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THE RULES OF THE INTERGOVERNMENTAL GAME IN EAST ASIA: DECENTRALIZATION FRAMEWORKS AND PROCESSES

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Although political forces have largely driven decentralization in East Asia and most countries face similar reform challenges, their decentralization experiences are far from uniform. Countries have adopted different intergovernmental structures, proceeded at uneven paces, and adopted a wide range of implementation strategies. This diversity is not surprising, as East Asian countries vary greatly in geographical size, population, history, economic structure, and political and institutional dynamics, all of which influence the form that decentralization can and should take.

This chapter provides expanded context for the analysis presented in chapter 1 and lays a foundation for later chapters. After reviewing the origins of decentralization, it compares the basic intergovernmental frameworks, structures, and processes evolving in Cambodia, China, Indonesia, the Philippines, Thailand, and Vietnam.[1] The chapter focuses, in turn, on enabling frameworks, the governance environment, fiscal decentralization, and the management and implementation of decentralization reforms.

The Basics of Decentralization in East Asia

This section briefly examines the origins and paths of decentralization in the region. It also outlines the levels and structures of government, compares the thrust of decentralization policy in various countries, and describes the enabling frameworks.

The Origins and Evolution of Decentralization Reforms

Some East Asian countries, such as China, have a long tradition of limited decentralization, while the concept is more recent in countries such as Cambodia. Crisis sparked decentralization in Indonesia and the Philippines, while in China and Vietnam it is part of a gradual process of market and public sector reform. In a few cases, decentralization is essentially complete (in structure if not in practice), such as in the Philippines, or heavily in process, such as in Indonesia. In other cases reforms are less advanced, either with limited policy development, as in

Cambodia, or a substantial but only modestly implemented framework, as in Thailand.

The Philippines has the strongest history of democratic decentralization in the region. The country's colonial heritage established limited democratic roots, and a series of presidential decrees enacted under the autocratic Marcos government—including the Local Tax Code, the Real Property Tax Code, and the Local Fiscal Administration Code—laid the institutional foundation for decentralization. The country reestablished democracy after the fall of Marcos in 1986, and decentralization and local autonomy were among the fundamental principles embodied in the 1987 Constitution. The Aquino administration launched a pilot decentralization project and established autonomous regions in Muslim Mindanao and the Cordilleras. But not until 1991 did constitutional provisions begin to take robust shape through the Local Government Code, which mandated significant devolution to local governments. Today a formal decentralization framework is essentially complete, but much effort remains to realize full implementation.

Although China's lack of democratic institutions may be seen as an impediment to decentralization, the country has some history of subnational authority because its size has made central control difficult. The provinces, in particular, have long enjoyed a degree of administrative and fiscal autonomy. The market transition that began in the late 1970s enhanced the subnational role. As economic reform progressed, changes in the composition of expenditures and relative prices moved the burden of public spending to subnational governments. These adjustments led to further modifications of government operations, but the country never adopted a formal decentralization policy. Still, by 1993, the central government was collecting only 20 percent of public revenues. This prompted the substantially recentralizing Tax Sharing System reforms in 1994. Public demand for more responsive government and greater entrepreneurial freedom has also shaped central-subnational relations, but formal intergovernmental political reforms have been limited.

Indonesia—also a large country and spread over thousands of islands—had elements of decentralization during its Dutch colonial period. As in many ethnically diverse countries colonized by European powers, building national unity through greater centralization was the goal after independence. Weak attempts to decentralize in the 1970s and 1980s did not gain political momentum. The East Asian economic crisis in 1997 hastened the fall of the Soeharto regime. Around that time, a successful independence referendum in the former province of East Timor and growing complaints from resource-rich provinces about insufficient revenue autonomy increased pressure for reform. The 1999 decentralization legislation was a direct response to this political crisis and a perceived need to hold the diverse and tenuously unified country together. The reform devolved power primarily to subprovincial governments, largely because of fear among national leaders that empowered provinces could fuel regional ethnic and political conflicts, leading to further separatism or federalism. The government revised the initial decentralization framework legislation in 2004. This increased higher-level control but left unresolved important aspects of the intergovernmental system. Local capacity is deficient in many areas, and citizens and government officials, both elected and appointed, are still learning to function in the evolving democratic environment.

Vietnam, which became a centrally planned communist state after the Vietnam War, has increasingly formalized the subnational government framework since the mid-1990s. As in China, economic reforms (*doi moi*) spurred initial progress on intergovernmental reform. The center still exerts substantial control, but subnational governments have some discretion. Provinces have greater powers, including considerable authority over lower levels. Popular participation and grassroots demand for political voice have grown, but Vietnam remains a one-party state and a fairly centrally driven system. The country has moved forward with its decentralization framework and conducted some successful policy experiments, but implementation is uneven and additional reforms are required.

Thailand has been modestly enhancing the role of subnational entities for some time, but decentralization has been a priority only since the Seventh National Economic and Social Development Plan (1991–96). The plan emphasized developing local infrastructure, providing credit to expand and improve local services, and helping local authorities mobilize capital and pursue development projects. The May Five democracy movement emerged in the mid-1990s to demand stronger democratic institutions more insulated from the military, which has long played a pivotal role in Thai politics. The Eighth Plan (1997–2002) advocated stronger local institutions, the 1997 Constitution formally enshrined decentralization, and later legislation detailed it. The country has formally adopted many reforms but implemented few of them, and political consensus on further progress remains unclear.

Cambodia's decentralization is relatively unique. Following elections brokered by the United Nations (UN) in 1993, the center reclaimed power from provincial governors—who had previously ruled with a free hand—in order to impose discipline on the intergovernmental system. The UN-funded Cambodia Resettlement and Reintegration (CARERE) Project of the early 1990s, particularly its second stage known as Seila, experimented with sweeping local institutional and governance reforms in many areas. Seila's success in delivering development projects made its formal integration into the government system attractive to the ruling party. Reforms adopted in 2001 led to the election of commune councils and provided them small intergovernmental transfers without formal service responsibilities or own-source revenues. This approach focuses on meeting immediate community needs and developing trust between citizens and the government as a first step in decentralization. Provincial reforms have been limited, except for the adaptation of Seila mechanisms to provide provincial support to communes and a few ad hoc reforms by individual sectoral ministries. A program to build capacity is under way and the country is planning further reforms, but it is unclear how the system will evolve.

Structures of Subnational Government

The structure of subnational governments in the region varies considerably (see table 2.1). Most countries have three or four levels of administration. In China, the Philippines, and Vietnam, each

TABLE 2.1 Levels of Government Administration

Country	Subnational levels of government
Cambodia	Two levels in two parallel systems: • Provincial administrations (20) and municipalities (4) with provincial status divided into districts and *khans* • Elected commune and *sangkat* (urban commune) governments (1,621) divided into villages
China	Four levels: • Provinces (22), autonomous regions (5), and large cities (4) • Prefectures and cities (300) • Counties (2,100) • Townships (44,000+)
Indonesia	Three levels (*de jure*): • Provinces (33), special regions (2), and capital city (1) • Local governments: *kotamadya* (cities) and *kabupaten* (districts) (440) • *Desa* (villages)
Philippines	Four levels: • Provinces (79) • Cities (112) • Municipalities (1,496) • *Barangays*/villages (41,944)
Thailand	Four levels with top three formally empowered: • Provinces (75) • Districts and municipalities (811) • *Tambons* (subdistricts) (6,744) • Villages (67,000+)
Vietnam	Three levels: • Provinces (58) and municipalities (3) • Districts (600) • Communes (10,000+)

Source: Compiled by the author from multiple sources.

level is an active player. In Thailand, all but the lowest level have formal authority. In Cambodia and Indonesia, two levels have independent powers, while other levels perform mostly subsidiary administrative and political functions. In Indonesia, the lower tiers have no formal functions or independent budgets, but centrally managed—often donor-funded—community development schemes have channeled substantial resources to them (see chapter 12). In Cambodia, the provinces (with district subdivisions) and communes (with village subdivisions) have functional mandates, although with a different relationship to the center.

A few countries also have ad hoc subnational institutional arrangements such as special status for the capital and other major cities. These include Jakarta in Indonesia and the Bangkok Metropolitan Administration and Pattaya City in Thailand. China, Indonesia, and the Philippines have created a number of autonomous regions, often in areas of special political, historical, or ethnic significance. A few countries have interjurisdictional structures designed to meet specific needs. The Philippines, for example, has designated 16 planning regions, each with a Regional Development Coordinating Council composed of provincial governors, city mayors, and representatives from national agencies and the private sector.

Decentralization Policy

East Asian countries also vary in the extent to which their decentralization policy emphasizes deconcentration, delegation, or devolution of functions and revenue authority (see box 1.1). Some countries such as China and Vietnam have seen legal or de facto deconcentration of functions to subnational entities that remain substantially accountable to the center, though elements of delegation and devolution have emerged. Thailand is gradually shifting its focus from deconcentration to devolution, but reform remains at a relatively early stage. Indonesia, the Philippines, and, to a certain extent, Cambodia have emphasized devolution of responsibilities to more autonomous subprovincial entities, but specific approaches differ (see table 2.2).

