

Local Development and the Role of Government

Report of the Issue-wise Study Committee
for Development Assistance

March 1997

The Issue-wise Study Committee for Japan's Development Assistance
on "Local Development and the Role of Government"

organized by

Japan International Cooperation Agency

I	I	C
J	R	
97-18		

This report is based on the discussions and findings on local development and the role of government by the Issue-wise Study Committee for Development Assistance organized by the Japan International Cooperation Agency (JICA). Opinions expressed herein are those of the members of the Committee and do not necessarily reflect the views of JICA or of its affiliated organizations.

Additional copies of this report are available upon written request

from:

Institute for International Cooperation (IFIC),
Japan International Cooperation Agency (JICA),
10-5 Ichigaya Honmura-cho, Shinjuku-ku, Tokyo 162
Japan

First Printing March 1997

Foreword

This report compiles the findings of studies by the Issue-wise Study Committee for Development Assistance on “Local Development and the Role of Government” over a period of more than one year from when it received its mandate from the Japan International Cooperation Agency (JICA) in January 1996. The committee’s deliberations began with studies of systems of relationships between central and local governments in developing countries and strove to ascertain relatively new approaches related to governance in these countries. Reflecting the difficulty and multi-layered nature of the subject matter, the committee engaged in heated discussions. The compilation of study findings in this report represents only a small part of our discussions, yet many passages reveal new approaches never addressed in studies of Japanese assistance until now. In the process of this study, the committee conducted local field studies in the Asian region to ascertain the latest facts on this issue.

The key to a society’s development is the role played by government, and developing countries are no exception. Government’s role has, moreover, certain aspects that change as the times change and create new needs. In our day and age, industrial and developing nations both find themselves in a world where such changes in the global political and economic environment as the result of the end of the Cold War and globalization of economies constitute significant realities that must be accommodated. Especially notable in developing nations is the projection onto the political agenda of decentralization and the local dimension of development issues and the redefinition of government’s role in this regard.

This committee believes that moves toward decentralization may be due to the increasing attention being focused anew on local development and on the rectification of economic disparities between regions of the same developing country. The two tasks of decentralization and local development are closely intertwined, especially so in recent years, and may be regarded as important issues for development.

In the consideration of local issues in developing countries, as in the consideration of decentralization, both topics pose extremely weighty problems, and for that very reason they ought probably to be studied separately, by establishing committees to study each specific topic. Due to the complexity and multi-layered nature of the problems, in this committee we broke down the

topics into several individual stages for consideration. With regard to the question of local development, we chose as our main topic the study of how to make Japanese ODA better able to assist developing countries and their local governments to promote local economic development and rectify interregional disparities. With regard to the question of decentralization, we examined the institutions and arrangements used to mobilize resources both in the public and the private sector at the local level, rather than relegating all questions of local development to the market to settle. The committee sought to examine ways to realize local development and correct interregional disparities while both responding to the issues of decentralization and relying on tie-ups between developing countries and ODA donors.

Whether this approach functions effectively or not will depend, however, on the domestic conditions prevailing in that country. Actors in development at the local level and their approaches are important factors affecting the outcome of development efforts. Of these, governance in central-local relations will have decisive influence on local development and the rectification of disparities among regions. This committee can be said to have studied these two questions by linking them to each other to determine whether and how decentralization and the powers vested in local governments in developing nations can be effectively used to stimulate local communities.

Finally, in compiling this report, I would like especially to thank the members of the committee, who addressed so earnestly these complex and difficult topics; the Economic Cooperation Bureau of the Ministry of Foreign Affairs, the local embassies of Japan and the staff of the local offices of JICA, who helped us in the field surveys; and the task force set up by JICA and the Institute for International Cooperation, who gave the committee secretarial assistance.

We earnestly hope that this report will help to make Japan's assistance to developing countries better and more effective.

March 1997

Michio Muramatsu

Chairperson

The Issue-wise Study Committee on
Local Development and the Role of Government

List of Committee Members

Michio MURAMATSU (Chairperson)	Professor, Faculty of Law, Kyoto University
Akira KASAI	Technical Special Assistant to the President, Japan International Cooperation Agency
Hiroyuki KATO	Professor, Faculty of Economics, Kobe University
Hiroyoshi KANO	Professor, Institute of Oriental Culture, University of Tokyo
Yoshio KAWAMURA	Professor, Faculty of Economics, Ryukoku University
Hiroshi SATO	Professor, Yachiyo International University
Hitoshi SYOUJI	Senior Economist, Director, Sector Studies, Research Institute of Development Assis- tance, The Overseas Economic Cooperation Fund
Naohiko JINNO	Professor, Department of Economics, University of Tokyo
Yuji SUZUKI	Professor of Politics, Faculty of Law, Hosei University
Keiichi TSUNEKAWA	Professor, College of Arts and Sciences, University of Tokyo

List of Task Force Members

Shiro AKAMATSU (Chief)	Development Specialist, Institute for International Cooperation, JICA
Tomoyuki SAITO (Advisor)	Senior Researcher The Japan Institute for Local Government
Nobuhisa TAKEDA (Advisor)	Visiting Development Specialist, Institute for International Cooperation, JICA
Takaaki OIWA	Deputy Director, Research and Development Division, Institute for International Cooperation, JICA
Yasujiro SUZUKI	Deputy Director, Second Technical Cooperation Division, Mining and Industrial Development Cooperation, JICA
Kayo TORII	Associate Development Specialist, Research and Development Division, Institute for International Cooperation, JICA
Kazuhide NAGASAWA	Deputy Director, First Project Formulation Study Division, Project Formulation Study Department, JICA
Ryuuichi NASU	Deputy Director, Legal Affairs Division, General Affairs Department, JICA
Ryouzou HATTORI	Economist, Economic Restructuring Department Daiwa Institute of Research Ltd.
Masashi FUJITA	Deputy Director, Planning Division, Forestry and Fisheries Development Cooperation Department, JICA

Contents

1. Introduction – Why “Local Development and the Role of Government”?	1
1.1 Background: Focus on the “local” dimension	1
1.2 The structure and viewpoint	3
2. Changes to the Global Political and Economic Environment and Developing Countries	7
2.1 Development policies in developing countries and the debt crisis	7
2.2 The growth of the global economy and political and economic reforms in developing countries	10
2.3 Political and economic reforms and localities within developing countries	14
3. Local Development and Interregional Disparities in Developing Countries	18
3.1 Regional disparities in developing countries	18
3.2 Poverty in developing nations and factors in interregional disparities	19
3.3 Local development in developing countries today	21
4. Governance and the Relationship Between Central and Local Governments in Developing Countries	27
4.1 Basic approach to the relationship between central and local governments	27
4.2 The historical background	30
4.3 Scale of government and economic development	31
4.4 Present status of central-local government ties	35
4.5 Basic classification of central-local government ties	48
4.6 Relations between central-local government ties and society	50
4.7 Decentralization and central-local government relations	53
5. Factors in Local Development and the Role of Central and Local Governments	56
5.1 Factors in local development in developing countries	56
5.2 Local development and the role of central and local governments	62

- 6. Aid Trends in Japan and Other Donors 71**
 - 6.1 Background 71
 - 6.2 Japanese aid trends 73
 - 6.3 Aid trends of other major donors in relation to this theme 76

- 7. Recommendations Concerning Aid..... 81**
 - 7.1 Basic approach of aid designed to narrow interregional disparities and contribute to local development 81
 - 7.2 Aid’s contribution to redressing interregional disparities and to local development and implementation systems 85
 - 7.3 Considerations regarding aid implementation 92

1. Introduction – Why “Local Development and the Role of Government”?

1.1 Background: Focus on the “local” dimension

Increasingly, attention is being focused on the issue of locality in developing countries. The local dimension assumes importance in various ways, and one is the emerging trend toward decentralization: in more than 60 of the 75 developing and transitional countries with populations of over five million, some form of transfer of political power to local units of government has been embarked upon^{Note1}. This committee considers that decentralization as a trend in developing nations relates to the renewed attention focused on local development and the need to narrow the gaps between different geographical regions in these countries. These issues, both by themselves and in recent years interrelated, have come to the fore as policy imperatives^{Note2}. New international currents have emerged and provided a further background to this trend.

These international currents include the evolution of globalization and international interdependence since the 1980s. World economic and political trends now transcend national borders and are beginning to exert greater effects on domestic policies than in the past; they are undermining the units linked to “national” aspects such as the national economy and the nation-state and are limiting the policy options at the disposal of central governments in each country. The tide of economic liberalization in particular has engulfed even the developing economies in the maelstrom of international competition, forcing many developing countries’ governments to downsize their central administrations and promote deregulation to achieve economic development. Though market activation is necessary in this context, we should note also the importance of efficient administration: participation by a wider variety of actors in development is therefore being sought. The World Bank and other aid organizations have recommended the adoption of structural adjustment policies and advised governments to scale down their structures, stressing the roles of local governments and the private sector as alternatives. In international politics, with the end of the Cold War and louder calls for political democratization, increasing pressure is being put on developing nations’ gov-

Note 1 Dillinger, William (1995), p.8

Note 2 According to a joint study conducted by JICA and the OECF in 1996, many knowledgeable people in developing countries expect local development and disparities among domestic regions to become an increasingly important policy issue in the future.

ernments to carry out decentralization and good governance.

These changing global trends are behind political and administrative reforms promoting decentralization in developing countries, but another factor with effects tending in the same direction is central governments' failure in many developing nations with centralized power systems to appropriately distribute the benefits of economic growth.

Furthermore, in some countries in Asia and Central and South America (the geographical regions chosen for study by this committee), economic development and the increasing complexity and sophistication of societies' demands as a result of development are creating a need for new values and political systems and hence leading similarly to calls for decentralization. In these countries, both economic growth and justice are important policy criteria and decentralization is expected to redress imbalances among regions and create an appropriate institutional environment for development planning and implementation in closer alignment with real needs at the local level. In fact, in many developing countries, the predominance of the national capital and gaps in living standards among domestic regions have long been serious problems and noticeable in socioeconomic indicators. In today's international environment, while the role of the central government has relatively declined, it is now possible to ask local governments to do more for themselves. Individual localities are obliged to attempt to achieve local development in the more competitive market environment. There is a real danger that putting local economies in a competitive environment will concentrate investment in those few regions with abundant natural resources and favorable conditions for market access, and further aggravate the disparities with respect to the poorer and less favorably situated regions—the majority. Should this happen, not only will it accelerate the population exodus from the countryside to the cities and leave rural communities totally deserted, but it will threaten political stability and even jeopardize the economic growth of whole nations. Decentralization should help local development from being abandoned to market forces alone, and be an approach to the mobilization of public and private sector resources at the local level and tie-ups with international aid donors to achieve local development and narrow living standard gaps among different regions.

We believe that, by decentralizing power and resources, political and administrative reform can create an environment stimulating local activities and ameliorate the situation in the current international, political, and economic

environments described above. This is so because giving more autonomy to localities through decentralization better equips nations to devise methods of development suited to their specific requirements. When localities mobilize their available resources and link them to assistance from external sources, they would have better opportunities to revitalize themselves and narrow the gaps between living standards in different parts of the same country. The crucial question is whether local governments are able to use the devolved powers effectively to stimulate local development.

1.2 The structure and viewpoint

As we have pointed out already, the local dimension is receiving increasing attention in developing countries^{Note3}. As indicated by this report's title, we are conducting an analysis of development at the subnational level that focuses on the role of government. As stated already, our main purpose is to investigate how cooperation should assist the efforts of central and local governments in developing countries themselves to achieve local economic development and to redress disparities among their domestic regions. We proceed in this report to investigate the role of cooperation contributing to local development by examining the complexities and different levels of related problems one stage at a time.

This report follows the historical changes in development strategies while focusing on changes in the global social and economic environment which have had major effects on economic and social development in developing countries, and observes the significance of those changes on localities within those nations (Chapter 2). It then moves on to discuss current conditions in localities within developing countries and outlines factors behind regional disparities as well as the progress of local development to date (Chapter 3). This is followed by an analysis of the roles of the central and local governments which are considered to be largely effective in redressing those regional disparities. The objective of this task is to clarify the difficulties and constraints faced by local governments in developing countries when attempting to formulate development strategies and implement them effectively. At this point we look at how decentralization in developing countries affects regional development and the

Note3 In this report, we use the terms "local" and "locality" especially in contrast to central government and administration, and "region," "regional," "area" and other related terms where the distinction with respect to central is not specifically intended.

narrowing of regional disparities by clarifying the role played in governance by local government and central - local government relations in developing countries (Chapter 4).

The fourth section of this report examines the key factors in the race for self-development of the localities of developing countries in the new environments formulated by the progress of economic liberalization and globalization. It then considers the contributing roles of central and local governments in regional development. When considering the financial structures of donor countries, although there is a possibility that the scale of central government will shrink relative to existing historical trends, new tasks emerge in the analysis provided in this report such as the provision of an institutional environment, fair redistribution of wealth and enhancement of local government capabilities. On the other hand, the onus is on local government to use local resources effectively, and plan and implement development programs in accordance with local conditions (Chapter 5).

Finally, the report examines suitable assistance to support these government roles and to contribute to local development (Chapters 6 & 7).

The report looks at the relationship between regional disparity and regional development problems and decentralization and, by revealing the current issues, studies the guidelines of donors when dealing with these issues. Specific examples which come to mind are the countries of Asia and Central and South America, where decentralization is in the process of becoming a practical policy issue due to the complexity and sophistication of society induced by economic development. Although these issues are shown in case studies cited in the following chapters, this report concentrates on summarized conclusions drawn from sampled countries in the regions stated above rather than examining specific individual issues concerning regional development and decentralization in these countries.

Three underlying sub-themes throughout this report are summarized below:

- (1) Attention to diversity of actors in development and the importance of local development

As a result of the transformation of the international environment, the standard approach to central government, regarding it as the main actor in development, is gradually being abandoned and replaced by one where more

stress is placed on the role of local governments and the private sector and on the diversification of development actors. The moves toward institutional reform by a developing nation can be understood as attempts to accommodate their systems to the international environment. In this context, this committee regards the main actor in development not as the central government alone, but as a group consisting of various local-level governments and other actors, and perceives a need to conceptualize patterns of development by multiple actors.

Within this framework, the role of the central government is relatively declining, while conversely, development counts more than ever on local governments. Donors, too, must diversify their policy modalities, realizing the urgency of measures to assist local development and narrow interregional disparities that will further widen, it is feared, as a result of the shift to a free market economy. Attention in assistance must also be paid to the reallocation to local areas of resources that tended formerly to be monopolized by the center and to improving the physical and institutional environment and human resource development and to upgrading organizational capabilities at the local level.

(2) Attention to central-local government relations in developing countries

To regard the central government alone as the main actor in economic and social development of a developing country and to concentrate aid on it, regarding internal institutions as givens, does not necessarily further the aim of promoting development at the local level; therefore, in order to promote sustained, indigenous development at the local level, it is important to create an enabling environment permitting local government and administration to function effectively. The relationship between central and local governments, the powers, financial resources, and access of local governments, the administrative and financial capabilities of central and local governments, and the relations between local communities and government and administrative agencies, among other factors, all assume great significance in this sense. Therefore, in the examination of cooperation contributing to local development and the righting of imbalances among regions, these factors should not be regarded as a black box. Instead, the governance of developing countries, including the relationship between the central and local governments, must be linked and analyzed in relation to the furtherance of local development.

(3) Decentralization and the role of the central government

In reality, decentralization in developing countries is beset by many problems. One reason is that decentralization is often merely the result of concessions by the central government under political pressure from the local level. Another reason is that duties in some cases have been passed to local governments by financially strapped central governments in order to reduce deficits, leaving the obligations of the central government to the local governments without the adequate financial resources to assume them. In other cases, local government and administration lack the administrative and financial capability to exercise the powers devolved to them. Though much has been said about the merits of decentralization, it requires commitment of the central government, administrative and financial ability at the local level, and qualitative improvement in governance at the local level for it to have the desired effects. Depending on its stage of development, the services that a society requires differ both qualitatively and quantitatively, and the desirable extent of decentralization may also vary considerably. Finally, decentralization has the intrinsic possibility of aggravating discrepancies among regions. If fairness is a consideration, the role of the central government, which should coordinate the regions and redistribute resources among them, remains important.

It is therefore important to study the individual cases encountered thus far in depth and to base aid upon this experience to determine whether reforms now underway will have in full measure the desired effects on local development.

2. Changes to the Global Political and Economic Environment and Developing Countries

Currently, various styles of decentralizing action are being practiced in many developing countries. Coincidentally, renewed attention is also being focused on regional development and regional disparities in developing countries. Such phenomena result from changes in the global political and economic environment and developing countries have to adapt to such changes. By providing an overview of the transitions in development policies in developing countries and changes in the surrounding international environment, the report sets out the background with which to analyze the significance of redefining regional development and the role of government in developing countries.

2.1 Development policies in developing countries and the debt crisis

Throughout the 1950s and 1960s, most developing countries sought to foster import-substituting industries. However, conditions and development levels differed from nation to nation. This resulted from their desire to try and stimulate rapid industrialization-oriented modernization to catch up with the rest of the world. However, the implementation of such development strategies by countries with no firm domestic economic foundations had to rely on official aid and private investment from industrialized nations. Meanwhile, underdeveloped domestic markets and inadequate human resources in terms of private sector entrepreneurs and technicians dictated that the implementation of these strategies in almost all cases necessitated the establishment of state-run enterprises. In this period of nationalism, the efforts by developing countries to foster import-substituting industries were aimed at escaping from weak economic foundations. However, such decisions were probably simultaneously based on a desire to establish key industries by themselves amidst global tension formed as a result of the Cold War and because of historical experiences with colonialism.

On entering the 1970s, a distinction gradually emerged between those developing countries which had maintained conventional import substituting industrialization and those which had adjusted their domestic economic structures to global economic trends and adopted the export-oriented industrialization strategies. The oil crises of 1973 and 1979 were particularly instrumental

in this. Trade and fiscal deficits in non oil-producing developing countries grew under the rising oil prices and stagnant global economy, hampered economic management and resulted in a sharp increase in reliance on external borrowings^{Note4}. Of the countries that emerged then as newly industrializing countries (NICs) in Asia and Central and South America, the NICs in Asia turned to export-oriented industrialization strategies while their counterparts in Central and South America maintained import-substituting industrialization as a key policy. The important point is that the difference in development strategies between the two parties demonstrated a difference in resistance to changes in the international economic environment. In many cases, countries which had adopted import substituting industrialization strategies over a long-term period had developed serious deficit problems in both domestic finances and balances of international payments.

In both cases, such deficits were symbolic of deep-seated economic problems in developing countries throughout the 1970s. Then on entering the 1980s, the seriousness of the debt problems which extended across all developing countries became evident when Mexico announced the default on its debts in 1982. The debt crisis was most pronounced in Central and South America and the Sub-Saharan African nations on the African continent and, as mentioned above, was closely tied to the continuation of import-substituting industrialization in Central and South America. These countries had proceeded with import-substituting industrialization policies while relying on agricultural exports^{Note5} and the use of massive borrowings from private banks in the U.S. and elsewhere. However, industrialization had not gone as planned, reliance on loans had increased and the growing debt burden increased further as rising international interest rates made loan repayments difficult.

The failure of development strategies which adopted import-substituting policies and maintained them over the long term, was due to overconfidence in the government's ability to coordinate industry on the part of the governments of developing countries and the development elite, overly high expectations or optimism in relation to international technology transfers and also the expectation of a trickle down from import substitution economies^{Note6}. "Trickle

Note 4 Meanwhile, huge surpluses developed in oil-producing developing countries, but these diminished after peaking in 1980 and those countries also found themselves with deficits around 1982.

Note 5 Agricultural exports declined considerably due to global economic stagnation and protectionism by industrialized nations.

Note 6 These observations are based on Teranishi (1995).

down” is the tenet that the benefits of development strategies which have gone full term, trickle down to all the levels which have been disadvantaged by industrialization, the major objective of developing countries. Moreover, reliance on agriculture continued with the optimistic pursuit of financial procurement in the domestic sector through resource transfers from agriculture in addition to foreign savings. This led to an upsurge in rural fatigue and poverty and an overflow of the poor into the cities. Governments were obliged to resort to fiscal expenditures to cope with social and political instability, expanding the fiscal deficit and the deficit in international payments even further.

In answer to the debt crises in the developing countries, the International Monetary Fund (IMF) sought the introduction of economic stabilization measures, and adjustment facilities were used on conditionalities which included fiscal and monetary austerity and other demand-side controls in addition to currency devaluation. The World Bank, working in collaboration with the IMF, also sought to introduce structural adjustment policies as aid conditionalities focused on the use of the market mechanism and supply side adjustments in the developing countries^{Note7}. However, the implementation of these adjustment policies could not be described as adequate in their treatment of chronic poverty, and many developing countries came under the further threat of increased poverty in the 1960s and 1970s. The fear of unemployment and wage restrictions as a consequence of retrenchments in the public sector and the privatization of state enterprises, together with the progress of economic liberalization by relaxing or abolishing various economic regulations introduced for the purpose of preserving a flimsy domestic economy, presented political and social costs associated with economic structural adjustment.

The revealed problem of developing nation debt was identified as one of the most serious global problems and a threat to world finances by the Brandt Committee in its report “North and South: Strategy for Coexistence” released in 1980. Creditor nations used to deal with such cumulative debt crises through the Paris Club by rescheduling debt payment. However, from the mid-1980s, proposals for more comprehensive measures to include debt relief represented by the Brady Plan^{Note8} (1989), indicated that the debt issue itself threatened the monetary and economic structure of the world. These days, there is an international aid coordinating system being put in place. Under this system,

Note 7 The efforts coordinated by the IMF and the World Bank to assist the heavily indebted developing countries were announced at the London Summit in 1984.

Note 8 The Brady Plan sought to reduce the huge amounts owed to private banks.

the IMF, World Bank and donor nations and organizations expedite the implementation of adjustment policies by governments in developing countries. The governments of developing countries agree to short-term economic stabilization programs under advisement from the IMF, consent to international agreements concerning foreign loan repayment programs within the Paris Club, and are parties to make structural adjustment program agreements with the World Bank. Coordination and mobilization activities in relation to aid among donor nations and organizations are also conducted under the leading role of the World Bank.

In 1982, the Mexican debt crisis demonstrated to the world both the severity of the developing countries' economic woes and the global extent and complexity of the debt morass, bringing home anew the seriousness of the structural problems besetting North - South relations. Behind this were the remarkable growth and the inextricable interdependence of the post-war world economy.

2.2 The growth of the global economy and political and economic reforms in developing countries

In 1975, the first conference of industrialized countries met in Rambouillet, France, in what is known as the Group of Seven, or G7 Summit, to discuss ways to deal with the global recession which began in 1971. This was in the wake of the United States' declaration that gold would no longer be convertible to the dollar, the world's key currency, in 1971; the switch to a floating exchange-rate system by the main industrialized nations and other major changes to the structure which had been the basis for the Bretton Woods system, the key element in the post-war global economy. Another contributing factor was the economic confusion since 1974 that followed the first oil crisis of 1973.

However, these structural changes to the world's economy do not signify a shrinking global economy. The post-war global economy grew dramatically and world trade expanded. Consequently, there was a substantial increase in the pace of international economic integration, in terms of the scope and depth of international unity in trade and funds flows. The proportion of trade in the world's GDP in the ten years from 1985 to 1994 grew at three times the pace of the preceding ten years and twice the pace of the 1960s^{Note9}. The ratio of FDI

Note 9 World Bank (1996b).

(Foreign Direct Investment) in the world's GDP also doubled in the ten years from 1985 to 1994.

The predominance of private investment over official aid since 1970 is characteristic of the changes seen in capital flows to developing countries. In the ten years to 1981, private investment grew by a factor of ten and was particularly remarkable in the years following 1974 and 1975 after the first oil crisis. The chronic current account deficits in the developing countries grew, particularly in the first and second oil crises. The reflex of oil money exerted pressure on private banks in industrialized nations to lend, and large quantities of private finance were made available to developing countries. Subsequently in the 1980s, the inflow of capital to developing countries was stopped by the effects of the debt crisis^{Note10}, however, on entering the 1990s, the net capital inflow is growing sharply again.

Growth in FDI to developing countries in the 1980s varied by region. Growth was remarkable in East Asian nations (particularly NIEs), and in the South and Central American nations^{Note11} which have always been relatively advanced in economic development, growth was vigorous in comparison to the countries of Africa and South Asia. In the period of global economic stagnation in the 1980s, almost all direct investment in developing countries from abroad was absorbed by East Asia and South and Central America. Meanwhile the least developed, most indebted nations such as those in Africa and South Asia, were experiencing severe conditions. However, with the advent of the 1990s, direct investment to Eastern and Central Europe and Central Asia, in which systemic transition was advanced, increased sharply, and in recent years, the reform and deregulation moves in India have also had an influence on the choice of destinations for this kind of finance.

