

Deepening Decentralization within Centrally Led States

Local Governance Reforms in Southeast Asia - 2020

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Messy, managed, and moving in one direction

Across Southeast Asia, decentralization is **driven from the center** and shaped by political priorities — producing an unsynchronized transfer of funds, functions, and functionaries. Yet despite tight central control, the trajectory was unmistakably toward **more, not less, decentralization**.



Managed from the centre Reforms are choreographed by ruling elites, mostly against a backdrop of peace.



Unsynchronized 3Fs Funds, functions and functionaries move to lower tiers at different speeds.



Organic & incremental Change happens without “big bang” reform.



Coordination is the frontier As decentralization deepens, coordination challenges grow.

THE CONTEXT

One trait shared across a strikingly diverse region

Southeast Asia spans communist one-party states, competitive democracies, constitutional monarchies and a federation — at every income level. The common thread: a steady transfer of resources and spending authority to lower tiers since the early 1990s.

261M

Indonesia's population

vs. 7M in Lao PDR

1

formal federation

Malaysia — 60+ years

3

communist one-party states

China · Lao PDR · Vietnam

A SPECTRUM OF POLITICAL SYSTEMS

Communist one-party

China · Lao PDR · Vietnam

Competitive democracy

Indonesia · Malaysia · Philippines

Constitutional monarchy

Cambodia

Military

Myanmar

Three archetypes — and two later entrants

The 2005 report grouped reformers by pace and ambition. A decade on, two previously centralized states have joined the wave.

Fast starters

Indonesia · Philippines

“Big bang” devolution — sweeping structural, fiscal and political reform in response to a sudden political stimulus.

Incrementalists

China · Vietnam

Piecemeal administrative and fiscal reform with modest political change and retained central control.

Cautious movers

Cambodia

Significant reform on paper at policy and legislative level — but limited progress in implementation.

LATER ENTRANTS

Myanmar — Before the military coup of 2020, a new sub-national tier under the military-drafted 2008 constitution; sudden devolution echoing Indonesia’s “big bang” to relieve centre–periphery tension.

Lao PDR — the 2012 “Sam Sang” directive and 2015 constitutional amendments created People’s Provincial Assemblies; implementation, like Cambodia’s, remains slow.

Managed transitions, driven by ruling elites

With few exceptions, decentralization in the region was a deliberate central strategy to improve governance, service delivery and participation — rarely a response to conflict, unlike in Sub-Saharan Africa or the Middle East.



Communist development strategy

China · Lao PDR · Vietnam

Rooted in market transitions: too large and complex to steer centrally, so authority was deconcentrated while the politburo kept political control.



Authoritarian-to-civilian transition

Indonesia · Philippines

Devolution relieved centre–periphery tension after Suharto and Marcos, curbing separatism across vast archipelagos.



Authoritarian rule

Myanmar

Controlled openings in the past that offered political space while protecting the core security and economic interests of the old regime.