China's decentralization is unusual in that economic reform rather than specific deconcentration or devolution policies has shaped its evolution. During the last two decades China has transitioned from a largely deconcentrated system to one that incorporates elements of delegation and devolution. Subnational governments have become more responsible for financing their expanding functions from their own revenue, both formal and informal, giving them more autonomy except in

TABLE 2.2 Decentralization Policy

Country	Policy orientation
Cambodia	Hybrid case, with deconcentration to provinces and devolution to communes; commune system new and given greater emphasis, but provinces are more significant in terms of public expenditures.
China	Main focus on deconcentration to provinces and larger cities, although lower levels have larger public expenditure role and elements of de facto devolution have emerged in some areas; provinces have considerable regulatory control over lower levels.
Indonesia	Focus on substantial devolution to cities and districts, which replaced earlier emphasis on deconcentration to provinces; limited formal role at lowest levels; 2004 reforms increased the role of higher levels.
Philippines	Focus on devolution to subprovincial units, but provinces still play a significant role.
Thailand	Historical focus on deconcentration to provinces and districts, but 1997 framework shifts toward devolution to municipalities, districts, and subdistricts; implementation has been limited.
Vietnam	Focus mainly on deconcentration with stronger role for provinces, including regulatory control over subprovincial levels; subnational governments have been allocated rights over specific functions, approaching devolution.

Source: Compiled by the author from multiple sources.

sectors with mandated service standards (see chapters 1, 6, and 10).

In Vietnam, decentralization policy blends a deconcentration of service responsibilities with an allocation of rights that resembles devolution. The latter, however, is much less developed than the former, although provinces have considerably more power and autonomy than subprovincial entities. Even provinces are subject to minimum expenditure requirements in some sectors, and the central government still sets rates on major sources of revenue.

Thailand has long-established deconcentration policies but enacted a decentralization law in 1999. The country has drafted action plans for devolving specific functions to subnational governments, but has assigned relatively few functions thus far. The most significant devolution has occurred in infrastructure, quality of life, and natural resources and the environment. Decentralization of health and education has not yet occurred, though the ministries of Public Health and Education have proposed deconcentrating some responsibilities to area health boards and local education authorities until local governments can meet "readiness" criteria for full devolution. The country plans to enhance decentralization of revenues, which are now under substantial central control.

Decentralization reforms in Indonesia include both devolution of authority and, to a lesser extent, deconcentration of functions. Deconcentration to provincial authorities was the dominant form of decentralization before 1999, when the emphasis shifted to devolution to city and district governments. Local governments have broad functions and receive substantial intergovernmental transfers, but have limited revenue authority. The country has increasingly developed the legal framework (most recently through Laws 32 and 33 of 2004), but functional responsibilities and subnational revenues require further elaboration and regulation.

In the Philippines, deconcentration was historically important. The Integrated Reorganization Plan of 1972 divided the country into 11 (later 16) regions, each with administrative authority. In 1991 the center devolved many responsibilities, personnel, and resources to local governments. These governments have some revenue authority, but most resources are subject to central control. Provincial departments continue to be major providers of national services, though the country has not emphasized formally deconcentrating more responsibilities to them.

Both devolution and deconcentration reforms are occurring in Cambodia. The decentralization to elected commune councils is a limited form of devolution, while the central government is planning to deconcentrate responsibilities to provinces and municipalities. Progress with devolution—albeit modest—has been more rapid than with deconcentration, owing largely to the Seila Program's significant influence over institutional reform since the mid-1990s. Deconcentration reform is at an earlier stage and more fragmented, although a few central ministries, such as Agriculture, Education, and Health, have experimented with limited functional deconcentration. Communes have relative autonomy in pursuing small-scale local priorities with the modest resources they receive, but their fiscal roles are limited.

The Formal Basis for Decentralization

The formal basis for decentralization varies widely throughout East Asia (see table 2.3). A few countries have a constitutional basis for subnational governments, and most have at least a law or set of laws that defines the decentralization framework. The formal basis and extent of this framework do not seem to be closely associated with decentralization performance, as highlighted in chapter 1. Still, the nature and depth of enabling provisions could become more important as challenges to decentralization arise.

Thailand and the Philippines have both a constitutional and a legal basis for decentralization. Thailand's 1997 Constitution clearly specifies principles of local autonomy and elected representation, and establishes specific intergovernmental reform objectives. A National Commission on Public Sector Reform includes a subcommittee to implement decentralization policy. The cabinet approved a Local Fiscal Master Plan in 1997, which defined the framework for Decentralization Act of 1999 reforms. Yet the country needs further legal and regulatory instruments to define the subnational system more fully. The constitutional and

TABLE 2.3 Decentralization Frameworks

Country	Formal basis for decentralization
Cambodia	*Legal and administrative basis:* Provincial Budget Law (1997) gives limited functions to provinces; Law on Commune/*Sangkat* Administrative Management (2001) and Election Law (2001) establish commune system; all legislation clarified in numerous administrative decrees.
China	*No constitutional or dedicated legal basis:* Comprehensive Fiscal Reform (1994), Budget Law (1995), and Tax Sharing System (1994) relevant for roles of subnational governments.
Indonesia	*Legal basis and constitutional amendment:* Law 22 on Regional Government (1999) amended as Law 32 (2004), Law 25 on Fiscal Balance between Central Government and Regions (1999) amended as Law 33 (2004), and Law 34 on Regional Taxes/Levies (2000) (to be amended) provide a framework for decentralization; constitutional amendment (2000) strengthens basis for decentralization.
Philippines	*Constitutional and legal basis:* Constitution (1987) provides for local government autonomy; Local Government Code (1991) and various Marcos-era and post-Marcos laws define aspects of the intergovernmental system.
Thailand	*Constitutional and legal basis:* Constitution (1997) specifies principles of local autonomy and elected local government; Provincial Administration Act (1997) codifies deconcentration policies; Decentralization Act (1999) defines functions and decentralization process.
Vietnam	*Legal and administrative basis:* Law on Organization (1994), Ordinance on Concrete Tasks (1996), Budget Law (1998), and revised Budget Law (2002) assign functions and resources to subnational governments.

Source: Compiled by the author from multiple sources.

legal basis for local government is stronger and more specific in the Philippines. Articles II and X of the 1987 Constitution establish the autonomy of local governments and give them the power to create their own sources of revenue. The Local Government Code of 1991 codifies existing laws on local government, provides for substantial devolution of services, and creates local institutions, such as school boards, development councils, health boards, and peace and order councils.

Most other East Asian countries have a legal but not a constitutional basis for decentralization. Cambodia does not have a unified decentralization framework. However, the Provincial Budget Law of 1997 provides for modest provincial fiscal powers, and the Commune/*Sangkat* Administrative Management Law and the Commune Election Law of 2001 broadly define the functions and structures of commune councils and procedures for electing them. No legislation deconcentrates powers to provincial and district governments, but the country is developing such a law within the framework of the National Program for Administration Reform.

Two main laws established decentralization in Indonesia. Law 22 on Regional Government of 1999 eliminated hierarchical relationships between cities and districts and higher levels of government, granting the former autonomy and broad responsibilities. This legislation has been revised as Law 32 of 2004, which allows for the direct election of subnational leaders beginning in 2005, reestablishes central control over the hiring and firing of civil servants, and requires ex ante approval of subnational budgets. Law 25 on Fiscal Balance of 1999 modified the intergovernmental transfer system and provided for limited local revenue authority. This law has been updated as Law 33 of 2004, which further defines aspects of the intergovernmental fiscal system. Law 34 on Regional Taxes and Levies of 2000 modestly enhances local revenue authority and the government has plans to expand these powers in future legislation. Constitutional amendments passed in 2000 consolidated certain decentralization reforms and make it more difficult for the National Assembly and the president to substantially reverse them.

Vietnam has no constitutional basis for decentralization, but a 1994 Law on Organization and a 1996 Ordinance on Concrete Tasks assign functions to provinces and districts. Decentralization is an important part of the Public Administration Reform Program launched in 1995. Budget laws in 1996 and 1998 also formalized fiscal arrangements among levels and assigned budgeting responsibilities to subnational governments, particularly provinces. More recent legislation, including the revised Budget Law of 2002, provides more details on subnational functions and revenue sources.

China has the weakest formal basis for decentralization. Because intergovernmental changes in China have occurred mostly through economic reform, they have no constitutional or dedicated legal framework. Intergovernmental fiscal relations rest largely on a complex system of bargaining between higher-level and lower-level authorities. Since 1994 a number of reforms and legislative changes have clarified the fiscal responsibilities of different levels of government somewhat, although important areas remain undefined. The most relevant reforms include the 1994 Tax Sharing System, the 1994 Comprehensive Fiscal Reform, and the 1995 Budget Law.

The Governance Environment

This section reviews key aspects of the governance environment in East Asian countries; subnational elections, autonomy, and transparency; and the role of civic participation mechanisms and civil society organizations. These factors, among others, help determine governance quality in a decentralizing environment (chapters 5 and 11).

The National Political Environment

East Asian countries exhibit a broad spectrum of political environments. China and Vietnam are single-party states. In Cambodia a single party dominates, while Indonesia, the Philippines, and Thailand have multiple competitive parties. All of these countries have some type of national and subnational assemblies. Table 2.4 summarizes key features of their political systems.

China is a popular republic with a single official political party, the Chinese Communist Party. Minority parties are extremely small and play no role in the political process. The executive branch encompasses a state council, which includes the prime minister. The president serves as head of state. The legislative body—the National People's Congress—is elected by representatives of lower-level legislatures and designates the president and prime minister. The Chinese Communist Party plays a pivotal role through its power to designate senior officials throughout the governmental system. Vietnam is also a one-party state, with the Communist Party the leading force. Party organizations at all levels must operate within the constitutional and legal framework, but they have great power in determining who can run for elected office. The main legislative body is the National Assembly, which localities elect directly. As in China, National Assembly delegates elect the president and prime minister.