The progress in structural adjustments in developing countries triggered by the debt crisis lent impetus to economic liberalization in those nations. As the East - West Cold War drew to a close and the various civil wars finished, new countries seeking capital emerged and created growth in the demand for international funding. With little capital inflow, developing countries were also engulfed by the growing competition to secure funds. This combined with

Note10 Clear changes are evident in private capital flows before and after 1980. Much of the high-profile private capital in developing countries throughout the two oil crises of the 1970s was absorbed by the industrialized nations after 1980.

Note 11 Of the 17 most indebted nations in the world in 1987, 12 were located in the Central and South American region.

the benefits derived from rapidly expanding trade, which exceeds its GDP growth, and the success of export-oriented industrialization in East Asia, forced the developing countries to adopt outward-looking policies. Thus, they reinforced their links with the global economy.

The accelerated globalization of the international economy from the beginning of the 1980s, and in the latter half of that decade in particular, lent impetus to the development of a global economic system in the 1990s, which included the formation of the Uruguay Round, aimed at expanding free trade, and the establishment of the World Trade Organization (WTO), which was set up as a regulating body of the Uruguay Round. Coincidentally, regional economic blocs were formed at the same time. An agreement on the Uruguay Round was concluded in 1993 and, at the same time, the twelve EC nations signed the Treaty of Maastricht in 1992 and launched the EC Common Market the following year in 1993. In the same year, the U.S. Congress passed a resolution on the largest free trade bloc in the world, the North America Free Trade Agreement (NAFTA), and at the APEC unofficial Ministerial Meeting held in Seattle that year, the formation of the community for Asia-Pacific regions was also announced^{Note12}. Thus, regional frameworks were established in preparation for free market economics. In 1994, a decision was made to establish the World Trade Organization (WTO) in 1995 to supplement new multilateral trade agreements.

From such activities we can see that goods, services and capital transcended international borders with more freedom, and precipitated immense rivalry which engulfed the developing countries. Consequently, the significance of national borders as obstacles was diminished. This report should note that this was the beginning of domestic reviews of the trickle down development system. The full-scale introduction of economic liberalization has now become the subject of serious consideration.

There was also another immense international wave which was particularly prominent from the latter half of the 1980s. This was the global trend towards democracy^{Note13}. Many developing countries undertook institutional reform with a view to democratization and this was closely connected to revi-

Note 12 The ASEAN Free Trade Area (AFTA) was also established in 1993, and Mercosur, a common market comprising the southern most nations of South America, was established in 1995.

Note 13 Democratization is used here in its loosest sense. That is, the two aspects considered to be important for democracy, objection and participation, indicate a situation which has made systematic improvements when compared to the situation that preceded it.

sions of the trickle-down development system. The reasons behind democratization vary from country to country, but, generally speaking, there are two main reasons given by developing countries to justify their use of authoritarian political systems. First, centralized authoritarian political systems are necessary to achieve national unity in developing countries with significant social fragmentation due to ethnic diversity. Second, state-led economic development is essential for achieving rapid economic modernization in developing countries with inadequate actors for industrialization. The failure of the import-substituting policies and, in turn, the breakdown of the trickle down development system — or, at the very least, its failure in practice — erode any justification for authoritarian politics based on the second reason^{Note14}. In addition, as an international factor, the end of the Cold War had an enormous effect on the democracy movement, directly and indirectly. It rattled any justification for socialist autocracies and altered the range of viable choices of the West for policies on developing countries. With the sharp increase in demand for aid, the international aid coordination system, which facilitates the implementation of structural adjustment policies, became instrumental in accelerating democratization^{Note15}.

The declaration at the 1993 Tokyo Summit, which was held amid emerging signs that the global economy was recovering, aided by the changes to the political and economic environment, was noteworthy in that it presented a vision of positive development for an international society faced with such historical changes as the debt crisis, the end of the Cold War, and the collapse of the former Soviet Union and subsequent systemic transition. Under the theme, A Decisive Course of Employment and Growth, the declaration proposed that all industrialized nations strive for economic recovery and creation of employment; new multilateral trade negotiation (Uruguay Round) agree-

Note 14 Authoritarian systems do not always lead to national unity, and bribery and corruption are also a common tendency under such systems. This can easily throw doubt on any justification for such a system based on the first reason. Under the conditions which prevailed at the end of the Cold War, aid policies adopted by industrialized nations were inclined to restrict the supply of aid to regimes operating under such systems.

Note 15 A joint communique by the OECD/DAC high-level meeting in 1991 hinted at the progress of this kind of systemization when it said, “Developing countries which are committed to reform to adopt a market economy, democratization and good governance should, in principle, be given priority when allocating development aid.” This was supported by its annual report which stated, “The issues of participatory development and governance together with military expenditure and human rights were prominent features in discussions in the aid coordinating group chaired by the World Bank.” Clearly the aid coordinating group has been developed into an integrated forum by the donor nations and their partners (recipient nations) for discussions on these delicate issues.” [OECD/DAC (1992), pp. 6 - 7]

ments; inclusion of the former Soviet Union, now undergoing a period of systemic transition, in the global economy; continued assistance for developing countries; and global growth in harmony with the environment.

In other words, the advance of democracy and global economic liberalization witnessed the end of the Cold War. The collapse of the socialist structure, consequent structural conversion and introduction of market economics in the former Soviet Union and Eastern bloc countries, and thus the development of a more decentralized political and economic structure known as “Market Oriented Economy and Democracy,” had a clearer significance as a global development doctrine.

2.3 Political and economic reforms and localities within developing countries

The unknown quantity in matters such as economic liberalization, democratization and reviews of trickle-down development systems, is the role of the governments in the developing countries in aspects of its politics, economics and social policies. The 1980s was a period of so-called crisis management as a result of the debt crisis, and development perspectives were remarkably restricted to the short-term or mid-term. Then, in the first half of the 1990s, the end of the Cold War and the systemic transition in the former Eastern bloc countries attracted attention around the world. In the current respite from such matters, the role of government in achieving long-term development in developing countries is subject to discussion. But surely this is not a replay of the debates of the 1950s and 1960s. As mentioned above, the global political and economic environment achieved structural change through dramatic expansion in the global economy and the end of the Cold War. Responses in various formats are already making dynamic progress in developing countries.

Hand in hand with the need to respond to structural changes in the global political and economic environment, the review of the trickle-down development system forced economic reform in line with economic liberalization in developing countries. It strove to replace the development by centralized authoritarian government leadership with greater use of market forces. Meanwhile, it reduced the significance of national borders as economic barriers (borderless economy) while also easing regulations and stimulating privatization domestically. In combination with debate on establishing more effective, effi-

cient government in terms of development performance, streamlining public finances and redressing deficit-ridden systems, it led to reviews of the administrative, financial and judicial systems. Democratization also increases the influence of the citizens, political groups and local power parties, enabling the reform of political systems. This revision of government roles through economic liberalization and democratization means broadly redefining the issues of governance, that is, the framework of rights and responsibilities assumed between the various stakeholders involved in running government (the three rights of government: legislature, judiciary and administration). That firstly entails a review of the relationships between the organs within the government, that is, a review of the interrelationship between the three rights of government (e.g. a constitutional state = a stronger judiciary), and a review of the relationships between departments within government organs (central bank independence). There is also a review of the relationship between central and local governments (local decentralization) in conjunction with discussion on federalism, which will allow better efficiency through rivalry between local governments, and rationalization of central government policies by local government supervision of central governments. Secondly, a review of the relationship between government and society becomes unavoidable. Reduction of the domain covered directly by the government and the progress of the market economy as a result of deregulation and privatization produces numerous economic entities outside the government, and invites the emergence of a social elite through a market in which, for example, the role of the merchant is enhanced. Democratization also simplifies organizing political and social entities, and in this way increases society's influence in government. Therefore, if we apply this to the issue of development, it suggests diversification of actors for development.

On the other hand, a borderless, liberalized economy means granting more decision-making power to economic entities, but at the same time, requires self-regulation from them. This means that they are given greater opportunity, but they are also plunged into fiercer competition. Unfortunately, this may magnify the economic disparities between these entities.

The problem with the trickle-down development system is that it was a growth policy which encouraged reform for the purposes of government-led development and which was executed at the cost of the distribution side of development. Consequently there is a possibility of a move in a new direction shifting to reform, which will encourage development with emphasis on the

aspects of distribution together with the interaction between distribution and growth. In fact, the 1970s saw the emergence of a development ideal which emphasized the fulfillment of basic human needs (BHN). However, while it focused on distribution, it was more an emergency measure to deal with the growing poverty problem of the 1970s. "Human Centered Development," which was put forward based on the experience of the BHS strategy, is one development concept which emphasizes an interaction between distribution and growth.

Looking at the experience of the agricultural sector in East Asia, we also find that this region procured resources from the agricultural sector on a similar scale to other regions. Much of the accumulated capital was reinvested in projects with a strong local development flavor, such as rural infrastructure, and the net capital flow between agriculture and industry has not been so one-sided^{Note16}. For this reason, rural poverty was curbed, rural endogenous development was encouraged, and long-term development became possible. In other words, assuming that the market is underdeveloped, a more balanced development between agricultural and non-agricultural became possible through government intervention in the distribution of development resources.

The focus of this report is localities. This is because localities in their roles as complex entities as mentioned above, act as nodes in studies of development in developing countries. The problem of disparity due to borderless liberalized economies is expressed as regional disparity as well as income disparity between entities (individual, corporate, etc.) and will become increasingly important in the consideration of development in developing countries. The East Asian experience is effective in trying to achieve both growth and distribution. Thus, while the central government has played a major role, at the present time, the role of government is under review, and regional decentralization is starting to be regarded as an influential means of increasing the efficiency factor in administrative and financial systems, and also as a means of facilitating the flow of democratization. We can also say that decentralization as a means of reform in readiness for improvements to governance in a broader sense is now on the political agenda of many developing countries. Deeper investigation of these domains also saw the appearance of many long neglected actors. That is, the development of a single nation should be the responsibility of complex entities made up of the various regions and actors, and this prerequisite is central to the consideration of development and growth.

Note 16 Refer to previously mentioned work by Teranishi (1995) and Ishikawa (1990).

There is an immense difference in political and economic structures, initial conditions of development, and levels of economic development in developing countries. In the face of changes in global political and economic conditions, developing countries, while maintaining common agendas such as economic liberalization and privatization, have adopted individual responses. In the interests of this report, the issues are the definition of regional development in developing countries in this new environment, and governance by government, which will effect the decision on regional development in these regions. In particular, administrative functions and scale, the respective roles of central and local governments, the necessity of revising local systems, and the feasibility of democratic actors supporting the locality must be subjected to scrutiny.

3. Local Development and Interregional Disparities in Developing Countries

As globalization is making increasing inroads everywhere, developing countries are exposed to a new social and political environment. As this happens, how will local development and interregional disparities evolve?

3.1 Regional disparities in developing countries

It has been pointed out that in the process of economic development in developing countries, income disparities widen in the initial stage of development and shrink subsequently; according to the hypothesis of the economist Simon Kuznets, inequalities follow an inverted U curve as per capita income grows. As economic development in the developing countries progresses, the proportion of poor to the general population has been shrinking, but income disparities have not been reduced as much. According to the World Bank's social indicator of development, the poorest segment of the population in Indonesia shrank from 29% in the period 1980-1985 to 15% in the period 1989-1994; in China, the same percentages shrank from 20% to 7%, and in Bangladesh from 54% to 28%. Income disparities during the same period, however, behaved differently in different developing countries. In Indonesia, they shrank: the amount of income in the control of the poorest 20% of the population rose from 7% to 9% and the amount of income in the control of the richest 20% fell from 53% to 41%. In Bangladesh, however, the percentage stayed at 9% of income for the poorest 20% of the population and decreased only slightly, from 39% to 38% of income for the richest 20%, while in China, income disparities widened: the percentage of income in the control of the poorest 20% shrank from 7% to 6% and the share of income controlled by the richest 20% rose from 39% to 44%^{Note17}.

Likewise, income disparities among regions of the same country have also widened with the progress of economic development. A so-called Williamson curve also shows an inverted U pattern of interregional income distribution as per capita income rises^{Note18}. Between 1983 and 1990 in Indonesia, the per capita GDP of eastern Indonesia worsened, from 92.8% to 85.7% of the baseline

Note 17 World Bank (1996a)

Note 18 Nagamine (1985), pp. 36-37

figure 100 for western Indonesia^{Note19}. The same figure of Sulawesi went from 61.2% to 56.2% of the western Indonesian level for the same years. In Thailand likewise: from 1985 to 1989, the per capita GDP of northeastern Thailand sank from 15% to 12.4% of that of the Bangkok metropolitan region. The disparity with respect to metropolitan Bangkok also widened in other regions except of eastern Thailand^{Note20}. Such disparities arise in some cases as the result of a time lag caused by the unequal spread of economic development to other regions, but the way economic development is implemented itself can cause disparities to widen.

Many major changes are visible in the social and economic environment in which developing countries find themselves today: due to progressive globalization and advances in economic liberalization following the transition from government-directed to market-led economic development, national borders no longer isolate localities from international economic trends, which are beginning to influence localities directly. Global trends are putting developing countries in a more competitive environment and suggest that gaps in economic development among localities may arise due to differences in competitiveness of a nation's local units.

3.2 Poverty in developing nations and factors in interregional disparities

Among the factors giving rise to discrepancies in living standards between regions in developing countries, we can cite the presence or absence of natural resources, the available reserves of land, labor, capital, and other factors of production, the geographical location, and the nature of the local natural environment. According to the laws of the market, investment tends to be concentrated in areas with economically favorable conditions. For this reason, varying availabilities of resources and reserves of production factors in the region, access to the region and other geographical conditions, and the presence of local markets as well as other latent capacity for economic development can lead to local inequalities in the distribution of private sector investment and public spending on infrastructure due to differences in competitiveness among different regions. With ongoing globalization and increasing facility of capital

Note 19 Mohammed Arshad Anwar, Omura, eds. (1994)

Note 20 Varakorn Samakoses, Taniguchi, Makishima, eds. (1994)

movements across national borders, the tendency is even stronger for investment to be concentrated in major cities and localities with latent potential.

Thus liberalization of the economy has a tendency to magnify the disparities among regions according to their competitiveness. In Indonesia, for example, investment is concentrated in Java, which received 63.5% of foreign investment and 60.9% of domestic investment from 1967/68 to 1996. Investment directed to western Indonesia (including Java and Sumatra) was 83.8% of foreign investment and 79.3% of domestic investment, demonstrating the concentration of investment in this region^{Note21}.

Access to markets must be secured for the local economy to be linked to domestic and overseas markets and continue to grow. Unless road, rail, telecommunications, and other infrastructure is sufficient, and adequate distribution channels have been set up, disparities may arise among localities. Localities with latent competitiveness therefore tend to be favored in terms of spending on infrastructure construction; it is rare that less competitive regions receive an adequate share of infrastructure spending. This, too, leads to a vicious cycle aggravating disparities among localities. Political determination to right interregional disparities must be shown if underdeveloped areas' access to markets is to be improved.

It was hoped that to promote economic growth in relatively advantaged areas of developing countries would have a so-called trickle down effect on surrounding, less favored regions, with one region's development spurring development nearby; it was hoped that this could be induced by giving the highest priority to promoting the development of advantaged sectors, of localities where those sectors are located, and of areas with resources and relatively economically favorable conditions. Yet this idea of spreading the effects of unequal economic growth to other geographical areas has not always materialized. It depends also on whether investment is capital-intensive or labor-intensive, in other words, on the approach to economic development. The main key to successful trickle-down effects has been whether jobs are created in surrounding areas. In cases where there was a weak linkage between capital-intensive industrialization and the domestic market, such as supporting industries and other sectors, this simply created an enclave of industrialization, an economy isolated from the surrounding region developed, and had few if any

Note 21 Republic of Indonesia Investment Coordinating Board (BKPM)(1996)

trickle-down effects on nearby local economies.

Income disparities are also generated among social strata in the process of economic growth in developing countries at the same time that interregional disparities are created among localities. Within a given locality, individual income gaps are generated, depending on access to reserves of production factors and job opportunities, no matter whether the underdeveloped burdened area has a serious poverty problem or where the conditions for development are relatively favorable economically. It should be borne in mind that, even within the same locality, individual differences in competitiveness will generate local income disparities as economic liberalization progresses and the competitive environment becomes harsher.

Disparities are also generated in some cases among regions, stemming not only from differences in competitiveness due to their initial economic status, but also from racial and ethnic differences and the political power structure or social relations in different localities. Regional imbalances in resource allocation can be generated by political power relationships, for example. Both economic disparities arising from gaps in competitiveness among localities and those stemming from political power relationships can generate regional imbalances in resource allocation, and this can lead to ethnic conflict in cases where the racial, ethnic, or religious background is conducive to social strains. The uprising by Indios in the Mexican state of Chiapas, for example, has its roots in economic disparities and ethnic inequality. Excessive centralization in developing countries has resulted in the maldistribution of resources with overconcentration at the central government level and insufficient redistribution to other localities. The resulting concentration of power in the capital and the metropolitan region has spurred development there, creating disparities between central and local regions and between urban and rural communities. Workers migrate from rural areas to the cities, where investment is concentrated and where more jobs are available, turning national capitals into sprawling megacities and rural communities into deserted ghost towns.

3.3 Local development in developing countries today

Local development is a major policy objective for developing country governments, due to the problems of widening interregional disparities and the poverty often seen in underdeveloped areas. How, then, is local development

defined and carried out in developing countries' development policies? Some developing countries have sought to achieve economic growth for their entire nation by improving productivity and promoting broader participation in the market economy at the local level. Policies have been adopted to achieve this by, for example, giving priority to development in localities with latent potential to build infrastructure to improve access to markets. Other countries have adopted policies that achieve fair resource allocation and redress imbalances by improving people's welfare, satisfying basic needs through social development, and taking measures directed at the poverty in underdeveloped areas to narrow the gaps between rich and poor regions. This approach has another purpose, which is to control dissatisfaction due to economic hardship and to ensure political stability in non-metropolitan localities. In nations composed of multiple ethnic groups and tribes in particular, it is often important to quell local pockets of discontent in order to achieve national political stability. Local development has two aspects, ensuring both economic growth and political stability by improving people's lives; the central government leads local development by this approach. In this process decentralization has been utilized from both the active aspect of reflecting the will of local people in economic development and the passive aspect of an institutional device to seek political stability.

The development policies that developing nation governments have evolved in response to local requirements of economic growth and fair distribution can be divided into three main types according to the purposes of and actors in development. The first type of policy seeks to promote local industrial development in order to relieve overconcentration of the economy in one location; this type is promoted mainly by the central government. The second type is designed to combat poverty in underdeveloped regions; the central government plays a major role in this type in terms of resource reallocation. The third type involves not only centrally led development of the type carried out thus far but also locally led development carrying out progressive economic deregulation and decentralization through efforts by local governments, the private sector, and citizen groups to stimulate development at the local level. The actors in development are also diversifying in developing countries in response to different approaches to development and definitions of target localities. Even in centrally led development projects, local governments' roles are multiplying in the implementation stage.

Policies promoting industry's local development are many and varied: mar-

ket environments are being improved by building infrastructure and offering tax and other incentives to induce foreign and domestic private sector investment in non-metropolitan areas. In some cases, local economic development is following a hub development strategy, where a central government-led plan is designed to link local development to export markets, and to create local markets surrounding local “hubs” with latent resource, labor, geographical, and other potential to become a development center. Industrial development of the eastern seaboard in Thailand is an example of this type. In Indonesia likewise: eastern Indonesia’s development is being planned based on a central government-led hub development strategy. In China on the other hand, hand in hand with liberalization of the economy, infrastructure is being improved in coastal regions with easier access to markets as part of ongoing industrialization efforts aimed at producing goods for export markets. The main actors are public corporations run by provincial governments and town and village enterprises with some foreign capital. In rural development of agriculture, likewise, transportation infrastructure is being improved for better access to markets, and irrigation facilities and other production infrastructure are being built to improve productivity, facilitate the introduction of cash crops, and promote agroindustry. As shown by the growth of tapioca production in northeastern Thailand, rural roads and main road arteries improve access to markets, including links to export markets, raise farmers’ incomes, and create jobs. The spread of “Green Revolution” technology in Asia has been triggered by the securing of access to markets and the improvement of such infrastructure as roads and irrigation facilities.

Antipoverty measures in underdeveloped areas are often carried out by the central government as a safety net relying on reallocation of resources. Examples of programs to improve roads and other transportation infrastructure, and education, health care, and other social infrastructure in underdeveloped areas include Indonesia’s IDT (Inpres Desa Tertinggal) program of central government subsidies for underdeveloped villages and Mexico’s popular solidarity program. In underdeveloped areas where the local government’s ability to mobilize resources is weak, resource allocation through central government funding or subsidies play more important roles in infrastructure improvement and social development. In the implementation of antipoverty programs, together with local governments, in providing social services, NGOs and citizen groups are beginning to play major roles in providing medical and health care, education, small scale finance, and other services.

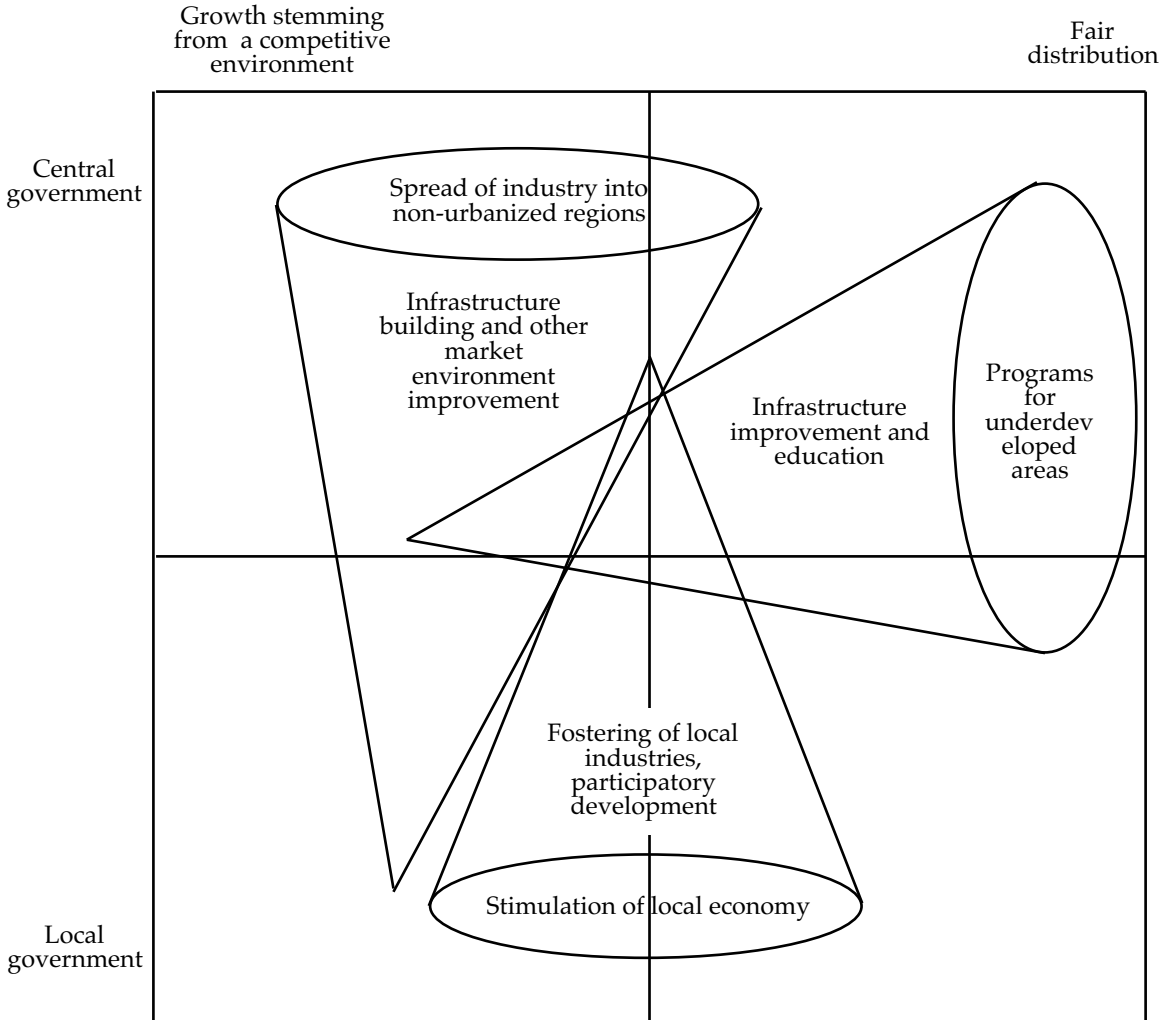
In regional development, both the conventional type of central government-led development programs and the type in which local governments play leading roles in local development with citizen groups' participation are now being carried out. With progress toward decentralization, local governments have begun to play leading roles in planning and implementing development programs in areas under their own administrative jurisdiction. Local governments now play major parts in the planning, construction, and maintenance of infrastructure at the local level. Taking advantage of globalization's advances, moves by local governments to induce direct foreign investment are now being seen in many countries. For example, in Surabaya City in Java, Indonesia, the local government is inviting direct foreign investment in the construction of an industrial estate, and in China, coastal cities are vying with each other to induce foreign investment and promote industrialization.

