

6. SUMMARY OF DISCUSSION

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Moderator (Dr. SUZUKI): Now, coming to the end, I would like to ask my co-chairperson, Prof. Kawamura, to sum up in five to six, seven minutes.

Moderator (Dr. KAWAMURA): The purpose of this symposium is to try to clarify the role of government for local development based on our research project which was done last year. Today, we have discussed three things or three issues simultaneously. Although these three issues integrate with each other - the problem is probably we are not so sure how these three integrate with each other. That could be the missing point for us. The first issue is the kind of macro-level schemes for the role of government in local development. Although we're talking about local development, still, we are talking about macro-level schemes. That's the first issue we were talking about. The second issue we talked about was the local level schemes for the role of government in local government, which is also different from the macro-level schemes. Then the third topic we talked about was what the international agencies as a donor can do for these decentralized development schemes. And what we are thinking is, especially in the case of the macro-level schemes, the globalization is really giving us a kind of very simultaneous different impact on both local government and central government. And then the central government's function has been emphasizing more on giving a macro-environment condition for local government and for local community development. And then, based on those macro-environment issues, the local government can function as an entity for local development. And the central government has an important function for redistribution to achieve balance between the local community. Because by focusing more on the local government functions, it will encourage the local situations to vitalize and then naturally increase the gap among the regions and communities. So, we are simultaneously dealing with two different functions. One is the vitalization which creates more gaps at the local community levels, but at the same time, we have to equalize or give equal opportunities to local government situations, or the local development situations. So this is the kind of contradictory situation we have, but we have to deal with it. Then this could be a new issue for us to have to face.

The second one is, as I mentioned, the local-level schemes: the government, local government, and then NGOs and local communities. And then we have to clarify how to integrate these three factors. We use this as a horizontal integration network. But still, this is a very abstract concept. In order to get clearer ways or in order to get dynamic schemes for development planning, we probably need more concrete studies to clarify these three factors. Then, what we can do as international donors. And these three probably can be summarized by borrowing the words of Mr. Work. He said that probably the important issue as a concept for development is empowerment, participation, and partnership. To me, empowerment is the very core concept for macro-level scheme development. And partnership could be the very core concept for local-level

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schemes, the core concept for the international donors' stance. And what I really want to do is - this symposium can be the first step for the international agencies - to change the kind of development schemes from central-orientation, or macro-orientation, to the more local-oriented or more people-orientations.

Dr. SUZUKI: Thank you, Prof. Kawamura. Let me also summarize a little bit. From the very beginning, we did not expect to reach to any conclusion regarding fundamental issues. By putting together a common agenda, local development and the role of government, we tried to discuss locality in terms of administrative units, starting from provincial down to municipal and village levels. For example, Indonesia has 27 provinces where they have provincial governments with limited capability, but 1,500 odd second-level local authorities down to over 60,000 village governments with very little resource and personnel. In the Philippines, we have 70 odd provincial or equivalent units. There are 1,500 municipalities and 42,000 barangays we call the bottom administrative units. So we wanted to concentrate on those sub-national governmental units that can be utilized for our aim. That is sustainable and equitable development; which appeared to be very important for donor agencies as well as local populations. How these government units, local governments can be involved in a more meaningful manner in achieving sustainable and equitable development? For this main questions, we want to exchange views by sharing concrete examples from the three participants from China, Indonesia, and the Philippines. At the same time, we want to have some reflections on the donor agencies - USAID, JICA, and UNDP - so that we can come up with better understandings. How to establish a kind of triangular, meaningful partnership between central government, local governments, and civil societies under or with cooperation from outside, either bilateral or multilateral? And in this sense, we are very much pleased to learn that many of the discussions today have gone farther than the limited agenda that we set initially. But our discussions have gone to the very fundamental questions; What is locality? What is the function of the central government from now on? What will governance be, what will the NGO's role be? Those questions are very fundamental and we take all of them home to study more. I thank everyone for the very useful contributions from the floor. Also, I would like to thank the panelists who came from all parts of the world to speak for only just over 15 minutes. I'm sure everybody here found your excellent presentations and opinions informative and instructive. Thank you very much indeed.

CLOSING REMARKS

Mr. Teizo Igarashi

Managing Director

Institute for International Cooperation

Japan International Cooperation Agency

Thank you very much for your very active contributions. And based on the very large number of opinions and comments raised, not only JICA but everyone here will try to carry out various forms of cooperation and we believe that we have learned a great deal through this symposium. And last, but not least, I would like to thank all the participants for joining us here, and also all the organizations which have supported us in holding this symposium. With this, I would like to bring this symposium to an end. Thank you very much indeed.

APPENDIX

- 1. Profile of Panelists & Moderators**
- 2. Presentation Papers and Other Hand-Outs for Presentation**

1. Profile of Panelists & Modearators

Panelists & Moderators

Dr. Michio Muramatsu

Nationality: Japanese
Present Position: Professor, Faculty of Law, Kyoto University
Professional Career: 1976-present Professor, Faculty of Law, Kyoto University
1964-1976 Associate Professor, Faculty of Law, Kyoto University
1962-1964 Assistant, Faculty of Law, Kyoto University
Education: Ph.D. in Law, Kyoto University
B.A. in Law, Faculty of Law, Kyoto University

Dr. Yuji Suzuki

Nationality: Japanese
Present Position: Professor, Faculty of Law, Hosei University
Professional Career: 1988 Visiting Professor, SAIS, Johns Hopkins University
1983 Professor, Faculty of Law, Hosei University
1981 Lecturer, Faculty of General Education, University of Tokyo
1977 Professor, Faculty of Arts and Social Sciences, University of Malaya
1973 Lecturer, Faculty of Social Sciences and Politics, University of Indonesia
1971 Researcher, Center for Southeast Asian Studies, Monash University, Australia
Education: Ph.D. in Politics, Monash University
M.A. in International Politics, Graduate School of Laws and Politics, University of Tokyo
B.A. in Politics, Faculty of Law, University of Tokyo

Dr. Yoshio Kawamura

Nationality: Japanese
Present Position: Professor, Faculty of Economics, Ryukoku University
Professional Career: 1985-present Professor, Faculty of Economics, Ryukoku University
1980-1985 Associate Professor, Faculty of Economics, Ryukoku University
1981 Visiting Professor, Szkoła Główna Planowania i Statystyki (Poland)
1978-1981 Lecturer, faculty of economics, Ryukoku University
Education: Ph.D. in Development Sociology, Cornell University
Master's Degree in Agriculture, Kyoto University
B.A. in Agriculture, Kyoto University

Mr. Chen Yao

Nationality: Chinese

Present Position: Deputy Director, Western China Development Research Center, CASS

Professional Career: 1988- Senior Researcher, Institute of Industrial Economics
1982-1985 Research Fellow, Henan Academy of Social Sciences

Education: Ph.D. Candidate, Graduate School, CASS
M.A.in Economics, Graduate School, CASS
B.A. in Economics, Zhengzhou University, Henan, China

Dr. Adrian Panggabean

Nationality: Indonesian

Present Position: Lecturer, Faculty of Economics, University of Indonesia

Professional Career: 1997 Course Director for Local Government Finance, University of Indonesia
Visiting Professor in Public Finance, KIMEP (Kazakhstan Institute for Management, Economics, and Strategic Research under the President of Kazakhstan)
1990- Research Staff at LPBM-FEUI

Education: Ph.D. The School of Public Policy, Faculty of Commerce and Social Science, University of Birmingham, UK
Masters of Social Science in Developing Finance, Department of Accounting and Development Studies Majoring in Planning Economics, Faculty of Commerce and Social Science, University of Birmingham, UK
Sarjana Ekonomi, Department of Economics and Development Studies, Faculty of Economics, University of Indonesia

Hon. Alvin B. Garcia

Nationality: Filipino

Present Position: City Mayor, Cebu City, the Philippines

Professional Career: 1995-present Mayor of Cebu City
1992 Vice Mayor of Cebu City (Re-elected)
1988 Vice Mayor of Cebu City
1971 Lawyer etc.

