categories. To reflect the different conditions under which specific local governments provide these categories of local administration from the standard conditions, a variety of adjustment coefficients are multiplied to correct the units of service.¹²

Though it is uncertain what form of decentralization will be achieved in Thailand, it is highly likely that responsible agencies of the central government will continue to exercise strict supervision, even after transferring administrative functions to the local governments, due to the traditional influence of the centralization of power. A full-fledged fiscal equalization system has not been established in Thailand, and the past experiences of Japan may serve as a reference. In 1940, when the fundamental reforms of the tax and financial systems for both central and local governments was implemented, a local shared tax system

was also established as a permanent and full-fledged system. Unlike conventional grants, local shared tax system was designed to grant local governments a certain amount of tax revenues that the central government collects as national taxes. It can be said that this was the beginning of a full-fledged local fiscal equalization system in Japan.¹³

The local shared tax system comprised the local refund tax and the distribution tax. The refund tax revenue was a certain portion of the revenue of the three taxes, land tax, house tax and business tax that had been transferred to local governments, and these taxes were collected by the central government and were wholly refunded without the element of redistribution to the provincial governments where the taxes were collected. Thus it was not a fiscal equalization system. On the other hand, the distribution tax system was a full-fledged fiscal equalization system with the central government granting a certain portion of the revenues from individual income tax, corporation income tax, admission ticket tax, and entertainment-restaurant tax to prefectural and municipal governments regardless of the place of collection of these taxes. As for the criteria of allocation of the distribution tax revenue, the total revenue was divided between provincial governments and municipal governments. And for both prefectural governments and municipal governments, half of the respective amount was granted in reverse proportion to tax capacity and the other half in proportion to fiscal needs.

In August 1949, recommendations on the reform of the tax and financial systems, called the Shoup Tax Mission's Recommendations, were submitted in the form of a report. While pointing out the negative effects of the national grant for the shares of the National Government and urging a major reform of the system, the Shoup Mission's Recommendations included the abolishment of the local distribution tax system and the adoption of a fiscal equalization grant system in order to streamline the local financial system. According to the recommendations, the local distribution tax system was abolished in fiscal 1950 and shifted to local fiscal equalization grants. Characteristics of the new system can be seen in the features that a system was adopted to cover any deficit in fiscal revenues in meeting fiscal needs and that the total amount was determined by the cumulative amount of such deficits of all local governments. The local fiscal equalization grant system was designed to secure revenue sources to meet the fiscal needs of local government finances as a whole, as well as those of individual local governments, and was expected to ensure the systematic performance of local administrative functions. However, such a local revenue guarantee system, which is theoretically ideal, was demonstrated to have various defects in actual administration. Despite the fact that the total amount of the local fiscal equalization grant system was defined legally to be decided according to the cumulative amounts of the shortfalls in the revenue sources of individual local governments, in effect these amounts were not necessarily granted, which caused a conflict between the central government and local governments over the determination of the total amount every fiscal year. It also created a situation in which local governments attributed the results of their financial administration to the shortfall in the grants under the local fiscal equalization grant system.

As for the local fiscal equalization grant system as the reform of the local government system in October 1953, the Local Government System Research Council abolished the accumulation system for determining the total amount, defined it as a certain portion of income tax, corporation tax and liquor tax, and relabeled it as a local grant tax. It also prescribed that the allocation method should be based on the method of the local fiscal equalization grant system, and made recommendations as to which revenue sources should be reformed to secure revenue sources over the long term. As a result, the local fiscal equalization grant system evolved into the local grant tax system in 1954.

2. Earmarked grant system

The national treasury disbursement system of Japan is an earmarked grant system. As for the implementation of administrative functions for which the central government has interests and responsibilities, such as the administration of compulsory education, welfare, and other social welfare services, the government secures a certain standard for the performance of the administration of these functions nationwide and discharges the responsibility for them by covering the whole or part of the expenditures incurred by local governments. By covering the whole or part of the expenditures for construction related to roads, rivers, and ports and harbors that is carried out by local governments, the government focuses on investing fiscal resources on priority projects both for the central government and local governments. It also encourages and promotes administrative functions that are new or difficult to achieve through general instructions alone, by granting specific grants. It also secures the fiscal capacity of these local governments to meet the fiscal needs of local governments that are generated by natural disasters or other temporary conditions, and that exceed the normally expected range, scale, and frequency of administrative functions for which ordinary fiscal measures are normally taken. It also covers expenditures for administrative functions that should primarily be performed by the central government, but, from the point of view of convenience to the people and efficiency of administrative institutions, are delegated to local governments.

In contrast to these advantages, the following problems of national treasury disbursement have also been pointed out: through grants from national treasury disbursements, the central government unreasonably intervenes in the affairs of local governments; some of the national treasury disbursements involve small amount of money that are problematic in terms of the efficient use of funds; since the objects and unit prices of the national treasury disbursements do not accord with the realities in the local areas, an excess burden is imposed on local government finances; and a great deal of time, labor, and expense is required in following the procedures for the national treasury disbursements. Since the General Accounting Office and the competent ministries and agencies audit or oversee their use, the burden on local governments is very heavy both administratively and financially. It is often the case that the allocation of national treasury disbursements does not accord with the reality in local governments.¹⁴

3. The grant system of Thailand

Although powers may be transferred and administrative functions that have been executed by the government allocated to local governments, if this is not accompanied by an appropriate allocation of revenue sources to the local governments, the process of ensuring autonomy may turn out to be nothing but pie in the sky. In Thailand, the standard of the share of local revenues to the total amount of public revenues is planned to increase from its initial level of less than 10% to 20% by 2001, the year in which the Eighth National Economic and Social Development Plan is to be completed, and then up to 35% by 2006, the year in which the Ninth National Economic and Social Development Plan is to be completed. It is not easy to increase the proportion from as little as less than 10% up to 20% or 35% over such a short period. Besides, regardless of which taxes are to be transferred or created as local taxes, the problem of fiscal disparities between local governments will remain.¹⁵

In Table 1, the state of the revenues of local governments for fiscal 1996 is shown by the type of local governments - provincial administration organizations, *Tambon* administration organizations, *Thesaban*, *Sukhaphiban*, Phatthaya city, and Bangkok metropolitan administration. In the local government finances of Thailand, the level of grants as a proportion of the revenues of local governments is very high. In fiscal 1997, the grant share for provincial administration organizations is 16.9%; for *Tambon* administration organizations, 61.5%; for *Thesaban*, 39.8%; for *Sukhaphiban*, 24.7%; for Phatthaya city, 46.4%; for Bangkok metropolitan administration, 30.1%; and for local governments as a whole, 38.6%. There is no classification available to determine whether these grants in this table are general grants for the purpose of fiscal equalization or specific grants with conditions or grants for specified uses.

In order to carry out a major decentralization in a short period, as has been pledged in the Decentralization Law, institutional reforms must also be rapidly implemented. Grants come under two departments of the Ministry of Interior, and one of them is the Department of Local Finance, which deals with grants allocated to *Thesaban*, including those that were upgraded from *Sukhaphiban* to the new *Thesaban*, provincial administration organizations, and special local governments. The other, the Department of *Tambon* Administration Organizations (TAOs), is responsible for grants to *Tambon* administration organizations. Since, according to the Decentralization Plan and Procedures Law, the share of the revenues of local governments must rise to 20% by 2001, the budget for fiscal 2001 appears to reflect various institutional reforms. For example, the amount within the central government budget for grants will be increased from 40 billion baht to 72 billion baht. While, of the 40 billion baht that is budgeted for conventional grants, 32 billion baht will be reallocated from the budget for 10 government agencies to local governments. As is evident from this, unless the budget for the central government is transferred to local governments, it is impossible to raise the share of the revenues of local governments to the levels of 20% or 35%.

According to the regulations governing the allocation of grants to local governments in fiscal 2001, general grants for *Thesaban* comprise an allocation on a 150 baht per capita basis according to the population and an allocation of fixed amounts for the five ranks of *Thesaban*, and 700,000, 800,000, 1,200,000, 1,300,000, and 1,400,000 baht are uniformly allocated to each rank of *Thesaban* respectively.¹⁶ Of the new *Thesaban* that have been upgraded from *Sukhaphiban*, 980 of them will each receive a fixed amount of 1,400,000 baht. General grants are allocated using a simple method of proportional distribution according to the population and a fixed amount of allocation for each body. Of the earmarked grants, 60% are distributed equally to all *Thesaban*, and of the remaining 40%, 40% is allocated according to revenues; 20% according to the population density; and 40% according to the population. Although earmarked grants are designed to cover a certain percentage or fixed amount of specified local expenditures, the allocation method is similar to that of general grants, and it is uncertain how this is consistent with the characteristics of earmarked grants. For instance, a grant for education is allocated as a fixed amount per student.

Although grants for *Tambon* administration organizations were allocated uniformly to each *Tambon* administration organization when sufficient data on *Tambon* administration organizations was not available, since 1998, when the data became available, they have been allocated on the basis of area, population, number of communities, and revenues. Of the general grants for *Tambon* administration organizations, 25% is for a fixed amount of allocation for each *Tambon* administration organization, and of the remaining 75%, 10% is allocated according to the population, 15% according to the area, 20% according to the number of communities, and 55% according to the revenues. In addition, for communities, which number as many as 68,324, a fix amount of 100,000 baht is distributed to each for functional development. Moreover, of the grants for the development of reservoirs and excavations, 30% is distributed on the basis of the level of development of reservoirs, 35% on the basis of the population, 25% on the basis of revenues, and 10% on the basis of the land area. Although these three types of grants are all classified as general grants, they have the characteristics of specific grants in the sense that they are grants with the use specified for functional development, the development of reservoirs, and excavations.

Of the earmarked grants for provincial administration organizations, 60% are allocated equally to all provincial administration organizations, and of the remaining 40%, 40% are distributed on a revenue basis, 20% on a population density basis, and 40% on the basis of the size of the population. With regard to this allocation method, it appears to have the characteristics of general grants or fiscal equalization grants.

General grants for Phattaya city are allocated on the same basis as the general grants for *Thesaban*. More specifically, 150 baht per capita and the fixed amount of 700,000 baht, which is the same as that for the first rank of the *Thesaban*, are allocated. Earmarked grants are allocated for development projects that are submitted by *Phattaya* city. A grant for education is allocated on the basis of the number of pupils.

In the Bangkok metropolitan administration, grants are allocated to large-scale projects that are consigned by the government. Most of such projects are related to land transport. For projects that are financed jointly by the government and the Bangkok metropolitan administration, grants are normally divided in the ratio of six to four. A grant for education is distributed proportionally according to the number of pupils.

It can be said that the fact that the bases of population, population density, land area, and revenues have been adopted as the allocation method for general grants is a significant step toward securing local fiscal resources as a prerequisite for the realization of decentralization. However, since the allocation method is quite simple, verification is required in the future as to the degree that it corresponds to the real fiscal needs and capacities of local governments. It is reasonable, however, to consider such a rough fiscal equalization system as sufficient, since the local grant tax system of Japan is sometimes criticized as being too intricate.

3-3-4 Local government bonds and charges

1. Significance of local government bonds

Local governments carry out various projects in various fields of administration such as education, civil engineering, industrial development, social welfare, public health, and fire fighting services. Expenditures for these projects, in principle, should normally be covered by ordinary revenues, such as general fiscal resources including local taxes and the local grant tax, as well as specific revenues, including national treasury disbursements, contributions, and shares of central government. However, in cases where large scale construction works are being carried out, expenditures for temporary works need to be covered, such as for disaster relief works, or for investment in the profit-making operations of public enterprises, it is justifiable for such projects to be financed by borrowings that transfer the burden of repayment to subsequent years.