Both local governments and the private sector are becoming increasingly active in the interior of regions as well. The local processing of farm goods and development of local specialties as well as the activities of China's town and village enterprises and of other private sector entrepreneurs and corporations in local development is growing and creating job opportunities locally. Many cases are seen where NGOs and citizen groups are actively engaging in income raising and production activities at the village and community levels and are stimulating localities to achieve rural development through these internal attempts. Inspired by the success of the Grameen Bank in Bangladesh, NGOs are supporting similar small-scale rural projects in India, Thailand, Malaysia, and Indonesia. This kind of locally based participatory development is now being seen everywhere. More attention has come to be paid to the importance of the role of such intermediary organizations as NGOs, cooperatives, and industry associations linking citizen groups through the mediation of information and resources to markets and administrative services of central and local governments. Local governments have also begun to take the initiative in the planning of development programs in the participatory form, as ties to local industry circles and NGOs become closer. In the Philippines, representatives of NGOs are among the members of local development associations and take part in the development planning process.

Indigenous local stimulus movements are growing and participatory development is being widely implemented; this shows that the actors in local development have diversified, and now include local governments, private sector businesses, industry associations, NGOs, and citizen groups.

Figure 3.1 illustrates the roles of central and local actors in development from three angles: the spread of industry into non-urbanized regions, programs for underdeveloped areas, and stimulation of localities, in the framework of policy objectives that seek to rectify gaps among regions, paying attention to fairness of distribution and policy objectives that seek local economic growth by preparing a competitive environment.

Figure 3.1 Local development policy objectives and the distribution of central and local roles



Depending on a developing country’s stage of economic development and relations between central and local governments, the relative importance and exact nature of the three approaches may vary. For countries in the initial stages of development, improvement of the market environment and construc-

tion of infrastructure under central leadership are necessary mainly in order to encourage industry's expansion into rural areas. Policies are also adopted to implement programs for underdeveloped areas under central leadership. Environments have also been created where localities have been stimulated through a process where progress in economic development has facilitated permeation of the region by the market economy, and in the process the localities' ties with the outside world have developed. This has stimulated locally led development movements and given more weight to local stimulation (see figure). Thus we see that, as economic development advances, so do the importance and priorities of the three approaches. Also, as ties between the central and local governments differ depending on the country, the share of the central government increases in a power centralizing state, while the initiatives of local development of industry carried out by the locality increases in a decentralized state.

4. Governance and the Relationship Between Central and Local Governments in Developing Countries

Governance exerts a decisive influence on local development and the narrowing of interregional economic gaps. In examining the role of government, which is undergoing review in today's new environment, this committee studied mainly the roles of and relationship between governments, especially the division of roles thus far between central and local governments in developing countries, and the problem of the scale of government; having done this, it went on to examine the relationship between central and local governments as a governance system in developing countries. In response to different historical backgrounds and local community conditions in developing countries, differences occur in relationships between central and local governments and in the significance of decentralization.

4.1 Basic approach to the relationship between central and local governments

Local governments conduct a variety of activities to develop the localities they administer. Central governments are also active in local development, both directly and indirectly through the intermediary of local governments, etc., and work to rectify disparities among regions. Such government activities obviously deserve close attention when studying local development and devising ways to narrow interregional gaps.

Government's role in accommodating these policy objectives is to formulate effective policies adapted to local realities and to implement them efficiently. Yet it is not easy for governments to act in accordance with their expectations or to implement programs without major hitches. Governments of developing nations in particular are subject to many constraints. It has been pointed out that local governments, especially in developing countries, have a weaker financial base than central governments, lack quality human resources, and have underdeveloped and inefficient organizational infrastructures. Local governments are situated between government (here in the broader sense of the legislative, judicial, and executive branches) and society (which is defined below, but we are referring here to the transition zone, rather than the point of contact, between government and society); they are situated at an extremely important vantage point for observing specific policy implementation and the

people's will and needs. This is particularly true of local development.

Normally, the roles of developing countries' local governments fall into two main categories: one is as agent of the central government, implementing policies decided at the central level and providing the central government with needed local information. The second role is to make independent decisions within the scope of its discretionary powers and to execute policies. In state governments within a federal system, the latter role of independent decision maker and implementer is a major role in the institutional framework. Where the local government basically does no more than to carry out the former role of agent, however, the local government is close to being a local office or agency of the central government. In many countries, especially in developing countries, even in those with federal systems of government, local governments assume the former role in practice. Yet even in these countries, the central government, too, has local offices and agencies, and they, too, must have some degree of discretionary powers, as it is impossible for a central government to issue orders in such detail that they leave no discretionary powers at all to local level officials. Local governments and local agencies, though to a varying extent, carry out these two roles simultaneously in developing countries. How the local government discharges this role, however, is determined by the division of roles between the central and local governments in carrying out such policy objectives as local development and rectification of interregional disparities and by the autonomy of local governments and local agencies.

Centralization and decentralization as they affect relationships between central and local governments and local agencies have come to be discussed under the rubric of "central-local ties." There are loud calls for decentralization in the advanced countries, including Japan. Decentralization is being carried out in the developing nations as well, in response to increasing demands for autonomy in relation to the movement for democratization and people participation and from repressed ethnic groups in the present regime. For example, authoritarian governments are increasingly conceding local autonomy in response to calls for greater democracy both at the national level and in all facets of life. Another goal of decentralization is increased effectiveness and efficiency of governance. It is thought, in other words, that local governments know best the situation in their localities and are best able to obtain information, formulate policies, and implement them. By allowing local governments to perform these roles, governance can be improved in effectiveness and

efficiency^{Note22}. Central governments' financial difficulties are yet a third motivation for decentralization. In many developing countries, in order to reduce the government's budget deficit, the central government must be slimmed and local governments' dependence on central government must be reduced; to do this, central governments must devolve powers to local governments and at the same time give them incentive to make greater efforts on their own to find the necessary resources.

This debate over decentralization appears to arise in the context of the "central-local relationship" issue from debate over centralization versus decentralization in political decision making involving local autonomy and centralization and decentralization affecting public goods and services planning, implementation, and cost-bearing. These problems are not mutually independent but interconnected in complex ways, making the existence of the central-local ties problem more complex in developing countries. For example, in a given political context, decision making is sometimes decentralized without taking into consideration its desirability for effective and efficient supply of public goods and services^{Note23, 24}. Conversely, political decentralization is some-

Note 22 Decentralization's advantages in terms of increased government effectiveness and efficiency are the following: i) it is most efficient for a local government to supply public goods and services when the benefits are intended to extend only to a limited geographical area and when otherwise the benefits and costs would spill over to other areas, since intended beneficiaries and eligibility vary depending on the type of public goods and services involved; ii) greater efficiency is achieved by generating competition in the supply of public goods and services among local governments through decentralization (for one of the best expositions of this argument, cf Tiebout's "Voting With One's Feet" in Tiebout (1954): each individual reveals his or her preference by moving to the area where the public goods or services best reflecting those preferences are available; local governments, by competing in the supply of public goods and services, can enable inhabitants to reveal their preferences and provide the right public goods and services); iii) decentralization enables local governments to attempt to find better methods to supply public goods and services and allows innovation; iv) decentralization increases local governments' ownership and responsibility for the results of their actions and increases their incentive to improve their programs. [Cf, Tanzi V (1996). Tanzi also states, however, that extremely strict prior conditions must be cleared in order to exploit these advantages of decentralization.]

Note 23 Dillinger, W. (1995), Hommes, R. (1996). In the former, Dillinger (p. 9 opus cit.) states that the decentralization currently being carried out in developing countries is not something that was carefully designed to improve performance of the public sector but instead has often taken the form of haphazard and passive concessions by central governments to preserve political stability; for this reason, it does not always bring about improvements in the supply of public goods and services. In the latter, Hommes, drawing on Dillinger's arguments, develops similar views.

Note 24 For example, the financial base of the central government is sometimes weakened by decentralization, rendering the central government unable to deliver sufficient public goods and services to redistribute resources to poorer regions; this hampers the effective delivery of public goods and services from the national standpoint. Efficiency may also suffer when, as a result of negotiations over political decentralization, decision making power for only one aspect of closely interrelated administrative goods and services is transferred to local governments, the objective being to strengthen local autonomy. Efficiency may suffer when technical support from the central government is lacking as a result of insufficient understanding of the new roles that the central government must assume with devolution of jurisdiction. And finally, efficiency may suffer when the duties and powers related to public goods and services are transferred, but the power to collect funds to sustain them is not and real exercise of powers is practically impossible without funding.

times excessively restricted out of excessive concern for the effective and efficient supply of public goods and services^{Note25}. One more element must also be taken into consideration: citizen participation in legislative and administrative governance, if local autonomy made it possible, would increase public acceptance of programs and increase the effectiveness of the supply of public goods and services, and it would make possible citizen oversight of administrative activities and increase the efficiency of the supply of public goods and services.

4.2 The historical background

The subject of central-local relations in developing countries is at once a very contemporary one and a subject that has been a major issue from the time when many countries gained independence. How central-local relations are designed is the basis both of the three branches of government—the executive, the judiciary, and the legislative—and of internal institutions, and much concern has been focused on this question. Many independent countries accepted the territorial boundaries of their new states exactly as they were in colonial times; from the start, this gave the fledgling nations a complex mixture of heterogeneous groups to deal with, with many ethnic and linguistic groups within their borders, magnifying the complexity of their problems. Frequently, different groups inhabit distinct geographical areas of the country. In the Philippines, for example, administration was decentralized from colonial times; the elite who sought to attain independence through negotiations, traditional social power structures from the colonial era remained in place, and powerful local interests already existed at the time of independence^{Note26}. The questions that had to be answered were, therefore, how much autonomy to give these local groups, what rules should be defined for the new state that would be applicable to all groups, and how the new rules could be effectively enforced. As a general rule, newly independent states were economically backward, and economic development was stressed as a way to unify the nation; nationally led development was therefore regarded as the most effective way to use national

Note 25 This is the case when, for example, the highest priority is given to the country's achieving rapid economic growth.

Note 26 Hiraishi (1993) notes that the People's Party, which led the Philippines at the time of its independence, was basically an elitist party that allowed farm owners to have representation in the party (p. 97) and that the domination of powerful and ambitious local notables remained unchanged under the Marcos dictatorship (p. 107). Kawanaka (1996) states that, even today, the political power structure of the Philippines has a decentralized structure with, at its core, powerful local people with strong local political bases.

resources in a planned way in order to effectively achieve rapid economic development.

For this reason, central governments sought to introduce centralized central-local relations to promote national unification, to establish a national economy, and to realize rapid economic growth, and many developing countries drafted constitutions and designed their institutions with such a central-local relationship in mind. Yet in cases where local interests were powerful and the demand for autonomy was strong, political compromises had to be made, and they were written into the constitution. India is a case where a federal system was established after independence. And even in some countries like Thailand that managed to avoid colonization, power was centralized to establish its institutional framework as a territorial state and to enable the entire nation to put up a united front under external pressure.

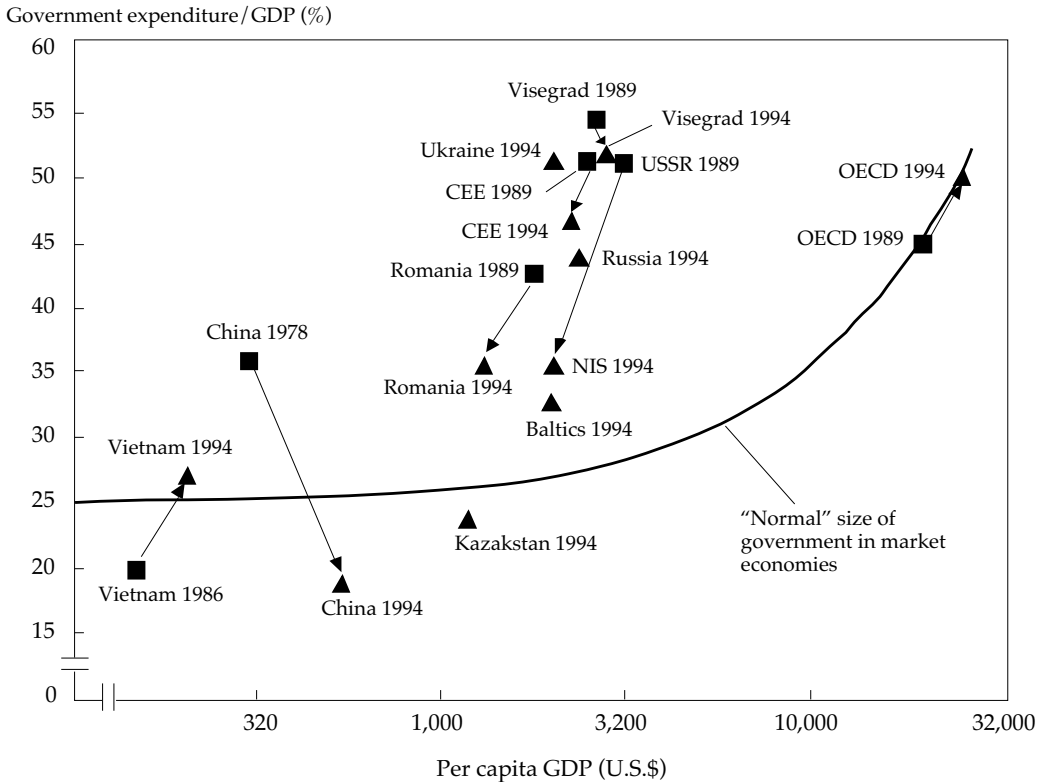
4.3 Scale of government and economic development

We shall now look at the evolution of the scale of government and the positions of local governments in developing countries in such evolution. We will clarify the general tendency of local governments' roles by looking at the expenditures of both central and local government as a percentage of gross domestic product.

Figure 4.1 compares per capita GDP and general government expenditures (by both central and local governments) as a share of GDP in market economy states (including both developing and advanced nations, but contrasting market economies with economies in transition). Figure 4.2 plots on a graph the same relationships of local government expenditures. We can see from these figures first that, in general, governments are smaller in developing countries than in advanced nations and that local government expenditures are so small as to defy comparison with others. (China and India, which adopted full-scale state control on the path to development, are among the exceptions.) Then, with the exception of the transitional states, the scale of government as a percentage of the economy generally tends to grow as income levels rise, as does the size of local governments. This is shown also by the historical experience of advanced nations. Historically, as an economy grows, the size of the government also grows, and local governments' size grows at an even higher rate in some countries.

The reasons for this tendency are generally explained as follows. The minimum duties of the state are to maintain domestic law and order and to ensure security against outside threats. In the subsequent process of economic development, improvement of economic infrastructure and other economic roles of government and basic social infrastructure improvement, become called for, in addition to law and order and security. Then as income levels rise further, a demand arises for more advanced and sophisticated economic and social infrastructure and the social role of government grows as it provides more and better social services and welfare. In the domain of infrastructure, the local government assumes the roles of building and improving normally relatively small-scale economic and social infrastructure at the local level, and in the domain of social services, it is in charge of rather major services (excluding, however, the payment of national pensions and other benefits linked to personal income). Therefore, as the scale of central government grows, so does the scale of local government. Moreover, this growth in government's size at both the national and the local levels is a phenomenon seen in any institutional framework between central and local governments, such as federal systems or unified systems (e.g. Japan).

Figure 4.1 Relationship of general government expenditures to GDP and to GDP per capita

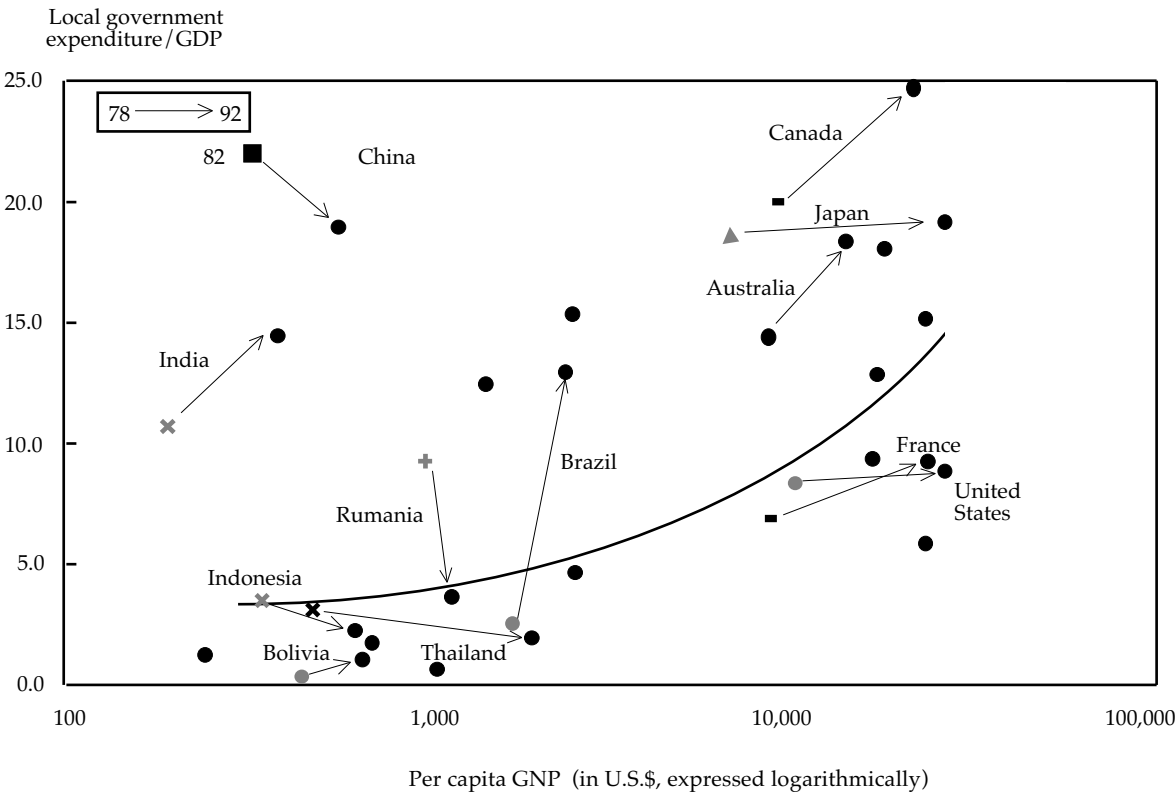


Note: GDP per capita is at market exchange rates and plotted on a logarithmic scale. Government expenditure is all expenditure for central and local government plus extrabudgetary operations (quasi-fiscal and state enterprise operations are excluded). The regression line is based on a separate sample of forty-seven developing and industrial market economies. Data for country groups are simple averages. Source: IMF, various years(c): official data: IMF and World Bank staff calculations and estimates.

Source: World Bank (1996c), *World Development Report 1996—From Plan to Market*

Of course, in the age of economic liberalization, borderless economies, and substantial competition, countries may compete with each other to lower corporate taxes as an incentive to industrial implantation, and with the trend toward small government, developing countries may not necessarily follow exactly the same path as the advanced nations did. The role of the state in the economy may begin to shrink in advanced nations, and it is increasingly difficult to imagine that developing countries' government finances will ever exceed 50% of GDP as they do in western Europe. Generally speaking, finances are a smaller share of GDP in developing nations than in the advanced countries, and local government expenditures are yet smaller. For this reason, it is possible that local government finances in developing nations will grow as their economies grow for some time to come, even if tax rates are competitively lowered to be standardized worldwide.

Figure 4.2 Per capita GNP and local government expenditures as a percentage of GDP (1978 and 1992)



- Note 1 The sample consists of Australia, Belgium, Bolivia, Brazil, Canada, China, France, Guatemala, India, Indonesia, Kenya, Malaysia, the Netherlands, the Philippines, Rumania, South Africa, Thailand, the United Kingdom, the United States, and Japan.
- Note 2 Consolidated central government data are given for all countries except the Philippines, Kenya, and China; budgetary central government figures are given in the case of the Philippines and Kenya.
- Note 3 In cases where local government finances are divided into three levels, only the state level or level below the central government is taken into consideration.
- Note 4 In the case of Japan, by “the central government budget,” we refer to the general account (after deduction of public debt from revenues); by “the local government budget,” we refer to the balance of the ordinary budget (after deduction of local government debt from revenues); and by “financial transfers,” we refer to the net difference between total central and local expenditures and net central and local budgets.
- Note 5 The Chinese data include extra-budgetary revenues and expenditures.
- Source: *Government Finance Statistics Yearbook*, IMF; (For Japan: *Economic Statistics Annual 1995*, Bank of Japan (1996); for China: *China Statistics Yearbook 1994*, State Statistics Bureau (editors), People’s Republic of China.

The same can be said of the number of civil servants as a proportion of the employed population: with growth in their economies, the advanced countries have increased the ranks of their civil service, and the number of civil servants as a percentage of the working population has tended to grow. Even Japan, where the civil servant population is much lower than elsewhere in the advanced industrial nations, has considerably more civil servants, compared to developing countries: the ratio of government employees to all workers in the Philippines and Indonesia, both archipelagoes, is only about two-thirds the level of Japan, also an island country^{Note 27}. However, the proportion of local government to central government employees is lower in many cases, reflecting financial circumstances.

However, the role of government in developing countries will probably increase. The economic growth and evolution of markets is accompanied by greater division of social roles; as a result, the government, too, evolves, and usually it is called upon to become more involved in society. This involvement is mediated sometimes by local offices and agencies of the central government, sometimes by local governments. In general, however, as government activi-

Note 27 In 1992, Indonesia had about 3,950,000 public officials (1,698,000 employees of ministries and agencies, 1,517,000 assistants to local government, etc., 232,000 employees to local governments, etc., 7,000 employees of state owned enterprises, and 496,000 local government officials), Kano (1996), p. 38; this is about 3.4% of the total working population of Indonesia. In 1993, the Philippines had about 1,067,000 public officials (773,000 national government officials, 294,000 local government officials); this is 4.4% of the working population of the Philippines. In 1992, Japan had about 4,491,000 public officials (1,167,000 national officials, 3,325,000 local officials); this is about 7.0% of the working population of Japan [figures for both the Philippines and Japan were obtained from Kawanaka (1996), p. 97].

ties diversify to meet more individualized needs in response to social trends, it becomes increasingly difficult for the central government to transmit orders directly to the bottommost local level and to monitor that level, and hence the local level certainly has ample opportunities for discretion.

What does not fit in with the approach described above, involving the hand-in-hand evolution of government and society, is the experience of postwar socialism. China and India improved their social programs of social welfare and education (in a relative sense, of course) for workers in the industrial sector as well as for the general population, despite their low income levels. They became, so to speak, low-income social welfare nations^{Note28}. For this reason, both countries have national and local governments (measured as percentages of GDP) that are inordinately large by comparison with the levels of their economies.

4.4 Present status of central-local government ties

4.4.1 External characteristics

Whereas many countries in South Asia and Central and South America have had a tendency to adopt federalized systems, in East Asia, Malaysia and Myanmar are the only countries to have done the same. Japan and most other East Asian countries have unified states. In a federal state, sovereignty resides constitutionally in the component states or republics; it may therefore be improper to regard the relationship between the federal government and the governments of component states or republics as that of a central government versus local governments, but here we would like to consider the federal system as well from the viewpoint of central-local relations^{Note29}. Many countries normally adopt a similar arrangement to that of a unified state within the states or republics belonging to the federation. In socialist countries, the Communist Party monopolizes power, and this parallels the central-local government axis and forms a tie between the central and local levels with special

Note 28 Ishikawa (1992), p. 8

Note 29 Nishio (1990), p. 403. Nishio states that even in federal systems, the powers retained by states differ widely; "A federal system might be called the form of local autonomy with the most decentralized relationship between the central government of the nation-state and the local governments immediately below the central government." Here, we do not make a particular distinction between the relationship of a federal government in a federal system and the governments below it of which the federation is composed or between other forms of relationship between central and local governments.

functions. Here we will not discuss the party in our overview of central-local government relations. In many cases where a unified state system has been adopted in East Asia, the central government has central administrative organs, such as the Ministry of the Interior in charge of local government; note that there is no such central administrative entity in the case of a federal system.

Local governments have two levels, one at the most fundamental level and the other at a geographically wider level; further levels are set up in large countries. And in the rural areas of many countries, groups of communities, such as indigenous village communities, exist below the lowest fundamental administrative group level and are basically left to administer themselves as basic community units. The borders of communities with natural ties to the land such as natural villages, and of the territories administered by the fundamental group unit, do not necessarily coincide, and we see cases (in some parts of Thailand, for example) where the administrative village boundaries divide a single indigenous village into several submits; in these cases, official decisions made by the administrative village unit are severed from decisions made by the indigenous community. Furthermore, in urban areas like the capital, where the population is concentrated, almost all countries have adopted local government systems that differ from those in place in rural areas.