Education: Bachelor of Laws, Ateneo De Manila

Mr. Mitsuaki Kojima

Nationality: Japanese

Present Position: Managing Director, Planning Department, Japan International Cooperation Agency (JICA)

Professional Career:

abroad) 1995 Deputy Consul General & Deputy Chief of Mission, Consulate General of Japan in New York, USA

1993 Minister & Deputy Chief of Mission, Embassy of Japan in Malaysia

1991 Deputy Consul General, Consulate General of Japan in Hong Kong

domestic) 1989 Director of the First Latin America and Caribbean Division, Latin American and Caribbean Affairs Bureau, Ministry of Foreign Affairs

1986 Director of the Research Division, Information Analysis, Research and Planning Bureau, Ministry of Foreign Affairs

1978 Deputy Director, Disarmament Division, United Nations Bureau, Ministry of Foreign Affairs

Education: M.A. in Economic Policy, Graduate School, Keio University

M.A. in Political Science, Graduate School, Yale University

Dr. Michael Calavan

Nationality: USA

Present Position: Chief, Office of Governance and Participation, USAID-Philippines

Professional Career: 1978-present USAID-Washington, Bangladesh, Nepal, Philippines

1970-1978 Assistant/then Associate Professor of Anthropology, Illinois State University

Education: Ph.D. in Anthropology, University of Illinois

B.A. in Anthropology, University of Oregon

Mr. Robertson Work

Nationality: USA

Present Position: Principal Technical Adviser, Management Development and Governance Division, Bureau for Development Policy, UNDP

Professional Career: 1990-present Principal Technical Advisor, UNDP

1968-1990 The Institute of Cultural Affairs (NGO)

1984-1990 Executive Director in Venezuela

1981-1984 Executive Director in Jamaica

1978-1981 Regional Director in Texas

Appendix 1. Profile of Panelists & Moderators

Education: 1972-1978 General Manager in Korea
1970-1972 Assistant Manager in Malaysia
MA University of Chicago/CTS
BA Oklahoma State University

2. Presentation Papers and Other Hand-Outs for Presentation

Keynote Report for International Symposium on
"Local Development and the Role of Government"
organized by the Japan International Cooperation Agency (JICA)
March 5, 1998, Tokyo

Governance and Development: Decentralization Reform

Presented by Dr. Michio Muramatsu
Professor, Faculty of Law,
Kyoto University

A issue-wise study committee on "local development and the role of government" was organized in January 1996 as a part of the Japan International Cooperation Agency (JICA) activities. This committee conducted research on governance and capacity building in developing countries for more than a year. The results of this research have been issued in the report titled "Local Development and the Role of Government." The names of the study committee participants are listed in this report. They are all well-known experts in the field of research relating to developing countries.

This committee began our research by collecting nation-by-nation information on the relations between the central-local governments in developing countries. Then, while adding information about specific cases in the experience of aid, we explored the problems of governance in these countries. In the process of the research, the members of the study committee visited parts of Asia to collect the latest statistics and materials in the field and to conduct interviews with government officials. As a result of these activities, we ourselves arrived at a new understanding of governance, which is explained in the report that I just mentioned. This report represents the first step in JICA's related research on "governance in developing countries." From now on, I expect JICA will go ahead and conduct even deeper research on this subject of "governance in developing countries."

I had not been engaged in any studies on the issues of assistance to developing countries before the above study committee began its research. I am rather an expert on central-local relations in Japan. However, I participated in the study committee and learned a lot on central-local relations and decentralization in developing countries from the discussions in the study committee which met more than 12 times. More I attended the study committee meetings, the more I was drawn into the aid issues. When the study committee meetings were over, I had the opportunity to conduct field research in Indonesia and the Philippines, where I was able to feel sure about the views which came out of the discussions in the

study committee. My talk from now on will be based on the results of our study committee, but mainly I will give my own personal observations so far obtained from my some experiences and also from reading some literature on "governance and decentralization in assistance to developing countries."

Needless to say, major issue in developing countries today is political and economic development. But another serious problem that is emerging is regional disparities and poverty. I believe that decentralization reform must be effective for the planning and implementation of development that suits the actual conditions of a region and at the same time should contribute to the solution of poverty and regional disparities.

Before explaining the reasons for the belief that decentralization reform could contribute to governance in developing countries, I would like to consider the background behind the strong interest that assistance organizations have toward decentralization reform at the present time.

There are several factors behind the promotion of decentralization, but the one that should be noted most of all is the changes in the international environment. Since the 1980s, the international currents of the time have been globalization and the deepening of international interdependence. Deepening international interdependence means that international economic and political trends extend across national borders and exert a major direct influence on domestic policies. At the same time, they shake entities that are linked to the national unit, such as the national economy or the nation-state. This same trend can be seen in both developed countries and developing countries.

In response to this trend, as well as making efforts toward government downsizing and deregulation, many central governments in developing countries are also carrying out decentralization reform. As a result, it is estimated that the transfer of power in some form or other from the center to regional governments is taking place in more than 60 of the 75 developing or transitional countries in the world with a population at present of more than five million persons. However, these recent trends toward internationalization and deregulation are having the effect of benefiting just a few regions, such as metropolitan areas, that have advantageous conditions including resources and market access, and widening the gap between these few regions and the many other regions that have disadvantageous conditions. This widening of regional disparities could threaten political stability and exert a negative influence on the economic growth of the country as a whole.

Reading the reports of scholars in regional studies and aid organizations, one sees that opinions are divided on the question of whether decentralization reform in developing countries will have favorable results for the solution of the issues that I just mentioned. For the following reasons, I believe that decentralization reform in developing countries in principle is desirable and necessary. Reform should only be pursued, however, after careful analysis of social and economic environments on the one hand and

what kind of decentralization is desired and what form it should take in a particular country and region.

First, I believe that decentralization is necessary for the efficiency of policy formation. That is to say, it is difficult to formulate policies that coincide with the needs of a region under a centralized regime. If decentralization were carried out so that regional government representatives were chosen in an election, then these representatives would be more sensitive to the demands of regional citizens and would reflect these demands in their policies. Of course, this is an optimistic view. The traditional power structure in a region might easily hold the lid down on elected legislators and mayors and also on the voices of the citizens. Nevertheless, the conflicts and confusion that would thus emerge is also the first step in the management of a decentralized system.

Second, decentralization would enable the promotion of the kind of development desired by residents on the basis of residents' participation. Then it would be possible to carry out development on the basis of the idea that development is not an order from the center but a wish or objective expressed by people. Because development so far has been left to only a small elite, it has not properly attracted the support of local citizens, so in many cases the mobilization of local resources has not gone well.

Third, decentralization is a means of capacity building. One often hears the claim that it would be not only useless but also dangerous to grant authority -- in other words, political discretion -- and fiscal resources to regional governments that do not have any administrative ability. This claim is quite convincing. But it is like the question of which comes first, the chicken or the egg. We know that capacity building and management skills will never be developed unless we provide the opportunity.