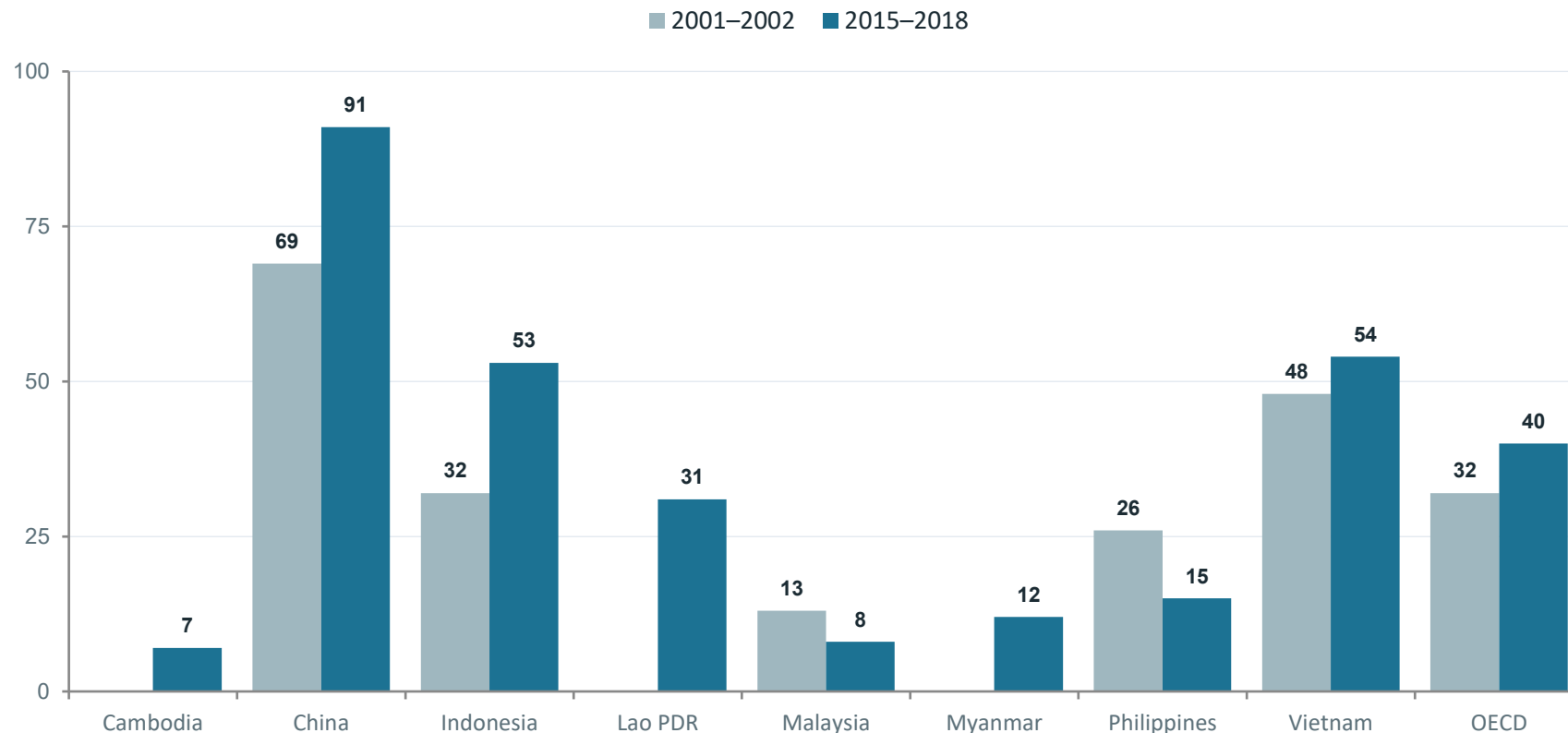
Stability & later conflict settlement

Cambodia · Philippines (Bangsamoro)

Cambodia reformed amid peace to consolidate party reach; the 2018 Bangsamoro Organic Law devolved real power as a peace settlement.

Sub-national spending has grown almost everywhere

Sub-national share of total government expenditure (%). China now runs almost all public spending through lower tiers; Indonesia and Vietnam clear half. Only Malaysia and the Philippines have retreated.