Since it is inevitable that local government bonds leave debts for the future, careful consideration is required in issuing such bonds, in view of the probable effects on future finances. In Japan, bond issuance required the permission of the Minister of Home Affairs for the prefectures, designated cities, as well as special wards, or the governor's permission for other municipalities, although this system has been abolished in line with the decentralization trend. It is not certain what type of local government bond system will be adopted after the requirement to obtain permission for the issuance of local government bonds is abolished. A genuine local government bond system in accordance with local autonomy should enable each local government to issue bonds independently in the financial markets. Since it is likely that poorer local governments with limited fiscal capacity may be required to pay high interest rates due to their low credit rating in the financial markets, or may not even be able to obtain loans at all, there are difficult problems of various kinds to overcome in relation to the abolishment of the system of permission for local government

bonds and the liberalization of borrowings on the assumption that the current local system remains intact.

People who promote decentralization are critical of the system of requiring permission for issuing local government bonds and regard abolishment of the system as essential for enhancing local autonomy. It can be said that since local autonomy requires local governments to deal with local affairs, decisions on how much they can depend on public bonds as a revenue source and for what purposes they will be applied should all be left to local governments. Since dependence on public bonds is accompanied by characteristic problems with a risk of financial bankruptcy of the local governments, it is recommended that this not only be emphasized but that a thorough examination be made of the characteristics and effects of the issuance of public bonds, before going further with the abolishment of the local bond permission system.

The expenditures of local governments should be based on revenues other than the proceeds of local government bonds. The system of requiring permission for local government bonds stipulates that expenditures may be based on local government bonds in the following cases: 1) budgets for public enterprises; 2) budgets for investments and loans; 3) budgets for converting old loans to new loans; 4) budgets for disaster relief, restoration, and rescue projects; and 5) budgets of local governments where the tax rates for all general taxes are equal to or higher than the standard tax rates for public facilities, such as educational facilities, including schools, health and welfare facilities, including nursery schools, fire prevention facilities, and civil engineering facilities related to such items as roads, rivers, ports and harbors, or for construction work as well as the purchase of land for public use or land that is to be used to provide alternative sites for land acquired for public use. Although the reasons are not discussed here, they should be apparent.

As part of the policy of permission for local government bonds, local government bonds should be limited or cannot be issued for the local governments: 1) for which the average of the proportion of public bond service expenditure for the past three years is equal to or more than 20% -the bond issuance limit rate-; 2) with the delays in the payments of principal and interest of local government bonds; 3) for which the collection rate of local taxes in settled accounts for the year before last and the expected collection rate of local taxes of the previous year is less than 90%; 4) that conduct profit-making businesses such as horse races and bicycle races, and the total of the proceeds is substantial compared to the level of revenues of the bodies concerned; 5) that have conditions of remuneration and other fiscal expenditures that are noticeably inappropriate and that have not even made efforts to correct them. The establishment of all these objective standards is designed to avoid local governments from assuming an excessive burden of principal and interest payments and getting into financial difficulties in future due to the excessive issuance of local government bonds. Even though the system of obtaining permission of the government is being abolished in line with decentralization, it is still desirable that each local government or the association of local governments should set standards of a similar kind in order to counteract excessive dependence on public bonds.¹⁷

2. Local government bonds and borrowings in Thailand

In the present state of local government finances in Thailand, dependence on local government bonds and borrowings is significantly low. In the *Thesaban* Law, prescribed revenues from local government bonds and borrowings, and borrowings from ministries, agencies, departments, public corporations, or other corporations are defined among the revenues of the *Thesaban*. As for the revenues of *Tambon* administration organizations, there is no prescription for local government bonds or borrowings.

As is shown in Table 1, the share of borrowings to total revenues is zero for *Tambon* administration organizations, the Bangkok metropolitan administration, and Phatthaya city, and the dependence of provincial administration organizations, *Thesaban*, and *Sukhaphiban* on borrowings is very low, as it is 0.9%, 0.3%, and 1.8% respectively. Incidentally, the ratio was high in Japan in fiscal 1998, as it was 15.6% for prefectures and 12.1% for municipalities.

Despite the risks of financial bankruptcy and inflexibility of local government finance, local government bonds and borrowings are actually revenue sources of great flexibility and importance for local governments, and they should be used more as a source of revenue to cover the cost of investments. However, since many local governments have a low credit rating and may have difficulty in raising the necessary capital from the financial markets, it is necessary to establish a framework that can provide the necessary capital to local governments from the markets together with credit guarantees for local governments by the central government. Public funds such as the Financial Investments and Loans Fund in Japan which has accepted the underwriting of local government bonds-even though it will be abolished - should be allocated to local governments with a low credit rating.

In Thailand, although local governments have borrowing rights, dependence on borrowings is regarded as undesirable.¹⁸ Local governments are not allowed to borrow from private financial institutions and can borrow capital only from the trust fund for local governments. They can disburse only 97% of the total revenues of the average of the past three years, and the 3% surplus of funds is put into the trust fund. Local governments in Thailand are required to produce a surplus every fiscal year by law and may borrow from the fund in turn. Compared with the debt-laden financial condition of local governments in Japan, the framework in Thailand is stricter, imposing restrictions on borrowings by local governments, preventing them from excessive dependence on borrowings, and calling for extremely healthy finances. It is recommended that both the advantage of maintaining a healthy condition of local government finances and the use of borrowings as revenue source of significant flexibility be carefully considered.

3. Charges and fees

In the cases where there is competitiveness in the provision of goods and services and the principle of exclusion can be easily applied, basically goods and services can be left to private markets and do not need to be provided by the public sector since expenses can be recovered as charges. Especially in fields where there is competition within the private sector to supply the same goods and services, it is more desirable to leave their provision completely to the private market and granting the subsidies to public corporations is against the principle of fair competition in the market.

Although there are some cases in which, for various reasons, it is better for the public sector to take charge of supply directly, it is necessary to make up for the deficit using general revenue resources since they are priced far below the cost of supply in most of these cases, and these costs cannot be recovered. However, the fact remains that it costs to provide services, besides there is no such thing as a free lunch. Thus, the difference is only in the choice of collection method as to whether it is general taxes or charges. The basic economic principle is the beneficiary-pay-principle, and cases that are contrary to this principle must be justified by good reasoning. In the local government finances of Japan, the share of charges and fees to total revenues is 1.9% for provinces and 2.4% for municipalities in the settled accounts for fiscal 1998.

The economy of Thailand is basically a free market economy, and prices play a major role as parameters in the optimum allocation of resources. The Municipality Act of 1954 and the *Sukhaphiban* Act of 1952 and 1955 stipulate the license fees, charges, and fines that should be prescribed as revenue items by laws and regulations. In order to deal with businesses that are regulated by law, such as night soil collection, stalls at markets, and the sale of food and goods in public spaces, license fees are imposed. Prescribed fines are levied on offenders. In Japan, goods and services that can recover their costs by charges such as for waterworks, sewerage, transportation, and hospitals, are separated from general revenue resources and supplied by local public corporations, and although the funds transferred from general revenue resources account for a high proportion of revenues, the fundamental principle is that of self-supporting accounting. Although local governments sometimes take charge even of supplying electricity and gas, these goods and services are basically provided by the private sector in Japan. Goods and services that the private sector can also supply in the market should be privatized and, even where they are supplied by local governments, as for goods and services whose beneficiaries can be specified and for which the principle of exclusion may be easily applied, charges should be collected more positively rather than depending on general revenue resources.

Notes

¹ Among so many literary documents, see the Finance Bureau of the Ministry of Home Affairs ed.

- “Chihozaisei no Shikumi to Sono Unei no Jittai” (“The Mechanism of Local Government Finances and the Actual Financial Management”) (in Japanese), Local Finance Association. April 1980: pp. 1-3; October 1996: pp. 3-6
- ² Thailand Development Research Institute, *Final Report Revenue Sharing and Municipal Performance Indicators*, Bangkok, May 1999, p. 41.
- ³ Ministry of Home Affairs “Chihozaisei no Jokyo” (“Conditions of Local Government Finances”) (in Japanese), March 2000. pp. 324-325.
- ⁴ Although the author has analyzed it in various forms, see Chapter 4 “*Chiho no Saishutsu*” (“Local Expenditures”) in the author’s book, “*Chihozaiseiron-Riron Seido Jissho*” (“Local Government Finance-Theory, Institutions, and Empirical Analyses”) (in Japanese), Gyosei, 1999, as one of the examples.
- ⁵ This is based on the document “The *Thesaban* Act”.
- ⁶ See “Tai ni okeru Chihoseido Kaikaku no Doko to Kadai” (“The Trend of the Reform of the Local Administration System in Thailand and Its Issues”), written by Suguru Hashimoto, 1999, in “Doshisha Hogaku” (“The Law Study of Doshisha University”) (in Japanese), Vol. 50, No.4 and 5: pp. 1-143. See also Thailand Development Research Institute, *Final Report: Revenue Sharing and Municipal Performance Indicators*, Bangkok, May 1999, pp.23-51; Sumeth C. Vanitkul, “Strengthening Local Administration in Thailand under the New Constitution”.
- ⁷ See the document “The *Tambon* Council and Administration Organization Act of 1994”.
- ⁸ In Chapter 6 “*Chihozei no Riron to Seido*” (“The Theory and System of Local Taxes”) and Chapter 7 “*Chihozei Gensoku to Chihozei no Jittai*” (“The Principles of Local Taxes and the Real State”) in the author’s book “*Chihozaiseiron - Riron Seido Jissho*” (“Local Government Finance - Theory, Institutions, and Empirical Analyses”) (in Japanese), empirical analyses using itemized data as well as fundamental principles are discussed.
- ⁹ Under these circumstances, the means of allocating tax sources to local governments is the main subject of the report mentioned previously, Thailand Development Research Institute, *Final Report: Revenue Sharing and Municipal Performance Indicators*. In Charas Suwanmala, “Local Fiscal Capability, Thailand Cases of Sub-district Administrative Organizations”, *Regional Development Dialogue*, Vol. 20, No.2, 1999, four *Tambon* cases are taken as examples and the financial capability is examined. In addition, as for a comprehensive argument regarding decentralization and financial system reform, including the local tax

system, see Charas Suwanmala, “The Financial System Reform of Thailand-Decentralization-”, 1995: “The Decentralization of Finance in the Next Decade”.

¹⁰ See the author’s work, “*The Effects of the Fiscal Equalization Grant System in Japan and the Possible Simplification of Allocation Formulas*”, “*Soshio-saiensu*” (“Socio-science”), No.6, 2000, Waseda University, School of Social Sciences; and see also Chapter 9 “*Ippan Hojokin - Chihokofuzei no Shikumi to Igi*” (“General grants-the Mechanism of Local Grant Tax and its Significance”) in “*Chihozaiseiron - Riron Seido Jisshuo*” (“The Theory of Local Finance - Theory, Institutions and Empirical Analyses”), which is cited above.

¹¹ See the author’s work, “Re-distributive Effects of the Local Grant Tax and the Possible Simplification of the Allocation Formulas”, *Proceeding of International Symposium on Government Deficits and Fiscal Crisis in East Asia, the Korean Society of Public Finance*, March 2001:pp. 99-121.