Again, using Thailand as an example, local government and outposted branches cover the entire nation at three different levels—province, county, and administrative village—as local outposts of the central government under the jurisdiction of the Ministry of the Interior. Separately, however, autonomous local governments at the city level (thed-sa-baan) are established only in urban areas and meet certain standards^{Note30}.

This sums up the institutional characteristics of the basic hierarchical structure; the number of local government levels, the size of the territories covered by local governments at each level, and their populations differ considerably among countries. Even within a single country, and even among local governments at the same level, the size of territories covered and populations vary widely in many cases. In cases where there is such great diversity among governments at the same level, it tends to be almost impossible to govern different areas according to the same rules, and the discretionary powers of the

Note 30 Hashimoto (1993), pp. 293-295

local government may tend to increase. Indonesia is an example of such a country with great diversity illustrating the difficulty of unified governance. Though the basic rules for local institutions in Indonesia are always clearly spelled out, the finer details are not always clear^{Note31}.

4.4.2 Assignment of administrative authority and forms of central governance

The attribution of individual administrative duties and powers between central and local governments is of two types: one relying on the enumeration of specific limitations to power between the federal level and states, seen in South Asian countries, and the other relying on general authorization or enumeration of general powers, practiced in Japan, for example. Under the system of enumeration of specific limitations, the duties and powers of local governments are specifically listed, individually, in legislation; all duties and powers not specifically listed belong to the national government. Some countries in Asia with federal governments use the system of enumeration of specific limitations; they are also in use in Great Britain and other unified states. In contrast, a system of general authorization uses legislation to broadly define local governments' jurisdictions. In countries with this system, however, new legislation at the central government level can allow the powers of the central government to take precedence or override those of local governments. The issue of duties and powers must be considered together with the forms of central government control over local governments that are an integral part of the authorization system. Controls over local governments by the central government take various forms, the best known being legislative, judicial, and administrative. In most cases, the enumerative system goes hand in hand with legislative and judicial controls and the general authorization system with administrative control. In the case of enumerative delegation of powers, the scope of local governments' duties and powers is spelled out specifically in writing, and it is therefore possible to deal with a local government's overreaching its powers by recourse to the courts. To ensure this process, however, it is necessary to legislate the authorization of limited and specific powers. In the case of general authorizations, local governments may assume broad duties and powers, but this scope of powers is also vague, and the ability to effectively carry out their general duties and powers depends on local governments' abil-

Note 31 Morita (1993), p. 245

ity to obtain financial, staffing, and technical support from the central government. Much is left to be decided in negotiations between the central and local governments. This process is the process of administrative control from the central government's point of view.

Of course, the combination spoken of here is relative, and in actual central-local government ties, all three types of control (legislative, judicial, and administrative), stronger or weaker depending on the case, are used. Moreover, even in the case of enumerated limitations, many duties and powers are exercised by both central and local governments jointly, and actual duties and powers often differ on a case by case basis even when they are written into legislation as one of the items under the jurisdiction of local governments. As seen in Pakistan and India, for example, the central government in these cases almost always has the actual duties and powers. Even in the general authorization system, the scope of powers granted varies, and in many countries, the national government is in charge of duties connected with police work and maintaining law and order, as well as development planning and the like; local branches and outposts of the central government and its agencies have responsibility for these duties throughout the country. Yet although the central government's local branches and outposts may have general duties, they are not fit for the types of local control mentioned here because they are outposts of central agencies. The central levers of control over local branches are control over staffing and the budget. Local governments in China have a broad range of duties and powers and wide discretionary powers; though not written into legislation, these local governments are in effect "quasi-autonomous local governments" ^{Note³²} and their central levers of control are those of personnel and deciding the budget.

The duties of local government include duties for which the national government is responsible, but whose exercise is sometimes ceded to local governments (e.g., in Japan, delegation of the central government's duties to prefectural or municipal governments). In the case of unified states in Asia, these duties account for a considerable part of local governments' official duties.

4.4.3 Personnel administration

The question of personnel should probably be divided on the one hand into

^{Note 32} Saito (1995) p. 15. Saito cites, "In socialist countries, local governments do not seem to exist institutionally and yet in fact do appear as 'quasi local governments.'"

local chief executives and members of local assemblies and on the other government employees. The first category will be covered in a later section, 4.4.5.

As far as the latter, the civil service, is concerned, few countries have totally independent systems where local governments and agencies hire employees themselves. Especially as far as cadres of local governments are concerned, the central government or an agency in charge of hiring civil servants usually performs this task on a national scale and assigns employees to local governments. Indonesia does not have a unified, nationwide examination system for civil servants, and the Philippines, especially for local governments and agencies, hires employees en masse either on a temporary or on a contract basis without a civil service exam. About one-fourth the number of Filipino local government employees retained in 1993 were hired in this way^{Note33}.

In other words, as far as local government cadres are concerned, the central government has the power to hire local civil servants because the civil service is under its unified control. Such employees are the de facto administrators in local governments and serve as a point of contact between the central and local governments. For example, the Indian Administrative Service or IAS, which is in charge of the upper echelons of the Indian civil service, hires and assigns civil servants to each of India's states. The civil servants will spend the rest of their lives going back and forth between their assigned state and the central government, and assume a crucial position to both entities. In China, examinations are not used for hiring either in the government or in the party, nor is any distinction made between national and local government employment. The party organization at different levels carries out white-collar staffing for both government and the party. Local governments hire people for other positions^{Note34}.

4.4.4 Financial ties

In general, local government finances in developing countries are very small-scale. This was discussed in 4.3 (Scale of government and economic development) above. Data on central and local government finances in several countries are given in Table 4.1. Local government finances generally grow large in countries with federal systems and in very large countries, but this is not

Note 33 Kawanaka, opus cit., pp. 98-99. Kawanaka cites the hiring of local government employees without an examination as symbolic evidence of rural patron-client relationships in the Philippines.

Note 34 Takahara (1995), pp. 39-42

always true; in many countries, the scale of local government finance is extremely small, one reason being that local government's duties and powers are so small that very little funding is needed to carry them out.

Table 4.1 Central-local government finances

Argentina (1990)

	million pesos	% of total grants	% of GDP
Central government revenues and grants before transfers	7,459.5	66.4	10.8
Local government revenues and grants before transfers	3,776.6	33.6	5.5
Total	11,236.1		16.3
Transfers	510.9		0.7
Total central government expenditures after transfers	6,771.7	53.7	9.8
Total local government expenditures after transfers	5,829.4	46.3	8.5
Total	12,601.1		18.3
GDP	68,922.0		

Brazil (1992)

	thousand reals	% of total grants	% of GDP
Central government revenues and grants before transfers	173,700.6	69.4	28.0
Local government revenues and grants before transfers	76,512.9	30.6	12.3
Total	250,213.5		40.3
Transfers	28,270.1		4.6
Total central government expenditures after transfers	158,971.4	58.1	25.6
Total local government expenditures after transfers	114,743.5	41.9	18.5
Total	273,714.9		44.1
GDP	620,200.0		

Chile (1988)

	billion pesos	% of total grants	% of GDP
Central government revenues and grants before transfers	1,550.28	94.5	26.2
Local government revenues and grants before transfers	90.88	5.5	1.5
Total	1,641.16		27.7
Transfers ¹⁾	50.41		0.9
Total central government expenditures after transfers ²⁾	1,570.03	91.4	26.5
Total local government expenditures after transfers	148.63	8.6	2.5
Total	1,718.66		29.0
GDP	5,917.90		

China (1992) ³⁾

	100 million yuan	% of total grants	% of GDP
Central government revenues and grants	3,356.9	41.9	12.6
Local government revenues and grants	4,651.1	58.1	17.4
Total	8,008.0		30.0
Total central government expenditures	3,410.7	42.4	12.8
Total local government expenditures	4,628.9	57.6	17.4
Total	8,039.6		30.2
GDP	26,656.0		

Table 4.1 Central-local government finances (Continued)**India (1992) ⁴⁾**

	billion rupees	% of total grants	% of GDP
Central government revenues and grants before transfers	1,004.6	68.0	14.3
Local government revenues and grants before transfers	473.4	32.0	6.7
Total	1,478.0		21.0
Transfers ¹⁾	385.1		5.5
Total central government expenditures after transfers ²⁾	722.2	42.3	10.3
Total local government expenditures after transfers	986.8	57.7	14.0
Total	1,709.0		24.3
GDP	7,028.0		

Indonesia (1993) ⁴⁾

	billion rupiahs	% of total grants	% of GDP
Central government revenues and grants before transfers	56,318	96.8	16.5
Local government revenues and grants before transfers	1,842	3.2	0.5
Total	58,160		17.0
Transfers	5,417		1.6
Total central government expenditures after transfers ²⁾	42,211	84.8	12.4
Total local government expenditures after transfers	7,576	15.2	2.2
Total	49,787		14.6
GDP	341,671		

Malaysia (1993) ⁴⁾

	million ringgits	% of total grants	% of GDP
Central government revenues and grants before transfers	45,672	91.9	28.0
Local government revenues and grants before transfers	4,022	8.1	2.5
Total	49,694		30.5
Transfers	1,431		0.9
Total central government expenditures after transfers ²⁾	40,552	86.0	24.9
Total local government expenditures after transfers	6,596	14.0	4.0
Total	47,148		28.9
GDP	163,039		

Mexico (1987) ⁴⁾

	million pesos	% of total grants	% of GDP
Central government revenues and grants before transfers	33,683	87.5	17.4
Local government revenues and grants before transfers	4,791	12.5	2.5
Total	38,474		19.9
Transfers ⁵⁾	131		0.1
Total central government expenditures after transfers ²⁾	59,571	92.5	30.8
Total local government expenditures after transfers	4,833	7.5	2.5
Total	64,404		33.3
GDP	193,312		

Table 4.1 Central-local government finances (Continued)

Philippines (1993) ^{4) 6)}

	million pesos	% of total grants	% of GDP
Central government revenues and grants before transfers	260,405	97.4	17.7
Local government revenues and grants before transfers	7,034	2.6	0.5
Total	267,439		18.1
Transfers	11,412		0.8
Total central government expenditures after transfers ²⁾	237,678	93.8	16.1
Total local government expenditures after transfers	15,698	6.2	1.1
Total	253,376		17.2
GDP	1,474,457		

Thailand (1992)

	million bahts	% of total grants	% of GDP
Central government revenues and grants before transfers	511,528	94.8	18.6
Local government revenues and grants before transfers	28,332	5.2	1.0
Total	539,860		19.6
Transfers	10,850		0.4
Total central government expenditures after transfers	414,572	91.4	15.0
Total local government expenditures after transfers	39,207	8.6	1.4
Total	453,779		16.5
GDP	2,754,880		

France (1994)

	billion francs	% of total grants	% of GDP
Central government revenues and grants before transfers	3,034.1	86.5	38.5
Local government revenues and grants before transfers	472.1	13.5	6.0
Total	3,506.2		44.5
Transfers	257.2		3.3
Total central government expenditures after transfers	3,194.1	81.2	40.5
Total local government expenditures after transfers	741.2	18.8	9.4
Total	3,935.3		49.9
GDP	7,883.3		

Japan (1992) ⁷⁾

	100 million yen	% of total grants	% of GDP
Central government revenues and grants before transfers	626,820	53.8	13.4
Local government revenues and grants before transfers	537,859	46.2	11.5
Total	1,164,679		24.9
Transfers	273,391		5.8
Total central government expenditures after transfers	448,789	33.4	9.6
Total local government expenditures after transfers	895,597	66.6	19.1
Total	1,344,386		28.7
GDP	4,682,120		

Table 4.1 Central-local government finances (Continued)

Great Britain (1993)

	million pounds	% of total grants	% of GDP
Central government revenues and grants before transfers	221,175	90.4	35.1
Local government revenues and grants before transfers	23,465	9.6	3.7
Total	244,640		38.8
Transfers	57,796		9.2
Total central government expenditures after transfers	210,096	72.5	33.3
Total local government expenditures after transfers	79,623	27.5	12.6
Total	289,719		45.9
GDP	630,707		

United States (1993)⁸⁾

	billion dollars	% of total grants	% of GDP
Central government revenues and grants before transfers	1,237.91	57.3	19.7
Local government revenues and grants before transfers	921.12	42.7	14.7
Total	2,159.03		34.4
Transfers	175.09		2.8
Total central government expenditures after transfers	1,314.89	55.3	20.9
Total local government expenditures after transfers ⁹⁾	1,064.43	44.7	17.0
Total	2,379.32		37.9
GDP	6,278.80		

Note 1 Central government data are consolidated unless otherwise noted.

Note 2 The transfer figures in the left hand column indicate transfers to the local government which is at the next level to the central government, e.g. state government.

Note 3 1) State government sharing from taxes collected by the central government are included in transfers.

Note 4 2) Central government expenditures after transfers exclude amounts transferred to local governments other than state governments.

Note 5 3) Both revenues and expenditures include extra-budgetary expenditures and revenues.

Note 6 4) Local governments include state governments only.

Note 7 5) Transfers are the amounts received by state governments from other levels of government. Other tax revenues collected by the central government (3,852,000,000 pesos in 1987) are included in local government revenues.

Note 8 6) Budgetary central government data.

Note 9 7) Central government data are the general account (annual revenues after deduction of public debt), local government data are the ordinary account (annual revenues after deduction of local debt). Financial transfers are the difference between net central and local totals and total central and local expenditures.

Note 10 8) Local governments include state governments and lower level governments. Local government revenues before transfers are the total revenues at each level of government after deduction of transfers.

Note 11 9) Local government expenditures after transfers are the total of state government expenditures and of expenditures of governments at lower levels after deduction of transfers from the state government.

Note 12 Total central government expenditures after transfers are the remainder after subtraction of the transfers in 5) above.

Source: *Government Finance Statistics Yearbook* IMF (1995); for China: *China Statistics Yearbook 1994*, State Statistics Bureau (editors), People's Republic of China; for Japan, *Economic Statistics Annual 1995*, Bank of Japan (1996).

In many developing countries, economic activity is concentrated in the capital region and rural farmers' incomes often barely exceed the subsistence level. When this is the case, tax bases are very narrow. In low income countries, governments are highly dependent on tariff revenues, which are easy to collect; in other words, there is no room for additional tax raising within the provinces. Due to the lack of administrative capacity, tax collection and administration are inefficient, and systems controlling public spending are generally not as well established at the local level as at the central level. As mentioned above, state governments' budgets tend to be bigger in federal systems. This is the case in India, for example, where the respective roles of the central and local governments in reference to tax collection are written into relevant legislation in a framework of limitative enumeration of powers. Local governments' annual expenditures are also high in China, almost 60% of total expenditures (including extra-budgetary outlays). Outside of China, however, autonomous revenue sources do not always account for a large share of local governments' revenues. Local governments become dependent on financial transfers from the central government to fill the gaps. In Brazil and India, central to local government fiscal transfers are huge, about 5% of GDP. And even where the amounts transferred are small, transfers often account for a major part of local governments' revenues because local governments themselves are small. In the case of China, local governments originally collected all taxes, and this was true of all socialist countries, where, with only a few exceptions, local governments deliver all monies to the central government, which returns to them their allotted share. But later, a budget contracting system was introduced, whereby local governments that undertook to collect a certain amount of taxes could, if they collected more, keep the remainder under certain conditions. However, the central governments' revenues stopped increasing as a result of this arrangement, and central governments introduced separate local and national taxes, and overhauls of tax collection frameworks are now underway.

Fiscal transfers from the central government include unconditional portions whose use is unrestricted and at the discretion of the local government, as well as conditional portions designated for specific purposes linked to national policy. Of the former, based generally on simple criteria like the percentage of the population inhabiting the state or province, a certain percentage of the country's value-added tax is automatically transferred to the corresponding local government. In the latter case, subsidies for a specific purpose may

include a supplement for local government employees' salaries, often a sizable share of the whole (as in the case of Indonesia, for example). Where the use of these transfers is unrestricted, the local government can exercise its ingenuity and use funds creatively. On the other hand, since a certain amount is transferred automatically, generally the budget constraints on the local government receiving it are weak and it is hard to determine whether these funds are used effectively or not. Where it has been determined how the funds are to be used, these restrictions are sometimes regarded as undesirable from the standpoint of local autonomy, but they are an effective means to nip moral hazards in the bud at the time when, for example, the country is seeking to attain a national minimum.

4.4.5 The character of organizations representing the people

As stated above, central-local relations are often the product of compromise between local demands for autonomy and central governments' aspirations to centralize authority. Given this situation, the form of local institutions is subject in each country to ingenious arrangements depending on the parties' respective bargaining power. Specifically, they are reflected in the relationships between legislative and executive branches of local government and differences in the way local chief executives and members of local assemblies are chosen (see Table 4.2).

As stated in 4.1 above, local governments normally have a role as agents of the central government and take on the task of formulating and executing policy within a certain margin of discretion. The local chief executive personally assumes both these roles. In other words, by carrying out both the role of head of the local branch of the central government and the role of head of the autonomous local government in the sense of making his or her own decisions within the given margin of discretion, the local chief executive is a point of contact both between the central and local levels and between the administrative and the political domains. The case that shows this most clearly in organizational terms is the role of provincial governor in Thailand. A Thai governor is a national civil servant sent by the central government, but he also heads the province both as an autonomous government and as an administrative unit. In organizational terms, the roles of Thai provinces under governorship as administrative units are separate from their roles as local governments, and provincial governors take on respectively the duties of carrying out administrative executive orders from the central government and the duties of a local

government at the provincial level, although, in practice, employees of the provincial administrative unit also carry out the duties of the provincial local government^{Note35}. Therefore, the local chief executive is expected to carry out dual roles that are occasionally mutually contradictory, making the method of selection of the person occupying this post especially important. For this reason, as shown by Table 4.2, considerable ingenuity is exercised in devising methods of selection of the head, which differ in different countries. Some are appointed, others are elected indirectly, while still others are appointed by the central government from among nominees named by local legislatures or elected directly.

Members of local legislatures are ordinarily elected directly by the people they represent, but their roles are often limited in developing countries. Normally, a local assembly can only exercise its powers within the scope of the duties and powers pertaining specifically to the local government. But the scope of specific duties and powers of the vast majority of local governments is very limited. In view of the influence of administrative control by the central government, the greater the scope and breadth of administrative controls, the fewer the powers of local legislatures. Certainly, the stronger the administrative controls, the more real decision making power shifts to the central government. And if the controls exercised are predominantly administrative controls, the scope of local government's powers will be decided by the bargaining power of the respective administrations, central or local, in a variety of situations. Under the circumstances, local legislatures, even if they enact local regulations and ordinances, cannot expect to have their own legislature exercise any real binding power.

Note 35 Hashimoto, opus cit. p. 295

Table 4.2 Stratification of local governments and examples of forms of government

	Federated state government				Wide area level				Intermediate level				Grassroots level						
	Type and number	Governor	Assembly member	Secretary General	Type and number	Local chief executive	Assembly member	Assistant officials	Type and number	Local chief executive	Assembly member	Assistant officials	Type and number	Local chief executive	Assembly member	Assistant officials			
China	Provincial Government (30)	Province (22)	A	I	Prefectural Government (335)	Prefecture • Meng	A	I	County Government (2,835)	County • Qi	A	I	Township Government (48,179)	Township	A	I	I		
		Municipality(3)	A	I		Autonomous Prefecture	A	I		I	County City	A		I	I				
		Autonomous Region (5)	A	I		I	Prefectural City	A		I	I	Autonomous County		A	I	I			
						City(3)	I	D	I	Prefecture (20)	I	D	I	Commune	Total (10,084)	I	D	I	
					Province (50)	I	D	I	District(470)	I	D	I	Town	I		D	I		
									City (15)	I	D	I	Precinct	I		D	I		
									Town (59)	I	D	I							
Indonesia					Province[Propinsi] (24)	R/A	D/A	A	Regency[Kabupaten](242)	R/A	D/A	A	Village[Desa]	Total (66,594)	R/A	D	A		
					Capital Territory[Daerah Khusus Ibukota](1)	R/A	D/A	A	Municipality[Kotamadya] (50)	R/A	D/A	A	Ward[Kelurahan]		A	—	A		
					Special Province(2)[Daerah Istimewa]	R/A	D/A	A											
Philippines					Province (75)	D	D/A	A	Chartered city(60)	D	D/A	A	Barangay (41,657)	D	D/A	A			
					Highly Urbanized City	D	D/A	A	Municipality (1,534)	D	D/A	A							
India	State(25)	A	D	I	Zila Parishad(380)	I	D/N	A	Panchayat Samiti (5,491)	I	D/N	A	Gram Panchayat(221,754)	A	D/I	N/A			
	Union Territories(7)												City Corporation(70)	I	D	A			
													Municipal Council (1,745)	I	D	A			
													Notified Area Committee	Total (543)	I	D	A		
												Town Area Committee	I		D	A			
Mexico	State(31)	D	D	A					District	D	D	A	City	D	D	A			
	Federal District(1)												Town and Village	D	D	A			

Note:

1. “D” indicates “Direct election”, “I” indicates “Indirect election”, “A” indicates “Appointment”, “N” indicates “Nomination”, and “R” indicates “Recommendation”.
2. Although China has a unitary state government, it is treated here, for reasons of its size, as a federated state government.
3. The currency of the data for the types and numbers of local government is as follows: China (end 1993), Vietnam (1995), Indonesia (1992), Philippines (1991), and India (1993).
4. Saito, Tomoyuki (1997), “Tojokoku ni Okeru Chuo Chihou Kankei (Central-Local Government Relations in Developing Countries)”, *Chiiki no Hatten to Seifu no Yakuwari Bunyabetsu Enjo Kenkyukai Genjou Bunseki Hen Houkokusyo (Report of the Issue-wise Study Group for Development Assistance on Local Development and the Role of Government, Current Status Analysis)*, JICA.

4.5 Basic classification of central-local government ties

In the preceding pages we have given an overview of a number of the elements composing central-local government relations, and now it would be appropriate to define the following as basic component elements. Local government institutions in developing countries often take shape as the product of compromise between demands for local autonomy and aspirations to national centralization^{Note36}. When this happens, a strong demand for autonomy from a given locality (it is more appropriate to talk in terms of demands for autonomy from a variety of local forces, rather than the autonomy of the residents themselves), leads to the creation of isolated (“insular”) local institutions (typically federal systems) that are highly independent from the central government. However, even when a federal system is adopted, there are countries like Malaysia or Mexico, for example, that create a highly centralized federation, and thus the mere fact that a federation has been established does not signify the immediate or categorical declaration of insular-type local government. (In the case of Malaysia or Mexico, attention must be paid to the role of political parties and other elements.) Furthermore, there are also examples of unified states whose local communities nonetheless have great autonomy (i.e., Great Britain) and that continued to maintain their independence and autonomy, even in the process of the formation of the nation state^{Note37}. Conversely, there are integrative local government systems originating in European countries with strong centralizing tendencies whose local governments, while allowed a certain degree of local autonomy, are also integrated into the national system.

In the case of the insular type of central-local government relations, the central government’s involvement in local government takes the form primarily of prior legislative control (i.e., legislation determining in advance the scope of local government duties and powers) and of ex post facto judicial control (recourse to the courts if local governments are thought to have overstepped their authority). In the unified-state or integrative type, intervention by the higher level of government is primarily administrative control on a case

Note 36 On the view that institutions result from compromise between central and local governments, see Morita (1993).

Note 37 Nishio (opus cit., pp. 381-382) writes that the Anglo-Saxon type of local autonomy (observed in Great Britain, the United States.) is characterized by the continuation of autonomy in the process of formation of the nation-state in local communities that existed from before the formation of the nation-state, a circumstance that effectively prevented national sovereignty from becoming absolute.

by case and functional basis. For this reason, whereas in central-local government ties relying on insular-type local government systems, the scope of discretion is decided in advance by law and modifications require specific legislation, in integrative-type local government institutions, the range of duties tends to be broad and the scope of actual policy planning at that level is formed in frequent talks and coordination with higher levels of government. The difference in the allowing of modifications in the scope of discretion between central-local government relations with a high degree of independence and central-local government relations relying on close liaison is that in the former the scope of discretionary powers is based on the constitution or other legislation and is therefore difficult to amend. In the latter, however, it is based on a system in which power is given en bloc to localities and hence is more flexible to modify. Also in the latter, both central and local governments are able to alter the scope of the activities of local governments by way of changing various measures including ordinances, “administrative guidance,” and other forms of action meeting the needs of the central or local governments. Therefore, in the case of close liaison-type central-local government ties, a law in force pertaining to administrative controls is worded in general terms and minor ex post facto adjustments can be made more easily in response to subsequent changes in circumstances^{Note38}. As far as the performance of routine duties is concerned, the latitude of choice is narrow. As society evolves and becomes increasingly complex, more work will involve on-the-spot decisions and require closer liaison among people working in different fields, and it will become increasingly difficult for government to respond to societal changes without expanding the scope of local governments’ decision making powers. In contrast, it is possible for insular-type local governments to respond flexibly to the same problems within the scope of their pre-determined powers. In this type of local government, however, flexible responses will become much more difficult wherever new needs arise that fall between the laws of the local and the central governments. This is especially true of the cases where powers are specifically enumerated, since whatever duties and powers are not expressly given to local governments usually devolve to the central government. On the other hand, however, insular-type local government institutions are better able to respond in cases where social change demands horizontal relationships among local governments. Integrative-type local government institutions, for their

Note 38 On the view of the relationship between administration and law with priority on administration, see Okuno (Fujiwara) (1994), which explains this relationship on the context of the relationship between the private sector and administration primarily in industrial policy.

part, respond more easily when the objective is to disseminate innovative programs of a given local government on a nationwide scale.