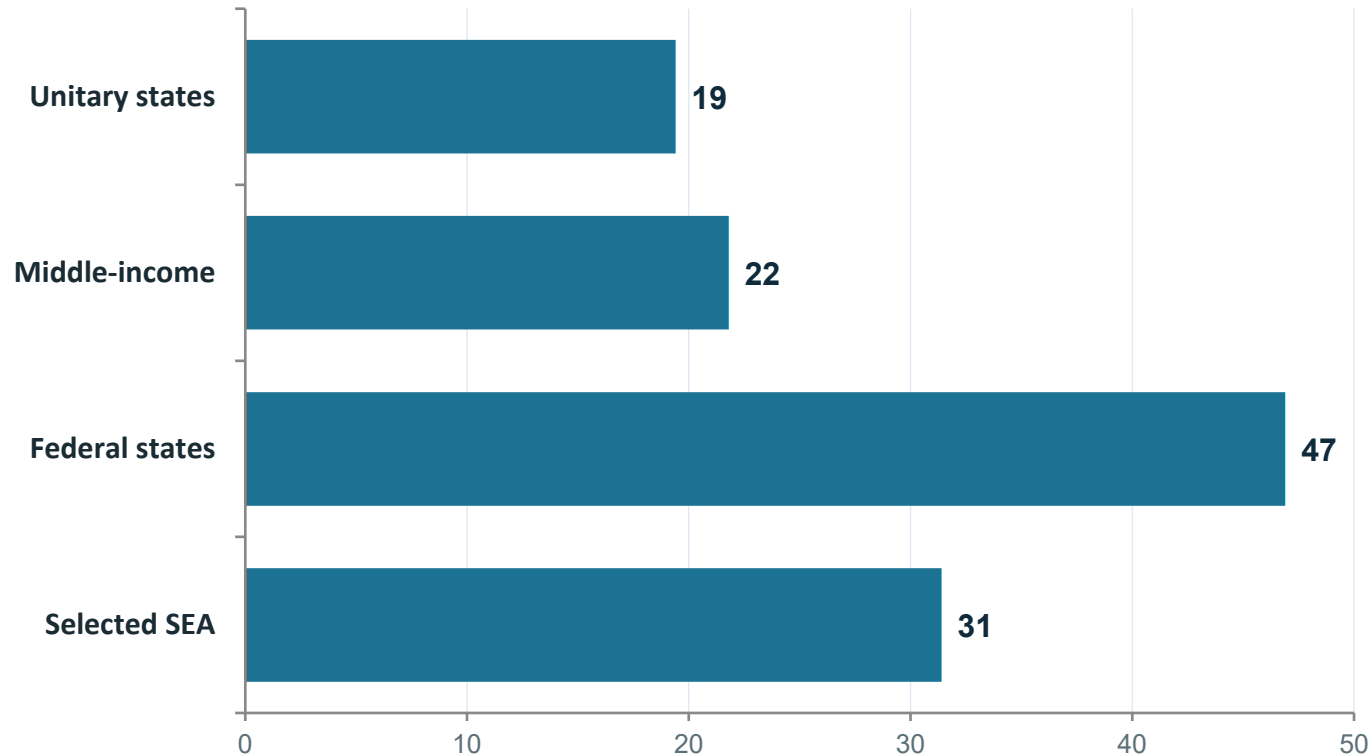
WHAT IT MEANS

Higher spend ≠ more autonomy.
Big sub-national shares often reflect deconcentration, not genuine devolved authority.

Source: World Bank (2005); OECD/UCLG (2019); Treasury & Finance depts.

Sub-national governments punch above their weight

Sub-national share of public expenditure (%), 2016. The region's SNGs control a far larger slice than other unitary or middle-income countries — approaching the average of federal states.



THE PARADOX OF A SMALL STATE

22.1%

Total government spending as a share of GDP in selected SEA — well below the 32% middle-income average.

China, Vietnam and Indonesia hold the 1st, 3rd and 5th largest sub-national shares of any unitary country worldwide.

Source: OECD/UCLG (2019).

How the sub-national tiers are built

Most countries run three sub-national levels with a province–municipality structure. Two stand apart at the extremes — and capital cities are almost always treated specially, sitting level with provinces.

Most of the region **3+ tiers**

Cambodia, China, Indonesia, Lao PDR, Philippines and Vietnam each run at least three sub-national levels, with an intermediate layer between province and municipality.

Malaysia **2 tiers**

A federation with no intermediate layer — state and local only — yet among the most centrally dominated in practice.

Myanmar (in 2000) **1 tier**

Uniquely, a single sub-national level at the provincial scale and no formal local tier; below it sits the centrally run General Administration Department.



THE CHINA OUTLIER

Provinces oversee populations larger than most countries and play the role a central government plays elsewhere. Yet SNGs have no inherent powers — no constitutional or dedicated legal basis for decentralization. All authority is delegated by the centre, which can rescind it.