I am not saying here, however, that it is all right to waste resources on capacity building. What I want to say is that central governments must assist and check regional governments in the formation and implementation of policies when requested or judged to be necessary. Decentralization does not mean the rejection of all central involvement. Indeed, the kind of decentralization reforms that are called for in developing countries now is the type in which central and regional governments cooperate and work together.

Fourth, we must pay attention to the fact that decentralization has a political significance. For example, granting authority to a region in a multi-ethnic state means giving authority to a specific social and economic group. In other words, decentralization ranks alongside the separation of the powers of the central government into three areas (legislature, judiciary, and executive) as an important division of power. While the legislative, judicial, and administrative elites tend to share the same basic values and ideology in most countries, in the regions there might be social groups with vastly differing ideologies, ethnic roots, religions, or other factors. Just think of the examples of Northern Ireland in the United Kingdom and Quebec in Canada, and I am sure that you will understand this point.

So, what I want to say is that decentralization is not a simple thing. In order to design and promote decentralization, we must appreciate that various types of decentralization exist and pay attention to numerous variables. For example, if the combination of decentralization reform and the implementation of elections is poor, then the results will not be good. In one developing country, because a mayoral election was held just before the implementation of decentralization, the successful candidate had time to play at favoritism and appoint his cronies as local public employees. This example teaches us that many conditions, including timing, must be skillfully combined in decentralization reform.

The most important thing, above all else, is that regions must not simply act upon orders from the center but must formulate specific policies and projects themselves with the objective of achieving independent development. In this report, the independent consciousness of regional citizens is called "ownership." For this purpose, decentralization is necessary, and also perhaps involvement and procedures from the center are necessary in order to monitor the activities of regional governments. Before jumping to conclusions, however, we must understand the types of central-regional relations that exist in countries and analyze their merits and demerits. Basically there are two types of central-regional relations in the world: the integration type and the separation type.

The so-called fiscal federalism is a typical case of the separation-type regional government. Integration-type local autonomy is characterized by the systems developed in Europe and extended to East Asian countries. In the integration-type system, the center maintains much involvement in regional affairs, while in the separation-type system regional governments have a high degree of freedom. The integration type includes types of decentralization that might be better called deconcentration, in which the central government maintains a high degree of involvement. Under the deconcentration system, while authority might be transferred to the regions and localities, government officials are, at the same time, dispatched from the center to local governments to engage in implementation of the policies. In other words, the power of implementation might be transferred, but policy decision-making stays at the center. In extreme cases of the integration type, regional governments become simply field agencies of the central government.

There are also numerous variations of the separation type. In the German federal system, state governments have a lot of authority, but at the same time administrative relations and liaison between the federal government and the state governments are good. Among federal systems, the autonomy of state governments is probably greatest in the United States, but even here, the federal government's involvement through subsidies is increasing.

In other words, although decentralization can be categorized into two types, there are actually countless variations within these types. So what factors should a country consider when it is thinking about which type to adopt?

Well, among the merits of the integration type are the fact that the country as a whole can tackle new demands and problems that arise in a united manner and can provide uniform services. Later I will explain the specific example of Japan by the case of local allocation tax. Through such methods as the local allocation tax, it is possible to correct regional disparities without impeding the autonomy of the regions.

Under the separation-type system, on the other hand, regional governments have strong powers within the framework of specific duties through legislation. In this sense, regions are able to handle their own individual problems, so regional issues do not escalate onto the national level. One of the objectives of decentralization is to enable experiments by which other regions or the central government can judge whether or not to adopt a new project after looking at its success or failure in a certain region. The situation here, however, is that because of the trend to minimize the central government's involvement, if the region does not have a strong democratic procedure, the regional government can behave without effective political control.

Another concern is the economic impact of decentralization. First of all, let us consider fiscal authority. For example, if tax collection rights are decentralized and the scope of the central government's tax collection becomes smaller, then its macroeconomic management ability through taxation policies will become smaller. In this case, since it is usual that regional governments does not care think about macroeconomic stability as much as the central government, it is easy for the economy to become unstable. The same thing also applies for financial policies. In China, for example, regional governments had the hiring power over regional public employees. The result was that they borrowed from the regional branches of the central bank without thinking about repayments, and this led to increased money supply and debt burden. The same problem occurred in Brazil, where regional governments overborrowed from commercial banks under their jurisdiction. On both the fiscal and financial sides, therefore, radical decentralization could give rise to many problems for the macroeconomy. So the authorities that are to be decentralized must be carefully scrutinized.

Next I would like to explain about the report's proposal that the formation of networks is important. In literature advocating decentralization as a new form of governance, such networks are also called partnerships. The view here is that the key to development lies in cooperation between the various actors in the private sector and local governmental agencies. Integrating the numerous contributions of the various international organizations, donors, nongovernmental organizations, and other entities in the private sector into just one policy process must be made easier than before. As well as urging efficient governance in developing countries and cooperating in capacity building, donor countries will be interested in the levels and forms of development and offer advice. Accordingly, while it is only natural that the region concerned should be responsible for the formation and execution of development policies, we also continue to think about the procedures and methods of cooperation for capacity building.

At present, in political and administrative reforms around the world, the separation-type model of decentralization is more popular than the integration type. This has a parallel relationship with the trend of administrative reform in advanced industrial states, in which the models of New Zealand and the United Kingdom emphasizing marketization are attracting popularity. Administrative reform in Japan is incorporating the main elements of the reforms adopted in these countries, such as outsourcing and privatization. With regard also to central-regional relations, reform plans are being prepared to abolish a major legal instrument of involvement from the center. At first sight, this decentralization reform appears to be approaching the separation type. Does this mean that while Japan itself is changing, we are trying to apply our past model to other countries? Well, no.

(1) First, there are models of administration and local government that fit different environments and the stages of development. From the end of World War II to the 1970s the integration type, with much involvement from the center, functioned in Japan. Faced with a new environment from the 1980s, however, the Commission for the Promotion of Decentralization thought it was desirable to move the level of decentralization a further step forward, but with central government keeping functions being involved in local governmental matters when necessary.

(2) Also, the reform that Japan is moving to implement now does not signify a move toward the separation type of local autonomy. The aim of the reform is to expand regional independence and autonomy just a little within the scope of the integration type, in order to adapt to the new international trends seen in deregulation and borderless economic activities. The recommendations of the Commission for the Promotion of Decentralization accepts the necessity of substantial preliminary consultations between the central and local governments.

These are my tentative views about central-regional relations. I wish to reach a better conclusion after continuing studies on this subject.

I stop here with expressing my hope that this symposium will serve as a useful forum for the exchange of opinions that will contribute to the betterment of governance in developing countries.