Cambodia is a constitutional monarchy under a democratic regime established in the 1991 peace accord. The executive branch includes the king, as head of state, and the prime minister, who holds the real power as head of government. The legislative branch includes a National Assembly and a Senate. The Cambodia People's Party has dominated recent elections, but other parties have won national and subnational seats. Opposition parties did well enough in July 2003 elections that negotiations to form a new government took a full year. Like Cambodia, Thailand is a constitutional monarchy with a unitary democratic government. A directly elected Parliament selects a prime minister. The country has a multiparty system with a history of unstable coalition governments and military intervention. Under the 1997 Constitution, however, the country is evolving into a two-party system dominated by the incumbent Thai Rak Thai Party and the opposition Democrat Party, with the latter advocating decentralization.

Indonesia and the Philippines are both democratic republics. Indonesia's governmental structure is particularly complex. The main legislative body is the largely elected People's Assembly (DPR). In 1999 the electoral system included hybrid proportional and district elements based on closed party lists (voters could not vote for individuals). Most of the 500 DPR members were elected, but 38 were appointed by military and police factions. The People's Consultative Assembly (MPR), which included the DPR plus 135 members selected by provincial

TABLE 2.4 Basic Features of Political Systems

Country	Governmental system	Political competition	Legislative branch	Executive branch
Cambodia	Constitutional monarchy	Multiparty; Cambodia People's Party dominates	National Assembly and Senate with direct elections	King (head of state); prime minister (head of government) designated by National Assembly
China	Popular republic	Single party: Chinese Communist Party	National People's Congress elected by lower-level congresses	President, vice president, and state council (15 members, including prime minister) all designated by National People's Congress
Indonesia	Democratic republic	Competitive multiparty system	People's Assembly (DPR) directly elected; largely consultative Regional Representative Council (DPD) created in 2004; People's Consultative Assembly (MPR) composed of DPR and DPD manages constitutional reform	President elected by the People's Consultative Assembly until direct election in 2004
Philippines	Democratic republic	Competitive multiparty system	House of Representatives and Senate largely directly elected	President elected directly by the people
Thailand	Constitutional monarchy	Multiparty: two dominate	Parliament with direct elections	King (head of state); prime minister (head of government) designated by Parliament
Vietnam	Popular republic	Single party: Vietnamese Communist Party	National Assembly elected by lower-level assemblies	President and state council (including prime minister) designated by National Assembly

Source: Compiled by the author from multiple sources.

legislatures and 65 members representing other groups, met only as needed to elect the president and reform the Constitution. The country adopted major changes for 2004 elections. Political representation by the military, police, and special interest groups ceased, and Indonesians directly elected the president. A new, territorially based, and largely consultative body, the Regional Representative Council (DPD), was also elected, and the DPR and the DPD now together constitute the MPR, which retains only its as-needed constitutional reform function. Until the 1998 collapse of the Suharto regime, Indonesia was effectively a one-party state run by the Golkar Party. Golkar still plays a major role and did well in the 2004 elections, but other parties, particularly the nationalist Democratic Party and the United Development Party, an Islamic party, have become more powerful. The resounding defeat of former President Megawati Sukarnoputri by former army chief Susilo Bambang Yudhoyono in the 2004 direct elections signals a new era in Indonesia's democratization, and has raised expectations of the national leadership.

The Philippines also has a multiparty system, and competition typically requires parties to form a coalition government. The country relies on direct elections to fill all elective offices, including the president and members of the House of Representatives and the Senate. The exception is the provision for a limited number of special party-list representatives

TABLE 2.5 Subnational Assemblies and Elections

Country	Subnational assemblies and elections
Cambodia	Subnational representative bodies elected through universal suffrage only at the commune level.
China	People's Congresses in China exist at all levels of government, but only the village level is directly elected.
Indonesia	Regional People's Assemblies elected at local and provincial levels.
Philippines	Directly elected bodies exist at all subnational levels of government.
Thailand	Different types of subnational governments have directly elected councils of different sizes.
Vietnam	People's councils at all levels of government are directly elected and ratified by the immediately superior council.

Source: Compiled by the author from multiple sources.

of marginalized sectors, where people vote for parties rather than individuals.

Subnational Elections

All East Asian countries reviewed here have subnational government assemblies, but they vary considerably in whether and how they elect those assemblies (see table 2.5). The number of levels, the size of jurisdictions, whether the elections are direct or indirect, the degree of political competition, and the relationship between elected councils and subnational executives all influence the degree of genuine subnational representation and accountability.

At one extreme are China and Vietnam, where the Communist Party heavily influences subnational elections, reinforcing upward accountability. In China, People's Congresses exist at all levels of government, but voters elect delegates only at the village level, which is not a formal unit of local government. Subordinate congresses elect delegates to higher-level congresses from party lists. In Vietnam, People's Councils are elected through universal suffrage at all levels, but leaders are elected by council members and ratified by the People's Council at the next level.

Other countries hold more freely contested elections, but not at all levels. Cambodia holds subnational elections with universal suffrage only for commune councils. These are elected with a five-year mandate on a proportional basis, such that the councils can include representatives of more than one political party. The council chief is the individual receiving the most votes on the majority-party list. The Cambodia People's Party dominated the first local elections in 2002, but other parties also won seats on many councils. Indonesia directly elects the Regional People's Assemblies (DPRD) at local and provincial levels. Under Law 32 of 2004, subnational leaders (governors and mayors) will be directly elected and can be removed with cause by the DPRD, subject to higher-level approval.

Thailand holds subnational elections every four years at all but the lowest (village) tier. The Local Election Act of 2002 shifted responsibility for conducting local elections from the Ministry of the Interior to the Election Commission, a new independent constitutional agency. Various levels of subnational government have councils of differing sizes that are directly elected. Council members have elected the chair of subnational councils, except in the Bangkok Metropolitan Administration, where the governor is popularly elected. Broader direct election of subnational executives (although not provincial governors) is intended for the future. Among countries with multiple political parties, only the Philippines conducts elections at all levels. Per the 1991 Local Government Code, the country holds subnational elections every three years, except at the *barangay* level, where they occur every five years. The Local Government Code also created special-purpose representative bodies such as Local Development Councils, which formulate and ratify development plans.

Subnational Autonomy in Budgetary and Personnel Decisions

The autonomy of subnational governments varies considerably across East Asian countries (see table 2.6). This section characterizes their independence in making budgeting and personnel decisions

TABLE 2.6 Subnational Budgetary and Personnel Autonomy

Country	Degree of subnational autonomy
Cambodia	Commune governments have their own budgets, whereas provincial budgets are linked to the national budget; strong central civil service control.
China	Subnational governments have their own budgets but are hierarchically integrated with higher levels and subject to central civil service regulations; control is weaker in practice and off-budget activity is considerable.
Indonesia	Subnational governments initially had complete budget autonomy, with next-higher level having legality review, and national civil service regulations allowed a reasonable degree of subnational discretion; Law 32 of 2004 significantly expanded higher-level control over budgeting and the civil service.
Philippines	Subnational governments prepare budgets with legality review by next-higher level; national civil service regulations allow subnational discretion.
Thailand	Local governments prepare budgets subject to certain central mandates and follow civil service regulations; major reforms planned.
Vietnam	Subnational governments have their own budgets, but these are hierarchically integrated and approved by higher levels; this is being phased out, and major cities have been permitted to experiment with greater autonomy.

Source: Compiled by the author from multiple sources.

(see also chapters 1, 5, and 7). Subnational governments in some countries are subject to significant control by higher levels, although such control is not always exercised effectively. In other cases, subnational governments are more independent.

Official autonomy is generally weak at the subnational level in China and Vietnam. In China, subnational budgets are approved by People's Congresses at the same level, but hierarchical linking of budgets, a lack of local tax autonomy, higher-level directives, and earmarked funding offset this discretion somewhat. Most subnational officials are also appointed by People's Congresses at the same level, but higher levels appoint top officials. These senior officials increasingly come from lower-level ranks rather than the central bureaucracy, which may improve local accountability. Management of the subnational civil service closely follows national regulations, although local leaders exercise some discretion.

Although subnational People's Councils in Vietnam have their own budgets, they are integrated into a hierarchical system that requires higher-level approval. Provinces have more expenditure autonomy than subprovincial levels. As of January 2004, provincial budgets no longer require approval from the National Assembly, and Provincial People's Councils have some authority to assign expenditure and revenue functions among subordinate levels of government. Central rules and regulations govern staffing of the People's Councils, but each level of subnational government now has limited discretion in managing local personnel. Pilot schemes in Hanoi and Ho Chi Minh City allow even more local discretion in managing budgets and personnel.

The Philippines has established fairly strong local autonomy, in principle. Local governments prepare their own budgets, which are reviewed at the national level in the case of provinces and cities, and by provinces in the case of municipalities and *barangays*. This review is intended to ensure that budgets meet regulatory requirements, not to interfere in composing the budgets. Civil service regulations, particularly regarding salary, are national, but local chief executives exercise some discretion. Salaries of local officials may vary widely, as some local governments lack the funds to meet national standards.