90%+

of all government spending is sub-national

4

official sub-national levels

Spending sits low; the money handles sit high

Sub-national governments deliver most social services — but the major revenue handles (income and corporate tax) stay central. The result is a large vertical fiscal imbalance and deep dependence on transfers.

DEVOLVED TO LOWER TIERS

- ✓ Education — schools and most recurrent spending
- ✓ Health — clinics, many hospitals, public health
- ✓ Social welfare and local services
- ✓ Local infrastructure and economic development
- ✓ Land- and property-based taxes, fees and charges

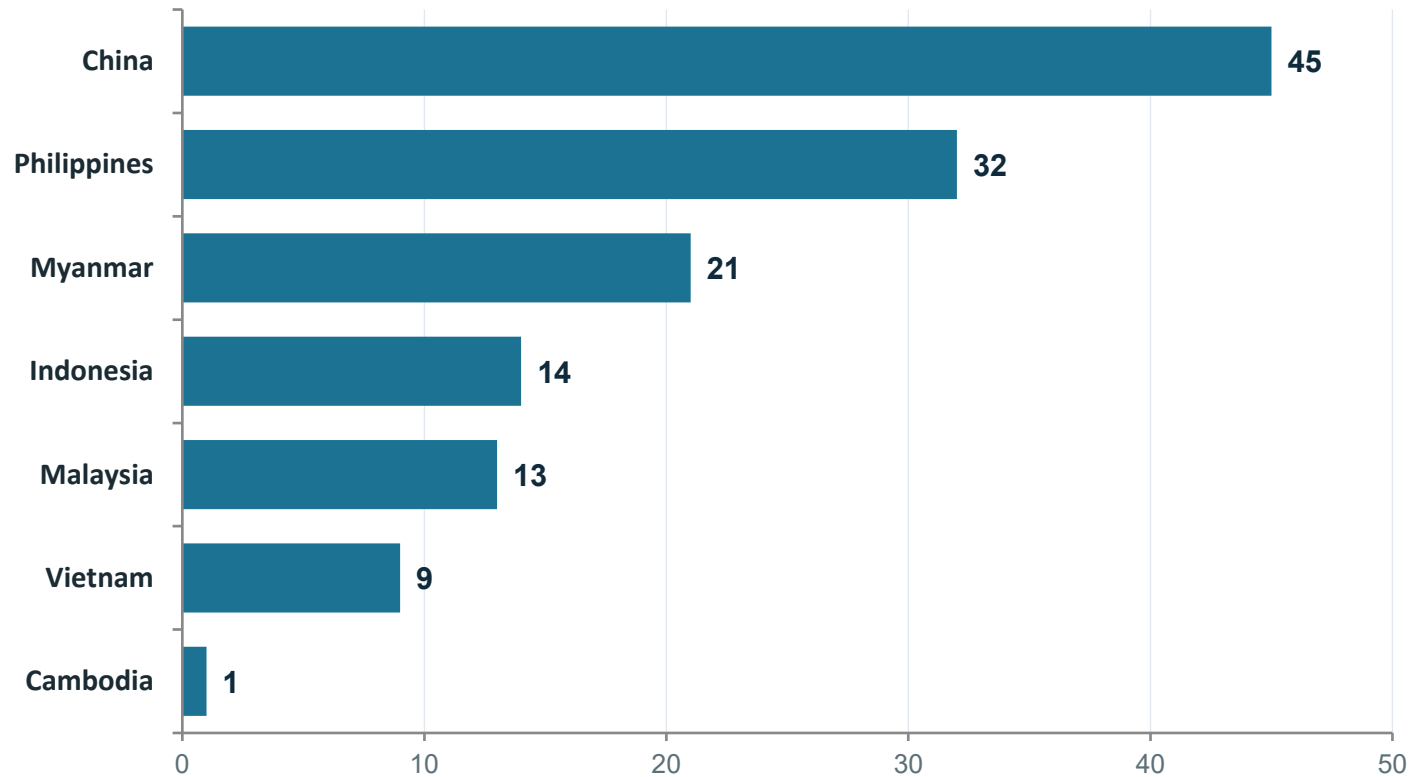
RETAINED AT THE CENTRE

- Personal and corporate income tax
- The power to set tax rates and bases
- The bulk of revenue from shared taxes
- Most natural-resource revenue (notably Myanmar)
- Civil-service pay scales and establishment size