Governance and Development: Decentralization Reform

JICA, March 5, 1998

Presented by Dr.Yuji Suzuki

Hosei University

Introduction

- 1, Impacts of Globalization
- 2, Moves towards Localization
- 3, Crises and Reforms

Participatory Development

- 1, Success of State-led Development
- 2, Structural Deficiencies
- 3, Quest for Local Development

Governance

- 1, Efficiency of Authoritarian Regime
- 2, Structural Reforms
- 3, Quest for Democratization

Decentralization

- 1, De-authoritarianization
- 2, Redistribution
- 3, Local Initiatives

Equitable and Sustainable Development

- 1, Center- Local interface
- 2, Capacity Building
- 3, Participation of Non Government Sectors

Multiple Methods for Transnational Cooperation

- 1, State-to-State
- 2, State to Local Authorities
- 3, State to Local NGOs
- 4, Local Authorities to Local Authorities
- 5, Local NGOs to Local NGOs

Problems and Prospects

- 1, Role of Central Government
- 2, Capability of Local Government
- 3, Function of Multilateral Agencies

Fig. 1:Structure

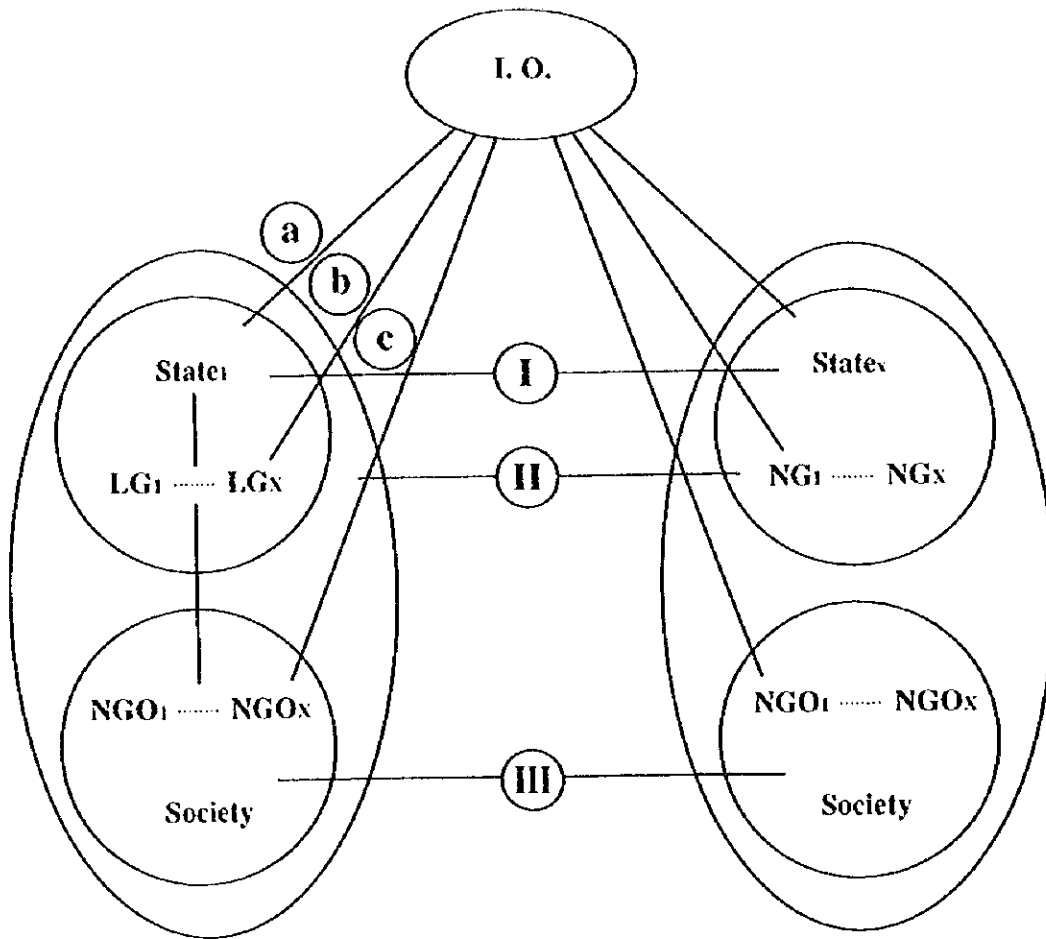


Fig. 2:Pattern

- ① DS → RS → RLG → RNGO
- ② DS → RS → RLG → RNGO
- ③ DS → RS → RLG → RNGO
- ④ DLG → DS → RS → RLG → RNGO
- ⑤ DNGO → DLG → DS → RS → RLG → RNGO

D : Donner
S : State
R : Receptient
LG:Local Government

DECENTRALIZATION IN CHINA: BACKGROUND, CURRENT SITUATION AND INFLUENCE ON ECONOMIC DEVELOPMENT

Presented by Dr. CHEN YAO
Western China Development Research Centre
Chinese Academy of Social Sciences

Ladies and Gentlemen,

I feel greatly honored to have this opportunity to talk to you about decentralization and regional development in China. According to the requirement of this conference, my speech, which consists of four chapters, is entitled "Decentralization in China: Background, Current Situation, and Influence on Economic Growth".

Chapter One: Background and Salient Features of Decentralization in the Last Two Decades

You may have known that in the three decades prior to 1979, China was practicing a highly centralized planned economic system. During this period power had been decentralized to localities on a number of occasions, but decentralization in a broad and profound sense of the term did not really begin until the adoption of the policy of reform and opening up to the rest of the world during the late 1970s.

Decentralization in China over the last two decades is closely associated with the progress made in the market-oriented reform. For a long period of time enterprises in this country were like workshops in a giant factory, and they did not have the right to make their own decisions in business and management. Local governments were also deprived of the right to make their own decisions, so that local economic development depended virtually entirely on the central authorities' investment budget. This high degree of centralization were eventually backfired. Just as a document of the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party pointed out "A major flaw of China's current economic management system is the over-centralization of power. It is imperative to decentralize it under proper leadership, so that localities and industrial and agricultural enterprises can have more say in business and management under the guidance of a central plan". The plenary session also called for "giving full scope to the initiative, enthusiasm and creativity of the four quarters—the central authorities, localities, enterprises, and laborers". The plenary session unveiled China's reform aimed at decentralizing power in two directions, that is, expanding the decision-making power of enterprises, and delegating more power to local governments.

Up until the early 1990s, reform in China had never gone further than the decentralization of power and interests among enterprises and localities and the introduction of the responsibility system, the property right system had never been touched upon in enterprise reform, and there had been no norms for

decentralizing power to localities. It was not until the 14th Party Congress in 1992 that the ultimate goal for the reform was set, that is, to establish the socialist market economic system. And it was not until 1994 that a series of major reform measures were worked out in such fields as finance, monetary affairs, foreign exchange, foreign trade, investment, prices and the circulation system, and major readjustments were made in the economic relationship between the central and local authorities, thereby making a giant step forward in the direction of the market economy. For instance, the overall local financial rationing system was replaced by the classified tax system so as to standardize the relationship of distribution between the central and local authorities; control of financial affairs and the monetary policy is centralized, subsidized banks were established, and subsidized business were separated from commercial business. These were universal practices in market economies around the world.

Decentralization in China in the last two decades has also been inseparable from the regional progress of the open policy. The open policy was first carried out in eastern coastal regions and then made gradual headway towards the hinterland. Close proximity to Hong Kong, Macao and Taiwan as well as Japan and southeast Asian countries, and convenient ocean-going conditions, have enabled coastal regions, those in southeast China in particular, to become the first in China to get in touch with Western industrialization; the local people have maintained extensive ties with the rest of the world thanks to the role played by overseas Chinese, and they know how to deal with foreign business people. The world economy has been shifting to the Asia-Pacific Region, a tendency which first occurred during the two oil crises in the 1970s and became more pronounced in the 1980s. It is only proper for China to seize upon this opportunity to accommodate this global influx of industry, funds, technology and business, and opening up the coastal regions was undoubtedly a wise step. The opening up of the coastal regions also means a great deal for achieving national reunification.

During the opening-up effort which began in the 1980s, the central government granted a good variety of special power and a series of preferential policies to the coastal regions. These included establishing special economic zones; opening port cities to foreign investors; establishing the Pudong New Zone and other development zones; reducing the portion of funds to be delivered by these regions to the central authorities; expanding the power of localities in such matters as approving foreign-invested projects, keeping a portion of foreign-exchange revenues at their own disposals, and granting bank loans; and setting up a number of commercial banks and stock exchanges. In hinterland China, a number of border cities, capital cities, and cities along the Yangtze River have been opened to foreign investors one after another since the beginning of the 1990s, and the central authorities have also expanded the decision-making power of localities in central and west China in approving the incorporation of foreign investment.