¹² The local grant tax system is prescribed in detail in the Local grant tax Act.

¹³ In Chapter 5 “*Chihokofuzei*” (“Local grant tax”) in “*Chihozaisei no Shikumi to Sono Unei no Jittai*” (“The Mechanism of Local Government Finances and the Actual Management”) (*in Japanese*), edited by the Finance Bureau of the Ministry of Home Affairs, April 1980, cited above, the beginnings and history of the fiscal equalization system are described.

¹⁴ “The Handbook on Specific Grants,” which is published annually and is as thick as a telephone directory, covers all of the great number of national treasury disbursements granted by the central ministries and agencies. Earmarked grants have previously been criticized severely in relation to local government and in the trend towards decentralization in recent years, and although the consolidation of earmarked grant has always been advised among proposals for administrative reform, this has not been realized fully. This is because, even for goods and services that are directly provided by local governments, there remains a strong sentiment that the central bureaucracy should be responsible for these, and so, the allocation of earmarked grants as a means of financial control is quite effective in addition to statutory control for taking responsibility of the central government.

¹⁵ Principles of local government finance in general and of the grant system, are discussed in detail in *Municipal Finance Guidelines for Thailand: Principles and Best Practice*, written by Harry Kitchen, 1997. Also, various relationships between the central and local governments are discussed in “*Intergovernmental Relations in Thailand*” written by Charas Suwanmala.

¹⁶ See Table 7, pp.20-21, in “*Retrospective and Prospective of Intergovernmental Transfers in Thailand*”

written by Sakon Varanyuwatana

¹⁷ Standards that the system of permission for local government bonds has adopted are included in the Local Finance Act now and will also be applied in the future.

¹⁸ See “*Retrospective and Prospective of Intergovernmental Transfers in Thailand*” written by Sakon Varanyuwatana.

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Chapter 4 Lessons for Future Assistance Concerning Local Capacity Building in Developing Countries

This chapter will discuss issues to be considered in Japan's policy support for developing countries. The Program for Local Administrative Capacity Building in Thailand that the Japan International Cooperation Agency (JICA) is currently working on will be used as an example.¹

4-1 Importance of Dialogue

1. Importance of dialogue with the recipient countries

In any assistance, dialogue between the donor and recipient is essential. Policy support such as for decentralization requires frequent dialogue to elucidate the needs of the recipient and the background to these, since the outcome of such support is difficult to be specified. Policy support for decentralization can take the form of sector-specific assistance in education, healthcare and urban development or can be more comprehensive assistance dealing with the means to promote decentralization, capacity building in local government, community participation in local government, or an institutional framework for central-local relations. Decentralization involves several governmental agencies and local governments, and so dialogue is required not only with the counterpart recipient organizations but also with other governmental agencies and local governments. The bottom line is that proper and timely policy support always necessitates dialogue with the recipient countries.

Especially in Thailand, where local administration consisting of the field agencies of the national government has a supervisory role in relation to local government, as introduced in Chapter 2, dialogue with these field agencies of the national government is indispensable for the efficient operation of projects. Actually information necessary for the decision of project sites is usually kept at provincial hall and at district offices (both are field agencies of the national government). The importance of dialogue therefore cannot be emphasized enough.

2. Importance of dialogue with other donors and aid agencies

In the area of assistance for decentralization in Thailand, the German Technical Assistance Bureau (Deutsche Gesellschaft für Technische Zusammenarbeit, GTZ), the United Nations Development Programme (UNDP) and International Bank for Reconstruction and Development (the World Bank) are ahead of Japan, and have achieved successful results. GTZ focuses on capacity building in the field of urban planning, and UNDP has introduced GIS projects in Nakhon Ratchasima Special City (Northeast Thailand), Chonburi Province (East Thailand) and Ban Bung Town (*Thesaban Tambon*). In contrast to these ongoing projects,

JICA's Program for Local Administrative Capacity Building in Thailand aims at capacity building for development planning and increasing community participation in the new *Thesaban (Tetaban Tambon)* that were upgraded in May 1999 and *Tambon* administration organization newly established after 1995. Nonetheless, Japan's policy support for decentralization in developing countries should learn from aid agencies that have already formulated programs and should have a frequent dialogue with them.

4-2 Information Concerning Decentralization in the Recipient Countries

1. Necessity of wide-ranging sources of information

Decentralization is a comprehensive political process that involves radical changes in authority, budgets and organization of personnel. Naturally, assistance in this field needs to compile comprehensive information from all the parties concerned. In the case of the Program for Local Administrative Capacity Building in Thailand, the counterpart is the Department of Local Administration (DOLA) of the Ministry of Interior that has supervisory functions related to local autonomous bodies (except Bangkok Metropolitan Administration), but many other offices are involved, such as the Fiscal Policy Office (FPO) of the Ministry of Finance and the Bureau of Budget (BOB) of the Office of the Prime Minister concerning local finance, the National Economic and Social Development Board (NESDB) concerning development planning, and the Office of the Civil Service Commission (OCSC) concerning personnel cuts and devolution in the public sector. These offices have essential information about the present and prospective condition of decentralization policies. Besides these, because decentralization effects the authority of a range of related offices, it is necessary to follow the movements of the Ministries of Education, Agriculture and Cooperatives, Public Health, and Science, Technology and Environment. These ministries are in charge of such areas as education, agriculture, healthcare and environment that have a close relationship to the services local governments provide.

Not only trends in the central government, but also the condition of local governments need to be understood. Information that cannot be obtained from acts and documents is in the local areas where the central governmental policies are being implemented. As discussed in Chapter 2, there is always a difference between the real condition and the legislation, and the difference must be recognized in order to provide proper policy support.

In Thailand, it is the National Decentralization Committee that decides the framework for decentralization. Close contact with the members of the Committee and its secretariat should be maintained. In fact, the World Bank has staff members staying at the NESDB who observe the National Decentralization Committee. Such a strategy can be adopted by JICA as an option in future assistance.

2. Importance of support for information gathering

As it covers many policy areas, decentralization requires the development of a support system for information gathering. In the Thai Program, one short-term specialist was sent from April to July in the fiscal year 2000, but this is far from enough for such investigations. There is a need for some new measures to improve the information functions of specialists. For communication with other organizations and study visits to local sites, financial and personnel support should be applied flexibly. In the Thai Program, useful information about the response to decentralization was provided by long-term JICA specialists who are stationed at the Department of Town and Country Planning of the Ministry of Interior, the Fiscal Policy Office, the National Economic and Social Development Board and the Ministry of Agriculture and Cooperatives. This existing network of JICA specialists should be fully utilized in future assistance, considering their specialties and their relationship with the organizations they are assigned to.

4-3 Lessons in Project Programming

1. Advantages in project programming

The technical assistance aspect of the Program for Local Administrative Capacity Building in Thailand aims at so-called ‘project programming.’ This means to combine several procedures to achieve a particular assistance objective, and when necessary it involves several related ministries and agencies of the recipient country. Actually, since decentralization is a political process operating across the vertical structure of the government, as mentioned in 4-1 1., policy support for decentralization is more likely to cover several ministries and agencies.

2. The case of GTZ

It is not very easy in reality to promote a cross-organizational program. In Thailand, for example, each agency and bureau is highly independent, and cooperation and communication are often difficult even within a single ministry, to say nothing of between different ministries and agencies. GTZ’s project is instructive in this sense. For its capacity building project for development planning and urban planning, GTZ has dispatched its staff to the Department of Local Administration, the Department of Town and Country Planning, and the Office of the Permanent Secretary of the Ministry of Interior. The supervisor of the project himself has his office at the Office of the Permanent Secretary (OPS) of the Ministry of Interior because all the governors belong to this Office and because the formulating of provincial development plan is under the jurisdiction of the Office of the Permanent Secretary and the Provincial Offices (field agencies of the Office of the Permanent Secretary).² The GTZ program that covers three departments in the Ministry of Interior is very valuable for Japan’s future assistance. If GTZ succeeds in its capacity-building project, it will greatly encourage Japan’s

efforts.

3. Potential for project programming

The technical assistance program in Thailand was initiated at the request of the Department of Local Administration of the Ministry of Interior. The request included objectives (1) to promote the participation of people in development planning by local governments, (2) to improve information administration capabilities in local governments, (3) to improve the coordination of development plans between local governments, (4) to reconsider the classification criteria for local governments, (5) to facilitate cooperation between local governments on the issues of garbage and wastewater treatment, (6) to examine the possibility of the integration of local governments in view of the subsidy system and the local tax system, and (7) to study the prospective coordination of development planning at the level of local governments including provincial or district offices. As can be seen from these seven themes, the objectives of the Thai Program are not limited to the sphere of activities of the Department of Local Administration. Development planning and public participation in themes (1), (3) and (7) are closely related to the work of the National Economic and Social Development Board (NESDB) and the Community Development Department (CDD) of the Ministry of Interior while theme (6) is related to the Ministry of Finance and the Bureau of Budget. Theme (5) is related to the Ministry of Science, Technology and Environment. The Department of Town and Country Planning and the Office of the Permanent Secretary of the Ministry of Interior will be concerned with themes (3) and (7). Therefore, the future progress of the program will require the involvement of multiple departments of multiple ministries. In fact, the launch meeting and ceremony for the exchange of notes for the Thailand-Japan Joint Research Project in Bangkok in August 2000 invited not only people from the Department of Local Administration but also representatives of the Ministry of Finance, the National Economic and Social Development Board, the Town and Country Planning Department, the Community Development Department and other organizations. It indeed indicated the path to future cooperation.

4. Lessons in project programming

The discussion so far recognized the potential for project programming. Two points of consideration will be proposed next.

One is that the programming of projects should be dealt with flexibly on a case-by-case basis. It is not easy to advance a project involving multiple ministries and departments, although it could be done much more easily by one single department. In the Thai Program as well, each sub-theme of the project requires different types of involvement of different departments to different degrees. Nevertheless, as long as Thai legislation provides that direct supervision over local governments should be with the Department of Local Administration, it is inevitable that the policy support for decentralization should be developed mostly

around this Department. So, for the time being, the Department will be the main counterpart, while cooperation with other ministries and departments will be sought when needed for other areas.

The other consideration is the maintenance of connections with these related organizations. In general, once a project is started, the relations with parties other than the direct counterpart tend to wane. In the Thai Program, in fact, many representatives from many organizations concerned were invited to the launch meeting and ceremony for the exchange of notes for the Joint Research Project in Bangkok in August 2000, but the relations thereafter have not necessarily been well maintained. It is significant here that project programming can reveal the whole picture more clearly when it involves a wide range of related people. This is especially true in relation to decentralization, of which it is otherwise hard to gain a full overview. Therefore, to maintain good connections, it would be useful to establish a joint coordination committee for greater effectiveness or to organize a regular communication meeting or a study meeting with local consultants and JICA specialists.

4-4 Lessons in Selecting Sites

1. Target local government

The technical assistance of the Program for Local Administrative Capacity Building in Thailand will involve the selection of at least one pilot site. At this site a long-term or short-term specialist is to be dispatched for at least two years to carry out a local capacity building project that has been requested by the Department of Local Government of the Ministry of Interior. The success of the pilot project depends greatly on the selection of the site. There are around eight thousand local administrative bodies at present in Thailand as mentioned in Chapter 2. The method of selection of the most suitable site is one of the most important issues in designing policy support for decentralization. As mentioned in 4-1 2., the request from the Department is in relation to capacity building of newly established municipalities, and so the target should be minor local small or medium size cities and their surrounding organizations.