Indonesia, Thailand, and Cambodia fall in the middle of the autonomy spectrum. Indonesia's Laws 22 and 25 of 1999 originally provided for strong regional autonomy in principle. Local governments had authority over their budgets, subject to national legality review, and technically controlled their staff subject to national regulations. On the other hand, local governments did not select many of their staff, who were transferred under the 1999 decentralization, along with substantial intergovernmental transfers to support them. As noted, recent revisions to Law 22 (Law 32 of 2004) expanded central control over budget and civil service decisions. Subnational budgets require formal approval rather than legality review, and authority to hire and fire subnational civil servants has been significantly recentralized.

In Thailand, local governments prepare and execute their own budgets, but they are subject to central direction. A significant share of local expenditures is centrally mandated, with the largest portion devoted to personnel expenses (representing 30 percent of local budgets, on average). Central directives govern staff numbers, salaries, and benefits. Major reforms, however, are intended to eventually move this highly centralized civil service to one where local governments have considerable authority over personnel management.

Cambodia is a more unusual case, as its system is new and the gap between provincial and local procedures is significant. Centrally appointed provincial governors have some power and influence in coordinating budgets, but provincial line departments are primarily accountable to parent ministries. Commune councils have greater autonomy, in principle: they have some discretion in preparing plans and budgets if they follow basic guidelines. Under nascent decentralization, however, centrally appointed key staff limit local autonomy. For example, the Ministry of Interior appoints the commune clerk (though council members can request a replacement if they show cause), and the commune treasurer is a member of the Provincial Treasury (though officially required to follow the instructions of the commune council).

Subnational Transparency

East Asian countries have all made some attempts to improve transparency and expand access to information at the subnational level, but intent has often been more substantial than practice (see table 2.7). Some countries, such as the Philippines, provide extensive public documentation of and access to subnational government budgets and other information, while other countries, including China, do not. Audits do generally occur—internally in some cases, both internally and externally in others—but countries usually do not monitor subnational budget performance comprehensively.

Transparency in China and Cambodia is low. In China, a finance director for each subnational government provides an annual report to the People's Congress on budget implementation and the main features of the current budget. This is the only document on subnational budgets and includes only highly aggregated data. Substantial off-budget funding also limits transparency. Internal audits are relatively strong in the Chinese system. Local audit bureaus conduct external audits, but these fall under the direct authority of the subnational government. External auditing by higher levels is infrequent. There is no system for evaluating budgets, although the central government does focus on meeting targets in priority areas such as family planning and tax collection. Cambodia has a legal framework for budget review, including the 2000 Audit Law. However, the capacity to implement this system is not in place, and public access to documentation is limited.

TABLE 2.7 Subnational Transparency

Country	Mechanisms for subnational transparency
Cambodia	Evolving commune reporting requirements provide public information in some areas; National Audit Authority weak.
China	Limited publishing of official subnational government documents; strong internal audit; external audit weak and not independent from executive.
Indonesia	Various public reporting requirements but weaker in practice; Commission on Audit has mandate to review subnational governments but limited in practice.
Philippines	Several subnational public reporting requirements; Audit Commission review of budgets; internal audit generally weak.
Thailand	Subnational governments required to generate significant public financial reports; external audit hampered by capacity limitations; internal audit generally weak.
Vietnam	Well-defined system of reporting but weaker in practice; State Audit reviews subnational governments, but not independent from executive; weak internal audit.

Source: Compiled by the author from multiple sources.

The Philippines, Indonesia, Thailand, and Vietnam have adopted transparency frameworks, but they do not always function well. In the Philippines, budget documents—including reports on implementing the previous budget and an annual financial report—are made public. The Department of Budget and Management and the Commission on Audit require regular accountability reports, and the financial transactions of local governments are subject to ex post review by the Commission on Audit. In Indonesia, budget documents are supposed to be public and external audits are conducted, although not always on schedule because of capacity constraints in higher-level departments. The revised Constitution guarantees freedom of information, and a new anti-corruption law requires access to information. However, bureaucratic barriers make exercising these civic rights difficult.

Thailand has been improving transparency. The 1997 Constitution guarantees freedom of information, although the country has not yet passed laws implementing that freedom. Local governments must submit budget plans, financial reports, and procurement reports to the Department of Local Authority Promotion, the Bureau of the Budget, and the Auditor General. All are publicly disclosed, and some local authorities prepare publications and Web sites. Internal auditing is weak except in large cities. The auditor general and provincial audit units are credible but do not have the capacity to audit all subnational governments. Vietnam has a well-defined system of reporting from lower to higher levels, and governments must make certain budget data public. Internal auditing is seriously deficient, primarily because of capacity constraints. The State Audit of Vietnam must audit all subnational governments, but the agency is not independent of the executive. Subnational budgets include no performance measures.

The Role of Civic Participation and Civil Society

Most East Asian countries officially require civic participation, and civil society organizations generally exist, but their development and influence vary substantially (see table 2.8). This section focuses on how central governments engage citizens in decision making and support and regulate civil society organizations. In countries with limited democratic institutions, such as China and Vietnam, mechanisms for civic participation tend to be weak, and civil society less independent of the state. The roles of nongovernmental organizations (NGOs) also differ greatly across East Asia, with some taking direct responsibility for providing

TABLE 2.8 Subnational Civic Participation and Civil Society

Country	Subnational civic participation	Subnational civil society
Cambodia	Civic participation introduced in the context of emerging commune system, but weak in many areas.	Some active civil society groups emerged from the period of civil war.
China	No formal government mechanisms for civic participation.	Civil society organizations permitted but heavily regulated, creating disincentives.
Indonesia	Civic participation encouraged and sometimes required by donors, but no official mechanism.	Emerging civil society, but complex and limited in some respects.
Philippines	Civic participation framework in Local Government Code (1991), but no formal mechanism.	Relatively active civil society.
Thailand	Strong constitutional and legal basis for civic participation; much weaker in practice.	Civil society groups limited but growing.
Vietnam	Civic participation mechanisms encouraged under Grassroots Democracy Decree (1998), but new and unfamiliar.	Many civil society organizations, but major groups are under state control.

Source: Compiled by the author from multiple sources.

services. Cambodia, Indonesia, and Thailand, for example, boast many active NGOs, but they tend not to interact extensively with local governments.

Civic participation mechanisms are most developed, and civil society the most organized and dynamic, in the Philippines. Civil society grew during the Marcos dictatorship, when antigovernment sentiment was high and focused on "people's empowerment." After the democratic transition, civil society organizations became more active. The 1987 Constitution and Bill of Rights ensure the rights of independent NGOs and facilitate popular consultation. The 1991 Local Government Code requires public participation in *barangay* development plans and certain local functions. A *Barangay-Bayan* Network assists *barangays* in developing plans and projects, and the Local Government Code Network supports governance. Despite these positive features, the country has room for improvement. The country has not implemented key constitutional provisions on the representation of marginalized groups and local referenda, and civil society includes armed left-wing groups that threaten national stability.

The official framework for civic participation and civil society is relatively strong in Thailand and Indonesia. Thai military regimes discouraged NGOs, but civil society is now officially considered important for good governance. Thailand's 1997 Constitution requires the state to promote popular participation in preparing policies and plans, making public decisions, and monitoring the exercise of state power. The Constitution also enshrines the right to petition and receive a response from the state, and to peacefully resist unconstitutional attempts to acquire power. The Eighth Development Plan (1997–2001) supported the emergence of local civil society, but slow progress on decentralization has constrained the development of civil society organizations.

Neither Indonesia's Constitution nor its recent Bill of Rights mentions popular participation. However, the country does have some local tradition of community consultation. For decades, repression and state-organized unions weakened social participation. Thousands of NGOs have sprung up since the late 1980s, but the Internal Security Law limited their development. The movement that overthrew Suharto dissipated without developing into strong civil society organizations, but those that attained formal status have moved into advocacy on key policy issues. Examples include attempts by the Forum for Popular Participation to push amendments to Law 22 of 1999, and the support of citizen forums by the Indonesian Partnership in Local Governance Initiatives, a network of local NGOs.

China and Vietnam do not emphasize civic participation and do not have vibrant civil societies. Formal NGOs have a shorter history in China than in other East Asian countries, and social welfare is considered the responsibility of central government. In the late 1970s and 1980s, government departments at all levels approved and managed social organizations. As these groups proliferated, the Ministry of Civil Affairs took control of this process in 1988. In 1989, after the Tiananmen incident, new regulations were applied retroactively and became even stricter and more extensive in the late 1990s. Social organizations—official, semiofficial, and popular—must register and win sponsorship of a government agency. Only a minority of grassroots organizations has been able to register legally. Many are financed by international agencies, but support is scarce in less-developed areas. In the late 1990s, a government campaign to regularize NGOs required reregistration at the Ministry of Civil Affairs. The number of NGOs fell from 180,000 in 1995 to 160,000 in 2000.

According to Vietnam's 1992 Constitution, the Communist Party is the leading organ of the state, which includes civil society and mass organizations. Economic reform, however, has encouraged the development of civil society. The country enacted a Law on Co-operatives in 1997 and issued a Grassroots Democracy Decree a year later, establishing a legal framework for citizen participation at the commune level. The Law on Complaints and Denunciations is now under revision to expand opportunities for citizens to register complaints against the civil service. State-sponsored mass organizations, however, are still the major form of social organization. Representatives of the Women's Union, Youth Union, Farmer's Union, and General Confederation of Labor—whose memberships include a large proportion of citizens—sit on national and local committees that discuss policies affecting their constituencies. Strictly speaking, state-sponsored mass organizations are not part of civil society, although they have become somewhat more like NGOs. A growing number of community-based organizations, such as water users' associations, medical volunteers, and village development committees, have formed and are enhancing Vietnamese civil society. A 2003 decree on NGOs recognizes their importance, but some of its provisions raise concerns about how freely they can function.