Chapter Two: Current Situation and Major Policies

In China's decentralization process the central government delegates part of its power to local governments so as to expand their decision-making power. The Chinese decentralization policy is similar to that of market economies around the world in some ways, but there are many dissimilarities as well.

The following is a brief introduction to these similarities and differences in four aspects - industrial management, finance, investment, and monetary affairs.

1. Industrial Management

Detaching some of the enterprises from the direct administration of central industrial departments and leaving them to localities or central cities is a major decentralization step taken by China since the onset of reform. In 1984, the central authorities abolished the enterprise-running function of various central ministries and commissions and provinces, and placed the enterprises formerly run by them under the care of central cities so as to give full play to these cities' role as economic centers. So far the number of industrial enterprises directly under the central authorities has been reduced tremendously. These are mostly large and medium-sized enterprises mainly in such key economic fields as coal-mining, power, petroleum, chemical, machine-building and electronics industries, and are still playing a leading role in the national economy. According to the Third National Industrial Survey conducted in 1995, of the nation's 87,905 state-owned industrial enterprises, only 4,738, or 5.4 percent, were run by the central authorities, but they accounted for 34.8 percent of the output value, 46.1 percent of the industrial increment value, and 72.3 percent of the profit, of all the state-owned industrial enterprises. (For details see Table 1.)

Today, large and medium-sized state enterprises in China are transforming themselves into joint-stock firms according to the requirements of the modern enterprise system, and government functions are being detached from enterprise management. As a result the way the government runs central and local enterprises has become very different from what it was during the days of traditional central planning.

2. Finance

Expanding the financial power of localities is a major result, and salient feature, of decentralization in China. Beginning from 1980, the governmental financial relations in China have broken the pattern of centralized revenue and expenditure, and the introduction of the practice of "each minding his own financial affairs" has fired local governments with great enthusiasm for increasing their revenues and curtailing their expenditures, thereby providing a great impetus to local economic development. In the intervening years, however, the effort of expanding local financial power was dominated by an overall financial rationing system, which not only withheld the growth of the central financial revenue, but also deprived the entire country of unified standards. This was because the form of rationing, the base figures for revenue and expenditure, the amount to be delivered to the central authorities, and the amount of subsidies were all decided through negotiations between central and local authorities. It was not until 1994 that a relatively standardized classified tax reform was introduced all over the country.

Following the principle of adapting administrative power to financial power, taxation in China falls into three categories: first, fixed revenue of the central authorities such as customs duties, consumer tax and income tax of central enterprises; second, fixed revenue of the local authorities such as business tax, land use tax, real estate tax, income tax to be paid by local enterprises, and private income tax; and third, revenues shared by the central and local authorities, such as the added value tax, 75 percent of which belongs to the central authorities, and 25 percent to the local authorities. This classified tax system has increased the central authorities' portion of the total financial revenue. However, with the deduction of the net amount transferred from the central government to localities (such as tax returns to localities, and reductions of the portion of local revenue to be delivered to the central government), the net revenue of the central authorities in 1996 accounted for 20.9 percent of the nation's total revenue, which was significantly lower than the 1990 figure of 30.3 percent. (See Figure 1.)

The current division of administrative power is, generally speaking, well defined, with the central government bearing the responsibility for national defense, foreign affairs, the armed police, key construction projects, repayment of capital and interest of foreign and domestic debts, and funding for administrative departments under the central authorities, while the local governments are accountable for expenditures for local economic and social development. However, so far China is not yet to make a scientific, and concrete legal demarcation of power between the central and local governments over economic and social affairs.

3. Investment

As things stand now, inter-governmental investment in construction projects in China is managed at two levels, central and provincial. The construction fund controlled by the central government is mainly used on the infrastructure, basic industries, and mainstay industries, as well as key projects in science and technology, education and national defense. Investment of local governments mainly goes into projects having to do with public interests and local infrastructure. Competitive projects, with the exception of key state projects, depends mainly on market allotment of resources, and are invested by enterprises according to decisions made under the guidance of state policies. In the meantime, positive guidance is provided to divert the funds of society, enterprises and foreign investors to key industrial fields.

Of all the capital construction projects invested by state units across China, the portion of those invested by local governments is growing steadily. In 1990, the projects invested by local units accounted for 46.1 percent and those by central units made up 53.9 percent; in 1996 those by local units accounted for 60.8 percent for local units while those by central units accounted for only 39.2 percent. (For details see Table 2.) Of the nation's 1996 investment in fixed assets, the state sector accounted for 52.9 percent, the collective sector 15.9 percent, the private sector 14 percent, foreign investment (including those from Hong Kong, Macao and Taiwan) 11.8 percent, and the joint-stock sector 4.5 percent.

According to sources at the State Commission for Economic Restructuring, from now on the government will, by transferring shares to society, divert state capital from competitive and basic projects

to those in science and technology, education and other fields of public interests. Moreover, the government will discontinue investment in competitive projects, and projects without government investment will only be registered for the record rather than having to be examined and approved by the government.

4. Monetary Affairs

The current Chinese monetary system has become a macroeconomic control and regulation system with the central bank playing the leading role, state banks as the mainstay, and multiple forms of monetary organization coexisting and cooperating with each other according to a division of labor. Despite the establishment of such local banks as the Merchants Bank, the Shenzhen Development, the Guangdong Development, the Fujian Xingye Bank, and the City Cooperative Bank, the country's credit and financial management is still highly centralized, and local governments have little power over financing. Over the last few years China has established the State Development Bank, the China Agricultural Development Bank and the China Import and Export Credit Bank to raise funds for key construction projects invested by the central authorities, but there are no corresponding subsidized monetary organizations at the local level.

The central bank of China has since January 1, 1998, abolished its control of loan quotas for state commercial banks, and introduced asset-liability ratio management and venture management. Acting on the state-mandated economic growth rate, price control goals, and other factors which have an impact on currency circulation, the central bank has been using such monetary policy tools as the interest rate, open market business, the reserve against deposits, refinancing, and rediscounts to indirectly control and regulate the issuance of currency, maintain the value of the currency, and promote economic growth.

Chapter Three: Influence of Decentralization on Socioeconomic Development

After nearly two decades of reform and opening to the rest of the world, the planned economy with its high degree of centralization has basically fallen apart, and the role of the central government is diminishing steadily in economic growth. For instance, the portion of government-controlled investment in budget in the total investment in fixed assets dropped from 28.1 percent in 1981 to 2.7 percent in 1996, and the net revenue of the central authorities now accounts for only 20 percent of the nation's total financial revenue.

On the other hand, with the expansion of their management power, local governments are playing an increasingly important role in local economic and social development. The last decades have witnessed remarkable socioeconomic growth in both developed coastal regions and underdeveloped hinterland. The sustained high-speed growth of the national economy is inseparable from the contributions of regional economies which have been thriving in the intervening years.

However, decentralization in the transitional period has also brought some negative impact on

China's socioeconomic development.

Firstly, lopsided local economic development is worsening, with the gap growing steadily between the eastern coastal regions and the central and western regions. Take the per-capita GDP as 1, then the ratio between west, central and east China was 1:1.13:1.94 in 1990, and 1:1.32:2.76 in 1996; during the same period the gap in per-capital GDP between regions with the highest private incomes and those with the lowest incomes expanded from 9.2 times to 10.6 times.