2. Procedures and criteria for the selection of the pilot site

The pilot site for the Thai Program is to be selected as follows. First of all, JICA has requested the Ministry of Interior to recommend three minor provinces each from Central, Northern, Northeastern, Southern Thailand, avoiding negative external factors (e.g. natural disasters, local political conflicts, border disputes, minority issues, etc.). In relation to the twelve candidates, the Department will provide a ranking and the reasons for selection. Through discussions, three will be selected for on-site investigations before the final decision to choose one.

In this process, JICA has proposed several conditions for selection while the Department of Local Administration actually selects the candidate sites from each region, taking into considering regional differences. The final decision is made by agreement between JICA and the Department to select one pilot site. The important factors in this process are: (1) the objectivity and transparency of the procedures and selection criteria, (2) the initiative by the recipient country and (3) regional differences in the recipient country to be considered in the site selection. The initiative (2) is emphasized, because some international aid agencies have previously established projects without considering the intention of the recipient country in site selection, and they could not obtain the necessary cooperation from the recipient country. Factor (1) objectivity and transparency, are important to prevent arbitrary selection by the recipient. Factor (3) regional differences should be considered carefully because each of the areas of Central, North, Northeast and South Thailand has a different culture and customs. Due to these differences, it may be difficult to select only one pilot site, and a second site may need to be selected if the circumstances require it. These three factors seem to be applicable to policy support for decentralization in countries other than Thailand.

Needless to say, site selection requires prior investigation together with the counterpart agency. It is important to examine whether the field offices of the national government and local administration organizations at the site have sufficient capability to receive the assistance, whether they have determination and enthusiasm for capacity building (not just waiting for assistance), and whether the living conditions and safety of specialists can be secured.

3. Possibility of partnerships with non-governmental organizations

Next is a proposal for future policy support for decentralization by JICA. In the technical assistance in the Thai Program, JICA has limited experience of contact with citizens as the beneficiaries of local autonomy, although it has daily communication with the Department of Local Administration, its field agencies (provincial halls and district offices) and local governments. Since the participation of people is one of the principles of the project, this contact with citizens must be ensured. Relationships with citizens through governmental agencies tend to be slanted towards the intention of local influential people and the governmental agencies. It is desirable to maintain various channels of communication with citizens for a good understanding of the local conditions and for effective public participation.

There are two approaches to dealing with this problem. One is the establishment of cooperative relations with local educational research institutes, and the other is partnerships with local NGOs and NPOs. In Thailand, each area has a university or an educational research institute called 'Rachaphat' (former teachers colleges that are now college-level research institutes). Cooperation with these institutes of higher education is a possibility. Master courses for workers that these institutes provide include students, local citizens, and staff members of local governments or those dispatched from the central government. With the cooperation

of these people, JICA may be able to develop good relations with citizens and obtain valuable information. As for the latter approach, the central government tends to be wary of local NGOs and NPOs, and JICA need to ascertain their characteristics.

4-5 Joint Research Team

The Program for Local Administrative Capacity Building in Thailand is characterized by its ‘technical assistance’ and ‘joint research team.’ Unlike conventional technical assistance that is based on the results of a ‘development study’ by the donor, both the donor and the recipient country form a joint research team and assign the members, and the proposals of the team become the basis for future technical assistance. In the joint research team of the Thai Program, six Japanese specialists who double as members of this Research Team for ‘Local Administration and Decentralization’ participate as well as six Thai university professors who have a profound knowledge of local politics, local finance and administrative law. The twelve members from Japan and Thailand are jointly conducting literature studies, field surveys and seminars over two years from August 2000. The final report is to be submitted to JICA and Thai Department of Local Administration of the Ministry of Interior in August 2002.

The joint research team is significant in that it can make feasible proposals for policy support based on a sufficient long-term research with the participation of specialists from the recipient country. The team, with the donor and recipient members on an equal footing, is an attempt to develop a new tool for policy support in general, not solely for decentralization. In the future, it will be necessary to increase the multipurpose nature of the team by reconsidering the selection of research themes and team members, the rewards for members from the recipient country, and the secretariat system.

4-6 Training

In the Program for Local Administrative Capacity Building in Thailand, twelve seminars in total are planned in and out of Thailand over three years. Staff members of local governments of and around the pilot site and those of the central government will be invited to participate in the seminars. In Thailand, there have already been many training programs for local governments, and the training provided in the Thai Program will be a part of these. However, as long as they are being provided directly by an international organization, they should have some unique features.

A typical style of training for Thai local governments is a ‘one-way’ lecture in a hired hotel from the morning to the evening with lunch and coffee breaks. Lectures are likely to be given by leading members of the government (Prime Minister, Deputy Prime Minister, Minister of Interior, or Deputy Minister of Interior), the top office managers (the Permanent Secretary of the Ministry of the Interior, Director-General or Deputy

Director-General of the Department of Local Administration, or Governor), staff of the Provincial halls, or university professors. This one-way type of lecture tends to bore the participants. To achieve greater effectiveness, it is necessary to contrive more attractive lectures. Here are three considerations concerning training program design.

The first is the need for training programs for members of local councils. It will be useful to send a short-term specialist for training method development at the early stage. Not the 'one-way' type of lectures, but participant-oriented lectures are preferable. Also, a lecturer should be sent from Japan as 'input' when necessary, in addition to those from the Ministry of Interior.

Second, it is effective to use the case of Japan's local autonomy and to explain in concrete terms the duties that local governments should perform. Fortunately, in Thailand many central and local governmental officials are staying on as JICA specialists, and by using these people combined with those dispatched from Japan for lecturing purposes, various curriculums can be developed. The knowledge and experience conveyed by Japanese people themselves will call the attention of Thai officials to the duties of local governments.

Third, the teaching materials prepared in the course of training can be used for the training of members of local councils and officials. In fact, a textbook prepared by the UNDP has been adopted as a textbook at the Institute of Local Administration of the Department of Local Administration. It is part of the visible outcome of assistance. Such teaching material development is worthwhile considering as a form of policy support for decentralization.

4-7 More Specific Proposals

The discussion so far is about points of attention and consideration in future policy support for decentralization in developing countries, derived from the example of the Program for Local Administrative Capacity Building in Thailand. In concluding this section, several specific proposals, not limited to the Thai Program, are made.

1. Management of population information system

The compilation of information on residents is one of the important duties of local governments. This information is the basis for the public services provision and taxation by the local governments. In many developing countries, such information is held by the central government and its field agencies, not by the local governments. Considering that local governments should implement such services as compulsory education, basic healthcare and social welfare, information on residents should obviously be properly compiled and managed by local governments. Accordingly, policy support for decentralization should include resident

information management in its objectives.

2. Support for the development of monitoring institutional frameworks related to local governments

Policy support may include the development of monitoring systems in relation to local governments. One of the problems with decentralization that the bureaucrats are apprehensive about is that local influential people might misappropriate the resources of local governments. Such problems can be prevented by top-down monitoring by the central government and by bottom-up monitoring by the citizens themselves, both of which are effective. The institutional frameworks of monitoring is not adequately developed in Thailand; or what is worse, there is no information available about the actual condition of monitoring institutional frameworks. The feasibility and appropriateness of assistance for monitoring institutional frameworks, including the necessity of additional research, should be identified.

3. Support for cooperative institutional frameworks between local governments

In policy areas where the capacity of local administration is still weak because decentralization has just started, local governments tend to make an all-out effort to increase their own authorities and budgets, but have no incentive to cooperate with other local governments. It is not at all realistic for governments with a low capacity to try to implement large-scale projects with limited resources. They should instead cooperate with other governments to solve the matters at hand. As mentioned in Chapter 3 in this report, there are two models of local autonomy: separation and integration. Japan, which belongs to the latter type, has good experience in cooperation between local governments, and can provide policy support in such areas as the establishment of an office cooperative for garbage collection and treatment. For this, preparation for communication is also indispensable to ensure that the recipients understand the Japanese cases.

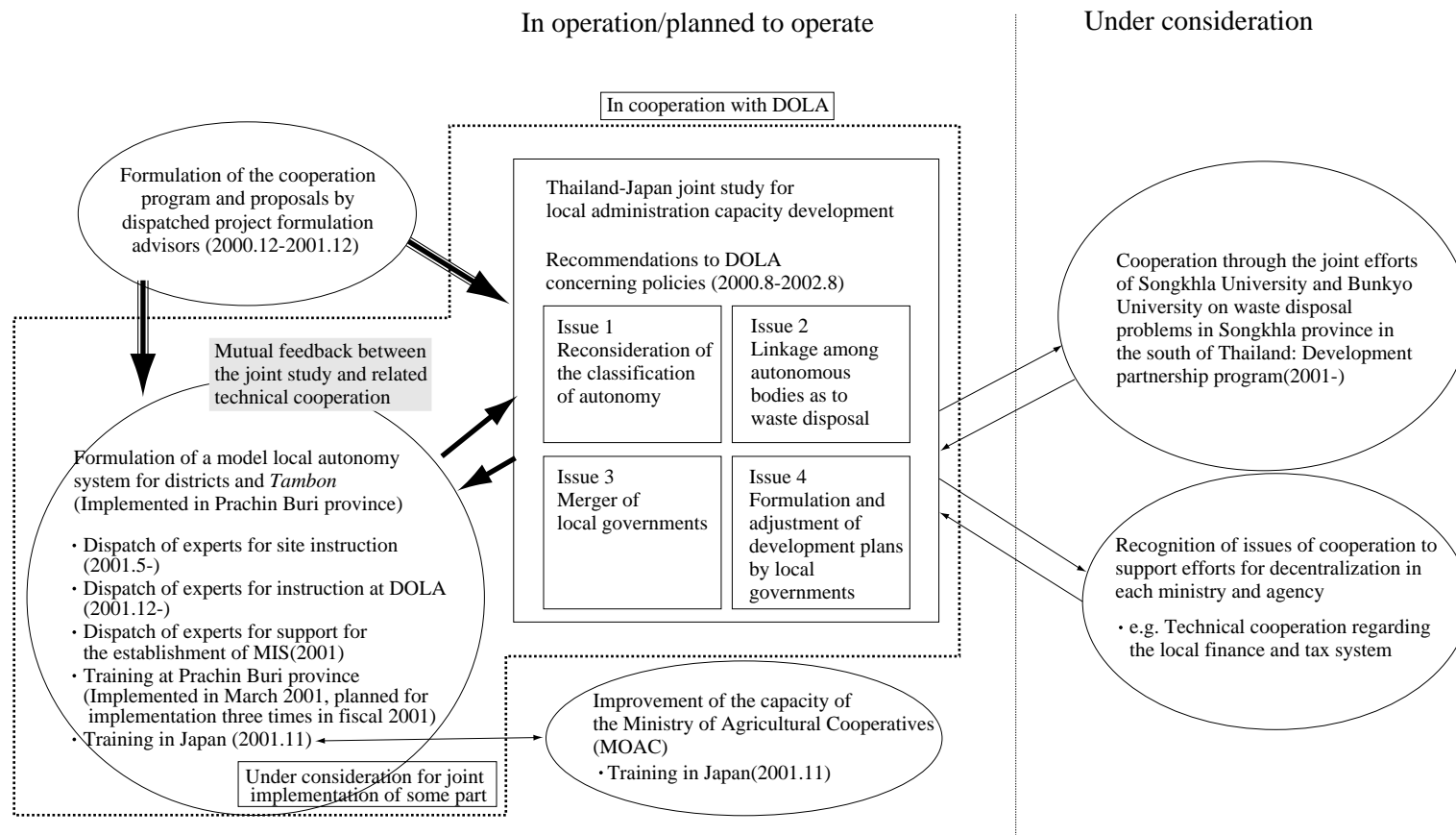
4. Additional research required

Additional research is needed concerning local finances and the preparation and coordination of development plans. In some developing countries, there appears to be a close relationship between development planning and expenditures. Still, since not enough research has been carried out on development planning and its coordination, local finances, and subsidies to local governments, the problems developing countries are confronted with have not been well enough defined. Development planning and finance are very important issues for decentralization in developing countries, and additional research is definitely needed.