Cambodia's decentralization legislation requires participatory planning at the commune level, although the extent to which this is genuine and inclusive varies considerably. Though weak in many parts of the country, civil society groups played an important role in providing community services in the absence of local government. Initially hostile to government-related local institutions, NGOs in Cambodia have since offered important expertise and capacity building under Seila, and some are partnering with new commune councils. With little tradition of popular participation in local governance beyond religious-based community development, effectively incorporating civil society participation in local public sector decision making will remain a challenge for the foreseeable future.

Fiscal Decentralization

This section outlines the fiscal functions of subnational governments in East Asia, focusing on assigned roles and own-source and intergovernmental revenues. (See chapter 6 for more detail on own-source revenues, and chapters 1 and 3 for information on subnational borrowing.)

Distributing Functions among Levels of Government

The distribution of functions among levels of governments is far from uniform in East Asia, with subnational roles ranging from modest to dominant (see table 2.9). Although subnational governments have substantial functions in most countries, incomplete implementation of legal authority has resulted in low subnational expenditure shares in some cases. The pattern of assignments also varies across government levels and sectors, and the magnitude of subnational expenditures is not clearly related to autonomy.

At one extreme is Cambodia, where provinces account for less than 20 percent of public expenditures and act primarily as agents of the center. Elected communes have few mandatory functions and account for only about 2 percent of public expenditures, although enabling legislation provides for the eventual formal transfer of specific functions to them. Other East Asian countries have assigned, at least in broad legal terms, relatively significant responsibilities to subnational governments, although legal provisions are not always operationally defined and implemented. An interesting contrast to Cambodia is Thailand, where the 1999 Decentralization Act calls for the transfer of six major functions to local administrations. Because the country has implemented these legal provisions only partially, Thai subnational governments account for only about 10 percent of public expenditures, although that figure is expected to grow sharply.

The Philippines and Indonesia have gone further in defining and implementing functional assignments. The 1991 Local Government Code in the Philippines devolved substantial responsibilities to the various types of local governments, which currently account for about 20 percent of public spending. They also have some regulatory powers, including land reclassification. Indonesia's Law 32 of 2004 reserves only national defense, foreign policy, security, justice, monetary and fiscal policy, and religion for the center. Local governments must perform a wide range of obligatory functions under Law 22 of 1999 and Law 32 of 2004. The province played a smaller role in many functions under the 1999 legislation, focusing mainly on regional coordination and the backstopping of underperforming local governments. Many of the provincial functions assigned under Law 32 of 2004 are similar to those assigned to local governments, raising concerns about clarity and redundancy. Subnational governments account for just over 30 percent of total spending, and that figure is expected to continue growing.

China and Vietnam emphasize the sharing of responsibilities. China's Budget Law defines a broad division of functions between central and local governments, but does not disaggregate local categories. The result is concurrent assignment and significant variation across regions. Subnational governments have heavy safety net responsibilities, including pensions, unemployment, and social welfare, which are unusual subnational responsibilities. The center sets broad expenditure guidelines,

TABLE 2.9 Subnational Functional Assignments and Expenditure Shares

Country	Subnational functions (*see chapter 5*)	Subnational share of expenditures
Cambodia	Provinces dominate subnational service delivery; communes have few mandatory functions, but legal provision for eventual transfer of more functions.	Around 20% overall; 2% at commune level, the rest at provincial level (2001).
China	Broad legal division of responsibility between levels without disaggregation; in practice, multiple levels perform many functions concurrently.	Around 70% overall; 40% at the county level (2002).
Indonesia	Obligatory local functions include health, education, environment, and infrastructure, among numerous others; provinces were originally assigned mainly coordination and gap-filling roles, but Law 32/2004 increases their role and raises concern about lack of functional clarity.	Around 32% for all levels; expected to increase (2002).
Philippines	Substantial functions devolved to subnational governments, particularly health, social services, environment, agriculture, public works, education, tourism, telecommunications, and housing.	Around 20% at subprovincial level (2002).
Thailand	Six broad functions to be devolved to local governments: infrastructure, quality of life, community and social order, planning and investment and promotion of trade and tourism, management of natural resources and the environment, and culture, values, and local wisdom; slow progress on implementation.	Around 10% for all levels; expected to increase (2001).
Vietnam	Main functions remain centralized but different levels share responsibilities in practice; subnational governments dominate in agriculture, forestry, irrigation, fisheries, power, water, education, and health.	Around 50% for all levels (2003).

Source: Compiled by the author from multiple sources.

at least in principle. Subnational governments account for around 70 percent of public spending, with the county level accounting for more than 40 percent. In Vietnam, intergovernmental responsibilities are more specific on paper, but the center and subnational levels share functions in practice. Still, subnational governments have been playing a more dominant role in some sectors, including agriculture, forestry, irrigation, fisheries, power, water, education, and health. Their share of public expenditures stands at around 50 percent.

Subnational Revenues: Own-Source and Shared

Most East Asian countries have few productive own-sources of local revenue (see table 2.10 and chapter 6). Even where local revenue shares are relatively high, most are centrally defined and/or managed taxes over which subnational governments have little control, with the proceeds fully assigned or shared locally. These are in fact intergovernmental transfers, but are included here with own-source revenues because of the lack of disaggregated data to clearly distinguish between the two in some countries. Informal, off-budget revenue is a major issue in some countries (see chapters 1 and 6).

China, Vietnam, and Thailand rely primarily on shared taxes. As economic reforms proceeded and subnational governments came to dominate public sector revenues, China introduced the recentralizing 1994 Tax Sharing System noted above and further refinements in 2002. Subnational revenue includes shared taxes—the relative proportions of which are sometimes negotiated—and several exclusive subnational taxes. Provinces have nearly

TABLE 2.10 Subnational Revenues

Country	Own-source revenues (*see chapter 6*)	Shared sources
Cambodia	Subject to strong central control. *Provincial sources:* taxes on transportation, unused land, markets, business licenses, parking, slaughter; fees and charges. *Commune sources:* administrative fees and contributions required for transfer-funded development projects (current); land and property tax and user fees/charges (authority not implemented).	Most revenue sharing occurs through line-ministry budget allocations to provinces, and intergovernmental transfers to communes (see table 2.11).
China	No formal subnational own-source revenues, except for a limited set of user fees/charges. Some national revenues fully shared with subnational governments (see next column).	Value added tax (25% share). Income tax on enterprises (40% share). Taxes on personal income, natural resources, nonplan construction, salt, security and exchange (50% share). Taxes on non–VAT-sector businesses, urban maintenance and construction, urban land use, rural markets, vehicle use, property, entertainment; also various business-related taxes (100% share). Taxes shared with provinces, which control sharing to lower levels.
Indonesia	Subject to some central control. *Provincial sources (substantially shared with local level):* taxes on motor vehicles, fuel, groundwater extraction and use. *City/district sources (modestly shared with lower level):* taxes on hotels and restaurants, entertainment, advertisement, street lighting, limited mineral exploitation, parking; limited locally designed taxes under Law No. 34 (2000). User fees and charges at both levels. 35% of provincial and 6% of subprovincial revenue (2002).	Main revenue sharing is through formula transfers (see table 2.11) rather than shared taxes. Selected taxes and state-owned enterprise revenues shared with both provinces and cities and districts: property, natural resources, and personal income tax. 32% of provincial and 20% of subprovincial revenue (2002). Revenue sharing, especially for natural resources, expanded under Law 34 of 2004 and is not reflected in above percentages.
Philippines	Subject to some central control. *Main sources:* taxes on real property, proceeds from public enterprises, local business turnover. *Other sources:* taxes on transfer of real property, quarries, amusement; many fees and charges. Cities can impose full set of taxes; fewer in provinces/municipalities. Cities and provinces must share portions of revenues with municipalities and *barangays.* ± 30% of subnational revenue (2002).	Central revenue sharing occurs mostly through intergovernmental transfers (see table 2.11). National wealth composite (based on a set of national revenues derived from related bases) and the tobacco excise tax are shared with subnational governments.
Thailand	Largely centrally defined. *Provincial:* petroleum sales tax; tobacco sales tax; hotel tax. *Subprovincial:* taxes on vehicles, houses and land, land development, signboards, slaughter. Various permits, licenses, and fees at all levels. ± 12% of subnational revenue (2001).	Value added tax (30% share). Natural resources (60% share). Sales, special business, excise taxes (10% share). ±54% of subnational revenue (2001).

Country	Own-source revenues (*see chapter 6*)	Shared sources
Vietnam	No formal subnational own-source revenues, except for a limited set of user fees. Some national revenues are fully shared with subnational governments (see next column).	Taxes on natural resources (except petroleum), transfer of land-use rights, agriculture, land and housing, licenses, state dwelling leases, lottery revenues (100%). Value added tax, taxes on enterprise and personal income, special consumption, remittances, gas and oil fees (partial). Taxes shared with provinces, which control sharing with lower levels. ±46% of subnational revenue (2003).

Source: Compiled by the author from multiple sources.

complete freedom to assign revenue to lower levels, resulting in a variety of practices across the country.