Central and west China is handicapped by low economic growth. The local governments are weak in their financial accumulation abilities, and after decentralization they will be asked to invest in local basic and public-interest projects, and provide a certain portion (about 30 percent) of the ancillary funds for trans-regional key construction projects invested by the central government. In some localities quite a few such projects have failed to get off the ground simply because local governments are unable to provide the ancillary funds. For this reason, underdeveloped regions in central and west China are having great difficulties improving their investment environments and promoting local economic growth.

Secondly, redundant construction has become a serious problem, and local industrial structures tend to be similar to one another. Local governments, whose financial ability has been increased after decentralization, have become major investors. To develop local economy, localities tend to vie with each other for the construction of projects with high costs and high profits, such as those for the production of color television sets, refrigerators, air-conditioners, VCD players and other household electrical appliances, as well as auto, machine-building, electronics, petrochemical and other mainstay industries. China today has more than 100 auto factories, for example, but because of their uneconomical scales, the national auto output in 1996 was no more than 1.5 million. It is reported that more than 900 VCD player manufactures have been set up across the country, whose total production capacity is in serious excess.

Thirdly, regional economic friction is aggravating, and regional protectionism is running rampant. Local governments, now that their role has been strengthened, have resorted to different degrees of protectionism in pursuit of maximum local interests. For instance, when a certain raw material is in short supply, some localities would issue orders to restrict its outflow. To protect a local industry which does not have a competitive edge, a local government tends to ban or restrict the same product from entering the local market. When enterprises belonging to different localities are involved in an economic dispute, an arbitration tribunal tends to be partial to and side with the local enterprise. In a vast country like China with uneven economic growth, it is certainly impossible to establish a so-called unified market free from protectionism. The problem, however, is that regional protectionism in China is more of an administrative type, which is vastly different from legal protectionism in some foreign countries and regions.

Fourthly, contradictions between local economic policies and the state's macroeconomic policies are intensifying. Decentralization entails delegating local governments with the power to formulate their own economic policies. When a state macroeconomic policy has failed to take "regionalization" into consideration, it tends to draw different responses from regions at different levels of development. Some may voice their support, and some may resent it. "Whenever a new policy is formulated from high above, there will be countermeasures below," as the saying goes, and this has become an undeniable fact. Now

that local interests arising from uneven economic development are a solid reality, due attention has to be paid to studying the "regionalization" of macroeconomic policies, especially financial, monetary and investment policies, and it is also necessary to make scientific appraisals of the "regional effects" of such a policy beforehand and afterwards.

Fifthly, localities have unequal opportunities for the development of public utilities in general, and education in particular. Since 1980, the Chinese government has gradually shifted the financial and administrative power on rudimental education to governments at different local levels. Today, the central authorities are mainly responsible for financing institutions of learning run by central departments and providing certain financial supports to the development of education in underdeveloped regions, while the local authorities are responsible mainly for financing institutions of learning run by local governments at various levels.

The development of rudimental education in China is becoming increasingly dependent upon local financial revenues and allocations of non-governmental resources. The vast income gap between regions, rural areas in particular, have resulted in serious inequity in funding for educational undertakings. In developed coastal regions, many townships and towns are making an annual profit of more than 10 million yuan, and it is only too easy for local governments to raise enough funds for education, whereas in the poverty-stricken central and west China, it is rather difficult to provide necessary funding for compulsory education, the schooling rate among school-age children are low, and it is uncommon to see schools in arrears with teachers' salaries.

Chapter four: What Chinese Government Does to Narrow the Regional Disparities

The gap between east and west China in development is a major issue which has commanded the attention of the Chinese government over the last few years. In his report to the 15th Party Congress held in 1997, General Secretary Jiang Zemin pointed out that the state was to increase its support of the central and western regions and strive in different fields to gradually narrowing the gap in regional development. Following are some of the major policy measures the Chinese government has taken.

First, giving priority to the central and western regions in arranging the tapping of resources and construction of the infrastructure. The state has adopted an investment policy in favour of projects for tapping natural resources in these regions. Major trans-regional projects in energy, transport, telecommunications and other infrastructure will be constructed mainly with government investment. The geographical distribution of the processing industry is being readjusted so that resource-processing and labor-intensive industries can be moved to these regions.

Second, instituting a standardized central financial transfer payment system and gradually increasing financial support for the central and western regions. With the development of the national economy and the central government's financial abilities, appropriations in support of these regions will be gradually increased.

Third, speeding up the pace of the central and western regions in reform and opening up to the

rest of the world. Upward of 60 percent of the loans from international monetary organizations and foreign governments will be spent on the central and western regions. Restrictions imposed to certain foreign-invested projects in the coastal regions may be appropriately loosened in the central and western regions.

Fourth, increasing the support for poverty-stricken regions and aiding the economic development in areas inhabited by ethnic minorities. Central departments, various walks of social life, and coastal regions the east will be organized to render all forms of support to Tibet and other regions inhabited by ethnic minorities, the areas around the Three Gorges reservoir currently under construction, and other underdeveloped regions. By the year 2000 China will have basically solved the problem of feeding and clothing the poor people in rural areas.

Fifth, beefing up the economic ties and technical cooperation between eastern coastal regions and central and western regions. The coastal regions are encouraged to invest in the central and western parts of the country, and a good job will be done to organize the flow of labor and service from central and western regions to coastal regions. Developed areas in the east are encouraged to cooperate in multiple ways with the central and western regions to tap local resources and make use of the abundance of local labor force to develop labor-intensive industries. Training and the exchange of personnel will also be stepped up.

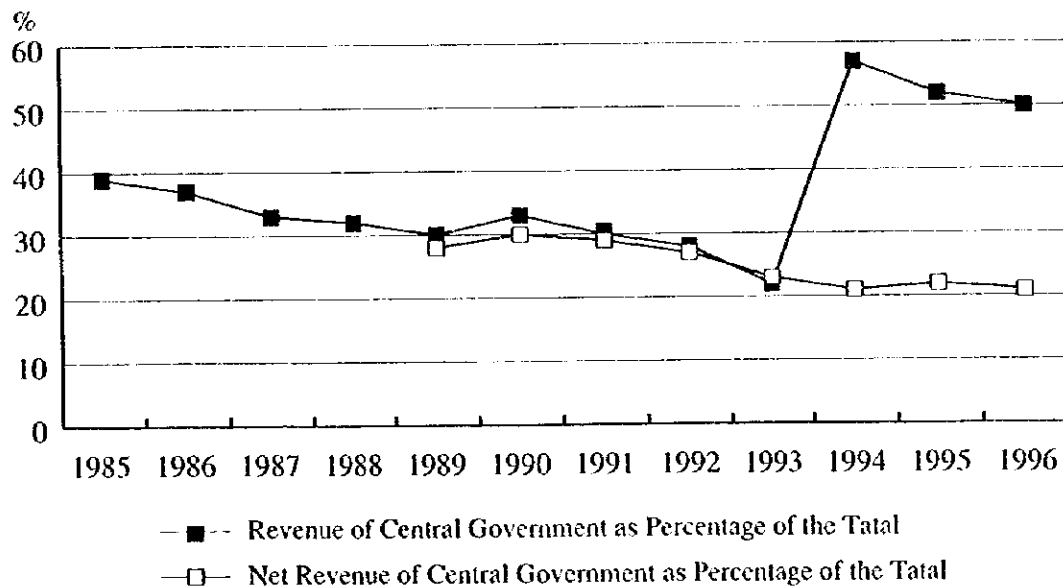
It has gradually dawned on the Chinese that in narrowing the gap in regional development, the support of government policies is limited, and in final analysis, the problem can be fundamentally solved only by relying on the regions' own efforts. The efforts of these regions can be greatly increased with the progress made in decentralizing government power. To achieve substantial progress in decentralization, it is necessary to speed up the reform of the political system. In this regard China still has a long way to go.