The Program for Local Administrative Capacity Building in Thailand

Background to the cooperation In Thailand, decentralization has gained momentum as the Constitution was promulgated in 1997 and the Decentralization Act was enacted in 1999. JICA implemented a project formulation study in 1998 and dispatched short-term experts in 1999 and 2000. Currently JICA is implementing this program with the Department of Local Administration (DOLA) of the Ministry of Interior as its major counterpart.

Aims of the cooperation Improvement of capacity to formulate development plans by introducing public participation methods, support for the establishment of Management Information Systems (MIS), and policy formulation support through the Thailand-Japan joint study for local administration capacity development.



Notes

- ¹ In writing this chapter, the author relied substantially on information collected by the writer himself while he stayed at the Department of Local Administration of the Ministry of Interior as a short-term specialist of JICA.
- ² For ‘provincial development’ planning and the roles of the Office of the Permanent Secretary of the Ministry of Interior, see Chapter 2 in this report.

Chapter 5 Decentralization in Developing Countries: Concluding Remarks

5-1 Government Decentralization: the Case of Japan

In recent years, government reform has rapidly gained momentum around the world, including in developing countries. In Japan, a committee established by the Murayama government started deliberations on decentralization, which led to the enactment of the Decentralization Law in 1999. Among other purposes, the new law allows local governments to carry out governmental work on a more independent basis than before. Central government agencies were reorganized at the same time. The Ministry of Home Affairs, under the reorganization, was born anew as part of a new Ministry of Public Management, Home Affairs, Posts and Telecommunications, and people are carefully observing how this will affect the relationship between central and local governments. Decentralization is high on the political agenda in both developed and developing countries, with some sort of decentralization reform efforts being implemented in 80% of over 70 developing countries and economies in transition.¹ This chapter analyzes the experience of local governments in Japan with a view to indicating that the ‘integrationist’ type of local government system is more amenable to countries starting decentralization efforts.

5-1-1 Types of decentralization: Integrationist model and separationist model

1. Concept of each type²

When considering aspects of decentralization, it is convenient to think of the two concepts or models of ‘integrationist’ and ‘separationist’ based on the relationship of the local governments to the central administration.³ Current arguments for political reform in developing countries tend to prefer the separationist model to the integrationist model. Behind the preference for the separationist model, among other reasons, is that the basic concept of the model, which is thought to have originated in Britain in the 19th century, seems to be logically consistent with the market- and competition-oriented reforms advocated by such assistance organizations as the IMF and the World Bank. Concepts such as small government, deregulation and management restructuring in the public sector are favored because of a belief that competition is indispensable for improved efficiency. This belief has often been explained in literature on local governments on the basis of the idea that people will “vote with their feet.” The idea is that people, or taxpayers, will walk out on high taxing and inefficient local governments, and choose low taxing, efficient ones. This will promote competition among local governments for residents and taxes, helping to improve public services. Under the separationist model, as described above, local governments are regarded as autonomous units of government that compete with each other as market participants do. Under the integrationist model, meanwhile, the central government decides on the level of administrative services and oversees local

governments to maintain this level. This model is a useful tool for securing a national minimum level of services.

The two types of local government can be viewed in more detail, while referring to the implications of the two models when the central government designs local government systems by choosing between either the separationist or the sharing strategies. Postwar reform of Japan's local government system was basically oriented towards decentralization and local government. The central government, however, was cautious about the excessive transfer of power to publicly elected local governors. Under these circumstances, options for the central government were to 1) extend the business of agency delegation, previously limited to municipalities, to provincial governments, or 2) establish field agencies for the central government, independently of local governments, to ensure implementation of central government policy measures. Amakawa called the former the 'sharing' strategy, which requires local governments to carry out both their own duties and administrative work entrusted by the central government. The latter, which Amakawa called the 'self-executing' strategy, (Note) allows local governments to design administration in an independent way not possible under the integrationist model. Under the self-executing strategy, the central government sets up such field agencies as the Kinki Regional Construction Bureau, an Osaka-area Office of the Ministry of Construction (now reorganized as the Ministry of Land, Infrastructure and Transport) and the Kinki Regional Office of the Ministry of Agriculture, Forestry and Fisheries. As a whole, however, Japan's postwar local government system was designed under the sharing strategy, which represented the central government's decision to continue the prewar system of the integrationist model, as discussed late in this chapter.

(Note): Literally, Amakawa called it a separatist strategy. This meant that central government separates central business from local administrative work. I translate his "bunrigata" into "self-executing strategy," taking its meaning and intention.

2. Advantages and disadvantages of separationist decentralization

Separating decentralization is often referred in financial systems concerning central-local relations as the 'fiscal federation system.' Under this system, local governments are given greater independent fiscal power. The disadvantages of this system are seen in the following two cases (both are quoted from JICA "Local Development and the Roles of the Government" (1997)). In China, between 1994 and 1998, each province was given substantial fiscal autonomy. During this time, local governments borrowed excessive amounts from local branches of the central government to meet growing fiscal demand. This frustrated national fiscal policy and consequently made the macro economy unstable. A similar case occurred in Brazil, where local governments were authorized to borrow money from commercial banks. They incurred huge debts that were enough to threaten macro-economic management. These cases indicate that the fiscal federation system may involve huge risks beyond the scope of the fiscal operation of local governments up

to macro-economic management, especially in developing countries whose local government systems or monitoring and coordinating systems have not been fully developed yet. Another specific constraints are whether personnel capability, training systems and the efficient organization necessary for separating administration are prepared or not. The choice between separating and integrating strategies is based on how many of the duties should be transferred to local governments. In the Anglo-American 'separating' form of local government, the services provided by local governments are relatively few, while in the Northern European and Japanese 'integrationist' form of local government, local governments provide many services. Under the latter central-local relations, there is intensive communication between the two levels of government.

The separationist model does not provide a good solution to either the issue of vertical coordination between the central and local governments or the issue of horizontal coordination between local governments. With a limited range of services, local governments rarely have a need for coordination. Any conflict that occurs between the central and local governments or between local governments is settled by the judicial system. The issue of intergovernmental coordination can be described as the degree to which the objectives or policies of each local government have been harmonized with the objectives or policies of the state, and how this is implemented. It is said that a serious case of the coordination issue has been recently reported in transition economies of Eastern Europe. According to Hellmut Wollman,⁴ after the collapse of its communist establishment, Poland abolished regional governments that had mediated between the central government and local municipalities. This was because they were regarded as symbols of authoritarianism. The municipalities that were given new autonomy, however, have fallen short of expectations so far. Wollman says that many opposing or contradictory strategies have been proposed, and that coordination between the central government and numerous municipalities has not been working well. Another concern is whether the municipalities can conduct programs they have committed to by themselves. Unlike countries that have gone through a stable separating autonomy over a long period, transition economies require some kind of assistance for the empowerment of municipalities. Under the separating system, the central government hardly assists weak local governments, but just leaves them to fend for themselves. However, as seen in the case of the bankruptcy of New York City, the state government can undertake relief measures and form a new establishment when the situation goes that far.

3. Advantages and disadvantages of integrating decentralization

The integrationist model is advantageous in that the central government can support the empowerment of local governments. In this model, the central and local governments should share the responsibility for the collection, management, usage and increase of public resources. Naturally the central government with good resources at hand supports local governments, in terms of dealing with ineffectual human resources, for example. Some assert that because empowerment is necessary for every aspect of managing resources, not only the central government but also NGOs should be involved. The writer agrees with this assertion,

but still support from the central government is distinguished from that of other organizations in terms of its continuity. With support, even in the very early stage of decentralizing reform, some advantages of decentralization can be achieved without imposing an excessive burden on the system of the political administration of local governments. Here is a relationship in which the central government looks after local governments while allowing a considerable amount of independence.

This integrating system is effective in the coordination of conflicts between local governments. When a clash of interests occurs among several local governments, if any higher organization that is relatively close to them is available to provide a compromise, a relatively fair settlement could be expected from the organization. The integrating system is also advantageous for the achievement of national objectives such as the improvement of living standards and the correction of individual or regional economic disparities. That is because the system allows for the imposition of national standards for public services and the redistribution of resources in policy areas where a national minimum standard is required.

There is also criticism that the system restricts the autonomy of local governments. It is true that local governments tend to rely on the central government in a relationship of 'mutual' dependence. However, in the fifty-year history of local government in postwar Japan, the adopted integrating system has been modified towards the direction of ensuring greater autonomy, as seen in the expansion of local initiatives and technical improvements in favor of the local government. At the same time, Japan has achieved a growth in per capita national income and the adjustment of regional disparities. In the separating system, the failure of coordination between the central and local governments or between local governments is neglected; so is any weak capacity among local governments. In contrast, the Japanese government has eagerly worked for coordination. It has well-developed mechanisms including agency delegation functions, egalitarian intergovernmental transfer of fiscal resources, and acceptance by the central government of local requests for assistance in fields closely related to the quality of life (e.g. healthcare, social welfare and environment). The central government, at the same time, has taken various measures to improve the administrative capabilities of local governments. Examples are the staff loan system between central-local governments; good salaries for local public employees; training for locally recruited officials (local governments have been enthusiastic in providing in-service training since the war); and legislation that encourages policy initiatives by local governments.⁵ It can be safely said that the integrating system has resulted in the development of the independence of local governments as a whole through elections, citizens' participation and deliberations in councils, in spite of its potential negative impact on autonomy. Its development has not been too radical. Although the 1999 decentralizing reform is large in scale, it is still only the culmination of Japan's fifty-year experience of local government systems that were formed based both on the prewar experiences and under the influence of the United States.

The disadvantages of the integrating system are derived from the negative influence of central

government involvement. Nationally uniform policies can double the damage when they are proven wrong. There are recent examples in Japan. In the 1990s, the Japanese government undertook a macro-level economic stimulus package through the expansion of national fiscal spending. In this, the government encouraged the issuance of local government bonds, which considerably increased the deficits of the local fiscal system. This is a case of the negative influence of the involvement of the central government. In reality, in the three-year stimulus package, many local governments followed the policy for the first two years, but in the third year more local governments chose not to follow it in spite of incentives given by the central government. In a sense, this case showed that the local governments became able to make their own decision, although the emphasis is still on sympathy towards the central government.

5-1-2 Policy diffusion between the central and local governments

There is a disparity between regions in their standard of living and political influence. The disparity causes jealousy and rivalry that often makes policy coordination difficult. This regional disparity can spoil mutual support and develop into a loss of the unity of the nation if some ethnic groups live in some areas of the nation. In the case of Japan, although it is not ethnically uniform, a standardized system has been established at least in terms of administration. To be more precise, the Tokyo Metropolitan Government has quite a different system from other prefectural governments, while the Hokkaido prefecture is also different to some extent. Prefectures with ordinance-designated cities in them are different from those without. It may be generally said that prefectures are different in urban areas and rural areas. Nevertheless, in comparison with other countries, Japan has overcome regional disparities and given priority to regional equality; the idea of egalitarianism has been deeply embedded in the policies of the Japanese government. In the last ten years, however, the system of linkages between the central and local fiscal system has swelled the amount of local unassisted projects and local government bonds. In this case, the system has functioned adversely.