Strictly speaking, Vietnam has no subnational taxes. The central government controls tax bases and rates completely, and the Department of Tax Administration collects all nontrade revenue. Subnational taxes are either assigned 100 percent to the local level or shared among levels. Under 2002 reforms, provinces formally receive the proceeds of all shared taxes and assign portions to districts and communes subject to central standards. Fully and partially shared taxes have recently provided around 46 percent of subnational revenues, in roughly equal proportions.

In Thailand, subnational revenues include own-collected taxes and nontax revenues, centrally collected taxes, and shared taxes. In 2001, locally collected revenues accounted for only 11–12 percent of subnational revenues, while shared revenues accounted for about 54 percent, including about 18 percent from the value added tax. The recent Property Tax Act—which combines the land and building tax and the land development tax—could provide subnational governments with more local revenue.

Indonesia and the Philippines take a different approach. Both have tax sharing, but they pool a high proportion of shared resources into a consolidated fund allocated by formula as an intergovernmental transfer (see below). Indonesia also assigns to provincial and district and city governments a share of revenues from selected taxes. Provinces have uniform tax rates and share the revenues with lower levels. Shared taxes account for about 32 percent of provincial and 20 percent of local income, but Law 33 of 2004 increases tax sharing, particularly on selected natural resource bases. Local governments exercise control—within national ceilings—only over a limited set of taxes, many of which are holdovers from the prereform era. Both provinces and local governments collect user charges. Law 34 of 2000 allows new local sources, but it led to the adoption of some problematic local tax and nontax revenues and is slated for revision. Overall, own-source revenues account for about 35 percent of provincial and about 6 percent of local income, although the latter average masks stronger performance in larger urban areas. In the Philippines, only cities may impose the full set of local taxes, while provinces and municipalities have less taxing power. Cities and provinces must often share portions of their tax revenues with municipalities and *barangays*.

As a newly decentralizing country, Cambodia has established few official subnational own-source revenues. As noted above, the government centralized revenues after the 1993 elections to impose discipline on provinces. The 1998 Provincial Budget Law reinstated limited provincial revenues, but most provincial resources continue to flow through central sectoral budgets. The 2001 Law on Commune/*Sangkat* Administrative Management grants revenue sources to communes, including a land and property tax, but the law requires follow-up legislation. The central government has formally assigned only a few nonproductive fees for civil registration to communes. Some communes also collect minor user fees, but these are extralegal as no enabling regulation exists. The new Department of Local Finance in the Ministry of Economy and Finance has made developing commune own-source revenues a priority.

Intergovernmental Transfers

Intergovernmental transfer systems in East Asia range from substantial to modest in terms of both central and subnational government budgets, from complex to simple in structure, and from relatively transparent to highly nontransparent (see table 2.11). In most cases the central government provides significant intergovernmental transfers, which represent a large share of subnational resources.

The intergovernmental transfer system in China is the most complex and least transparent among the countries considered here. During the past two decades, the government has added components designed to address newly recognized problems without removing or altering existing elements. Beyond shared taxes (discussed above), which account for some 40 percent of transfers, there are a variety of specific-purpose grants. These include quota subsidies (left over from an earlier scheme that subsidized deficits on approved expenditures), transfers to offset the impacts of the 1994 Tax Sharing System, final account subsidies, and a few minor programs. Subnational governments rely on

TABLE 2.11 Intergovernmental Transfers

Country	Unconditional transfers	Conditional transfers
Cambodia	Communes receive largely unconditional transfers via formula allocation from Commune/*Sangkat* Fund.	Provinces receive line-ministry allocations, not transfers; decentralization law allows for conditional transfers to communes.
China	Tax Sharing System (1994) assigns shares of certain taxes (table 2.10) to subnational governments' general revenue, but they are officially subject to some expenditure guidelines.	Complex accumulation of old and new systems; conditional grants account for more than half of all transfers; dominated by social security, wage increase, and fiscal stimulus grants.
Indonesia	Certain taxes shared with lower levels (table 2.10); formula-driven *dana alokasi umum* revenue sharing accounts for at least 26% of domestic revenues; provincial/subprovincial shares based on responsibilities (Law 33 of 2004).	Minor; special-purpose transfers—*dana alokasi khusus*—under development; 10 percent subnational matching requirement under Law 33 of 2004.
Philippines	Internal Revenue Allotment shares by formula account for 40% of internal revenues; 23% each to provinces and cities, 34% to municipalities, 20% to *barangays;* the IRA accounts for 94% of transfers.	Modest categorical grants, including the Municipal Development Fund, the Local Government Empowerment Fund, and the Calamity Fund.
Thailand	Substantial shared tax revenues (table 2.10); "general" transfers for fiscal equalization and other purposes; some, such as the transfer for devolution of compulsory functions, are not truly unconditional.	Specific grants are mostly for capital expenditures, with one type earmarked for education and other types less restricted, so not heavily conditional; some "general" transfers (see left column) subject to conditions.
Vietnam	Certain taxes fully assigned to or shared with subnational governments (table 2.10); equalization transfer distributed by formula to jurisdictions where approved expenditure budgets (based on minimum standards) exceed the sum of shared taxes.	Before 2002, no conditional grants, only national program budget allocations; Budget Law (2002) recast these as specific transfers and provides for more types of conditional transfers.

Source: Compiled by the author from multiple sources.

transfers to finance nearly half their budgetary expenditures in the aggregate.

Thailand and Vietnam also have complex transfer systems, but they are generally more transparent. Thailand has two main forms of intergovernmental transfers besides shared tax revenues. The central government devotes the bulk of seven types of so-called "general" grants to fiscal equalization, devolution of compulsory functions, and tax promotion. Grants fulfilling the first goal are allocated by formula, those fulfilling the second goal are based on the number of beneficiaries, and those fulfilling the third goal are based on past tax performance. Specific grants—largely discretionary—are mostly for capital expenditures; one program is earmarked for education, and larger programs are broader. Subnational governments depend on transfers for about 34 percent of their revenues, not including the 54 percent derived from shared taxes.

Vietnam provides two types of intergovernmental transfers: equalization transfers and specific-purpose transfers. In the past, the central government negotiated transfers with subnational governments mostly to fill budget gaps. As of 2003, the government distributes the equalization transfer by formula to jurisdictions whose approved budgets (based on minimum standards) exceed the sum of "100 percent shared" and partially shared taxes. The formula must remain in place for three to five years. These reforms have improved the transparency and stability of intergovernmental transfers. Line ministries have also long used transfers to support national priority programs, and the 2002 Budget Law formalizes these resources as conditional transfer programs. As noted above, just under half (46 percent) of the revenues of subnational governments come from 100 percent and partially shared taxes; the other 54 percent takes the form of intergovernmental transfers.

Indonesia's Law 25 of 1999 significantly altered the transfer system. The *dana alokasi umum* (DAU) combined substantial transfers for local civil service wages and the fragmented general program Inpres into a revenue-sharing fund financed by at least 25 percent of central domestic net revenues, with 2.5 percent assigned to provinces and 22.5 percent to cities and districts. Under Law 33 of 2004, the pool increased to at least 26 percent of domestic revenues, and provincial/subprovincial shares now depend on functions. The DAU is formula-driven, so the allocation of transfers is more transparent than in the past, and the formula attempts to consider expenditure needs and revenue capacity. Law 25 of 1999 and Law 33 of 2004 also provide for special-purpose transfers: the *dana alokasi khusus* (DAK). These are expected to be mainly sectoral conditional (matching) transfers designed in consultation with line ministries, but the Ministry of Finance has only begun to experiment with DAK on a small scale. Given the weak devolution of revenue powers, subnational governments rely on transfers (exclusive of shared taxes) for more than 65 percent of their revenues, with provinces averaging 34 percent and local governments averaging 74 percent.

The main intergovernmental transfer program in the Philippines is the Internal Revenue Allotment (IRA). The Local Government Code requires that this program share 40 percent of gross national internal revenues (with a three-year lag), and the program accounts for 94 percent of total transfers. Subnational levels share the IRA pool, with 23 percent going to provinces and cities, 34 percent to municipalities, and 20 percent to *barangays*. A simple formula based on population, equal share, and land area allocates the appropriate pool share among units at each level. Two modest revenue-sharing schemes—the national wealth share (national revenues derived from certain taxes) and the tobacco excise share—and a few small categorical grants also exist. Subnational governments rely heavily on transfers, which account for over 80 percent of provincial budgets and around 70 percent of municipal budgets. Cities are more financially independent, relying on the IRA for just over 40 percent of their income.