It therefore seems that insular-type local governments are more efficient where there is great diversity among localities and attempts are made to respond flexibly to their individual needs, but that the integrative form of central-local government relations is more efficient for nationally unified efforts to achieve economic growth and similar goals. The integrative form of central-local government relations can moreover respond flexibly by making minor everyday adjustments, whereas the changes are more troublesome and costly in the case of insular-type central-local relations.

Thus local government in the integrative form seems to feel stronger incentives to address the concerns of all levels of government than to meet people's needs. The insular type of local government, on the other hand, has less central intervention and supervision, and for that reason may be more favorable to local power structures. Therefore, whether the insular type of local government can meet the needs of local residents depends often on the power structure in the locality. Where there is powerful control by local landowner forces (i.e., not absentee landlords) and political patron-client relationships (powerful local politicians who provide their supporters with individual favors in exchange for votes, etc.) or other forms of a traditional power structure, this is directly reflected in local government.

4.6 Relations between central-local government ties and society

The government policy implementation process usually begins with inputs from society and proceeds via the stages of policy formulation, decision making, implementation, and output to society. The whole process is in reality extremely complex, involving complex interactions among politicians, government agencies, and interested parties at various interrelated stages. Policy formulation through cooperation between government officials and the private sector—said to be a characteristic of the Japanese approach and to have contributed to Japan's economic development—involves industry and business associations at every step in the process. A variety of social pressures are also in effect in policy implementation, within the scope of discretion by implementing agencies. For example, the precise route of a road to be built in a given locality is decided in accordance with the opinions of influential non-governmental people

in that locality . The policy decision and implementation process does not merely follow, item by item, the prescriptive provisions of any particular law. In some countries, policy implementation often involves illegalities, because the courts and the police are not functioning properly and the cost of breaking the law is too low. But this can also happen because laws in those countries are ill adapted to their realities. In the latter case, the law may be violated because it is not perceived by society as being justified. To formulate legislation that does not disregard the realities of a society burdened by diversity and uncertainty, the law must have sweeping and general provisions.

It is often extremely difficult, especially in developing countries, to correctly identify a society's realities and enact laws that respond to its needs. Societies of these developing countries now in the midst of nation building are a mosaic of different linguistic and ethnic groups who are separated due to the underdevelopment of means of transportation and other obstacles. Many heterogeneous social groups live together, though separated by barriers between village and other small communities, between local markets isolated from each other, between the wealthy and the needy classes, and between urban and rural areas, making it difficult to agree on the basic "rules of the game" for coexistence of the society as a whole. Moreover, developing countries have been in the midst of momentous modernization and rapid social transformation, modernization, and with the passage of time, their social conditions have changed qualitatively. In many cases, the government itself is inadequately equipped with analytic skills due to the lack or unpreparedness of its statistical knowledge and information gathering capabilities. Laws in developing countries still tend under these conditions to be extremely general or vague. Ex post facto judicial controls are extremely difficult to exercise, since individual and specific rules were not put into legislation prior to the need for them.

For this reason, actual institutional arrangements take shape from specific interrelationships, for example, from repeated interactions among the competent authorities in central ministries and agencies, other offices of the same central ministry or agency, offices of related ministries and agencies, offices of related local governments, and the private organizations they supervise under their jurisdiction^{Note39} . Seen from this perspective, heterogeneous social groups coexist and repeatedly and voluntarily forge institutional agreements through

^{Note 39} On this point, cf Yanagihara (1997), Williamson (1995).

the interrelationships among themselves. Governance at the local level takes place through a combination of these spontaneous arrangements and the policies and institutions that are imposed from outside. If, for example, a powerful elder who was known as a traditional authority exists outside of the local government, governance in the locality would not necessarily take place solely through the local government, but might depend both on relations between the formal local government and the elder (and the traditional social systems that regard him as an authority), as well as on the division of roles among them.

When institutional arrangements in localities are incompatible with outside policies or institutions, the locality usually opts for the institutions of its own choosing^{Note40}. In relationships between central and local governments of the insular type, therefore, the locality tends to decide by itself. Despite this tendency, in the insular type of central-local relationship in developing countries, upper echelon bureaucrats assume the role of links between the central and local levels, as in the case of India, or other structures may be established to coordinate views on development policies, etc., between the nation and the locality to improve ties between the central and local governments. The existence of national political parties, though outside of administration-centered governance, also plays the role of link in some cases between central and local governments.

As for central-local relations of the integrative type, local governments, as agents of higher levels of government, have as their primary objective to comply with the specifications of the higher level of government and have a strong ability to resist local power structures. However, unless the higher levels of government specifically call for attention to local people's needs, there is a danger that reflecting the needs of local people tends to have low priority in local policy making. Hence it is necessary to give local government incentives to reflect local needs in policy^{Note41} and to take steps to render its actions accountable through citizen participation.

Note 40 In the treatment of local governance, we have drawn from the distinctions between government and governance made by Mearns, R. (1996).

Note 41 In Indonesia, for example, the military has a double role, and officers are sometimes appointed provincial governors; if they successfully promote the development of their province while governor, their achievements count toward promotion upon their return to active service in the military. In China, a governor's success in promoting his province's development will draw attention to him and open the way to a post in the central government. Depending upon how these incentives are given, however—for example, if the province's economic growth rate is the stated objective and income distribution is not taken into consideration—economic growth alone will be sought and the widening of gaps between income levels that may result may be left unchecked.

4.7 Decentralization and central-local government relations

As stated above, the debate over centralization versus decentralization has to be analyzed in terms of at least two issues: the supply of public goods and services and the political decision-making process.

- (a) Basically, it is possible to discuss these issues in two ways. One concerns the expansion of social needs causing the growth of government. Government must be made bigger to respond to growing social needs. One answer is that the decision making powers of the local government must be increased to do this efficiently. In the integrative type, decentralization would promote effective delivery of public goods and services. The people's participation in and control over local governments must be sought if it is to do that even more effectively. In the case of central-local relations of the insular type, in contrast, closer cooperation with the central government could be necessary in order to meet the needs of an increasingly sophisticated and complex society in this situation (a). In this sense, even insular types of central- local governments would become more interdependent^{Note42}.
- (b) Political decentralization, on the other hand, requires a separate viewpoint. In other words, political decentralization is not always synonymous with greater democracy depending on conditions. To be sure, it will increase local autonomy, but whether it will result in more democracy depends on the situation of governance based on the local power structure in that locality. Where there is an insular type of relationship between the central and local governments, the central government has little room for involvement, as far as it adheres to the basic rules, which are the only avenue that the central government could be involved in, if dictatorial social forces, for example, had dominated that locality. Where there is a

^{Note 42} As the ties among members of the international community become stronger, linkage between international factors and domestic policies is giving central government an ever bigger role and inducing central governments to delegate more powers to local governments; this is another factor in the growing interdependence between central and local government. (In that sense, it can also be regarded as an adaptation of strongly independent central and local government relations to the growing necessity of the ability to react to "system shocks," discussed below.) As relationships with the international community grow stronger, a country must increasingly be able to act as a single body: a country's joining the WTO, for instance, means that the central government joins and represents the entire country; before this act of joining, therefore, views must be exchanged in both directions between the central and local governments and there may arise a need for both central and local governments to coordinate their policies mutually upon the country's acceptance of the terms of the treaty. On the other hand, however, local governments are more exposed to global competition. This is the main theme of this report.

high degree of independence of local government from the central government, a decentralization plan must be promoted with great caution.

This relationship between central and local governments, summing up everything we have seen thus far from these points of view, is illustrated by Figure 4.3. As shown by the figure, central-local relationships based on close ties can be characterized as integrative and highly independent central-local relationships as insular-interdependent. The integrative type in this case is a relationship between the central and local governments where liaison is good, in the sense that there is a strong feeling that the local government, a part of the central government, is geographically present at the local level, and when “system shocks” occur—in other words, when it is necessary for the country to respond to a crisis—the effectiveness of this system would be higher. Administrative linkage would be used to intermediate central interests in local implementation. The integrative type is one where the local level can easily broaden its scope of discretion (in other words, as an extension of the outpost type) and as a result of this broadening, it gives wide responsibilities to local government in two areas: as agent of the central government and as decision maker within the scope of its own discretion; it preserves a cooperative relationship via close administrative liaison between the central and local levels. Furthermore, a system of representation exists at both the central and the local levels that is a platform for more substantive elections. It is more responsive to people’s needs. The insular-type, on the other hand, comprises duties and powers of the local government within a limited scope of responsibilities determined beforehand through legislation; in this sense, its greater discretion enables it to deal better with individual shocks, i.e., responses to individual needs or crises in the jurisdiction of each local government. However, when the involvement of the central government tends to be minimized, when adequate representation is lacking at the local level, it would make insider control possible, i.e., it would make it possible for local government to be taken over by a local power structure not oriented to development. In summary, the interdependent type connotes a central-local government relationship in which the local government can accommodate the need to adapt to system shocks and other needs for two-way liaison and coordination whereas a central-local relationship of the insular type is characterized by these needs shown above^{Note43}.

Note 43 The treatment of integrative and insular types of autonomy draws on the discussion by Kjellberg, F. in Muramatsu (1996). The discussion was presented in the same paper, based on Kjellberg’s approach.

Figure 4.3 Classification and characteristics of central-local relationships as governance systems in developing countries

	Type of central control of local government	Shocks which it can easily accommodate	Problems if democratic representation is lacking	Characteristics
Insular type of central-local government relationship	Legislative and judicial	Responsive to individual shocks	Traditional power structure	Highly independent local government
Integrative type of type of central-local government relationship	Administrative	Responsive to system shocks	Less responsive to people's needs	Central-local government relationship with close contact

Finally, it is probably necessary to discuss the effect of decentralization on the macroeconomy. Such effects arise from fiscal and monetary decentralization. To give local governments more fiscal powers, decentralizing the power to collect taxes, for example, will narrow the channels of macroeconomic management available to the central government via its tax policy. Since the local government has less need or interest to take macroeconomic stability into consideration, decentralization of taxation powers could work to destabilize the economy. Therefore, in a decentralized system, local governments, by adopting inflationary policies, might allow the negative effects to spill over into other parts of the country; local governments would incur fewer risks than the central government by so doing. The same can be said of monetary policy. In China for example, local governments, via their executive powers, have borrowed heavily from local branches of the central bank without any regard for the need to repay loans, suddenly increasing the money supply and the public debt burden. Local governments in Brazil have created similar difficulties by borrowing from the commercial banks under their jurisdiction. In both the fiscal and monetary domains, therefore, devolution of macroeconomic powers to local governments can unleash a hornet's nest of problems.

5. Factors in Local Development and the Role of Central and Local Governments

5.1 Factors in local development in developing countries

Globalization is increasingly impacting economies, and the socioeconomic environment is undergoing change everywhere. Governments of developing countries are responding to these changes by adopting new policies to accommodate the new situation and by carrying out reforms, including the altering of institutions, in the pursuit of greater democracy and administrative and fiscal reforms, including decentralization and structural adjustments to promote market-led economic development. Here, the actors in development are diversifying and the role of the private sector is assuming greater importance, and as power devolves to local governments through decentralization, their role is being strengthened. What kind of factors are necessary in order to promote local development in this new framework?

5.1.1 Diversification of actors in development and improving the environment to promote their dynamism

Set in motion by budget constraints and structural adjustment policies of developing countries' central governments, a movement is spreading in many countries to promote devolution of powers to local governments in step with central government slimming, and decentralization for the purpose of making governance more efficient and of better reflecting people's needs. The spread of globalization has moreover created a situation where localities are now linked more directly to the rest of the world. And in the process of these environmental changes, the actors in development, central governments, are no longer the sole agents of development, but take their place beside local governments and the private sector (businesses, industrial organizations, NGOs, citizen groups). This means that the actors in development are becoming increasingly diverse in response to the budget and resource allocation mechanism constraints of central governments and diversification of methods of resource mobilization promoting development at the local level. The actors in local development are diversifying and are assuming importance as actors in local development based on growth in the role of local governments in the course of decentralization, growth in the role of private sector businesses with promotion of economic liberalization and privatization, and growth in the roles played by NGOs and citizens groups in the context of efforts to spur indigenous local dynamism led

by development initiatives at the local level.

Under these circumstances, a shift in central government roles is called for, away from direct involvement and toward the creation of an environment where local governments and the private sector can act effectively as actors in development at the local level. The question is how to set up systems of devolution of powers to local governments. What is called for is to provide support mechanisms and institutional frameworks for promoting participatory development and good governance to establish administrative transparency and fair rules: the setting up of systems of related transfers of budgetary resources, the creation of new institutions with decentralization, the establishment of fair rules for the distribution of beneficiaries' burdens with privatization of public services, rules for the promotion of NGOs' and citizen groups' activities, and institutional support for small-scale financial services. The promotion of deregulation in underdeveloped markets may spawn monopolies by interest groups in those markets; to solve these problems, it will become necessary to establish fair rules and to ensure access to functioning markets. The formation of a financial and juridical institutional framework to support entrepreneurs at the local level will also become an important element promoting local development.

How the activities of actors in development at the local level are harnessed together is a key to promoting sustainable local development. The mobilization of local networks is called for, e.g. joint action by local governments and local economic organizations to promote industry and tieups with intermediaries, such as citizen groups and NGOs, to provide such public services as education, health services, and medical care. Hence, to work to create an enabling environment where development actors can demonstrate their dynamism is becoming an increasingly important role of the central government in the promotion of local development.

5.1.2 The need for greater democracy at the national and local levels

Local vitality cannot be exploited unless the local level has a voice in resource distribution. That is to say that democratic systems are needed to make local interests' participation and representation possible in decision making at the central level. This calls for more democratic institutions as tools to perform the monitoring function in decision making affecting resource alloca-

tion at the central level. Even when, thanks to decentralization, local governments are allowed to make decisions about resource allocation, democratic institutions must be established at the local level through open elections of legislators and government heads in order to allocate resources in such a way as to achieve suitable development targets reflecting the will of the people at the local level.

The political and social structures at the local level in developing countries present a diverse appearance, however. In the Philippines and Mexico, the presence of local dignitaries and influential people and patron-client relationships are reflected in local political and social structures, and in some cases, the local political power structure is dictatorial. In other countries (Indonesia, for example) the presence of interest groups (traditional local leaders, political parties, the military establishment, etc.) exercises a strong influence on local politics. Depending on the type of political power structure at the local level, the exercise of resource allocation powers at the local level thanks to decentralization may not have the expected results. The promotion of democracy at the local level is therefore an important factor in improving the monitoring of local politics.

On the other hand, the coordination and leadership roles played by traditional leaders in communities at the local level must be acknowledged as important, and the same is true of their active role as links between the government and local people in presenting petitions and demands to the government reflecting the people's will. It is therefore necessary to attempt to analyze and understand local political and social structures and the role of traditional leaders and thus to take into account traditional leaders' role in and influence on politics and administration at the local level, as well as the internal arrangements made by and with them at the local level, taking advantage of their contribution in order to promote local development.

Other important steps toward promoting democracy to monitor resource reallocation performance are to improve educational levels and foster industrial organizations, labor unions, cooperatives, NGOs, citizens organizations, and other "civil society organizations," which will enable people to monitor government activities as well as ensure the representation of those who govern them.

5.1.3 The formation of networks

Strengthening local institutions is an important step toward promoting local development. In development planning and adjusting implementation according to local circumstances, it is important to know whether local governments and administrations have been set in place properly, and whether staff have been trained and assigned to posts and are able to make the system run. The establishment of a good liaison between vertically linked local and central governments often works to the advantage of efforts to carry out programs and mobilize resources at the local level. The types of central-local government relationship analyzed in the previous chapter afford a useful perspective on how liaison and coordination occur between the central and local levels and help us to understand what types of mechanism can effectively strengthen this liaison. Knowledge of how liaison from the localities to the central government takes place, and what steps must be taken to ensure that information flows in both directions, is another important factor. The vertical network links between central and local governments provide access to the central government, and information feedback through administrative personnel exchanges and organizations and systems that coordinate development planning between the central and local levels. The roles not only of administrative systems but also of political parties and politicians, especially national legislators, as local level representatives giving access to the central government, are important components of vertical networks.

Yet in order not only to make the policy implementation process more efficient at the local level through decentralization and vertical deconcentration and devolution of administrative functions at the regional level, but also to mobilize local vitality reflecting local people's voices, ties centered around the local government must be established among other government organs, the private sector, and citizens groups to form horizontal networks at the internal local level.

The formation of networks not only of agencies of the central government at the local level, but also of such private groups as chambers of commerce and industry, labor groups, farmers' organizations, industrial organizations, financial institutions, and educational institutions as well as businesses, NGOs, and citizens groups, will enhance the information gathering ability of local governments and provide opportunities for citizens to participate and for the popular will to be reflected at the local level. The formation of this kind of network will

enable local governments to make up for limitations in such administrative capabilities as information gathering and supply of services and lead to the development of local institutions that transcend the local government's institutional framework and foster local entities' self-identification. In this way, local people's ownership will be enhanced by the regional government's development programs. Regional development councils in the Philippines, for example, are required to have at least 25% of their total membership represent citizen organizations, NGOs, industry groups, etc. These councils can play a role as forums for promoting the formation of local development networks.

In cases where local internal networks are of such a nature as to induce communities to coalesce at the local level, it is relatively easy for horizontal networks to be formed. Yet even in cases where a greater diversity of social relationships exists at the local level, network formation is possible among functional organizations to accommodate specific objectives. Any study of the formation of local internal networks by local governments requires a clear idea of the social relationships operative in that local community.

The formation of vertical networks linking local governments to the central government and horizontal networks among a variety of groups at the local level contributes to the formation of social capital^{Note44}. The feasibility of sustainable development increases as decentralizing programs increase in effectiveness through transaction cost reduction accruing to the local government in the process of information gathering, planning, and project implementation and its securing of cooperation from affected groups. It is, moreover, probably necessary to attempt to form networks at the local level that encompass a broad geographical area through expansion of horizontal networks in order to promote development over a wider geographical area. When such social and economic organizations form not only local but also national networks, they strengthen the vertical networks and act to further consolidate the close liaison between central and regional governments.

5.1.4 Mobilization of local resources

As the actors in local development become more diverse, the financial,

Note 44 According to Putnam (1993), models of reciprocity and relationships of trust in social organizations and horizontal networks of social organizations promote cooperative activities in the same way as social capital and have the effect of raising local societies' efficiency. Spontaneous cooperation arises easily in areas with accumulated social capital. The accumulation of social capital can be regarded as one of the factors contributing to good governance.

human, and physical resources needed for development are mobilized by an increasing variety of actors. It is important at this stage to know whether the actors will or will not mobilize and manage local resources themselves. In other words, society must have the capacity to mobilize and systematically administer the resources its members need to conduct their activities as producers and consumers^{Note45}.

When observing how resource mobilization is carried out at the local level, the way in which common resources are administered and the type of community at the base must also be observed. A community's trusting relationship functions as social capital and has the effect of lowering the cost of transactions in resource mobilization and administration. It is therefore important to understand the character of the local community and what type of networks it forms. Another important element in resource mobilization is the presence of various functional groups in the local community, for example, social and business organizations and their networks. It will also be important to seek to effectively use local-level policy support resources such as educational and agricultural technology research institutions. In order to mobilize the locality's internal resources and acquire outside resources at the same time, a variety of horizontal and vertical linkages must be formed; local governments can play a major role in shaping support systems at the local level to promote the formation of such linkages. In other words, in order to promote local vitality, local governments assume a role that creates frameworks for participatory development utilizing local networks.

5.1.5 Local Development in the ongoing globalization

Ongoing globalization enables the local level to forge direct links with the world outside the framework of states; it also requires that a balance be struck between the national government's demands stressing national unity, and local community level demands that the locality exhibit its individuality against a background of ties to a more open world. This can create tension in the relationship between the state and the locality. The central government's task is to determine how to promote or coordinate local growth using these ties with the world as a lever.

As one method to indicate the direction of development which draws on ties

^{Note 45} On the topic of social capabilities, see JICA (1995), JICA, Institute for International Cooperation (1996).

between the local level and the world, we can cite the triangular growth zone concept being promoted primarily in South East Asia. The triangular zone linking Malaysia's Johore State, Singapore, and Indonesia's Riau State, the triangular zone linking eastern Indonesia and Malaysia's Sarawak State and Mindanao Island in the Philippines (these are among development concepts being promoted by a variety of actors, including central and local governments, international organizations, private sector businesses, etc.) taking shape to reinforce complementary local-level economic ties across national borders. Globalization is changing the relationships among local and domestic markets and overseas markets, and presenting new opportunities for localities to obtain relative advantage and economies of scale, making use of the mutual complement of economies and geographical proximity of communities at the local level.

Yet another approach to local development being taken in the global era is the promotion of local industries linking local and export markets and their entry into niche markets exploiting special local features. Local economies can develop through direct ties with the world by promoting foreign investment through inducements and developing export markets. One can observe economic development in China's coastal regions and the increasing activity of China's town and village enterprises, and development projects centering around industrial estates in Indonesia and Thailand.

The promotion of international cooperation among local governments (economic exchanges and technical cooperation through direct cooperative ties among local governments in developing countries, in Japan and other advanced countries as well as neighboring countries) is another important element in considering local development in the context of globalization. Institutions and frameworks must be continually strengthened in order to promote international cooperation among local governments.

5.2 Local development and the role of central and local governments

In order to promote activities by the diverse actors active in development at the local level, central governments will need to shift towards creating an environment in which local governments and the private sector can act more effectively. In other words, they will be expected to implement various central-

local government administrative and fiscal reforms such as promoting decentralization and strengthening fiscal allocations in order to enable sustainable development which mobilizes the vitality of the localities in response to the changing environment in developing countries.

5.2.1 Creating an environment for local development

What sort of environment should be prepared in order to elicit vitality from various actors in development at the local level and promote local development? First, government's role should be to secure access to markets and improve the functioning of markets at the local level in response to immaturity or failures. Market liberalization will have only limited effect if markets are underdeveloped, and government must therefore undertake to build infrastructure and legislative systems and to create an institutional base that effectively supports functioning markets. Not only must markets be liberalized, but the physical and institutional bases supporting market mechanisms must be reinforced^{Note46}. Thus far, many developing countries have attempted to build infrastructure, mainly in the capital and in major cities, and to improve the investment environment. This has led to excessive concentration of development in the major cities and has widened the gaps between regions. In order to promote local development, local infrastructures must be improved to promote moves by industry into non-urbanized areas, where access to markets must be secured, local market formation promoted, local financial systems strengthened, and tax systems improved to support the investment environment. In that sense, local core city development and other local urban center infrastructure improvement and investment environment improvement will be important tasks on tomorrow's agenda.