Next is a summary of the mechanisms that have controlled central-local relations in Japan for the fifty years since the war.

The first mechanism is the above mentioned 'agency delegation functions.' These jobs assigned to local chief executives by the central government were purposely placed beyond the political influence of local councils. Since they were assigned by the central government to governors or mayors (or sometimes the boards of education) and not the business of councils, council members could participate only by asking questions. This was a mechanism to ensure national minimum standard functions throughout Japan. Although the centralizing nature of this system has been emphasized very much in the central-local relations in Japan, in reality, these delegation functions could be localized in accordance with the conditions of each area, at least to some extent.

The second mechanism is the subsidy system. When the central government wishes to ensure that local governments carry out certain tasks, subsidies are a useful tool. It is undeniable that the system has guided local governments to follow the central government's intentions. However, since local governments apply for these subsidies of their own free will, this system in a sense has a high regard for the independence of local governments. Besides, the subsidy system has also given Diet members elected from rural areas a chance to mediate between their constituencies and the central government, which has functioned in favor of financially weaker rural localities.

The third is the fiscal reallocation system that accounts for the major proportion of local finance. Its reallocating nature is typically seen in the formula of the allocation tax. In spite of actual economic disparities, fiscal transfers through the allocation tax equalize fiscal conditions among the prefectures to a large extent.⁶ Moreover, once set up, the transfers are flexibly used in response to the fiscal situation every year through continuous renegotiations between the central and local governments. Politicians cannot use their influence to change the tax allocation in favor of their constituencies, either. Based on this understanding of the framework of the allocation tax, it should be added that the allocation tax consists of the general allocation mentioned above and, special allocations. The central government is authorized to provide special allocations at its discretion according to the occurrence of national disasters during the year and other special circumstances. The special allocation accounts for 6% of the whole allocation tax.

The fourth is the prior examination of the needs of local governments that is made every year in the process of budget compilation for the next year. The ministries and agencies hold 'hearings' every year to examine the needs of every region. Japanese central-local relations are characterized in a sense by this grasp of local performance by central government ministries and agencies.

If the agency delegation functions covered all the business of local governments, there would be little possibility for policy development or the improvement of policy-making capacity at the local level. In an extreme case, local governments would not fulfill their responsibilities toward their citizens as voters, and this would result in the political tensions between the citizens and local governments. Fortunately, this was not the case in Japan. The postwar constitution gives local governments wide discretion in providing public services that they consider necessary. This discretion is limited by the limitations on the taxation powers and the power to issue bonds, but local governments have still been expanding the areas of public policy on their own initiative in response to the explicit demands of local citizens. Most policies regarding local initiatives are in the welfare area, such as expansion of the eligibility for healthcare services (e.g. free medical care for the elderly). Of course, these local initiatives have been subject to 'control' in various ways by the central government. In the welfare services and in other policy areas as well, the central government has adopted locally initiated policies as national policy or included them into agency delegated functions. In such cases as pollution agreements with private companies, the central government often later establishes

the legal basis for the policies that the local governments have initiated. This is a mechanism by which the initiatives of local governments can be adopted as nationwide objectives and expanded to become a legally sustainable policy. Such flexibility of the central government, including both bureaucrats and politicians, has relaxed the political tensions between the central and local governments and enabled a kind of gradual decentralization.

1. Central initiatives vs local initiatives

Japan's strategy for central-local relations is effective for the vertical coordination of the interests and policies between the state, prefectures and municipalities. This point can be discussed further. Failures in the coordination of interests between the central and local governments or between local governments in developing countries often occur when the development strategy of one region contradicts the goals of the central government or other regions. The Japanese system of agency delegation functions and of subsidies deals with the coordination problem and, on the whole, could be regarded as a successful case. The system has also facilitated the transfer of jobs and part of the fiscal costs of public services to local governments. Without central coordination, there would have been even more useless projects and wasteful investment, at least in the early postwar period. On the part of the local governments, by taking on these tasks, they have been able to take their own initiative in so many projects on the basis of delegated tasks.

The subsidy system actually allowed local initiatives to be developed under the loose political guidelines set by the central government. In this way, the Japanese local government system is apparently beneficial not only to the central government, but also actually to the local governments. It should be appreciated that the local governments in postwar Japan could carry out the delegated tasks as well as their inherently owned tasks in accordance with the local conditions. As reliable and positive partners of the central government, local governments improved their capabilities for making and executing policies and projects, especially after they accepted the development policies of the central government in the 1960s.

It is often said that the subsidy system has been a disadvantage for local governments in formulating development policies. For example, the heads of local governments (governors and mayors) functioned as 'field agencies of the central government' and the delegation functions evaded the examination of publicly elected local councils. In this respect, the autonomy of local governments was significantly restricted. However, seen from a different viewpoint, subsidies were helpful for the efficient operation of policies instituted by the local government heads that were also publicly elected. Because these heads could show leadership with regard to the councils, political unification in local governments was attained rather easily. In 1999, the system of agency delegation functions was abolished. Under the system, duties had sometimes been transferred to prefectural and municipal governments without sufficient fiscal support. Now redistribution of the sources of revenue is required between the central and local governments. However, in

comparison with the 'fiscal federal system,' the new system does not necessarily deny the coordinating function of the central government for public policies.

2. Roles of intermediate bodies

The previous section discussed the vertical relations between the central government, prefectures and municipalities. This section describes the horizontal relations between local governments. In a literal sense, they seem to mean something totally different. However, the vertical mechanism mentioned above is at the same time a horizontal coordinating mechanism between the interests of local governments. That is, not only the egalitarian local distribution tax system but also the subsidy system are practically a reallocation system of resources from urbanized areas to rural areas, which has adjusted regional disparities, relatively at least, between the areas with the benefits of industrial development and those without. Also the involvement of the central government as well as the institution of nationally uniform standards have contributed to the adjustment of regional disparities.

The coordination of interests between municipalities needs further consideration. Prefectures have been expected to settle conflicts at the municipal level. Between prefectures and municipalities the relations are similar to those between the central government and prefectures. Horizontal coordination among municipalities has been part of the job of the prefectures as intermediate bodies. A famous example is seen in the effect of the hollowing-out of the economy in the late 1960s to early 1970s. In highly urbanized areas such as Greater Tokyo, Greater Osaka and Greater Nagoya, the suburban populations exploded, and the demand for day nurseries and schools for compulsory education (elementary schools and junior high schools) became urgent. It is generally said that if twenty thousand people move in a single year into a small town, for example, a town with a population of thirty thousand, several day nurseries, four elementary schools and two junior high schools need to be constructed. The expenditure for constructing them is ten times the town's budget. Actually, this has happened in various places. The increased population consisted of salary earners working in the central city. Under such circumstances, the role of the prefectures is to mediate between the central city and surrounding municipalities. When prefectures cannot settle new conflicts between municipalities fiscally or legally, or when it goes beyond the fiscal capacity of the prefectures, they evaluate and report the condition to the central government. In the case of the suburban population explosion, appeals by Osaka, Tokyo and Aichi prefectures successfully made the central government include a 'rapid increase in population' as part of the criteria for the allocation tax calculation. Prefectures have kept their key position as mediators between the central government and municipalities to ensure intensive relations.

5-1-3 Loaning of personnel and capacity building by local governments themselves

1. General consideration

Due to the weak capabilities in local governments, the ‘quality and quantity of personnel’ is always given priority in development policies, along with the ‘security of funds.’ In decentralization in developing countries, this issue is often referred to as a risk. Japan has coped with this risk by the gradual transfer of the responsibilities for development and by the gradual development of local policy-making capacity. The basis of local capability was the improve in educational standards before the war and the popularization of higher education after the war. At the same time, local governments made efforts to improve their own capacity by employing their own personnel strategies. These capacity building efforts by Japanese local governments are analyzed below.

First, in the early postwar period, local governments accepted officials on loan from the central government. This was designed as a measure of complementing policy capacity and transferring legal and engineering skills to local governments by working closely with central bureaucrats. Some regarded this as intrusion by the central government, and others say that central departments and agencies placed their bureaucrats in important posts in the prefectures for the purpose of implementing their policies as they wished. Then, the governors began to request the type of officials they wanted to invite. Moreover, in the 1950s and 1960s, local governments started to prepare personnel training plans with the aim of implementing important policies using their own resources. It is commonly said that human resources development takes thirty years. Such personnel training plans in the 1950s and 1960s came to fruition in the 1990s. Now, among the top management of prefectures, the proportion of central government officials on loan is declining and that of locally employed officials is increasing.

The basis of the system of loaning personnel is the theoretical framework that skilled and experienced bureaucrats bring the same policy information as is held by the central government to local officials, and that coordination between the central and local governments thus becomes more efficient. This is the traditional theoretical framework of OJT in Japan.⁷ This system has a secondary effect in that local top officials can also improve their abilities through working together with the officials from Tokyo. These benefits can occur both when central government officials go to local governments, and when local officials go to the central government, because both learn the situation of the other side.

‘Loaning of personnel is beneficial to local governments’ is a view that has been supported because of the ‘quality’ of the officials on loan. In principle, capable officials are sent from the central government, and they generally win rapid promotion. There is no doubt that the contact with such central bureaucrats has

brought useful skills and experience to local officials, preponderantly in the prefectures that are not highly urbanized. Capacity building and the loaning of personnel are closely related to each other.

Second, it is more important than the loaning of personnel is that the fact that the Japanese personnel system has provided stable and highly paid jobs for people who work in local governments. The system fosters human resources and the technical basis for effective decentralization. Considering that local officials are not paid enough in developing countries, the Japanese model of local government may be of interest. Japanese local governments engage excellent staff at a good salary and provide many training opportunities. Some say that the stable seniority-based promotion system has also been a factor in attracting and keeping capable human resources. In any case, it is also notable that most local governments maintain a better standard of remuneration than that of the central government. This has ensured that skilled or talented people gravitate to the public sector, and has contributed to the development of administrative capability in the prefectures in postwar Japan. Actually, this was a deliberate recruitment strategy. In the 1950s and 1960s, prefectural bureaucrats embraced the objective of dispensing with personnel on loan and promoted the education of capable local personnel in their place to deal with important policies. They provided many training programs and OJT through daily personnel administration. This effort paid off in and after the late 1980s, which led local governments to undertake many independent policy initiatives.

Third, in terms of the number of officials, the public sector is small in scale in Japan. To be more precise, since the enactment of the Law in 1968, the total number of officials of the central government has remained at the same level. Meanwhile, the number of local government employees has increased, partly because greater human resources have been required in the social welfare area, which has gradually expanded in the 1970s and later. However, the number is still not so large in comparison with many developed and developing countries. At present, due to a deterioration in fiscal conditions, local governments are reducing the number of employees.

Japan contrasts with developing countries in that there is not a significant difference between local governments in terms of their capabilities and the level of skills available. Actually, seen from a long term perspective, prefectures that are not very urbanized and are remote from major cities have nevertheless succeeded in employing highly qualified people because of the relatively high salaries paid to the employees. The benefits of economic development have been shared relatively equally among regions throughout the country. It is true to say that the egalitarian system of intergovernmental fiscal transfers has guaranteed equality in the extent of skills and capability and in profit allocation between local governments. Besides this, the loaning of personnel has been facilitated by the fact that local governments, here prefectural governments, have a similar personnel system, as well as the fact that they provide remuneration that is slightly higher than that of the central government. These circumstances have at the same time enabled local governments to recruit and develop capable personnel by themselves.