Cambodia's intergovernmental transfer program is modest, reflecting its early stage of decentralization. The country launched the Commune/*Sangkat* Fund (CSF) in 2002 to coincide with the first election of commune councils. The CSF relies on both domestic and external sources. The central budget contributed 1.2 percent of recurrent domestic revenue in 2002, and that share grew to 2.5 percent in 2004. The Commune/*Sangkat* Law requires that the Cambodian government devote a share of its budget to the CSF, but how to determine this percentage and ensure that it will grow is unclear. CSF transfers are divided into general administration and local development components, with no less than 70 percent allocated to the

TABLE 2.12 Responsibility for Managing Decentralization

Country	Institutional responsibility
Cambodia	The interministerial National Committee to Support the Communes (chaired by the Ministry of Interior) in charge of developing and implementing decentralization involving communes; Council for Administrative Reform in charge of deconcentration involving provinces; generally weak coordination between the two. Single integrated, interministerial process created in 2004 to develop consistent decentralization and deconcentration strategies.
China	No formal decentralization policy, so intergovernmental issues managed through regular government institutions.
Indonesia	High-level Regional Autonomy Review Board initially in charge of decentralization policy but process now dominated by the Ministry of Home Affairs, with specific matters formally under the Ministry of Finance or other ministries; generally weak interministerial coordination and some problematic competition.
Philippines	Interagency oversight committee to monitor implementation of Local Government Code; National Economic and Development Authority, Department of Budget and Management, and Department of Interior and Local Government also play important roles.
Thailand	National Decentralization Committee, with broad representation from national and subnational governments as well as the nongovernmental arena, charged with making, implementing, and monitoring decentralization policy.
Vietnam	No formal decentralization-specific body; regular government institutions such as Ministry of Finance and Ministry of Planning and Investment manage reform.

Source: Compiled by the author from multiple sources.

latter. The central government allocates the general administration share to communes and *sangkats* in proportion to the number of councilors, and the local development share based on a formula with three components: equal share, a share proportional to population, and a share proportional to relative poverty. Given the weak development of local resources, Cambodian communes depend on the center for almost 100 percent of their funds.

Managing Decentralization Reforms

Chapter 1 highlighted the importance of moving beyond the decentralization structure to consider the decentralization process. This section provides a more in-depth, country-specific look at key aspects of this process, focusing on responsibility for designing and managing decentralization, the strategy for implementing it, and the capacity-building activities designed to support it.

Responsibility for the Decentralization Process

In some East Asian countries, regular government institutions manage decentralization. In others, special bodies manage the process, but these differ in composition and role. All countries experience tensions between reformists and defenders of the status quo, and various political parties and institutions may hold different visions of decentralization. Table 2.12 summarizes arrangements for designing and managing decentralization in the region.

Because decentralization is not a formal policy in China, central ministries "manage" decentralization through routine interactions with subnational governments. Existing institutions similarly manage the decentralization process in Vietnam. The Ministry of Finance and Ministry of Planning and Investment, and their provincial counterparts, are particularly important. The Philippines has also relied on existing national institutions, supported by an interagency committee responsible for monitoring implementation of the Local Government Code. Key players include the National Economic and Development Authority, the Department of Budget and Management, and the Department of Interior and Local Government. Besides cities and a few provinces, associations of local governments also play important roles in the Philippines' decentralization process.

Indonesia, Thailand, and Cambodia all established special bodies to guide decentralization.

Indonesia's Regional Autonomy Review Board (DPOD), composed of minister-level members, played a significant role in setting the initial direction of decentralization policy. With a basic legal and institutional framework for decentralization now in place, key national ministries have assumed principal responsibility for detailing and implementing broad policy parameters. The Ministry of Home Affairs plays the strongest official role, and the Ministry of Finance and the national planning agency (Bappenas) provide key inputs in specific areas. Sectoral ministries help develop regulations for decentralizing services, but Home Affairs is attempting to assert leadership. Weak coordination and interministerial competition remain significant problems. Although Home Affairs is technically in charge, it has limited authority over other ministries with important decentralization roles.

In Thailand, the National Decentralization Committee serves as the strategic unit for decentralization policy. Its members include local governmental and nongovernmental officials as well as representatives of central government. This committee, like the Indonesian Regional Autonomy Review Board, was instrumental in designing decentralization, and is now also charged with monitoring and implementing reforms and providing policy recommendations to the cabinet. National agencies, particularly the Ministry of Interior, also engage in the day-to-day management of decentralization.

Responsibility for decentralization policy in Cambodia is fragmented, with the Ministry of the Interior, the Ministry of Economy and Finance, and the Ministry of Planning particularly involved. The government established the National Committee to Support the Communes, chaired by the Ministry of Interior, to develop and implement decentralization to the communes. The Seila task force and its secretariat are also helping integrate the donor-initiated Seila Program with the deconcentrated and decentralized systems as they develop. The Council for Administrative Reform, attached to the Council of Ministers and responsible for overall public sector administrative reform, has been the main player in deconcentration, although the Ministry of Interior has recently taken a stronger role in developing the required legislation. In 2004 the Cambodian government established an integrated process overseen by an interministerial committee to develop decentralization and deconcentration policy in an integrated way.

Strategies for Implementing Decentralization

East Asian countries have generally not implemented decentralization strategically or systematically (see table 2.13). The tendency toward ad hoc approaches is not surprising, given the variety of political rationales for decentralization and the differing nature of regimes in the region. Decentralization is mostly occurring within highly centralized systems. National agencies often lack serious commitment to reform, slowing progress even in countries with reasonable frameworks. The overall environment is not conducive to well-planned and

TABLE 2.13 Decentralization Strategies

Country	Nature of strategy
Cambodia	Limited elements of a strategy for commune system, but weakly developed and short term.
China	No formal strategy; some asymmetric treatment of subnational governments.
Indonesia	No formal strategy; some attention to key reforms after "Big Bang," such as defining functional assignments more clearly, but approach largely fragmented.
Philippines	Broad three-stage strategy for implementing Local Government Code, now in last phase; unclear how carefully the country followed the strategy.
Thailand	Detailed master plan with three phases approved by Parliament in 2002; progress modest (phase one finished in 2004 without meeting key goals).
Vietnam	Ad hoc strategy in that reform has been slow and controlled; some asymmetric treatment of larger cities through pilot programs.

Source: Compiled by the author from multiple sources.

carefully executed implementation, the consequences of which are highlighted in chapter 1.

Because decentralization in China was essentially a by-product of economic reform, it lacks a real strategy. The central government treats various types of subnational governments differently, but there is not a developed asymmetric decentralization strategy. Because of the nature of the administrative hierarchy and the diversity of the country, however, provinces make decisions about subprovincial roles, perhaps in some cases reflecting strategic attempts to improve subprovincial performance. The lack of an overall strategy is also manifested in ad hoc central government steps to define the intergovernmental system, resulting in disjointed revenue and expenditure assignments and an inconsistent intergovernmental transfer system.

Indonesia and Cambodia also have weak implementation strategies. Decentralization was adopted quickly and with little debate in both cases. In Indonesia this occurred in a crisis situation, while Cambodia's efforts might be characterized as a case of political opportunism. Because Indonesia's reforms emerged from crisis, the general framework was pushed urgently, without much thought given to how to make it work. The country's decentralization is often referred to as a "Big Bang" because significant resources and functions were devolved so quickly. A substantial portion of the resources, however, are used to pay for staff who were transferred to local governments, suggesting a possible conscious effort to reduce the effects of major reform shocks. Operational details on many of the legally devolved functions still have to be specified, and the above-noted weak coordination of the national agencies involved constrains the development of a genuine strategy.

Cambodia has limited elements of a strategy. As many of the newly elected communes had little or no capacity or political credibility, the early design included initially modest functional expectations, simple structure and staffing of councils, and classification of communes into two categories based on capacity, with differential funding awarded on that basis. As the system matures, communes are to be assigned greater responsibilities. Unfortunately, there is no strategy for making further progress. The classification system has been abolished without any assessment of the extent of capacity development in weaker communes. There is no clear vision of where the overall system is headed, the plan for fully folding Seila into the formal government system is incompletely developed, and, as in Indonesia, coordination of the key actors is inadequate. The new interministerial effort noted above is intended to provide direction and facilitate coordination, but how successful it will be is unclear.

Though decentralization in the Philippines also emerged from crisis, the country did attempt to develop a strategy, at least on paper. A Master Plan for the Sustained Implementation of the 1991 Local Government Code (1993–98) provided the blueprint for reform. The plan included three phases. Phase one (1992–93) involved the transfer of functions, which varied by type of local government. Phase two (1994–96) gave local governments time to adjust to their formal responsibilities. Phase three (1997 onward) expected a more stable system to focus on building local capacity, with technical assistance from national agencies. The interagency oversight committee noted above was charged with monitoring implementation. The extent to which this phasing was followed is not clear, and decentralization continues to face political difficulties, instability in some regions, and limited resources. Some central agencies have held on to functions they were supposed to devolve, and development of local revenue has been slow.

Thailand and Vietnam are closest to having a decentralization strategy, but both have implemented it slowly. In 1997, after the new Thai Constitution mandated decentralization, a Local Fiscal Master Plan identified 17 measures to enhance local revenues, clarify responsibility for expenditure, reform the intergovernmental transfer system, establish mechanisms for monitoring local fiscal systems, promote new methods of mobilizing capital for local investment, and develop local capacity. Parliament did not approve a more comprehensive plan to decentralize administrative power to local administrations until 2002. The plan includes a general framework, objectives, and guidelines for decentralizing administrative power in three stages. During the first stage (2001–4), the country was supposed to transfer 245 tasks, improve local and regional administrative systems, eliminate overlapping functions, and strengthen local capacity to manage functions, personnel, revenue, and assets. Unfortunately, these goals were not fully achieved, the coordinating National Decentralization Committee (NDC) is understaffed and inadequately financed, and the strength of political support is unclear. Thus, the NDC has not been able to operationalize what appears to be an atypically carefully conceived implementation strategy.

In Vietnam, the movement to give greater responsibility to subnational governments has progressed in stages. Expenditure and revenue assignments have been changed gradually, and the transparency and stability of the intergovernmental transfer system have improved. The central government has also gradually introduced autonomy measures, removing the requirement that the National Assembly approve provincial budgets, and giving provinces more authority over lower levels. Pilot programs have also accorded some urban areas greater autonomy. However, these elements may reflect the conservatism of a highly centralized government in a one-party state more than a strategic effort to decentralize.