To improve the market environment and reduce constraints of access to markets, both construction of physical infrastructure by government and development of human resources via education will be important. Development of human resources at the local level trains and improves the skills of the actors in development, who are the source of a developing region's vitality. Education facilitates access to massive amounts of information, markets and job opportunities, and nurtures local entrepreneurs. Despite these pluses, improved education can also promote labor migration from rural to urban areas: it is therefore important to encourage industry to implant itself in rural areas and create

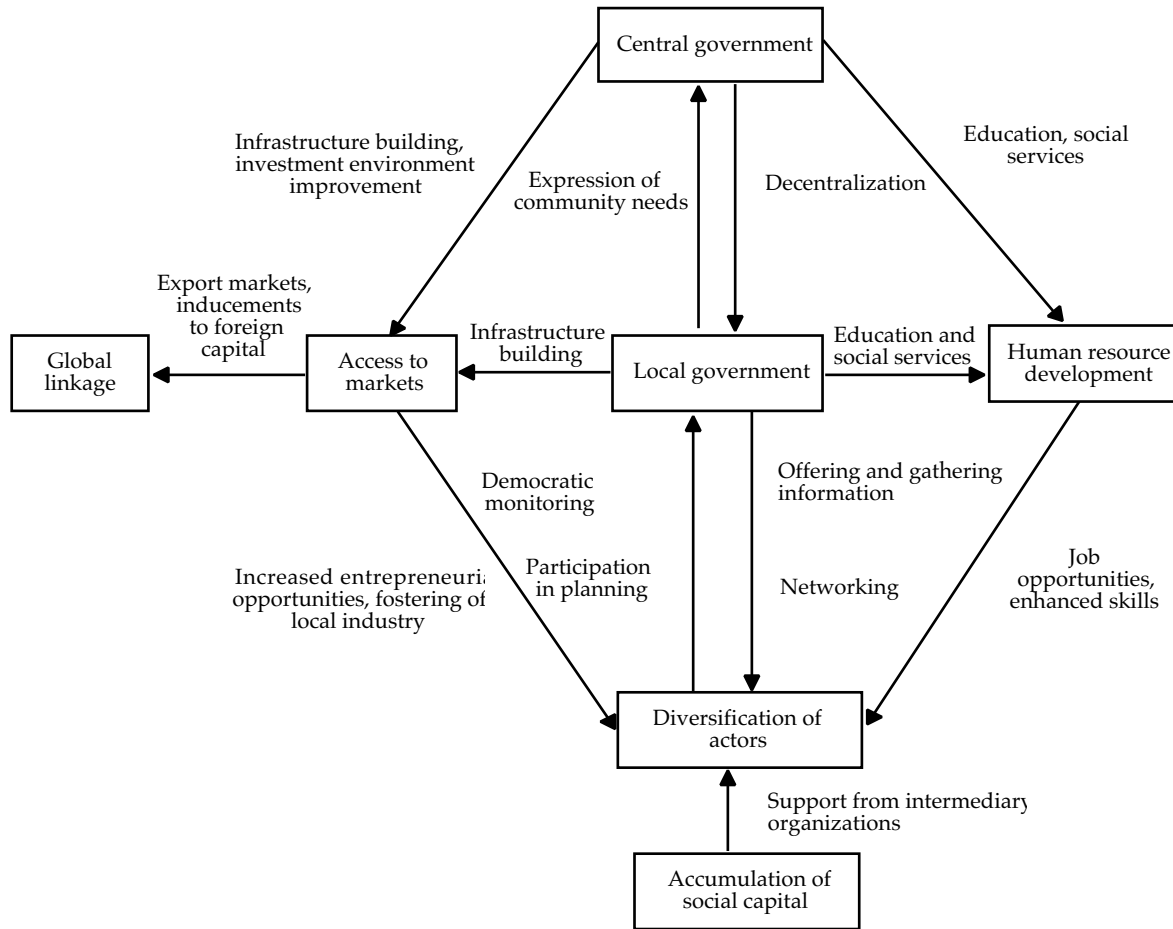
Note 46 Hayami (1995), p 251

job opportunities in non-metropolitan cities and rural villages.

Central government resource reallocation systems will be needed in order to build this kind of infrastructure and to conduct education and human resource development at the local level. And local government's role must also be strengthened to enable it to establish development plans attuned to local needs and to provide the central government with information, in order to promote effective development tailored to local needs and aspirations. In the Philippines and some other countries, decentralization policies are being promoted to transfer resource reallocation powers and duties to local governments. The division of roles and cooperative relationships between the central and local governments are continuing to change in this way, and local governments are being called upon to create environments that promote participatory development and enable local initiatives.

Figure 5.1 shows what factors become necessary in order to build an environment where full use can be made of local vitality. Securing access to markets and developing human resources both foster an environment where local vitality can be more fully exploited because they increase the diversity of actors. The figure identifies what type of role central governments should respectively play; depending on the type of relationship between them, infrastructure construction and investment environment preparation to ensure access to markets can be carried out either separately, in central-local government relationships of the insular type, or central and local governments can cooperate more fully, dependent upon ties between central and local government of the integrated type. In the provision of education and social services, insular-type ties usually lead to independent implementation after clear specification of the respective roles of central and local government; integrated-type ties lead to a strongly cooperative relationship through which local government provides services with financial and technical assistance from the central government. For this reason it is important to understand how vertical networks are formed between the central and local levels.

Figure 5.1 Creating an enabling environment for local vitality



An enabling environment, where diverse actors can exercise their vitality at the local level takes shape when access to markets has been prepared, and human resource development is being carried out by central and local governments providing educational and social services. As shown in Figure 3.1 of Chapter 3, the cones representing three approaches to local development, according to the country's stage of economic development shift in a clockwise direction with the passage of time, changing their emphasis; in similar fashion, the status of linkage among the central government, local government, and actors in development shown in Figure 5.1 must be taken into account. Which parts will become more important and require strengthening in the future must be identified in accordance with the country's stage of economic development. Therefore, when giving aid to create such an enabling environment for local economic vitality, one must consider what sort of aid can be given that would be effective to further these important linkages. For example, when insufficient efforts have been made to improve access to markets, it becomes

more important to provide assistance through central and local governments to improve infrastructure and the investment environment. When the agents in development are diversifying assistance in participatory planning by local governments, cooperation via networks of social organizations, and financial system and technical assistance for entrepreneurs and promotion of industry will be needed.

5.2.2 Renewal of central-local government administrative and financial institutions

Local development in developing countries has been based thus far on plans led primarily by the central government; increasingly, the local government role is being strengthened and decentralization is being carried out, and a qualitative transition is beginning to take place in central-local government ties in many developing countries. In the Philippines, for example, a law on local autonomy came into force in 1991, setting in motion major transfers of powers to local government. Likewise, a pilot decentralization project begun in Indonesia in 1995 focuses on second-order autonomous local governments (regencies and municipalities), strengthening their powers and capabilities. In Nepal, under the 1992 law on local autonomy, development commissions have been set up at the district, city, and village levels to formulate development plans and administer implementation for the areas of their jurisdiction. Even a country with strongly centralized local administrative systems like Thailand is reinforcing the function of “tambon” development councils and revising systems in the direction of decentralization.

What kind of changes does ongoing decentralization make in the division of roles between central and local government? The first is that local government comes to play a greater role in development planning. Decentralization enables local government to formulate development plans that reflect local needs and characteristics; it enables the central government to play the role of coordinator, ensuring the mutual compatibility of development plans on a nationwide scale. In the Philippines, local development councils in each autonomous administrative unit are set up as organs to draft development plans, and NGO representatives are allowed to take part in the planning process. In Indonesia, development budget planning is conducted bottom up, beginning with planning at the village level, and plans are built up, one level on top of the next, at the county, prefectural, and provincial levels, until they reach the national budget level. The second change in role division is that the local government becomes

an implementer of development plans and provides public services in a greater number of areas. Structural adjustments reduce central government's role, and decentralization transfers some of its duties to local government; central government's roles become limited to offering technical support to local government, either directly or via its local level branches, and drafting guidelines for the planning and implementation of administrative services.

In development plan formulation, a bottom-up participatory planning framework is established at the local government level; but if the planning capabilities of local government are weak and the gathering of information is insufficient, and therefore data available to the development planners are inadequate during this process, local government may be heavily influenced by the central government. Local governments that are now the implementers of various programs and the providers of public services but have not been allocated sufficient financial resources to carry out the powers vested in them by the central government, find themselves unable to provide adequate services.

In many developing countries, local funding capabilities are too weak and their own financial resources too scant; local governments must depend on subsidies and other funding from the central government. The central government retains the power to redistribute financial resources; few countries give local governments the power to reallocate resources and increase their own financial resources by raising local taxes. In Indonesia, for example, a local government's own resources are 31% at the highest level and 11% at the second level of local government, and the transfers from central government account for 55% and 71%, respectively. Hence it is necessary either to increase the beneficiaries' burden or to establish a close cooperative relationship with the central government to obtain more subsidies or public funding. To ensure that projects are properly carried out at the local level, it is necessary to keep close track of local governments' financial capabilities.

5.2.3 Development policy's contribution to local resource mobilization: contest-driven local development

As different parties become directly involved in local development, both central and local governments are being called upon to build environments that are conducive to local development actors' activities. In a market environment where unrestricted competition is possible, resources tend to aggregate in areas where conditions are competitive and favorable, creating a situation that

might be called a failure of competition, where gaps widen with respect to less favorably endowed areas. As economic liberalization takes place in China, rivalry among regions has heated up, and the gaps between the more competitive coastal regions and the less competitive, economically disadvantaged inland regions are widening.

Even in a competitive environment, however, it is possible for government to promote the activities of the diverse actors in development by inducing them to compete with each other, i.e., by establishing rules and giving them incentives to participate. In other words, in the process of resource mobilization needed for local development, a “contest” may take place among regions competing for resources within certain limits established by public policy. The World Bank points out in “The East Asian Miracle” that establishing fair rules, having referees, and providing incentives was enough to promote economic growth and trigger development via contests for resource mobilization^{Note47}. Contests among local networks, including local governments, transcending competition by private actors over local development in the competitive environment created by globalization and government’s elaboration of market systems, seem to have become more readily introduced. In the selection of municipalities for designation as “new industrial cities” in Japan, local governments competed by drafting their own development plans. Likewise, in the development of eastern Indonesia, this type of contest was the method used when each province was called upon to draw up its own development plans for localities designated as “development bases” or hubs of development. Provided that fair rules and rewards have been decided regarding the granting of subsidies and priorities, and the central government bureaucracy functions as a fair referee, contests among localities in development planning and implementation, such as village vitalization plans, make it possible to encourage competition to improve the quality of planning and ensure effective implementation.

5.2.4 Relief for underdeveloped areas

Competition and contests among areas and exploitation of their local vitality for local development might also widen disparities among regions instead of narrowing them, depending on the type of resources and skills the locality has available. It will remain necessary for the central government to assign priority in subsidies to underdeveloped, uncompetitive regions with disadvanta-

Note 47 World Bank (1994), pp.91-99

geous initial conditions, and to take other similar measures affecting financial resource coordination and management and technical support for local governments. The central government could, for example, limit eligibility for participation in these contests to especially disadvantaged areas, or limit the rewards to the building of local roads or special facilities, or in some other way redefine the conditions of competition to ensure that contests take place among underdeveloped localities. The central government must also provide safety nets to mitigate interregional disparities due to unequal competitiveness and to relieve areas suffering from relative hardship. Steps must also be taken to assist limited numbers of especially needy targets using central government subsidies, as is done, for example, by Indonesia's IDT program for underdeveloped villages and Mexico's popular solidarity program. There are also examples of cooperation between local governments in China, where disadvantaged areas are being given economic and technical support by more advantaged areas. Development of underdeveloped areas should probably use inter-local cooperation and complementary relationships over broad geographical areas, affecting not points, but areas. Like the triangular zone concept of growth linking adjacent overseas regions, defining triangular growth zones linking different localities through economically complementary ties and cooperation within a single country is one conceivable way to form support systems for broader geographical areas to carry out programs in underdeveloped areas.

The administrative capabilities of underdeveloped areas must be strengthened, both in cases where subsidies have been received to build infrastructure and carry out projects in underdeveloped areas specifically designated by the central government and in cases where a broader geographical area has been defined and services will be provided to underdeveloped areas through mutual cooperation at the local level. To enable local governments to become actors in development, it is not enough for the central government merely to reallocate resources: the central government must also support the upgrading of local governments' administrative capabilities. And to train the many actors needed to develop underdeveloped areas, the development of human resources through education must also be stressed.

5.2.5 The role of local government

Local government's potential role as an actor in local development continue to multiply and grow as decentralization advances. Local government plays, for example, the role of point of contact linking the locality's needs and

aspirations regarding development to the implementation of the central government's development policies. Local government assumes the role of reflecting the desires of people in the locality in central government policy regarding development, as well as the role of adapting the development policies of the central government to the circumstances of the locality in question and then implementing them. In other words, local government is in a position to play both the role of agent of the state and of organ of representation of the popular will, and is called upon to play a leading role in local development. It must, in that capacity, take on particular roles of reflecting local ideas in local development, procuring by itself the resources necessary to implement these ideas, mobilizing resources by securing them from the central government or some other source, providing public services, and implementing and coordinating development plans.

As we have seen already, however, decentralization and qualitative shifts in the relationship between central and local governments are taking place in developing countries, and local government's administrative capabilities are often not fully up to the task. Local government staffing is weak, both qualitatively and quantitatively, and personnel have not been given sufficient incentive. In development planning at the local level, local government is expected to play a leading role, but it is not always fully equipped to draw up plans that reflect local needs. Even when decentralization has conferred on it new powers, local government is sometimes unable to offer adequate public services, because sufficient financial or other resources have not been transferred together with these new powers to enable local government to exercise them in due fashion. In other cases, decentralization has allowed local government to mimic the local political power structure and come under the control of a local boss, or to become a structure that in some way does not reflect the will of the people.

In local development, however, it is local government that embodies the community's identity, assumes the ownership role, and plays a leading role in local governance. For local government to play these roles, it must improve its capabilities, establish local networks to improve its ability to draft plans that reflect the popular will, and upgrade its administrative ability to deliver public services. In development at the local level, therefore, local government plays an important role as a development partner of central government, and it is the duty of central government and donors to cooperate to further strengthen the local government's ability to play the role of development actor.

6. Aid Trends in Japan and Other Donors

In this chapter, we will give an overview of the background of this issue of recent reforms in central-local government institutions designed to contribute to local development, especially decentralization in the context of reform recently raised by development aid agencies. We will also describe attempts by Japan and other major aid donors to address this theme.

6.1 Background

Decentralization did not emerge recently as a topic of discussion in the context of development aid^{Note48}. The present interest in decentralization is closely tied to new trends in development strategy emphasizing administrative reforms, participatory development, and good governance^{Note49} that originated in the late 1980s in response to global trends—political democratization, economic liberalization—and structural adjustments.

With the end of the Cold War, changes in the international climate created a new set of circumstances for development aid. During the cold war, strategic aid had focused on geopolitical security aspects, but this type of aid lost its justification with the end of cold war conflict, while new countries emerged as aid recipients when eastern Europe and the former Soviet Union began the transition to free economies. At about the same time, advanced industrial nations' finances worsened, stanching the flow of funds to assist development, and countries in the West began showing what is called “aid fatigue.” Despite vast investments in aid over decades, most developing nations except for some countries in Asia had little to show in terms of improvement in their situation, and in the face of the harsh realities, public opinion in donor nations began to voice doubts about aid's efficacy. In other words, people began to think that

Note 48 On the importance of decentralization and local autonomy, the debate during the 1950s often emphasized the model characteristics of self-government, whereas during the late 1960s, it tended toward centralization in response to economic stagnation and political instability in many newly independent countries. During the 1970s, excessive centralization was perceived to have spawned a number of evils, including disparities between regions, leading to a new awareness of decentralization in development theory, and its identification with the interrelatedness of fair economic and social development and development arising from within; decentralization plans and administrative systems were revised and local plans were adopted in many developing countries. During the 1980s, there was a shift back toward centralization, primarily in countries in financial crisis, and the debate over decentralization subsided momentarily, but in the late 1980s, global political and economic changes and new trends in development strategy brought decentralization back into the limelight.

Note 49 For background and concepts on participatory development and good governance, see JICA (1995).

the quality of developing nations' governance, especially the quality of public sector organizations and institutions and their management and operation, was often responsible for aid's frequent inadequacy and inability to stimulate economic and social development. Donors' concern over the effective and efficient use of aid funds began to grow, and calls grew louder for improvements in developing countries' ability to absorb aid. Furthermore, democracy and human rights began to be perceived as a goal to be promoted and protected under a new aid strategy with better chances of support from citizens of donor nations. These calls gave greater justification to involvement in developing countries' internal institutions and policies—something which developing countries had long considered interference in their internal affairs. At donor meetings and on other occasions, donors proposed this new strategy, promoting a dialog with aid recipients. In this climate, participatory development and good governance came to be identified as central tasks on the development agenda, and in part, it was also in this context that decentralization came to prominence. The concepts of participatory development and good governance are based on pluralistic values that stress both the diversification of development actors and the democratic policy formation process; decentralization can be regarded as a device to promote the participation of diverse interests in development and to make political mechanisms more accountable and responsive to the people. Local governments headed by publicly elected executives are better able than central governments to understand local realities via citizen participation and to respond to people's needs in local development; for this reason, decentralization is regarded as an effective method both of institutionalizing participatory development and of establishing a form of governance that deconcentrates power and enhances governing mechanisms' accountability. The growing variety of development actors also means the diversification of aid partners, drawing growing attention to the role of NGOs and local governments^{Note50}. The present debate over decentralization is, to be sure, being conducted from two angles: from the viewpoint of advancing democratic values and from the viewpoint of promoting efficient economic development and administrative streamlining. Devolution and deconcentration of powers from the central government to local government and the private sector are now being brought forth as a prescription for public sector woes.

Note 50 The Netherlands, Sweden, and the United States in particular focus on local governments in developing countries as aid partners. At the Lome IV Convention in 1989 (a meeting of 69 EC, African, Caribbean, and Oceanian countries), it was agreed that besides central governments, local governments and NGOs would also receive aid directly from the EC. See also Gerrit Jan Schep et al., (1995), p.17.

6.2 Japanese aid trends

Aid contributing to local development has been implemented in many forms in the past, but nowhere has reform of central-local government ties been presented as a primary approach to this process.

Aid contributing to rectifying interregional disparities and promoting local development has included project-type technical cooperation and loan assistance to promote agricultural and rural village development, education, health care, and local infrastructure improvement (roads, sewers and water supplies, electrification, etc.), and regional development plans and other development surveys in localities outside of the metropolitan area^{Note51}. Two-step loans to the Thai Bank for Agriculture and Agricultural Cooperatives (BAAC) and the Bangladeshi Grameen Bank can also be regarded as supporting local-level economic activation using methods rooted in local communities. Aid has been given in response to requests from local public bodies, research institutes, and NGOs to fund relatively small projects through small-scale grant assistance for grass-roots projects in developing countries. Whereas the pattern is frequently that aid is given to contribute to local income raising and basic social services, it is not so remarkable that cooperation supports the promotion of local development via political, administrative, and financial reforms (including decentralization) and strengthening of government organization and systems. Cooperation contributing to improving general administrative management has been conducted in the past, the main examples being training in central and local government administration^{Note52} and the sending of Japanese experts to ministries of the interior and finance to support the key policy departments of developing country government. Other examples of Japanese cooperation contributing to the strengthening of local governments' administrative and financial capabilities include loan assistance to the Philippines when that country promoted decentralization through establishment of the Municipal Development Fund after a new Local Government Code came into effect in 1991, and to

Note 51 The project site was located outside the national capital in 98 out of the 190 project-type technical cooperation projects carried out by Japan as of October 1, 1995; in 40 out of 190 cases, the purposes of the project included contributions to local development and/or to redress disparities between less-favored and more-favored regions. Similarly, the project site was located outside of the capital in 211 out of 250 development surveys, and in 75 out of 250 cases, projects were intended to contribute to local development and/or to redress disparities between regions.

Note 52 The subjects taught in group training courses included national administration, local administration, fire fighting administration, vocational skill development, sanitation administration, and other fields of development administration.

Indonesia to support its IDT program of subsidies for underdeveloped rural villages, as well as expert missions to the Ministry of the Interior and Local Government in the Philippines.

Meanwhile, both NGOs and local governments are growing in importance as actors of Japan-based development cooperation and drawing increasing attention to Japanese localities' human resources and know-how. Training programs are carried out by JICA with the cooperation of local governments that train trainees in their fields of excellence: in FY1995, for example, local governments conducted about 8% of all training conducted in Japan. Officials from local governments in Japan are also sent overseas as experts, mainly in such fields as agriculture, construction, and urban sanitation, and in recent years, the numbers have been increasing: again in FY1995, 5.9% of all experts were local government officials. Tieups with local governments have become increasingly frequent in such project-type technical cooperation fields as urban traffic systems, health care, pollution prevention, waste treatment, and rural development, where local governments have stocks of accumulated know-how^{Note53}. In addition, there are subsidies to some local governments for their overseas cooperation activities with their sister city or sister state, affiliated with counterparts overseas and training programs for local government staff to undertake overseas cooperation programs^{Note54}.

Among recent trends, a growing number of experts are active on the “software” side of technology transfers in response to software-related requests, other than those directly related to improvement of infrastructure and other hardware (design and construction techniques, etc.)^{Note55}. So-called “policy

Note 53 Saitama Prefecture's role in the Primary Health Care Promotion Project in Nepal (April 1993-March 1998) and Okinawa Prefecture's role in the Primary Health Care Project in the Solomon Islands (September 1991-August 1996) can be cited as examples of project-type technical cooperation in which a Japanese local government is actively cooperating as a domestic support organization.

Note 54 JICA tieups have helped to implement projects in which a local government has independently begun an international cooperation program based on sister city ties or friendly relations at the local government level. Examples include experts sent to Mongolia through a tieup with Shariki, a village in Aomori Prefecture, which independently accepted agricultural trainees and conducted technical cooperation in rice planting, the training of trainees in the area of papermaking technology through a cooperation tieup between Bhutan and Misumi in Shimane Prefecture, and a development survey of pollution control (the Environmental Model District Improvement Plan Survey in Dalian) carried out through a tieup with technical support between Japan's Kita-Kyushu City and its sister city Dalian, China.

Note 55 The software -related technology refers to guidance and advice related to institution building, such as the drafting and implementation of national economic and development policies, the formulation and implementation of basic policies in a variety of sectors, systems for user determining fees, monetary systems and other financial and accounting systems, and the establishment of legal frameworks regulating land use and fostering smaller businesses, and it refers also to guidance and advice related to organization building with the purpose of carrying out administrative duties.

support” has attracted growing attention in recent years and is likely to attract even more: it consists of assistance in setting up legislative frameworks and other assistance for countries making the transition to a market economy (“the cooperation to support the formulation of key government policies” for Vietnam and Poland, for example). So-called “policy-adviser-type experts,” who give guidance and recommendations related to the planning and implementation of plans and projects carried out on a national scale, are sent mainly to ministries and agencies of the central government and state enterprises, but in some cases, especially in very large developing countries or those that are organized as federations, they are also sent to local government organizations where they train staff and set up organizations at the local level^{Note56}.

As we have stated above, aid that contributes to local development and to the improvement of local administrative capabilities has in the past been carried out in individual cases, but lacked a comprehensive methodology identifying it in relation to an approach to reform of central and local government institutions. In the future, “policy support,” especially assistance to countries seeking to carry out decentralization and other political and administrative reforms, must also be studied in relation to decentralization policy formulation and local government capability-enhancing measures to enable political and administrative reforms to contribute fully to local development. To do this, flexible arrangements will be needed to identify the full dimensions of the countries and regions concerned, including the political, economic, and social environments, as well as the relationship between central and local governments. The new development strategy adopted by the Development Aid Committee (DAC) of the OECD on the initiative of Japan (“development partnership in the new world context”) emphasizes action in the fields of poverty, primary education, health care, and environmental protection^{Note57}; because these fields require both activities at the localities level, and local government and administration planning and implementation skills, it is becoming more important than ever to promote cooperation in these fields and to consider at the same time ways to improve the skills and capabilities of local government and administration.

Note 56 On policy adviser experts, see JICA, Institute for International Cooperation (1994).

Note 57 See OECD/DAC (1996), “Shaping the 21st Century: The Contributions of Development Cooperation,” report adopted at the 34th DAC High Level Meeting, held in May 1996.

6.3 Aid trends of other major donors in relation to this theme

Cooperation that contributes to local development covers not only institutional reforms and strengthening of government services but also many forms of development cooperation at the local level including infrastructure and distribution channel improvement, education, health care, rural development, and local development planning. Here, however, we focus on reforms of central-local government systems and the strengthening of local government to contribute to local development and address the approaches and principles of the World Bank, the UNDP, and USAID regarding these fields.

Though the degree to which these agencies are involved in the policies of recipient governments varies, these agencies actively support decentralizing political, administrative and financial reform, and all of them support (and indicate a commitment to the policies of) institutional reforms planned and implemented by the central government.

6.3.1 The World Bank

6.3.1.1 Principles

Reflecting the character of the World Bank (one of whose basic principles is non-involvement in political affairs), political, administrative, and financial reforms, including decentralization, are dealt with in the context of public sector management to improve their efficiency in economic and social development. Thinking regarding the organization and systems of developing countries, which thus far have been approached from the standpoint of effective management of individual projects, has been marked recently by growing consciousness of the need to consider governance in a broader sense in order to raise consciousness of ownership in developing countries. Reports on governance published by the World Bank in 1992 and 1994^{Note58} mention new topics—public sector management, clarification of the scope of government’s responsibility, establishment of legal systems, participatory approaches, and human rights; decentralization in this context is treated as leading to a government that is more accountable to the people and better able to respond to their needs. On the other hand, while acknowledging the many merits of decentralization, the World Bank is careful to note that the success of decentralized institutional reforms depends on institutional, political, and financial premises.

Note 58 See World Bank (1992), and World Bank (1994).

It also bears in mind that actual decentralizing policies do not always yield the expected results in practice^{Note59} .