Thank you.

Table 1: The Central and Local Enterprises of the State-Owned Industry in China

Unit:100 Million Yuan(RMB)

	Total	Central Enterprises		Local Enterprises	
		Enterprises	Quantity Proportion(%)	Quantity Proportion(%)	
Enterprise Number	87905	4738	05.4	83167	94.6
Gross Output Value	25889.93	9000.77	34.8	16889.16	65.2
Value Added of Industry	8307.19	3831.87	46.1	4475.32	53.9
Value of Exports	2051.58	532.29	25.9	1519.29	74.1
Total Pre-tax Profits	2874.16	1635.05	56.9	1239.11	43.1
Total Profits	665.62	481.51	72.3	184.11	27.7
Original Value of Fixed Assets	30935.69	13423.06	43.4	17512.63	56.6
Net Value of Fixed Assets	17474.11	7315.67	41.9	10158.44	58.1

Source: *The Third National Industrial Census in 1995*, China Statistical Publishing House, 1997.**Figure 1: Changing Net Revenue of Central Governments as Percentage of Total Revenue**

Note: Net Revenue of Central Government = Revenue of Central Government - Transfer Payment including a returning of local tax and subsidies + the Revenue delivered by Local Governments.

Table 2: Investment in Capital Construction and Innovation of State-Owned Units in China

Year	Capital Construction			Innovation		
	Total 100mil. Yuan (RMB)	Share of Central Projects (%)	Share of Local Projects (%)	Total 100mil. Yuan (RMB)	Share of Central Projects (%)	Share of Local Projects (%)
1978	500.99	53.2	46.8	167.73	na	na
1979	523.48	52.2	47.8	175.88	na	na
1980	558.89	52.4	47.6	187.01	39.3	60.7
1981	442.91	54.4	45.6	195.30	31.2	68.8
1982	555.53	53.4	46.6	250.37	26.1	73.9
1983	594.13	59.8	40.2	291.13	25.7	74.3
1984	743.15	59.4	40.6	309.28	24.5	75.5
1985	1074.37	53.5	46.5	449.14	23.3	76.7
1986	1176.11	53.8	46.2	619.21	24.0	76.0
1987	1343.10	56.7	43.3	758.59	23.3	76.7
1988	1574.31	55.5	44.5	980.55	21.6	78.4
1989	1551.74	54.0	46.0	788.78	26.1	73.9
1990	1703.82	53.9	46.1	830.19	27.5	72.5
1991	2115.81	50.1	49.9	1023.23	27.3	72.7
1992	3012.65	44.5	55.5	1461.11	25.4	74.6
1993	4615.50	39.8	60.2	2195.85	28.8	71.2
1994	6436.74	37.8	62.2	2918.61	31.2	68.8
1995	7403.62	40.1	59.9	3299.35	32.8	67.2
1996	8610.83	39.2	60.8	3622.74	34.5	65.5

Source: *China Statistical Yearbook(1997); China Regional Economies: A Profile of 17 Years of Reform and Opening-up, China Statistical Publishing House 1996.*

**Table 5: Expenditures of Central and Local Governments in China
as Percentage of the Total**

Year	Total Expenditures (100mil. Yuan)	Central Government (%)	Local Government (%)
1978	1122.09	47.42	52.58
1979	1281.79	51.11	48.89
1980	1228.83	54.26	45.74
1981	1138.41	54.96	45.04
1982	1229.98	52.99	47.01
1983	1409.52	53.89	46.11
1984	1701.02	52.52	47.48
1985	2004.25	39.68	60.32
1986	2204.91	37.93	62.07
1987	2262.18	37.38	62.62
1988	2491.21	33.92	66.08
1989	2823.78	31.47	68.53
1990	3083.59	32.57	67.43
1991	3386.62	32.21	67.79
1992	3742.20	31.28	68.72
1993	4642.30	28.26	71.74
1994	5792.62	30.29	69.71
1995	6823.72	29.24	70.76
1996	7937.55	27.10	72.90

Source: China Statistics Yearbook (1997).

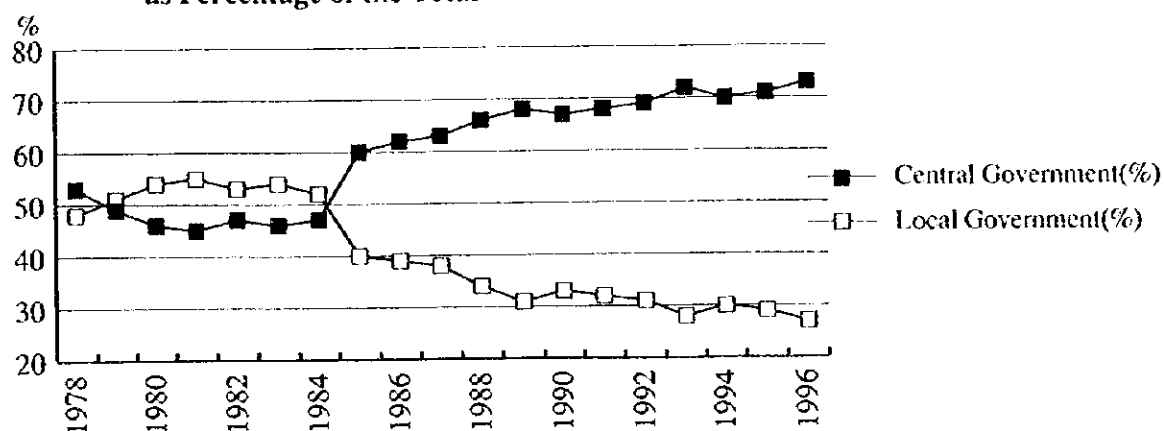
**Figure 2: Expenditures of Central and Local Governments in China
as Percentage of the Total**

Table 3: Chinese Government Revenue and its Proportion to Gross Domestic Product

Year	Revenue (100mil. Yuan)	GDP (100mil. Yuan)	Proportion of Revenue to GDP (%)
1979	1146.38	4038.20	28.40
1980	1159.93	4517.80	25.70
1981	1175.79	4862.40	24.20
1982	1212.33	5294.70	22.90
1983	1366.95	5934.50	23.00
1984	1642.86	7171.00	22.90
1985	2004.82	8964.40	22.40
1986	2122.01	10202.20	20.80
1987	2199.35	11962.50	18.40
1988	2357.24	14928.30	15.80
1989	2664.90	16909.20	15.80
1990	2937.10	18547.90	15.80
1991	3149.48	21617.80	14.60
1992	3483.37	26638.10	13.10
1993	4348.95	34634.40	12.60
1994	5218.10	46622.30	11.20
1995	6242.20	58260.50	10.70
1996	7407.99	68593.80	10.80
1997		74772.00	

Source: *China Statistical Yearbook (1997)*.**Table 4: Government Revenue as Percentage of Gross Domestic Product in Some States**

Year	1979	1985	1992	1993
United States	32.00	33.70	34.50	34.30
France	41.40	46.70	47.10	48.30
Germany	43.80	47.10	55.10	54.80
United Kingdom	38.10	43.40	39.80	39.50
Australia	31.00	35.60	36.70	36.90
Sweden	54.00	57.80	61.00	58.40
China	28.40	22.40	13.10	12.60
Singapore	23.90	38.10	32.60	35.10
Malaysia	28.40	35.00	31.50	31.40
Tailand	14.90	17.30	20.10	20.10

Source: *Local Government Finance (Beijing)*, No. 5, 1997.