Building Subnational Capacity

As chapter 1 notes, capacity building is an important part of any decentralization strategy. This is true not only for subnational governments but also for central agencies, which must learn new ways of doing business and new skills in developing local systems, strengthening subnational actors, and monitoring the implementation of decentralization. Although most East Asian countries have relied on technical assistance and provided training to central employees involved in decentralization, they have paid limited attention to ensuring that national staff can meet their shifting obligations and to realign relationships in the way required.

Local level capacity building under decentralization is generally of two types. The first type involves training to ensure that subnational staff can perform their technical functions. The second type involves building governance mechanisms that are required for a decentralized system to work effectively. Either of these two types can be supply-driven (by the central government) or demand-driven (by subnational governments). The latter type is considered good practice based on the recognition that a lack of demand for reforms and the capacity needed to make them work undermines their chances of being realized and sustained. Most countries in the region have focused on traditional supply-driven technical capacity building, and most governance training has also been supply-driven (table 2.14).

Cambodia faces the greatest challenges. Capacity is weak in many communes, which had no real functions before the first elections in 2002, even as part of provincial administrations. Regions that participated in the Seila Program developed reasonable capacity, but other communes generally lag far behind. Even Seila communes must adjust to new systems and procedures under official decentralization policy, posing significant challenges. The Ministry of Interior and the Ministry of Economy and Finance have conducted most commune-level training, and technical staff at the provincial level help communes implement new procedures. This training, however, has barely laid a foundation, and much work remains at both the commune and

TABLE 2.14 Building Decentralization Capacity

Country	Capacity-building provisions
Cambodia	Massive, basic program run by central government for developing commune system.
China	No specific decentralization-related training; most is organized at subnational level; some temporary posting of higher-level staff to lower levels.
Indonesia	Significant transfer of staff to lower levels; much capacity building driven by central government, although some demand from lower levels.
Philippines	Significant transfer of staff to lower levels; subnational governments responsible for training, which typically focuses on councilors rather than civil servants.
Thailand	Some transfer of staff to lower levels; subnational capacity building driven by national agencies.
Vietnam	Training programs for subnational staff driven by central government.

Source: Compiled by the author from multiple sources.

higher levels. Deepening and institutionalizing capacity takes time, and the prominent role of donors in providing and financing decentralization capacity-building efforts in Cambodia raises concerns about sustainability.

Subnational governments elsewhere in the region have greater capacity, but the levels and mechanisms for building it vary. In China, where decentralization is not official policy, capacity building has focused on improving overall government performance. All ministries and departments receive an annual training budget, and most training is organized locally. The central government also posts its own mid-career staff to subnational administrations for six months to a year, which may boost the capacity of those governments. Although Vietnam has also long been heavily centralized, its decentralization program is more formal. Subnational capacity is generally strongest in provinces and larger cities. Staff from higher levels of government provide most training of subnational staff. Neither China nor Vietnam has made training of citizens to interact with local governments a priority.

In Indonesia, the Philippines, and Thailand, local governments have benefited from the transfer of higher-level staff. Indonesia has decentralized more than 2 million officials since 1999. The Philippines transferred some 70,000 employees from central ministries to local governments following the Local Government Code of 1991. Given its more incremental approach to decentralization, Thailand has made more limited transfers involving about 4,000 central employees so far. In all these cases, the help local governments receive is not always the type they need. Capacity levels vary widely within these countries and are generally higher in urban areas, with significant gaps in smaller urban and rural areas. In Indonesia and Thailand, higher-level agencies drive local capacity building. In the Philippines, local governments are formally responsible for building capacity, but training focuses on councilors rather than staff, and the central government, international agencies, and NGOs often assist with the provision of such training.

Summary and Conclusions

The various historical and political roots of decentralization in East Asia are reflected in the observed diversity in the paths it has taken, the enabling frameworks that define it, and the ways in which it is structured. In Indonesia and the Philippines, the focus quickly shifted from deconcentration to decentralization, and this is happening in Thailand as well. The focus remains on deconcentration in China and Vietnam, but there are emerging elements of delegation and devolution. Cambodia makes a stark division between deconcentration and devolution. Within their basic policy thrust, all countries have multiple tiers of government or administration, but exact forms and responsibilities vary. In Thailand, most levels have a role, while the focus has been on provinces and urban governments in China and Vietnam. In Cambodia, Indonesia, and the Philippines, subprovincial units have been the main targets of decentralization reforms.

Decentralization enabling frameworks differ significantly. The Philippines and Thailand have robust constitutional and legal foundations, and Indonesia adopted constitutional reforms to institutionalize decentralization. Indonesia and Vietnam have legal frameworks, although not fully developed. Weaker laws underpin the system in Cambodia, but additional legislation is in process. China has the weakest framework, with only a few laws that refer to subnational roles. The nature and degree of development of the enabling framework do not seem to affect decentralization progress or quality, but all countries eventually need to define the roles of relevant actors in a framework that protects their rights and provides a basis for accountability.

Although far from complete, governance is improving in the region through political, institutional, and fiscal decentralization reforms. All countries considered here have subnational elections, ranging from Vietnam at all levels to Cambodia at one level. Subnational councils usually have an element of direct election, but in some cases there are higher-level appointments or party list voting. In the Philippines, council leadership is directly elected, and this will soon occur in Indonesia and Thailand. Political competition varies from one-party states in China and Vietnam to the nearly chaotic multiparty system of Indonesia. Cambodia has multiple parties, but one dominates, while political competition is somewhat more robust in the Philippines and Thailand.

Autonomy differs in complex ways across countries. Thailand and Vietnam have higher-level controls over subnational budgeting and personnel decisions, although they are not always exercised and are being relaxed. Philippine subnational governments are more independent in principle, if not always in practice, while new laws curtail autonomy in Indonesia. On transparency, the Philippines and Thailand provide extensive public access to subnational budgets and minimally acceptable auditing, while China and Vietnam do not. Incorporating citizen input into local decisions is a priority only in a few cases, and civil society varies, from relatively free and robust in the Philippines to heavily controlled in China and Vietnam.

Expenditure and revenue assignments vary considerably. In most cases there is some formal assignment, but details typically need clarification. In the Philippines and Indonesia, the process is substantially or moderately advanced. Cambodia has a very long way to go, and China has no clear interest in formalizing assignments. Own-source revenues are generally weak, so subnational governments rely heavily on shared taxes and intergovernmental transfers. In China, Thailand, and Vietnam, national taxes are shared on a tax-by-tax basis, often by origin. In Indonesia and the Philippines, most shared revenues are pooled into a consolidated fund for distribution as a formula-based transfer. Cambodia has little formal tax sharing; provinces are funded primarily through national sectoral budgets, and the commune transfer pool is determined on an ad hoc basis. Transfers vary widely in significance, structure, complexity, and transparency. China's system is highly complex and nontransparent. Other countries have somewhat simpler and more transparent systems, especially for general revenue sharing, but there are commonly less transparent conditional transfers, often for capital expenditures.

Although often neglected, the institutional structures and processes for defining and managing decentralization are critical for success. In most East Asian countries, decentralization is primarily overseen by regular government agencies. Special decentralization bodies exist in some countries, but their composition and role differs. Indonesia has a high-level policy body that influences major design decisions. An interministerial body in the Philippines has primary responsibility only for monitoring implementation. Interministerial bodies in Cambodia and Thailand play broader roles in both design and implementation. In no case are coordination or enforcement of decentralization activities adequate.

Many decentralization problems result from the lack of an implementation strategy. Given China's context, the conspicuous lack of strategy is understandable. Both Indonesia and Cambodia are struggling to deal with the consequences of poor planning prior to rapid, politically driven decentralization. The Philippines, Thailand, and Vietnam have more considered implementation strategies, with articulated phases and timelines. In the Philippines, the final phase of the 1991 decentralization effort is in process, but the phasing does not seem to have been systematically followed, and problems persist. Vietnam, out of an abundance of caution expected in a centralized one-party system, has moved in an atypically structured way. Thailand has a well-articulated strategy, but implementation has been slow. None of these countries has a clear strategy in the sense of using graduated, asymmetric functional assignments and capacity-building support consistent with the performance of individual local governments.

Political factors elaborated in chapter 1 complicate the development of decentralization frameworks and strategies, and the pitfalls of trying to be too normatively comprehensive in designing and implementing decentralization are well known. It is also clear, however, that the costs of ignoring the problems that have often emerged as decentralization has unfolded in East Asia are potentially very high. With a basic decentralization vision and a degree of leadership, East Asian countries should find it possible to accommodate political realities and strategically use opportunities to build more effective decentralization frameworks, structures, processes, and outcomes. This is the significant challenge facing all countries in the region.

Endnote

1. The information in this chapter is largely derived from country reviews prepared as background papers for this volume. These and other key country-specific citations are included in the references at the end of the chapter. David Gomez Alvarez supplied considerable research assistance for this chapter. Some data and clarifications on particular countries were provided by Robert Ebel, Amanda Green, Bert Hofman, Kai Kaiser, Blane Lewis, Ed Mountfield, Amitabha Mukherjee, Duvvuri Subbarao, Rob Taliercio, Dana Weist, Roland White, and Christine Wong.

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