Local governments have developed the capacity to take initiatives in formulating local policies, and have improved their own ability to work independently depending on their own skills and capabilities. This is very important from the political point of view. To continually initiate and implement policies is the first step towards strengthening the autonomy that has already been provided as an element of the political system. An illustrative example of local initiatives concerns pollution control. Local governments were the first to recognize the problems caused by pollution and they formulated the necessary policies while negotiating with the pollution victims. They were more progressive than the central government in dealing with environmental issues. The central government came to learn from local governments, especially in this area. Since there were so many cases of such local initiatives, the central government had to recognize the expertise of local governments. Even now, after a policy that has been initiated by a local government is adopted as national policy, the central government leaves the related practical implementation to the local government. As shown in the study by Tetsuya Kitahara,⁸ in the field of city planning as well, even when a central government agency has the final licensing authority, in practice the conclusion reached through negotiations between local political actors go through the whole procedure. Especially in major cities, city plans are decided autonomously. As long as the plan is based on adequate investigations and experience, the local government can take a decisive attitude toward the central government.

2. Ongoing reform

The last part of this section refers to the reforms currently under way. As mentioned above, a decentralization reform was conducted in 1999. Agency delegation functions were abolished, and divided into legally commissioned functions and autonomous functions. This increased the authority of local governments to make the final decisions, and so they are going to take more responsibility in many areas to manage the new system.

The postwar reform was carried forward under the strong influence of the United States. The Japanese government thought the proposals by the US were too radical to accept as they were. So, the government applied a system of agency delegation functions, which had been used in dealing with municipalities before the war, to prefectures that had newly become 'self-governing' bodies under the provisions of the Constitution. Prefectures before the Second World War had been field agencies of the central government, and the Ministry of the Interior had appointed their governors. It is only after the war that governors came to be elected by public vote. Then, the central bureaucrats had a strong distrust of prefectures, and for them the involvement of the central government in prefectural administration was a major issue for postwar local government reform. The application of agency delegation functions to prefectures was a compromise between administrative practicality (centralism) and democratic reform. The systems of loaning personnel and subsidies to prefectures also come under this category. However, as time went by, these manifestations of centralized authority came to be regarded as out-of-date. The development of party politics, citizen's participation, and

NGOs is also expanding the potential of ‘autonomy.’

Prefectures that were given this autonomous authority are now in turn transferring some of their powers to the municipalities. This is being implemented by negotiation between the prefectures and the councils of the municipalities in the prefecture. This procedure is necessary because individual municipalities are afraid that undesirable, costly duties are being imposed on them.

There is a strong ongoing movement to consummate mergers among municipalities. In Japan, municipalities merge when their fiscal condition is unfavorable or when a large-scale reform is taking place. The Liberal Democratic Party, the Cabinet and the Ministry of Public Management, Home Affairs, Posts and Telecommunications are urging prefectures to promote municipal mergers. In order to facilitate such mergers, under the instructions of the central government, prefectural governments have publicized models of mergers and proposed incentives. The incentives include to paying the costs of the mergers and allowing an extension of up to three years in the term of office for council members who are to be made redundant. Table 1 indicates the important role that municipal mergers have played in the early modern history of

Table 1. Changes in the number of local autonomous bodies (municipalities)

Year/Month	Cities	Towns	Villages	Total	Remarks
1883	19	12,194	59,284	71,497	
1889	39	(15,820)		15,859	enforcement of the municipality system
1898	48	1,173	13,068	14,289	
1908	61	1,167	11,220	12,448	
1922	91	1,242	10,982	12,315	
1930	109	1,528	10,292	12,315	
1940	178	1,706	9,614	11,498	
1945/10	205	1,797	6,518	10,520	
1950/1	235	1,862	8,346	10,443	
1953/4	280	1,953	7,808	10,041	
1955/10	490	1,854	2,468	4,812	
1956/4	495	1,870	2,303	4,668	
1960/10	555	1,925	1,030	3,510	
1965/10	560	2,000	815	3,375	Enforcement of the Law Concerning the Special Provisions to the Merging of Municipalities (March 29, 1965)
1970/4	564	2,027	689	3,280	
1975/4	643	1,974	640	3,257	
1985/4	651	2,001	601	3,253	
1986/10	653	2,006	594	3,253	

Source: Document and Publicity Division, Minister’s Secretariat, Ministry of Home Affairs, Chiho Jichi Binran (Local government Handbook) (in Japanese), pp.18-20.

Source: Michio Muramatsu, Chiho Jichi (Local government) (in Japanese), Tokyo University Press, 1988, p.17.

Japan. Mergers occurred in the early Meiji era when modernizing efforts were embarked upon, in the later period of postwar reform, and in the period of high economic growth. However, it is predicted that the mergers of the 1990s will not so easily happen, for the calculations of the municipalities have been, so far, not as favorable as expected in Tokyo.

Prefectures and major cities are now carrying out privatization, deregulation and the abolishment of nonprofit foundations linked to the local government. They are also decreasing the fixed number of employees, mostly by cutbacks on hiring (no replacement). In addition, competitive bidding, information disclosure, policy evaluation, cooperation and partnership, and affiliation with NGOs are the next objectives of local governments.

Notes

- ¹ JICA, *Local development and the Role of the Government*, 1997.
- ² This part relies on Michio Muramatsu, Farrukh Iqbal, and Ikuo Kume ed., *Local Government Development in Japan*, Oxford University Press, forthcoming, Chapter 1 and Concluding Remarks.
- ³ Kjelberg, F. and Bruno Dente, *The Dynamics of Institutional Change: Local Government Reorganization in Western Democracies*, London, Sage Publications, 1988.
- ⁴ Hellmut Wollman, "Local Government Systems: From Path-Dependent Divergence towards Convergence," Paper Presented at World Bank Kobe Workshop, 1996.
- ⁵ As for the personnel issue, see Hiroaki Inatsugu, *Nihon no Kanryo Jinji Shisutemu (Personnel System in Japanese Bureaucracy) (in Japanese)*, Toyo Keizai Shinpo-sha, 1998. For legislation, see Michio Muramatsu, *Chiho Jichi (Local government) (in Japanese)*, Tokyo University Press, 1988. The local legal initiative has been further reinforced as a part of the local authority since the decentralizing reform in 1999.
- ⁶ N. Mochida, "Japan's Allocation Tax: An Equalization Transfer Scheme," in Michio Muramatsu, Farrukh Iqbal, and Ikuo Kume ed., *Local Government Development in Japan*, Oxford University Press, forthcoming.
- ⁷ Kazuo Koike, *Nihon no Koyo Shisutemu - Sono Fuhensei to Tsuyomi (Japanese Employment System: Its Universality and Assets) (in Japanese)*, Toyo Keizai Shinpo-sha, 1994.

⁸ Tetsuya Kitahara, *Gendai Nihon no Toshi Keikaku* (Urban Planning in Present-day Japan) (*in Japanese*), Seibundo, 1998.

5-2 Fiscal Decentralization: the Case of Japan¹

The recent rapid process of decentralization has provided the condition of new challenges and chaotic circumstances in Southeast Asia. The background to this decentralization varies from country to country; the linkage between the end of authoritarian regimes and democratization (Indonesia, Thailand, the Philippines), the demand for effectiveness in the public sector derived from the currency crisis (Thailand), and the concessions to avoid the breakup of the nation and to maintain unity (Indonesia). It is evident that decentralization will have a cross-sectoral influence on basic services in these countries such as poverty reduction, education, healthcare and infrastructure. Most of these sectors are priority areas for Japanese assistance, and in the future local governments will be able to directly contact to donors for assistance. Alternatively, assistance may bypass local governments, with NGOs as the recipient bodies.

It is also true, however, that uncontrolled decentralization without appropriate institutional framework design will have adverse effects. In Thailand, for example, where nearly 7,000 municipalities (Tambon) were created within about 3 years from 1995, the weak administrative capability of these local governments is a serious problem. Besides, considering the prominence of the capitals in economic development, decentralization may cause a greater imbalance in the services and tax among the regions. An example is the system of Internal Revenue Allotment of the Philippines, which constitutes the revenue for the transferred functions. Because the system does not include the factor of fiscal capacity in its allocation formula, vast amounts of subsidies are given to urbanized or industrialized areas that should not need them. There seems to be no such case in Southeast Asia, as decentralization actually caused a lot of harm to macro-economic stabilization, as seen in Argentina in the 1980s, or China and the economies in transition in Eastern Europe in the 1990s.² However, there are still potential risks, as in Indonesia. It is necessary to control intergovernmental fiscal transfers while sustaining the sources of revenue of the central government that are indispensable for macro-economic stabilization.

Nevertheless, it is not productive or desirable for donors to discuss the advantages and disadvantages of decentralization. The decision to commit to decentralization always lies with the recipient countries. Accepting the decentralizing trend as an established fact, JICA and other Japanese foreign assistance agencies should allocate more resources to 'policy supporting assistance' for policy-making at the central government level and capacity building in local governments. This section will propose a desirable fiscal system design to control the adverse effects of rapid decentralization and to make the most of the advantages of decentralization, while referring to the experience of Japan.

5-2-1 'Coordination' in devolution

In the allocation of responsibility between different levels of governments in Asian developing countries,

'deconcentration' and 'delegation' have been adopted overwhelmingly, but the decentralization currently under way is a form of 'devolution' that transfers the authority of the central government and its field agencies to autonomous local governments. The issue is whether the devolution follows the 'separationist' model or the 'integrationist' model. The well-defined allocation of responsibility between the central and local governments based on the criteria of 'externalities,' 'economies of scale,' 'income redistribution' and 'minimum standards' is very useful. Considering the peculiarities of the systems in Asian developing countries, however, such a 'separationist model' style of allocation can be justified only with a lot of reservation.

First of all, in many Asian developing countries, a democratic representative system, which should take responsibility in the transferred authority does not work properly. Especially Southeast Asia countries have weak representative decision-making process and local elites are often deeply entrenched. Political businesses appropriate public resources as their private property by using their influence in the process of development planning (in Thailand), or 'mini Marcoses' approach central government politicians to obtain subsidies (rent seeking in the Philippines). In order to promote citizen participation and fiscal accountability, it is essential to introduce some indirect supervisory system, such as the 'Prachakhom' in Thailand. The system could be a public hearing at the development planning stage or a transparent, competitive bidding process.

Second, in many developing countries, the intermediate levels of government that should coordinate the interests and plans of the municipalities do not work properly. For example, in Thailand, the number of municipalities is growing through the establishment of Tambon and the upgrading of sukhaphiban (sanitation districts) to Thesaban Tambon (towns), while the intermediate provincial administration organizations (PAO) has been reduced to a shell. There has arisen a problem in the lack of harmonization of the objectives and strategies of each local government so as to avoid conflicts and waste of resources. This is typically seen in the conflicts between local governments and their citizens on the issues of development planning and treatment of garbage and sewage. To cope with such problems, it is necessary to consider how 'intermediate' governments or the central government can 'coordinate' the public policies initiated by local governments, and how such processes can be transformed into a sustainable system.