The upshot: *own-source revenue rarely covers mandates, so sub-national budgets live or die by intergovernmental transfers.*

Own-source revenue is thin — and uneven

Own-source revenue as a share of total sub-national revenue (%). Outside China, most SNGs raise only a modest fraction of their own budgets, leaving them reliant on the centre and with little incentive to broaden local tax bases.



WHY IT MATTERS

1%

Cambodia's SNGs raised almost nothing themselves — transfers fund nearly all spending outside the capital.

Big internal gaps too.

In Myanmar, OSR was the majority of revenue in Yangon and Mandalay but near 10% elsewhere — fiscal capacity tracks economic geography.

Source: OECD/UCLG (2019); UNDP (2019); national sources. China OSR buttressed by SOE earnings; Lao PDR n/a.

Living on transfers — four instruments

With own revenue thin, central transfers do the heavy lifting. Four instruments are mixed differently in every country — but together they keep the centre firmly in the picture.



Unconditional / block grants

Dominant in Cambodia, Indonesia, Lao PDR and Myanmar; the Philippines' IRA was 62% of local revenue.



Conditional / earmarked grants

Used to steer spending in China, Indonesia and Vietnam — but mostly as input control rather than to drive performance.



Shared taxes

Allocated by where revenue is collected (the “derivation principle”). Major only in China (>50% of SNG revenue) and Vietnam (~20%).