6.3.1.2 Approach

Approaches to central-local government institutional reform and the reinforcement of local governments’ capabilities are classified into one of the following three major types:

- i) Direct involvement in formulation by the central government of policy on central-local institutional reform;
- ii) Strengthening of systems and institutions in tandem with infrastructure improvement via technical cooperation with local government in project planning and implementation and transfer of appropriate powers in the sectors in which local government plays a major role (urban environmental improvement, education, health care, sewage and water supply);
- iii) Support for strengthening administrative and financial capabilities of local government (support for strengthening local government’s taxation abilities, improvement of accounting and budget control systems, development funds supporting local government’s finances).

World Bank Projects

The Case of Mexico: Decentralization and Local Development Project for Underdeveloped States

In the four Mexican states of Chiapas, Guerrero, Hidalgo, and Oaxaca, where one-third of Mexico’s poor live, a project in effect from 1991 to 1996 was designed to achieve local development via decentralization and thus improve access of the poor to basic infrastructure and social services and disseminate agricultural technology. Because these four state governments have stressed enhancement of their ability to plan and carry out public investment programs, with emphasis on antipoverty measures, and at the same time reinforcement of federal and state governments’ capabilities in project selection and monitoring, cooperation has been directed at rural road construction , electrification and similar infrastructure projects; agriculture, forestry, and other production related projects; and education, sewerage and water systems, and other social service-related projects through loans, as well as improvements in the management capabilities of project-implementing organizations and in the state and county planning and budgeting systems. The World Bank also actively addresses the central government’s formulation of decentralization policy prior to this stage.

Source: World Bank

Note 59 See World Bank (1996d).

6.3.2 The United Nations Development Program

6.3.2.1 Principles

The UNDP proposed the approach entitled “sustainable human development” in 1990; it regards decentralization as an effective method for achieving the goal of sustainable human development through citizen participation and improved government efficiency. Decentralization, in other words, accompanies democratic participation in the government policy making process and thereby, through closer citizen access to decision making, arrangements that better reflect people’s priorities are made and the efficiency of resource use is increased^{Note60}. However, decentralization policies actually carried out in developing countries tended either to ignore links with existing local organizations or failed to take into account political and financial support, and even in cases where attempts were made to transfer a certain amount of power, new problems, such as the growing disparities between local areas, tended to emerge, and developing countries are known to be facing a variety of thorny problems. Hence the UNDP has pointed out the need for a systematic approach to decentralization.

6.3.2.2 Approach

The UNDP’s goal is not deconcentration of work to local branches but devolution of decision making powers together with the funding necessary to carry out decisions. It is carrying out programs to promote decentralization in this sense and to strengthen the financial capabilities of local government in countries around the world. In order to promote decentralization, it is strengthening central government’s policy making capabilities, strengthening local government, and giving support to citizen organizations in each country. It is also making more efforts in the area of global advocacy in order to adopt an approach in harmony with the international community to support decentralized governance at the global level.

^{Note 60} UNDP(1993), “Human Development Report 1993,” which cites decentralization as a theme.

UNDP Projects

The Case of Nepal: Decentralization Support Project

Nepal's decentralization policy, launched as one of the priorities of its new development policy following democratization under the new constitution promulgated in 1991, has been written into the 8th Five-Year Plan (1992-1997); specific administrative mechanisms for promoting decentralization are provided in the local autonomy law. As one of the preliminary steps in moves to let local development be headed by a district development committee prescribed by the new legislation, the government of Nepal has been carrying out a "decentralization support project" with UNDP cooperation since February 1993. The project's main focus is on generating specific formulas for decentralized management of development through procedures for supervision of planning and implementation of development by local government and it has been trying a number of models in different districts. Nepal's local governments have no experience with supervision of local development planning and implementation; the project therefore provides technical support (citizen-participation-type monitoring and evaluation, local development planning, etc.) to district development committees and assists the building of county development databases. To adjust the central government's role to the decentralization system it is building, it extends cooperation to the design of decentralization systems at the central level (drafting of outlines and manuals, studies on systematizing local development, etc.), focusing on the work of the National Planning Commission.

Source: Mazaki (1996), pp. 89-102

6.3.3 USAID

6.3.3.1 Principles

The United States cites the promotion of democracy as one of its foreign policy goals, and for this reason, its development aid emphasizes support for democratization. The stance of the United States stresses democracy itself as a universal value, rather than the correlation between democracy and development. According to a study by the international human rights protection organization Freedom House, 57 countries carried out a transition to a democratic political system in the period 1980 to 1995; the United States carried out "democracy and governance assistance," to 36 of these countries, including support for local government and the private sector, helping them construct legal systems, organize election systems, show greater respect for human rights, and promote citizen participation. USAID cites promotion of democracy, sustainable economic development, improvement of population control and health care programs, and environmental protection as part of its strategy to achieve sustainable development, and stresses promotion of the building of democratic systems and citizen participation^{Note61}. Decentralization is perceived in this

Note 61 USAID Home Page.

context, and special stress is put on participation by NGOs and citizens organizations in the local decision-making process.

6.3.3.2 Approach

Characteristic of the USAID approach is the strong political commitment to the institutional reform framework. USAID tends to involve itself in recipient countries’ policy formulation as they decentralize their governments, through policy dialog with the country’s government, advocacy, and the formulation of action plans (consultations and policy study). It also offers assistance in the building of related systems and their organization, technical cooperation, and training related to local government. It actively promotes participation by local governments, citizens organizations, and NGOs in the decision-making process; it also provides support for network construction and coordinator roles to set up horizontal ties among them. It targets improvements in the provision of services, mainly in areas where local actors play important roles (housing, waste disposal, primary school education, health care), and through these programs it lends support and promotes participation by the private sector and enhancement of local governments’ capabilities. Specifically, this includes support for local infrastructure construction, strengthening of local government capabilities in development planning and implementation, and strengthening of central government monitoring capabilities.

USAID Projects

The Case of the Philippines: The Local Development Assistance Program (LDAP)

This five-year program begun in 1990 assisted the Philippine government’s decentralizing reforms and devolution of powers to local governments under the Local Government Code of 1991; with the object of improving the quality of citizen participation at the local level, it helped to improve local government funding, powers, and independence. Emphasizing support for policy at the national level focused on the central government’s efforts to carry out organizational and institutional reforms by drafting and implementing the Local Government Code, the LDAP mainly involved technical cooperation, policy studies, and monitoring, and was flexibly altered in mid-implementation in accordance with actual decentralization policies and implementation trends. Specifically, the LDAP carried out aid in four areas: i) decentralization policy studies, ii) reinforcement of local governments’ financial resources, local planning, and technical and funding support to local government associations (leagues of provinces, leagues of cities, leagues of municipalities), iii) funding for designated subprojects related to decentralization (NGO Grant Program, Real Property Tax Administration Program) and, iv) training.

Source: USAID, *Local Development Assistance Program*

7. Recommendations Concerning Aid

7.1 Basic approach of aid designed to narrow interregional disparities and contribute to local development

Reforms were begun by developing countries in the 1980s to adapt their political and economic systems to changes in the international politico-economic environment (e.g., dramatic growth in the world economy and globalization since the end of World War II, the disappearance of the East-West Cold War power structure). The series of politico-economic as well as administrative/financial reforms being carried out in developing countries appears to be consistent with the development vision suggested by changes in the international environment.

The vision that is dominating international currents of development thought today is growth based on a market-oriented economy and democracy. The political, economic, and central and local government administrative and financial reforms now being attempted in many countries are consistent with attempts to realize growth in a market-oriented economy and democracy. This process is on the one hand influenced by international trends and on the other hand considerably influences local development, the specific concern of this committee. Hence this committee has posed two questions: what does local development mean in the global era? And what is government's role in this new environment?

Answers to these questions are expected to involve, in various ways, the history, geography, and culture of the countries and localities affected, and the stage of development of their economies and societies, as well as other differences in initial conditions. On the other hand, as we have stated already, today's international current of thought (relative to globalization), by promoting developing nations' transition to a market economy and lessening the relative competence of central governments, may at the same time accelerate decentralization, and help the ensuing powers it transfers to local government to mobilize local resources through cooperation between the public and private sectors (through local government's industrial policies, for example) and contribute to stimulating local economies and narrowing the disparities between different areas of the same country. Yet in the new market economy environment, differences in competitiveness between countries and between regions of the same country exert their full force without buffers or havens and may give rise to new interregional disparities and poverty.

Yet another important item on the agenda for study of local development is both the relationship between central and local governments and local governments' administrative and fiscal capacities. Especially when JICA and other aid organizations are planning to extend a helping hand to localities, it is important to bear in mind the characteristics of and the factors that influence central-local government relations in the country in question. This is of course the case when localities are directly targeted by aid, but even when they are not, these factors and influences do have a major impact on the operation of aid projects and strongly influence the effectiveness of the project itself. These points are addressed in Chapter 4, "Governance and the Relationship Between Central and Local Governments in Developing Countries."

The chapter cited above indicates the framework for the recommendations and specific measures we have studied. In the following chapter, we present a list of the viewpoints we believe are important in order to study specific methods for contributing to the narrowing of interregional disparities and for contributing to local development.

7.1.1 Creation of a multilateral aid framework and enabling international environment

Reforms designed to establish a market-oriented economy and democracy are eminently political goals and require a political commitment in the countries receiving aid. Aid must, however, be tailored to the stage of development of the recipient nation's society and its socioeconomic environment. A multilateral aid framework and international environment must be created to enable a choice of aid methods adapted to individual circumstances. Aid agencies should put yet greater stress on coordination and cooperation with other organizations with this in mind.

7.1.2 Collaboration with recipient countries and people in charge at local levels

Active "policy support" should be given to countries carrying out political, economic, and administrative reforms to help them create an enabling environment for local development and thereby rectify the gaps in living standards between different regions. It is very important to strive to link predictive findings regarding the development process obtained by carefully observing the developing nation's and local communities' socio-economic environments and

realities, to subsequent institutional reforms.

In the implementation of this type of “policy support,” it is important both to mobilize the knowledge and experience of domestic and international experts and at the same time to collaborate continuously with people in charge, beginning with the recipient country’s officials in charge and taking into account information from many sources, including the opinions of experts, consultants, NGOs, etc.

7.1.3 Local political and social structures and diversity among central and local government ties

Central and local government administrative and financial reforms are highly significant from the medium- and long-term standpoints and deserve active support; the degree of reform must take fully into account both the socioeconomic and the political environment of the country concerned. Attention should especially be paid to the viewpoints related to central-local government ties addressed in Chapter 4, “Governance and the Relationship Between Central and Local Governments in Developing Countries.” Examination of these points is indispensable, given that aid projects’ implementation and effect depend on the nature and efficiency of the system base. Implementers must have a clear understanding of the local political and social structure, the role of traditional leaders, and the influence they exert on politics and administration (mentioned in Section 5.1, “Factors in local development in developing countries”). We hope that careful attention will be paid to the importance of local democracy and fostering local citizens’ social organizations.

7.1.4 Tieup support for central government’s roles in interregional disparity reduction

Much of the burden of narrowing differences in living standards in different areas of the same country falls on central government. To narrow internal economic gaps, the support must be conducted selectively on the basis of policy measures of the central government for underdeveloped areas. In local development policy, for example, support should be combined with local education, sanitation projects, etc., of the central government and conducted linking them to enhancement of local government competence in related local administrative and financial systems. Improving the systems by which the central government allocates resources to localities is an important step toward securing an

environment where local government can function as a major actor in participatory development attuned to local initiatives.

7.1.5 Regional core-city peripheries as local development units

Regional core cities' economic, social, and political ties with their surrounding areas and their identification as regional growth centers are among the viewpoints requiring attention during the promotion of local development. Regional core cities not only play the role of distribution and market centers for a vast economic periphery on the economic plane, they also function as financial centers; their influence at the social and political levels cannot be ignored.

Infrastructure and market creation, the extension of modern financial systems, and improvements in tax systems are important steps to develop a market economy environment where attention must be paid to improving the investment environment. To be effective, planning should take into account the sprawl of local core cities and their peripheral regions from this viewpoint. The application of similar methods to development in underdeveloped areas and the incorporation of underdeveloped areas into the zones under consideration should also be effective.

7.1.6 Upgrading of local government's administrative capabilities and stronger ownership consciousness of participants

Local government's administrative and financial capabilities, keystones of local development, are generally weak in developing countries, as are the human resource and social and economic infrastructures as well. Institutional reforms should be carried out focusing on these fundamental factors.

Local government is an actor potentially able to inspire ownership awareness at the local level. At the same time, it is important to recognize that local government is in charge of development projects and bears the important role of governance at the local level. When local institutional reforms are being planned, attention should of course be paid to tieups with local officials and other people in charge at the local level, but a flexible response taking tieups with the central government fully into account is also necessary.

7.1.7 Contests as a method of enforcing local development policy

An ever greater variety of development actors is active at the local level in developing countries; one of the important roles of developing countries' central

and local governments is therefore actively to create an enabling environment that takes full advantage of these actors' dynamism. The purpose and methods of donor assistance are also directed toward the formation of appropriate support systems. One method to promote development is, for example, to announce a contest in which, provided certain conditions are met, aid will be given to the area or areas that create the most appropriate conditions for development; this approach effectively ensures appropriate resource allocation, mobilizes local resources, and stimulates active participation by a variety of actors in development. Thus contests among potential recipients can both serve development policy and establish a system of assistance corresponding to stated objectives.

7.1.8 Networking in local development

While acknowledging, on the one hand, the importance in promoting local development of effective coordination of central and local government ties, in which predominantly the central government takes the initiative, we should also pay attention to the importance of horizontal networking at the local level. Local networking is none other than local social capital: it helps to upgrade coordination and management capabilities in the development process and enhances the effect of development. National networking among social and economic organizations also contributes to effective implementation of development policy.

7.2 Aid's contribution to redressing interregional disparities and to local development and implementation systems

This committee's agenda, the narrowing of disparities between domestic regions and local development in today's international environment, must be dealt with in accordance with the specific realities of politico-economic and administrative/financial reforms by central and local governments in a particular country. Furthermore, aid must be multifaceted to respond to the complex circumstances and needs involved. In the light of these circumstances, therefore, we will confine ourselves to pointing out a few countermeasures from several of the viewpoints in Section 7.1. But the measures outlined here should not be confined to this narrow scope: they should serve instead as a basis for broader action and be expanded and developed according to individual circumstances.

7.2.1 From the perspective of creating a multilateral aid framework and enabling international environment

<Promotion of coordination with aid agencies active in the same field and promotion of policy dialogue focusing on institutional reform>

In the past, donors' discussions with recipient countries took place at annual Consultative Group meetings and at round tables; today, lively discussions and coordination are taking place topic by topic and sector by sector at the local office level in countries receiving aid. Local offices cannot be said always to have taken an active and continual part in these multilateral coordination meetings, while it has been pointed out long ago that local offices are poor at using these opportunities to collect information.

Improving this state of affairs is therefore important, not only from the viewpoint of creating a multilateral aid framework and enabling international environment, but also in terms of enhancing the basic competence of parties to tailor aid projects to local realities. It is also important to confirm policy makers' ownership of the institutional reforms. To enable coordination consistent with Japan's influence in the area of ODA (Japan is already the top donor in many countries), it is important to promote opportunities for bilateral policy dialogues. Such dialogues have been taking place, and it is hoped that continual improvements will be made in the future.

7.2.2 Collaboration with recipient countries and people in charge at the local level

<Assignment of overseas development specialists and program officers at the local level>

In very large countries, where conditions may differ completely from one region to the next due to the vastness of the topography, it is important to continue to gather and analyze information about local conditions. It has been pointed out that the implementation structures, which located representative offices only in the capital, were bottlenecks to extending aid programs to the local level that could not be ignored by aid projects.

In the Philippines, an archipelago with such problems, specialists have been chosen from the faculties of a number of local universities for assignments as informants under the name of domestic coordinators. Besides the

representative office, these informants have offices to coordinate their networks and other resources to cope with the needs to be dealt with. This kind of accommodation is also possible under existing systems in other countries: China and Indonesia in particular exemplify the countries where such local office branches need to be set up. Often, central-local government relations in these countries are neither smooth nor close. The establishment of branch offices adapted to these realities is an option that should be fully studied.

<Improvement of local-government-related environment-creation, policy-making, institution building, and development work and aid coordination specialist missions>

JICA experts are now on assignment to the ministries of the interior of the Philippines and Indonesia, where they are working to further develop future relations.

These agencies presently have the important role of taking on environment creation, policy making, institution building, and development projects for local governments. In the past, they were unfamiliar with development projects and had little experience with foreign missions. It is hoped that this area will be further expanded in the future. It is also hoped that more experts will be sent for similar purposes from a medium to long-term perspective to central government agencies in the several countries studied by our committee that are already in the process of local institutional reforms and decentralization. Even when planning and implementing the cooperation projects, directed at local governments and tailored to local rather than central government needs as described below, those experts assigned to central government agencies may contribute to effective coordination.

7.2.3 Attention to local political and social structures and institutional diversity in central-local government relations

<Implementation of mini-projects and project-type technical cooperation for a development study>

The planning and formation of aid projects at the local level is commonly beset by local political complexities and insufficiencies in the administrative and financial capabilities of local governments, quite unlike the difficulties faced at the central government level. Needless to say, these elements are the

givens of the projects under consideration, and whether or not these projects will have the counted-on effects depends on how accurately and appropriately local conditions are incorporated into project formation. Conducting surveys at the conventionally scheduled times in the project cycle often seems to be insufficient in order to do this well. For example, in the Vientiane Prefecture Agricultural and Rural Development Plan in Laos (a project-type technical cooperation project), a two-year preliminary phase was set up for planning of the main phase and tests were carried out to ensure proper planning of the project. These experiments should prove instructive.

7.2.4 The importance of tieup assistance for the central government's role in rectifying interregional disparities

<“Policy support” in the development of a distribution mechanism by the central government for resource allocation to local governments>

Resources in the Japanese mechanism are allocated to local governments according to indices of local governments' administrative capabilities. Basically, allocation is based on empirical analysis of various indices of administrative and financial competence, which have been formed through a trial and error process.

Through administrative and financial reform of central and local government a more rational mechanism needs to be established in developing countries, where allocation mechanisms are based on simple criteria, and the precise purposes where subsidies are to be spent is rigidly determined in advance. Introduction of the Japanese experience and the details of its mechanism would be valuable in areas where the latent need is great, such as in the preferential allocation of resources to underdeveloped areas and the creation of systems for managing and monitoring allocations from the perspective of social policy.

<Projects in which the central government requires local governments to compete in contests>

Contests appear to be an effective method of raising ownership, promoting participation, and ensuring implementing capabilities of local governments and the locality in such projects as national land development planning. There are two reasons for this efficacy. The first is that too much emphasis is generally placed on inputs from the standpoint of effective use of developing countries'

resources, while monitoring and evaluation tend to be neglected; contests are an effective way to put more stress on monitoring and evaluating the effective use of resources by developing countries. The second is a matter of policy inducements: the areas in which independent public investment is carried out by local government tend heavily to be governed by the local characteristics of the society and economy in question, and frequently central policies—e.g., environmental protection, the social sector—tend to be neglected in favor of the more immediate economic benefits awaited from infrastructure construction. In such cases, by offering inducement to local governments in accordance with the central government policy, contests would be an effective method to assist more balanced development at the local level.

7.2.5 Regional core-cities' peripheries as local development units

<Development studies for regional development plans focusing on regional core-city peripheries>

The simplest way to make course corrections in aid that hitherto was heavily concentrated on a single hub of development, typically aggravating urban sprawl in the metropolitan region, is to expand aid preferentially to regional core cities. When this is done, attention should be paid to the relationships between core cities and the peripheries with which they have political, social, and economic ties. It is more effective to formulate local development plans using these large peripheral zone as planning units. Already a number of examples of this type of approach are in existence, and in the future a number of local governments are expected to establish large peripheral zones spontaneously, and move actively to promote mutually complementary development within the zone. In the Philippines, for example, these moves are visible in the Iloilo, Mindanao, and Cebu regions, and in the Mindanao region, four provinces surrounding the city of Davao have established a Regional Development Forum and asked JICA to send a development study mission. One of the steps a regional development plan study normally takes is to study possible combinations of technical cooperation, grant aid, and loan assistance projects; suitable combinations of different types of aid would be even more effective in specially designated areas.

The Hokkaido Development Agency is among the Japanese institutions whose organization and status today provide developing countries with instructive examples of aggressive central-government-led approaches to devel-

opment in large geographical areas. Aid combinations that include training programs might be effective. The experience of the Hokkaido Development Agency has already been put to use as a special training course connected with development policy for the eastern part of Indonesia.

<Technical cooperation projects in the fields of distribution channel improvement, management, and other “software” contributing to local development>

The building of distribution channels and improvements in the way they are managed are important on the agenda from the viewpoint of stimulating local economic activity and promoting investment. While such infrastructure as public markets and roads is important, the effectiveness of projects is expected to be increased through conversion into project form of both management techniques contributing to effective use of infrastructure, and related know-how in the area of distribution channel improvement, or at least through consulting on these matters.

<Training programs related to the theme>

Development know-how in this field has been accumulated by local chambers of commerce and industry and local governments; JICA's local centers can be counted on to bring a variety of training resources into play. The mobilization of these resources is indeed aid that matches realities in developing countries, and vigorous programs can be organized in the future. Implicit in their implementation is the possibility that the concept of international cooperation projects among local governments will become eminently feasible and JICA's local centers are expected to perform their role.

7.2.6 Upgrading of local government's administrative and financial capabilities and stronger ownership

<Country focused training courses and specially offered training courses on local development>

There are already a number of specially established and operated local government training courses being carried out, either on a country by country basis or according to the normal general pattern, and they are being warmly welcomed. The number of countries involved is expected to grow in the future

as decentralization advances and administrative and financial reforms by central and local government move ahead. However, given that demand will grow, the need for better institutionalization of these arrangements by the local governments that receive and carry out the training programs, is expected to be felt increasingly keenly, and efforts must be made for this in the medium-term perspective.

<Expansion of local infrastructure development projects>

Local infrastructure improvement projects are already being expanded in Indonesia and the Philippines, but we hope that preferential expansion will be further studied in the future from the viewpoint of narrowing interregional disparities and promoting local development, the specific concerns of our committee.

7.2.7 Local development policies incorporating the contest method

<Project-type technical cooperation involving programming and implementation of small-scale grant aid>

The scale of development projects under consideration at the local level is such that, in many respects, present general grant aid project implementation is not expected to match and ingenious steps must be taken to enable small-scale grant aid to be adopted. On several occasions in the past, the adoption of relatively small-scale grant aid has been tried in the form of a combination of similar small grant projects, such as construction of an elementary school, etc.

But in the case of yet smaller grants of a few million yen each, a response in terms of individual project formation and programming is virtually impossible and cannot respond adequately to diverse local needs. In response to this situation, one possibility to be studied is the project-type technical cooperation projects involving the formation, programming, and implementation of small-scale grants. This kind of conversion of multiple efforts into a single framework project, if possible, should facilitate the introduction of contests as a programming method as well as applications to social development projects and antipoverty measures.

<Promotion of international cooperation projects by local governments>

The know-how of local governments that have close social contacts with

local people and experience in implementation of activity in this field can be used to good effect, and the latent possibilities of this use of know-how is among the topics deserving further study in the future.

7.2.8 Networking in local development

<Recourse to consultants in the implementation of related studies Promotion of international cooperation projects by local governments and NGOs>

The creation and use of local networks by local governments are basic parts of local government activities; as social capital, networks have independent efficacy to help local governments through efficient management of projects and promotion of citizen participation. Their features are already acknowledged from the standpoint of effective implementation of training programs; this experience and knowledge should be used in social development, disaster relief, and other projects in developing countries.

Networks at the local level in developing countries have been studied as local social systems (LSS) and are among social considerations in the context of project implementation, but in the past the networks so studied had a strong traditional or customary tinge and full attention has still not been paid to them. We hope that the scope and quality of cooperation projects will be increased and enhanced by the implementation of related studies via the use of local consultants conversant with local realities and by the wider promotion of ongoing international cooperation projects involving local governments and NGOs.

7.3 Considerations regarding aid implementation

In the preceding Section 7.2, we stated our recommendations regarding the types of aid we hope to see implemented, the areas that should be covered, and the systems that should be improved to implement them, all according to the viewpoints explained in Section 7.1. There are, however, items and points other than those expressed in the recommendations that should be borne in mind because they have a bearing on the whole project planning and implementation process. These points are expressed below.

7.3.1 Considerations regarding the importance of local government as a partner in aid projects

<Considerations when choosing local governments as partners>

Local governments are among the options when partners are chosen to implement aid projects designed to promote local development. That local government must have the legally established authority to receive ODA is of course a prerequisite; rational selection criteria must be established and take shape for aid project implementation to be possible. The following three points cover the minimum conditions.

7.3.1.1 Extent of independence of local government vis- -vis central government

It is important to have a comprehensive grasp and understanding of the scope of powers, workload, financial capacity, and staff administrative capabilities transferred to local government. Generally, the greater the independence of a local government, the more meaningful it is as a partner.