Decentralization basically means that the role of the central government changes from being a provider of public services to a monitor and coordinator of effective service provision by local governments. The functions to execute and monitor the process of decentralization essentially belong to the central government, especially in such areas as healthcare and education that are directly related to economic development and poverty reduction. However, unfortunately, in some countries, precipitous decentralization has resulted in a critical deterioration in services because the related functions of the central government have been totally removed. In the Philippines, the total devolution in the field of public health has brought about the maldistribution of medicines and family planning activities have come to a standstill. To maintain the

monitoring function of the central government, it is necessary to develop an information system to observe the budgetary activities of local governments and to utilize the system of special subsidies in priority fields (e.g. education and public health).

5-2-2 Fiscal accountability by means of local taxes

Enhancement of the accountability of local governments to citizens is very important for developing countries that have problems in their democratic monitoring function. In spite of the rapid transfer of responsibility, the fiscal system of Asian developing countries is centralized. The magnitude of local government expenditures is also very small. Independent revenue sources (local taxes and non-tax revenues) are a low proportion of total revenues. To make up the imbalance between revenues and expenditures, local governments depend heavily on fiscal transfers from the central government. In Indonesia, for example, up to 93% of the total tax revenue accrues to the central government. In the Philippines too, local taxes account for only 11% of total tax revenues. In Thailand, local taxes as a share of total tax revenues increased only a little, from 8% in 1993 to 11% in 1997. The fundamental problems in developing countries are that the central governments themselves are confronted with a lack of revenues and are not willing to transfer potentially elastic sources of tax, that the tax administrative capability of local governments is inferior to that of the central government, and that potential sources of tax available to local governments (income and natural resources) are distributed unevenly throughout the country.

In order to boost accountability through local taxes, local governments must have decisive authority over tax rates, and the tax liability must be the responsibility of the citizens in the area concerned. Taxes that comply with these requirements are local income taxes, retail sales taxes and property-related taxes. Local income taxes have been adopted in Northern Europe and Japan, but in developing countries even the income tax imposed by the central government has not been well established. Local sales taxes will make tax administration difficult in developing countries where most businesses are small in scale. Therefore, it can be provisionally concluded that property-related taxes are the fundamental tax to strengthening the accountability of local governments. Property-related taxes are collected as a local tax in many countries because the administrative costs can then be kept relatively low, the revenue is predictable, and it can be collected as a user fee for public services. Also, as the taxation base is attached to land, it will not be subject to capital flight with changing tax rates. However, the actual revenue from property-related taxes is much smaller than its potential. The basic strategy to secure property-related taxes in developing countries is the reduction and abolishment of loopholes (e.g. tax exemptions for owner-occupied dwellings), changes to the assessment of the capital value base, the introduction of a land and property inventory system, and the development of the tax administration capacity (registration, assessment and collection) of local governments.

These requirements involve the same problems that Japan has been confronted with in its postwar

period according to the recommendations of the Shoup Mission. The Japanese fixed property tax system is still in the process of development, but has still been successfully incorporated into the social structure of Japan. In postwar Japan, as seen in the period of the 'Remodeling of the Japanese Archipelago' in the 1970s and the period of the 'lost decade' in the 1990s, municipal finances have become separated from various macro-economic crises and have operated in a relatively stable way. The main reason for this is that municipalities have a fixed property tax as their fundamental tax after the recommendations of the Shoup Mission, unlike prefectural revenues, which are easily affected by business fluctuations.

It is also true that there are many technical obstacles to improving the system of property-related taxes. This may cause political conflicts. In some cases, there is a traditional power structure in which landowners or local strongmen provide individual preferential tax measure to supporters in exchange for votes (e.g. in the Philippines). In other cases, the royal family is a huge landowner (e.g. in Thailand). In these cases, the issue of property-related taxes may go far beyond that of local taxation to become a political issue. However, as can still be seen in the partial success of land assessment using GIS (Geographic Information Systems) in Thailand, it is reasonable to generalize the adoption of best practices and to promote gradual reform.

5-2-3 Design of the system of intergovernmental fiscal transfers

Since intergovernmental fiscal transfers are a major source of revenue for local governments in developing countries, the design of the system affects the outcome of decentralization. Moreover, rapid decentralization without proper income redistribution will widen interregional income disparities and lead to political instability. In many Asian countries, as decentralization has accelerated, income disparities have tended to increase. If this exacerbates ethnic and cultural differences, the nation might find itself on the verge of disintegrationist like the former Soviet Union and Yugoslavia, and presently in Indonesia. Indonesia promulgated a Law on Fiscal Balance between the central and local governments in 1999, and profits from oil and gas, which had been occupied by the national revenue only, were added to the items of revenue sharing. This was to respond the claims of the natural resources-producing provinces that are tending to move toward separationist and independence, such as the Special Territory of Aceh Province and Riau Province. Since the distribution of natural resources is quite imbalanced, differences in fiscal capacity are expected to widen further between the regions.

Further expansion of interregional income gaps should be prevented by a proper system of intergovernmental fiscal transfers. It is true that the extent of fiscal equalization does not cover the reality of the regional differences perfectly. Among Western industrialized countries, some have undertaken an excessive adjustment in spite of small regional differences in reality, and others have carried out little balancing to solve serious economic disparities between regions. Australia is an example of the former, and the United States of the latter. Postwar Japan, while accelerating economic growth, has shared the fruits of economic

growth evenly among regions through the Local Allocation Tax system with a detailed allocation formula which has satisfied the sense of egalitarianism of the Japanese. In contrast, China has adopted a policy of expanding the income gap between the interior areas and the urban areas. After all, the design of an allocation system is not a matter of pure theory, but depends on the enthusiasm of people for horizontal equalization.

At the base of intergovernmental finance in postwar Japan was the strong preference of the Japanese that people, wherever they were living in the country, should have equal access to and the duty of payment for public services. The Japanese hoped for the sound development of local autonomy in accordance with the Constitution and the Shoup Mission's Recommendation, but the redistribution of income continued to form the core of Japanese local finance. The system of the Local Allocation Tax is often criticized for the fact that its calculation is too complicated or that it reduces the taxation efforts of local governments. It is true that the system has redistributed to undeveloped areas the fruits of the high economic growth rate, which tend to be siphoned off by the urbanized areas, and that it has prevented the development of wide disparities in local financial power. The fund is reserved at a fixed proportion of the national revenues, and allocated based on the difference between the standard fiscal demand and the standard fiscal capacity calculated using an objective formula. This was quite fair, at least until the 1970s.

Fiscal transfers should be decided by an objective, reasonable and, ideally, widely accepted allocation formula. They should not be affected by secret political negotiations, but the decision on the transfer system adopted should be made by the central government, a neutral organization, or an official intergovernmental committee. The extent of governmental fiscal transfers should also be stable every year so that local governments can draw up appropriate budgets. At the same time, the transfers should be flexible so as to avoid a situation in which local finances adversely affect macroeconomic stability. These two conflicting conditions can be met when the total amount of fiscal transfers is fixed at a certain proportion of the national revenues, like the Internal Revenue Allotment in the Philippine, and the proportion is reviewed regularly through official negotiations.³ The allocation formula should be simple and there is a reliable basis for it. Complex formulas are not feasible or reliable. To include fiscal capacity into the allocation formula, it would be a good idea to use a simple substitute index such as the Gross Regional Domestic Product (GRDP).

Notes

¹ Discussion in the second section is derived from Chapter 3, Section 2 of this report "Fiscal Decentralization in Developing Countries (generalities)." For the references, see the end of Chapter 3.

² For the influence of decentralization on the macro-economy, see Bird and Vaillancourt [1998], pp.5-8.

³ Jennie Litvack, Junaid Ahamad and Richard Bird [1998].

5-3 Applying the Japanese Local Governmental Model to Other Countries

The discussions so far are not meant to unconditionally support the Japanese model for the development of local government. When attempting to apply the Japanese model to other countries in different conditions (especially to developing countries), there are several aspects that need further consideration. First, the inclination toward the ‘integrating’ approach that is shared widely by the Japanese people (especially after the war) was an important prerequisite for the success of the model. Without such an inclination embedded in the governmental system, the expected results will not be realized. The Japanese decentralization model was characterized by frequent communications and the system of loaning personnel between the central and local governments. However, if local governments regard the ‘integrating’ model as a form of coercion by the central elite, the Japanese model will be difficult to follow.

Second, although not discussed very thoroughly so far, Japan’s history of modern education over one hundred years undoubtedly contributed to the success of the Japanese model. With this tradition, Japan could rely on sufficient capable human resources. This was why local governments could quickly assume various administrative responsibilities and undertake development planning as soon as the new Constitution upgraded the legislative status of local governments. In typical developing countries that are lacking a substantial educated human resources and suffering delays in the expansion of educational opportunities, it would be unrealistic to assume that their local governments can work efficiently. We hypothesize that decentralization proceeds, not quickly, but gradually in the case of a lack of human resources.

Third, the period of rapid economic growth may also be a reason for the success of the Japanese model. People can share the surplus in a growing economy more easily, though this is difficult when the economy does not grow. For countries that have not achieved sustained economic growth, intergovernmental sharing of duties causes financial and political tensions that are hard to cope with. Such tensions occur when the surpluses are minimal or when governments behave as if they were playing a zero-sum game, in which the prosperity of one group automatically means the decline of another group. High rates of economic growth can no longer be expected from Japan’s mature economy and actually the nation has been in an economic morass for a decade. In the framework of the ‘integrationist’ model, Japan is introducing systems to facilitate competition between local governments. Policies to promote municipal mergers are now progressing in preparation for the era of competition.

With the above conditions, the Japanese model is a successful example of the development of local autonomy. Its characteristics and procedures are different from those of the ‘separationist’ model that appears to be the orthodoxy of decentralization. By examining the Japanese model carefully, developing countries may draw some valuable lessons about decentralization as a means of ensuring economic and social development.

Fourth, policy support that helps central governments to formulate policies for decentralization and for local capacity building is new ground for Japanese foreign assistance. Such assistance always requires dialogue on policies with the recipient countries and research on systems unique to the countries concerned. There have been cases in which reform without thorough research and mutual confidence has resulted in failure with the donor being practically excluded by the recipient. Here it is strongly recommended that a permanent forum be established consisting of experts from both the donor and the recipient countries. The forum should not be absorbed only in 'studies,' but its outcomes must be linked to technical cooperation and grant aid. In addition, it should include not only a limited number of representatives of the agencies of the central government, but also a variety of actors (local governments, related agencies, university researchers, NGOs, etc.) who are strongly interested in decentralization. Persistent efforts to obtain the understanding of the recipients is necessary; it should never amount to a series of 'visiting experts.' The forum will promote incentives for the recipients and increase the feasibility of proposals. This kind of joint research is new for Japan's assistance, and if successful it will set a new direction.

Fifth, in applying the outcomes of joint research to existing sectoral technical assistance and grant aid, it is necessary that (1) site selection should be carefully conducted; (2) experts should be dispatched utilizing resources in areas in which Japan has an advantage; (3) research outcomes from the projects should not be hard to understand, and easy to put into practice. The principle of site selection is to choose one local government that actively responds to the donor's proposals from several areas whose socioeconomic conditions are various. However, the central government may not have information on such 'ambitious' local governments, and a new information network may be needed. JICA has accumulated, therefore, the experiences and know-how in the area of policy support, starting with developments for the legal framework. It is also effective in dispatching experts directly from local governments in Japan, since they are usually highly motivated and these governments have a chance to develop a good continuing relationship with their counterpart in developing countries.

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