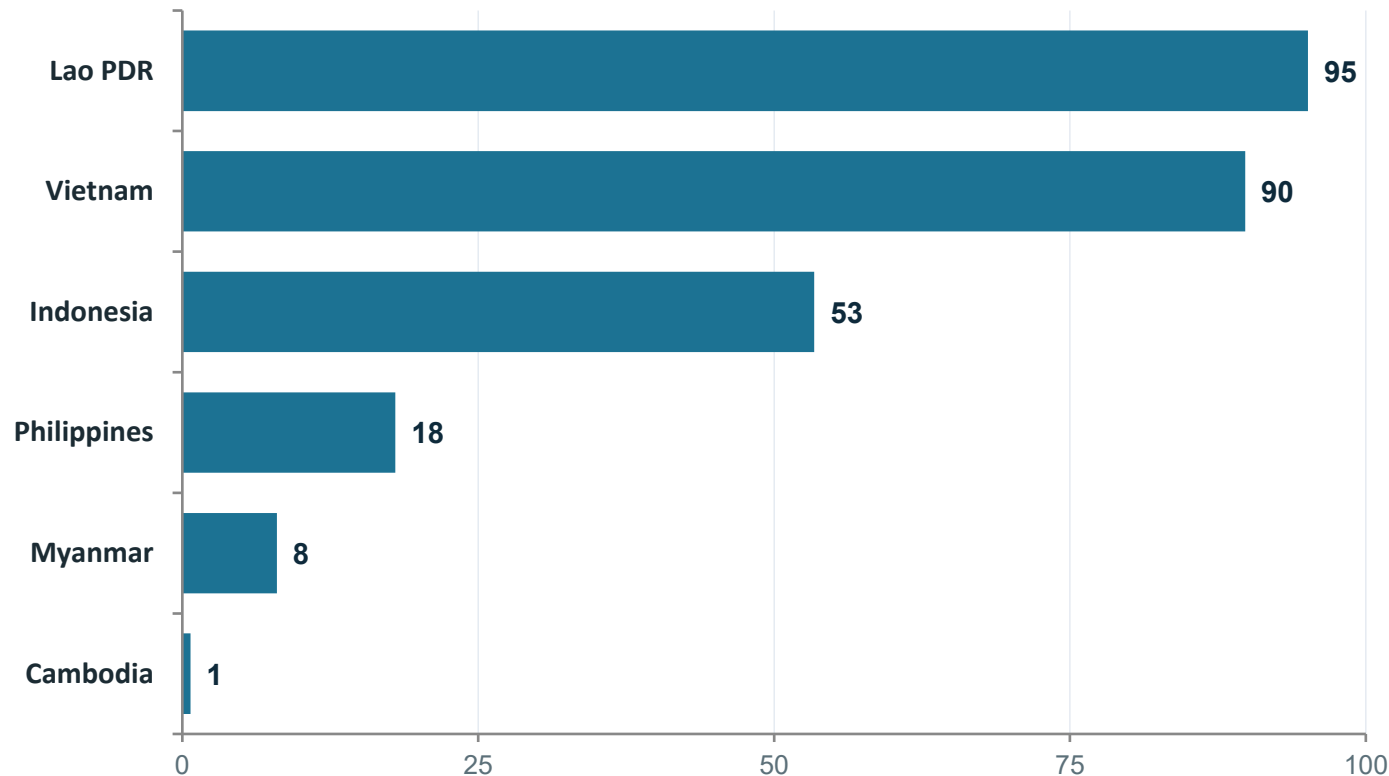
Natural-resource revenue

Shared in Indonesia (Aceh, Papua) and the Philippines; highly centralized in resource-rich Myanmar — a live issue in its peace process.

Transfers remain only mildly equalizing — large regional disparities persist, sharpest where wealth is concentrated (Cambodia, Myanmar).

Who pays the staff is not who controls them

Sub-national share of civil-service spending (%). Even where lower tiers carry most of the wage bill, central governments typically keep control of hiring, pay, posting and promotion.



CONTROL, NOT JUST COST

Lao PDR & Vietnam

pay 90%+ of civil servants locally — yet appointment and promotion stay politically steered from above.

Myanmar

is the extreme: SNGs had no permanent bureaucracy of their own, relying on the centralized General Administration Department.

Indonesia & the Philippines

sit at the other pole — real local power to hire, fire and promote.

Source: OECD/UCLG (2019); national finance ministries. China, Malaysia n/a.

Centripetal biases keep authority near the top

On paper, authority shifts down. In practice, a web of political, functional and financial levers keeps sub-national governments accountable upward.



Upward political accountability

In China, Lao PDR and Vietnam, party organs sit beside each SNG; executives are selected by — and report to — the tier above.



Central appointment power

Cambodia appoints provincial executives; Myanmar's president names chief ministers and the mayors of its two largest cities.



Concurrent functions

Overlapping mandates across tiers blur spending assignments and quietly subordinate SNGs to line ministries.



Fiscal veto

Nested budgeting lets the centre approve — and effectively veto — sub-national budgets in China, Lao PDR, Vietnam and Myanmar.

***"Federation without decentralization."** Even Malaysia — formally the most decentralized — concentrates real power in the Prime Minister's Department.*

Within the space they have, SNGs innovate

Despite the constraints, sub-national governments are reshaping the political and economic landscape — providing platforms for contest, representation and experimentation.



China: “crossing the river by feeling the stones”

Local pilots tested market reforms before national scale-up — central to the development model. But experiments are now rarer: provincial-level pilots fell from ~500 (2010) to ~70 (2016).



Myanmar: a static bureaucracy stirs (in 2000)

Mandalay’s “Smart City” forays — CCTV, real-time garbage-truck tracking, satellite land mapping — show positive deviance; sub-national parliaments grow more assertive.



Indonesia: a new political class

Devolution produced powerful regional leaders — President Joko Widodo rose from city mayor to governor of Jakarta to the presidency.



But fragmentation has costs

The Philippines’ deep devolution to tiny barangays brings duplication and elite capture; China and Vietnam even decentralize safety nets, weakening risk pooling.