7.3.1.2 Characteristics of local communities and their relations with local governments

When investigating a local government as a potential partner, it is necessary to study the local community's characteristics at the same time. In cases where there is a large number and variety of citizen groups, NGOs and strong horizontal networks, citizens' needs are more likely to be reflected in local government actions. In communities with strong vertical networks, this is directly reflected in the local government, and it is possible that only certain citizens' interests will be reflected in policy. In general, the existence of citizens organizations and NGOs can serve as a criterion of verticality or horizontality.

The local government with a horizontally networked community is a highly effective aid partner. Where vertical networks predominate and the local government is highly independent, however, aid directed at local government risks ending up mostly to the benefit of powerful local magnates. It is conceivable that, in this case, it would be more effective to deploy aid via the central government.

7.3.1.3 Political systems in recipient countries

The issue here is continuity in central and local governments, the continuity of bureaucratic structures, and the real efficacy of the electoral system; the greater the continuity, the greater the probability of effective aid project implementation. On the one hand, an alliance with a dictatorship increases the risk that the local community's needs will not be reflected in implementation, that an ill-advised government decision will do even greater damage than it would otherwise, and that corruption will flourish. Conversely, aid projects will have very limited effects where there is no continuity in the government or bureaucracy, even where the government is democratic.

7.3.2 Considerations from the viewpoint of aid project formation at the local level

<Project formation keeping in mind the securing of open information transmission channels between the central and local levels>

Information transmission channels can be set up and maintained by central government agencies in the course of project formation by establishing offices at the local level. Such channels may be seriously perturbed by decentralization, and communications can be expected to suffer as a result. In fact, these channels and project liaison via central-local government information transmission channels have regressed severely in the Philippines. In some countries, even in countries such as Indonesia where decentralization has not taken place, information transmission between central and local governments remains a persistent problem.

These points must be borne in mind especially when seeking to locally deploy projects contributing to local development; it is important to secure sure channels of information transmission between central and local governments or central government and projects by taking some kind of action. For example, coordination and information transmission between central and local governments or central government and projects during project formation and implementation should be promoted by establishing project coordination committees for each project at both the central and the local government levels, and enabling participants some access to both levels, and by taking other measures as necessary (for instance, by assigning Japanese experts to central as well as to local level posts).

7.3.3 Creation of an environment enabling actors at the local level to be active in local development by providing information, assisting access, etc.

<Projects building local development support systems via assistance to local universities and technical vocational schools>

Local universities, technical vocational schools, etc., which in the past have tended to keep their distance from development administration, are potential local level information centers. Their involvement in local development policy and projects provides fresh development information and opportunities to localities with few other resources. Joint-research cooperation projects from several universities with these goals and expected effects are being planned already; the need for similar programs is expected to grow.

Cooperation in establishing this sort of broadly based development assistance system assists the promotion of medium and long-term local development and should be actively encouraged.

7.3.4 Renovation of aid implementation structures in response to environmental changes

The changes in the new international environment, and conspicuous trends affecting developing countries to which they are linked—the topic of our committee's consideration—are suggesting the need to improve aid implementation in response to the changing circumstances. The ability to respond sensitively to these trends, to collect and analyze information, and to give a strategic orientation will be of increasing importance in implementation structures. The major shift represented by the transition to a market economy makes inevitable a redefinition of the roles of the public and the private sectors; it also imposes a switch away from the deductive aid methods of the past and the adoption of more inductive methods, and promotes the participation of an ever greater variety of actors active in development.

These are tasks that involve the more effective use and management of aid resources (basic considerations in aid implementation structures) and call for clear long-term plans and policies. We hope efforts will be made to promote further improvements in the fundamental basis of aid structures: improving national and regional aid implementation structures, strengthening ties between headquarters and foreign offices on the one hand and universities and

research institutes on the other, promoting local government and NGO cooperation projects, and improving the planning and survey capabilities of foreign offices. Various steps in addition to the several examples already mentioned above can also be taken in each area involved in local development.

References

Japanese References

- Aoki, Masahiko (1995), *Keizai Shisutemu no Shinka to Tagensei: Hikaku Seido Bunseki Josetsu (Evolution and Diversity of Economic Systems: Introduction to Relative System Analysis)*, Toyo Keizai Shinpou Sha.
- Aoki, Masahiko/Okuno, Masahiro (1996), *Keizai Shisutemu no Hikaku Seido Bunseki (Comparative Institutional Analysis: A New Approach to Economic Systems)*, University of Tokyo Press.
- Bank of Japan (1996), *Keizai Toukei Nenpou Heisei 7 Nen (Economic Statistics Annual 1995)*
- Hashimoto, Taku (1993), "Tai no Chihou Gyouseisei Seido (Thailand's Local Government Administrative and Financial Systems)", *Asia Shokoku no Chihou Seido (Local Government Systems in Asian Countries, IV)*, ZAIANHOJIN CHIHOUJICHI KYOUKAI (The Japan Institute for Local Government).
- Hayami, Yujiro (1995), *Kaihatsu Keizaigaku (Development Economics)*, Sobunsha.
- Hiraishi, Masami (1993), "Firipin no Chihouseido (The Philippines' Local Government Systems)", *Ajia Shokoku no Chihou Seido (Local Government Systems in Asian Countries)*, ZAIANHOJIN CHIHOUJICHI KYOUKAI (The Japan Institute for Local Government).
- Hiraishi, Masami (1995), "Gyosei Keikakuron no Hen'you to Chousei (Coordination and Change in the Theory of Administrative Planning)", Tsujiyama, Takanobu, *Bunkenka Jidai no Gyosei Keikaku (Administrative Planning in the Age of Decentralization)*, Institute of Administrative Management.
- Inoguchi, Takashi (1983), *Gendai Nihon Seiji Keizai no Kouzu; Seifu to Shijou (Structure of Contemporary Japan's Politics and Economy: Government and Markets)*, Toyo Keizai Shinpou Sha.
- Inoguchi, Takashi (1988), *Kokka to Shakai (Nation and Society)*, Gendai Seijigaku Sousho 1, University of Tokyo Press.
- Institute of Developing Economies, Successive Years, *Ajia Doukou Nenpou (Year Book of Asian Affairs)*.
- Ishikawa, Shigeru (1990), *Kaihatsu Keizaigaku no Kihon Mondai (Basic Problems of Development Economics)*, Iwanami Shoten Publishers.
- Ishikawa, Shigeru (1992), "Souron: Tousei Shugi Taikoku no Kouzou Chousei (General Observations: Structural Adjustments in a Controlled Economy Superpower)", *Indo no Keizai to Kouzou Chousei (India's Economy and Structural Adjustments)*, Japan Center for International Finance.
- Iwasaki, Mikiko (1994), "Bunken to Rempousei (Decentralization and Federal Systems)", *Chihoujichi (Local Autonomy) No.565*.
- Iwasaki, Mikiko (1996), "Bunken to Chuuou-chihou Kankei (Decentralization and Central Government-Local Government Ties)", Nihon Gyosei Gakkai ed., *Bunken Kaikaku: Sono Tokushitsu to Kadai (Decentralization Reform: Its Features and Issues)* Nenpou Gyosei Kenkyuu 32, Gyosei Corporation.
- JICA (1995), *Sankagata Kaihatsu to Yoi Touchi Bun'yabetsu Enjokenkyuukai Houkokusho (Participatory Development and Good Governance Report of the Study Committee)*
- JICA, Institute for International Cooperation (1994), *Kobetsuhaken Senmonka Katsudou Jirei Kenkyu-Adobaiza Gata Senmonka no Jirei (Individually Dispatched Expert Activity Case Study:*

The Case of Adviser-Type Experts).

JICA, Institute for International Cooperation (1996), *Kaihatsu Enjo Purojekuto ni Okeru Shakaiteki Nouryoku no Katsuyou ni Muketa Kisokenkyu (Basic Research on Ways to Mobilize Community Skills in Development Assistance Projects)*

Jinno, Naohiko (1987), “Gendai Nihon Zaisei no Keisei Katei (1) (Formative Process of Contemporary Japan’s Financial System)”, *Keizaigaku Zasshi (Economics Magazine)* Vol.88 No.2/3.

Jinno, Naohiko (1988), “Gendai Nihon Zaisei no Keisei Katei (2) (Formative Process of Contemporary Japan’s Financial System)”, *Keizaigaku Zasshi (Economics Magazine)* Vol.88 No.5/6.

Jinno, Naohiko (1993), “Nihongata Zei/Zaisei Shisutemu (Japanese-Style Tax and Budget Systems)”, Okazaki, Tetsuji and Okuno, Masahiro ed., *Gendai Nihon Keizai Shisutemu no Genryuu (Original Currents of Contemporary Japan’s Economic System)*, Contemporary Economic Series 6, Nihon Keizai Shimbun Inc..

Jinno, Naohiko (1994), “Shijoukeizaika to Sozei Seido: Chuugoku no Zaiseito Seifukan Zaisei Kankei (Transition to Market Economy and Tax Systems: China’s Finances and Intragovernmental Budget Relationships)”, *Kounan Keizaigaku Ronshuu*, Vol. 34 No. 4.

Kaizuka, Keimei (1994), “Chihou Bunken no Seiji Keizaigaku (Socioeconomics of Decentralization)” Kaizuka, Keimei/Kanemoto, Yoshitsugu, *Nihon no Zaisei Shisutemu: Seido Sekkei no Kousou (The Public Finance System in Japan: Designs for Institutional Reform)*, University of Tokyo Press.

Kanou, Hiroyoshi (1996), “Indonesia no Kanryousei (The Bureaucracy in Indonesia)”, Iwasaki, Ikuo and Hagiwara, Yoshiyuki ed., *ASEAN Shokoku no Kanryousei (The Bureaucracy in ASEAN Countries)*, Institute of Developing Economies.

Kawamura, Yoshio (1994), *Chiiki Kasseika to Keikaku (Local Development’s Promotion and Planning)*, *Chiikikasseika Series 8 (Local Development Promotion Series No.8)*, Myobun Shobou.

Kawanaka, Takeshi (1996), “Firipin no Kanryousei (The Bureaucracy in Philippines)”, Iwasaki, Ikuo and Hagiwara, Yoshiyuki ed., *ASEAN Shokoku no Kanryousei (The Bureaucracy in ASEAN Countries)*, Institute of Developing Economies.

Mabuchi, Masaru (1994), *Ookurashou Tousei no Seiji Keizaigaku (Socioeconomics of Ministry of Finance Regulations)*, Chuukou Susho, Chuo Kouron-sha, Inc..

Mazaki, Katsuhiko (1996), “Chihou Bunkenka Suishin no Tame no Kaihatsu Kyouryoku–Neparu wo Jirei Toshite (Development Cooperation for Promotion of Decentralization: The Case of Nepal)”, *Kokusai Kaihatsu Kenkyu Dai 5 Kan, (International Development Studies, vol. 5)* pp.89-102, Kokusai Kaihatsu Gakkai.

Mohammad Arsjad Anwar/Omura, Keiji ed. (1994), *Indonesia ni Okeru Chihou Kaihatsu (Local Development in Indonesia)*, Institute of Developing Economies.

Morita, Akira (1993), “Indonesia no Chihou Gyozaisei Seido (Local Government Administrative and Financial Systems in Indonesia)”, *Asia Shokoku no Chihou Seido (Local Government Systems in Asian Countries)*, ZAIHANHOJIN CHIHOUJICHI KYOUKAI (The Japan Institute for Local Government).

Motoyama, Yoshihiko (1995), *APEC to wa Nanika (A Monster in the Asia Pacific)*, Pacific Asia Resource Center.

Muramatsu, Michio (1988), *Chihoujichi (Local Autonomy)*, Gendai Seijigaku Susho 15, University of Tokyo Press.

Muramatsu, Michio (1996), "Nihon ni Okeru Chihou Bunkenron no Tokushitsu (Features of Theory of Decentralization in Japan)", Nihon Gyosei Gakkai ed., *Bunken Kaikaku: Sono Tokushitsu to Kadai (Decentralization Reform: Its Features and Issues)* Nenpou Gyosei Kenkyuu 31, Gyosei Corporation.

Nagamine, Haruo (1985), *Dai Sansekai no Chiiki Kaihatsu (Regional Development in Third World Countries)*, The University of Nagoya Press.

Nishio, Masaru (1990), *Gyoseigaku no Kiso Gainen (Basic Concepts of Administrative Sciences)*, University of Tokyo Press.

Nishio, Masaru (1993), *Gyoseigaku (Administrative Sciences)*, Yuuhikaku.

Nishio, Masaru / Muramatsu, Michio ed. (1994), *Kouza Gyouseigaku Dai 1 Kan-Dai 5 Kan (Administrative Sciences Course, Vol.1 to Vol.5)* Yuuhikaku.

OECD/DAC (1996), *21 Seiki ni Mukete: Kaihatsu Kyouryokuwo Tsuujita Kouken (Shaping the 21st Century, Contribution of Development Cooperation)*

Okuno (Fujiwara) Masahiro (1994), "Nihon no Gyosei Shisutemu (Japan's Administrative System)" Kaizuka, Keimei/Kanemoto, Yoshitsugu ed., *Nihon no Zaisei Shisutemu: Seido Sekkei no Kousou (The Public Finance System in Japan: Designs for Institutional Reform)*, University of Tokyo Press.

Saito, Tomoyuki (1995), "Shakaishugi no Henseigenri to Chuo Chihou Kankei (Organizational Principles of Socialism and Central-Local Government Relations)", *Ajia Shokoku no Chihou Seido IV (Local Government Systems in Asian Countries, IV)* ZAIDANHOJIN CHIHOUJICHI KYOUKAI (The Japan Institute for Local Government).

Saito, Tomoyuki (1997), "Tojokoku ni Okeru Chuo Chihou Kankei (Central-Local Government Relations in Developing Countries)", *Chiiki no Hatten to Seifu no Yakuwari Bunyabetsu Enjo Kenkyukai Genjou Bunseki Hen Houkokusyo (Report of the Issue-wise Study Group for Development Assistance on Local Development and the Role of Government, Current Status Analysis)* JICA.

Saito, Shin/Hayashi, Yoshitsugu/Nakai, Hideo (1991), *Chihou Zaiseiron (Local Budget Theory)*, New Library of Economics 18, Shinsei-sha Co., Ltd..

Varakorn Samakoses/Taniguchi, Kouji, Makishima Minoru eds. (1994), *Tai ni Okeru Chihou Chuukakukeizeiken no Keisei: Kougyouka no Chihou Bunnsan no Tameni (Local Economic Development Core)*, Institute of Developing Economies.

Sato, Hiroshi (1994), *Indo Keizai no Chiiki Bunseki (Local Analysis of the Indian Economy)*, Kokon Shoin.

Shigetomi, Shin-ichi (1996), *Tai Nousei no Kaihatsu to Juuminshohiki (Thailand's Rural Development and Citizens' Groups)*, Kenkyu Sousyo No.467, Institute of Developing Economies.

Statistics Bureau, People's Republic of China (1994), *Chugoku toukei nenkan 1994 (China Statistics Annual 1994)*.

Takahara, Akio (1993), "Chugoku no Chihouseido (China's Local Government Systems)", *Ajia Shokoku no Chihouseido IV, (Local Government Systems in Asian Countries, IV)* ZAIDANHOJIN CHIHOUJICHI KYOUKAI (The Japan Institute for Local Government).

Takagage, Yuuji (1995), *Doru Taiseito NAFTA (The Dollar System and NAFTA)*, Aoki Shoten Publishers.

Teranishi, Juro (1995), *Keizaikaihatsuto Tojoukokusaimu (Debt and Development: An Analysis of*

LDC Debt Problems, University of Tokyo Press.

The World Bank (1994), *Higashi Ajia no Kiseki: Keizaiseichou to Seifu no Yakuwari (The East Asian Miracle: Economic Growth and Public Policy)*, Toyo Keizai Shinpou Sha.

Tsujiyama, Takanobu (1995), "Souron: Chihoubunken to Keikaku Kanchousei (General Theory: Decentralization and Coordination Among Plans)", Tsujiyama, Takanobu, *Bunkenkajidaino Gyoseikeikaku (Administrative Planning in the Age of Decentralization)*, Institute of Administrative Management.

Wakabayashi, Masahiro (1992), *Taiwan: Bunretsukokkato Minshuka (Taiwan: Democratization in Divided Country)*, State and Society in East Asia 2, University of Tokyo Press.

Yamagami, Susumu ed. (1994), *Ajia Taiheiyou Chiiki no Jidai: APEC Setsuritsu no Keito Tenbou (The Age of the Asian-Pacific: Background of APEC's Establishment and its Prospects)*, Dai-ichi Hoki Publishing Co., Ltd..

Yamaguchi, Yasushi (1989), *Seijitaisei (Political Structure)*, Gendai Seijigaku Sousyo 3, University of Tokyo Press.

Yamashita, Shigeru/Tani, Satomi/Kawamura, Tsuyoshi (1982), *Hikakuchihoujichi: Shogaikoku no Chihoujichiseido (Relative Local Autonomy: Local Autonomy Systems in Foreign Countries)*, Dai-ichi Hoki Publishing Co., Ltd..

Yanagihara, Toru (1997), "Keizaishisutemu Apuroochi to sono Tekiyou Kanousei" (*Economic System Approach East Asian Development Experience*), Institute of Developing Economies.

Yasuda, Nobuyuki (1992), "Tounan'ajia no Kenpoutaisei no Tokushitsu (Features of Southeast Asian Constitutional Systems)", Yano, Toru ed., *Tounan'ajia no Seiji (Southeast Asian Politics)*, Koza Tounan'ajiagaku Vol.7, Koubun Dou.

English References

Bennett, R. (1994), "An Over View of Developments in Decentralization", Bennett, R. ed., *Local Government and Market Decentralization*, The United Nations University.

Cremer, J., A. Estache and P. Seabright (1994), *The Decentralization of Public Services Lessons form the Theory of the Firm*, Policy Research Working Paper 1345, The World Bank.

De Janvry, A., E. Sadoulet and E. Thorbecke (1993), "Introduction", *World Development*, Vol.21 No.4.

Dillinger, W. (1995), *Decentralization and Its Implications for Urban Service Delivery*, Urban Management Programme Discussion Paper 16, Washington; The World Bank, p.8.

Fox, J. (1994), "The Difficult Transition From Clientelism to Citizenship Lessons form Mexico", *World Politics*, 46.

Gerrit, Jan Schep, et al (1995), *Local Challenges to Global Change: A Global Perspective on Municipal International Cooperation*, The Hague; Sdu Publishers, p.17.

Hoff, K. A. B. and J.E. Stiglits (1993), "Introduction", Hoff, Braverman and Stiglits eds., *The Economics of Rural Organization*, Oxford University Press.

Hommes, R. (1996), *Conflicts and Dilemmas of Decentralization*, Annual World Bank Conference on Development Economics 1995.

- Huntington, S. P. (1991), *The Third Wave: Democratization in the Late Twentieth Century*. (*Daisan no Nami*, translated by Minoru Tsubogou, Hisakazu Nakamichi, and Yuzo Yabuno, Sanrei Shobou)
- IMF (1995), *Government Finance Statistics Yearbook*.
- Mearns, R. (1996), *Community, Collective Action and Common Grazing: The Case of Post-Socialist Mongolia*, *The Journal of Development Studies*, Vol.32 No.3, Feb., pp.299-301.
- Migdal, J. S., (1994), "The State in Society: An Approach to Struggles for Domination", Migdal, J.S., A. Kohli and V. Shue eds., *State Power and Social Forces—Domination and Transformation in the Third World*, Cambridge Studies in Comparative Politics, Cambridge University Press.
- North D. C. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge University Press.
- North D. C. (1991), "Institutions", *Journal of Economic Perspectives*, Vol.5 No.1.
- OECD/DAC (1992), *Development Cooperation 1992 Report*
- Ostrom, E. (1990), *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge University Press.
- Prud'homme, R. (1994), *On the Dangers of Decentralization*, Policy Research Working Paper 1252, The World Bank.
- Putnam R.D. (1993), *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton University Press.
- Republic of Indonesia Investment Coordination Board (BKPM) (1996), *Indonesia Investment Statistics*.
- Serageldin, I. (1995), *Nurtuing Development: Aid and Cooperation in Today's Changing World*, The World Bank.
- Shar, A. (1994), *The Reform of Intergovernmental Fiscal Relations in Developing and Emerging Market Economies*, Policy and Research Series 23, The World Bank.
- Tanzi, V. (1996), *Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects*, Annual World Bank Conference on Development Economics 1995.
- Thorbeck, E. (1993), "Impact of State and Civil Institutions on the Operation of Rural Market and Nonmarket Configurations", *World Development*, Vol.21, No.4.
- Tiebout, C. M. (1954), *A Pure Theory of Local Expenditures*, *Journal of Political Economy* Vol. 64.
- UNCTAD (1995), *Handbook of International Trade and Development Statistics*
- UNDP (1993), *Human Development Report*
- United Nations (1995), *World Investment Report*
- Uphoff, N. (1993), "Grassroots Organizations and NGOs in Rural Development: Opportunities with Diminishing States and Expanding Markets", *World Development*, Vol.21, No.4.
- USAID, *Local Development Assistance Program*
- Wiesner D.E. (1994), *Fiscal Decentralization and Social Spending in Latin America: The Search for Efficiency and Equity*, Working Paper Series 199, Inter-American Development Bank.

- Williamson, O. E. (1985), *The Economic Institutions of Capitalism*, Free Press.
- Williamson, O. E. (1991), "Comparative Economic Organization: The Analysis of Discrete Structural Alternative", *Administrative Science Quarterly*, 36.
- Williamson, O. E. (1995), *The Institutions and Governance of Economic Development and Reform*, Annual World Bank Conference on Development Economics 1994, The World Bank.
- World Bank (1992), *Governance and Development*
- World Bank (1994), *Governance: The World Bank's Experience*
- World Bank (1996a), *Social Indicators of Development*.
- World Bank (1996b), *Global economic Prospect and the Developing Countries 1996*
- World Bank (1996c), *World Development Report 1996—From Plan to Market*
- World Bank (1996d), *World Development Report 1997(Draft)*.

Annual Studies (Country, Region, and Issue-Wise, Etc.)

Year	Title			
Country Studies				
1987	Country Study for Japan's Official Development Assistance to the Philippines	J	E	
1988	Country Study for Japan's Official Development Assistance to India	J	E	
1989	Country Study for Japan's Official Development Assistance to Thailand	J	E	
1990	Country Study for Japan's Official Development Assistance to Indonesia	J	E	
1990	Country Study for Japan's Official Development Assistance to Bangladesh	J	E	
1991	Country Study for Japan's Official Development Assistance to Brazil	J	E	P
1991	Country Study for Japan's Official Development Assistance to Pakistan	J	E	
1991	Country Study for Japan's Official Development Assistance to Sri Lanka	J	E	
1991	Country Study for Japan's Official Development Assistance to China	J	E	C
1992	Country Study for Japan's Official Development Assistance to Egypt	J	E	
1992	Country Study for Japan's Official Development Assistance to Kenya	J	E	
1993	Country Study for Japan's Official Development Assistance to Malaysia	J	E	
1993	Country Study for Japan's Official Development Assistance to Nepal	J	E	
1994	Second Country Study for Japan's Official Development Assistance to Indonesia	J	E	
1994	Second Country Study for Japan's Official Development Assistance to the Philippines	J	E	
1994	Country Study for Japan's Official Development Assistance to Palestine	J		
1995	Country Study for Japan's Official Development Assistance to Vietnam	J	E	
1995	Second Country Study for Japan's Official Development Assistance to India	J	E	
1995	Country Study for Japan's Official Development Assistance to Ghana	J	E	
1995	Country Study for Japan's Official Development Assistance to Senegal	J	E	F
1996	Second Country Study for Japan's Official Development Assistance to Pakistan	J	E	
1996	Second Country Study for Japan's Official Development Assistance to Thailand	J	E	
1996	Country Study for Japan's Official Development Assistance to Jordan	J	E	
1997	Country Study for Japan's Official Development Assistance to Mongolia	J		
Regional Studies				
1991	Regional Study on Japan's Development Assistance to Africa	J	E	F
1991	Regional Study on Japan's Development Assistance to Oceania	J	E	
1994	Regional Study on Japan's Development Assistance to Sub-Saharan Africa	J	E	
Issue-Wise Studies				
1988	Study on Japan's Development Assistance for Environment	J	E	
1990	Study on Japan's Development Assistance for Poverty	J	E	
1991	Study on Japan's Development Assistance for Women in Development	J	E	
1991	Study on Japan's Development Assistance for Population and Development	J	E	
1994	Study on Japan's Development Assistance for Development and Education	J	E	
1995	Study on Japan's Development Assistance for Participatory Development and Good Governance	J	E	

J = Japanese

E = English

F = French

P = Portuguese

C = Chinese