Decentralization across politics and the 3Fs

Country	Political	Functions	Funds	Functionaries
Cambodia	Low	Moderate	Very low	Low
China	None	High	Very high	Moderate
Indonesia	Moderate	High	High	High
Lao PDR	None	Moderate	Moderate	Moderate
Malaysia	High	Low	Very low	High
Myanmar	Low/Mod	Very Low	Low	Very Low
Philippines	Moderate	High	Low/Mod	High
Vietnam	None	High	High	Moderate

INTENSITY OF DECENTRALIZATION



HOW TO READ IT

No single model. Political and fiscal decentralization rarely line up.

China & Vietnam: huge fiscal weight, zero political devolution.

Malaysia: high politics, very low funds — “federation without decentralization”.

Indonesia: the most evenly decentralized across all four dimensions.

PART V

Key lessons & pathways for reform

What the Southeast Asian experience teaches — and where reformers should push next.

Five lessons

The coordination challenge

Three levers

Five lessons from Southeast Asia

01

Decentralization ≠ federalism

It evolves in many forms. The common thread is transferring political, fiscal and administrative authority downward — drawn by the promise of pluralism, responsiveness and innovation, not by a single structural template.

02

Reform is political and top-down

Choreographed by ruling elites, mostly amid peace — to ease ethnic tensions, manage democratic transitions, or advance a communist development strategy, always without threatening central power.

03

Politics caps the payoff

Because political calculus dominated over efficiency and equity, reforms underdelivered. Top-down decentralization leaves the 3Fs unsynchronized.

04

Yet SNGs genuinely matter

They are reshaping the region's political and economic life — widening pluralism, opening space for local representation, and taking a growing share of service delivery and public investment.

05

The direction is one-way

Decentralization is broadening to new countries and deepening within them — organically, incrementally, and with the centre's involvement or at least its acquiescence.

As decentralization deepens, coordination is the test

The goal is decentralization that is sustainable, inclusive and accountable — matched to each country’s heterogeneity. The deeper reform goes, the harder coordination becomes, and the burden falls hardest where political authority is also devolved.

WHERE COORDINATION BITES HARDEST

Most acute — devolved politics.

Malaysia and the Philippines must coordinate across genuinely autonomous actors. The Philippines already shows substantial coordination strain.

Easier — built-in hierarchy.

China, Lao PDR and Vietnam rely on the party hierarchy to keep tiers aligned; Cambodia functions as a one-party state.

THE QUESTIONS EACH MUST SETTLE

Indonesia · Philippines

At which level should authority ultimately sit?

Cambodia

What can decentralization achieve under strong “single” party rule?

China · Lao PDR · Vietnam

How to keep evolving fiscal-administrative ties within a socialist frame?

Three levers to make decentralization work better

None of these requires a “big bang”. Each strengthens coordination, accountability and capacity within the grain of how reform actually happens in the region.



1

Clear lines of sight

Coordination needs information flows linking planning, resourcing, service delivery and performance. Without timely, actionable feedback, the incentive to perform erodes, blame-shifting spreads and resources are wasted.



2

A cohesive civil service

Draw on elite cadres like Malaysia’s Administrative & Diplomatic Service and Myanmar’s GAD. Foster esprit de corps, shared training of lower cadres and job rotations to build a common identity and ethic across government.



3

Smarter conditionality

Well-designed conditional, performance-based and matching grants can balance autonomy with accountability — paradoxically unlocking efficiencies by paving the way for a clearer transfer of functions and better 3F alignment.

Pre-condition: *today’s conditional grants are fragmented and costly. They pay off only when focused on national goals and performance — not process control.*

IN CLOSING

Not linear and technical — but incremental and hesitant

The primacy of politics means there is no technical roadmap and no best practice to copy. Expect roadblocks, detours and backsliding. And continued progress too.



Greater pluralism



Increased innovation



Better, fairer services

The mostly unitary states of Southeast Asia are muddling through — but towards the decentralized direction