JICA International Symposium on "Local Development and the Role of Government"

Session 2: "Local Development and the Role of Government"

"Capacity Building and Local Government"

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In this section I would like to explain how the Japanese local governments and the central-local relationship work. In my opinion, local government is one of the two major subjects in the issue of capacity building with which we are concerned in this symposium. The second is training of civil servant or competence in government. Problems of competence and capacity building center on attracting and retaining able youth for the civil service. In many developing countries where there are not so many jobs to meet the demand, it would not be difficult to recruit a cadre of well-motivated individuals for careers in the civil service. However, training them to develop their capabilities to adapt to changing environments is not easy. Competence involves ensuring that personal gain, based on corruption dose not become the driving ambition behind a civil servant's career. Clearly civil service is in my mind as an interest subject. Here, however, I will be concerned with discussion on the functions and shape of local government desirable for development and democracy. I would like to present the case of Japan.

1. History

Looking back over the history of the Japanese local governmental system, we can see the relationship between two issues, that is democratization and capacity building, was rather simple. Clearly, capacity building came first. State institutions such as the civil service and the central-local relationship were established before introducing the constitutional law and parliamentary system. Chronologically, in 1884, the cabinet system and central ministries were organized. In the next year the University system and curriculum for entry for the civil service was established. Then came the civil service law. Just one year before the constitution went into effect and the parliament began to function, decentralization of the government was made and operations of municipalities started in 1890. Universal suffrage was introduced some 20 years after the constitution was introduced and Japan was still under the emperor's rule. Then the real era of democratization was introduced after the Second World War during the occupation period.

When we look at the developing countries at present, we can see they are facing the two issues of capability building and democratization, at the same time. Achieving these two goals, both of which are

indispensable to modernization, is a much more difficult job. One message that can come from the experience of Japan is that, for a good strategy of governance, state institutions should be introduced in sequence, one after another.

Next, I would like to go into some of the details of the local government in Japan. First I would like to explain the formal relationship between the central and local governments, which is not so strictly adhered to reality in several ways. In Articles 92 to 95 of our Constitution, autonomy of the local government is stipulated. However, we can not know the details of the powers and responsibilities of the municipalities and prefectural governments until we study the Local Government Act and other specific laws concerning the local governments including local finance. (By local government I mean here both prefectural and municipal governments.)

2. Legal Framework

The Occupation reforms introduced American elements into Japan. First, both the governors and mayors were to be publicly elected, thereby making prefectures and municipalities completely self-governing bodies with a dual representation (quasi-presidential) system of mayors/governors based on the direct election of officials and newly empowered local councils. Second, the Ministry of the Interior was abolished. Third, many direct democratic methods, such as the recall, initiative and referendum were introduced.

Many characteristics of the prewar integration model remained, however. First, the legal formula for the central - local linkage, called agency delegation, was carried over in practice. Agency delegation, which was used vis-à-vis municipalities was even extended to the governors, who had become local public servants rather than national bureaucrats. Second, the Ministry of Home Affairs, successor of the prewar Ministry of Interior, gradually became a stronger ministry, though its character was not quite the same as that of the Ministry of the Interior of the prewar period.

In this way, Japan mixed the prewar integration Model and the American presidential system in a unique way. However, this combination was not a stable one. Since 1945, there have been various attempts to stabilize the system. For example, Dr. Shoupe was dispatched from the United States in 1949 to examine the central-local relations and local finances, and he made several recommendations. He and other Americans rugged to clearly define the functions of governments (principle of making administrative responsibility clearer) and assign them according to the principle of giving priority to municipalities. This recommendation, which was obviously based on Separationist Model, was not implemented, however. Japan rather took advantage of the other principle that he advocated, which is a principle of efficiency. Many amalgamations of municipalities followed as a result of the recommendation. As the municipalities began to take over functions hitherto national government

functions, the central government had a strong interest in enhancing the capacities of local governments. It therefore encouraged amalgamation for this purpose by giving these local governments various financial and political opportunities.

I will explain the way the Japanese local governmental system operates by showing some charts.

3. Financial Framework

First, I would like to explain the revenues and expenditures of prefectural and municipal governments.

- Kinds of Taxes
- Other Revenue Categories of Expenditures

Then, I wish to emphasize the importance of the Local Allocation Tax, which functions to equalize the unbalances between and among the municipalities and prefectures.

As to this topic, I would like to explain how regional disparities can be corrected by the use of a reallocation formula of national tax revenue as follows.

First there is large-scale reallocation of revenue through earmarked and general subsidies in Japan. Table I shows the situation concerning tax share and fiscal transfer between the central and local governments from the historical perspective. In 1989 total tax revenues were 84,891 billion, which were divided into national and local taxes. Before fiscal transfers, local taxes account for only 35.7% of total revenue. However a substantial portion of national taxes is transferred to the local government.

Major fiscal transfers are of two broad types: transfer on the basis of conditions attached and tax-sharing grants on a lump-sum basis financed by the local allocation tax. Conditional grants are categorical grants transferred to subnational governments on the basis of a specific purpose. After reallocating the tax sources among different levels of the government, the final share of total tax revenues accruing to local government increased to 52.2 per cent. The ratio has been increased steadily for a nearly three decades. This means that one-third of national tax revenue is used at the local level. Table I shows the data concerning the central-local fiscal imbalances in industrial economies. Japan is the largest both in terms of imbalance and also the rate and amount of transfer from central to subnational governments.

The Second aspect is its equalization effects on financial resources. A comparison between per capita local tax revenue from general fiscal sources (i.e. local taxes, local allocation tax) of prefecture in 1993, shows the disparity in the financial resources among rich and poor regions is considerably reduced. In

Table 2, the richer and poorer local bodies are grouped into classes, according to per capital income in 1993. A marked difference is observed in per capital tax revenues among localities, the largest being Tokyo, the smallest being Okinawa, Aomori and a few others, and they correspond closely to the difference in those areas' economic resources and per capita income of inhabitants. In contrast to this, per capital revenues from general sources differ little among different prefectures. It may be assumed that the Japanese equalization system operates well, in general, to reduce territorial inequalities.

4. Economic Development

Secondly, I would like to present an example of a case when the government promoted local economic development, in order to understand how the various actors are mobilized to establish a partnership in economic development. This is the case of the 1960s when Japan was in the midst of high economic growth period with the regained independence of the Japanese state from the US occupation, the Japanese government was very much interested in economic development in that period. In my analysis, both the conservative administration that is the Liberal Democratic Party, and the administrative linkage between the central and local governments played an important role in intermediating the national interests and local interests to produce efficient development policies. The national development plan of 1962 (Zenkoku sogo kaihatsu keikaku) was the plan that gave effective guidance to the developmental plans of local governments in the 1960s. Initially, the government-bureaucracy-advisory commission complex—the most important institutional policy-making arrangement in Japan—attempted to follow an economic approach to the location of new industries, which required investments to be concentrated in the Pacific coast area in about 7 to 10 places. However, Parliamentarians from the rural areas responded quickly and opposed these recommendations. They insisted on the political importance of the underdeveloped areas, and were deeply concerned over the disparity of income distribution among regions. As a result, the general development plan eventually emphasized not the concentration of investment, but the correction of the regional gap in income distribution. In the early policy stage several economic areas were to be selected for developmental targets. However, tremendous pressures' coming from the localities initially raised the targeted areas from several to thirteen, and they were eventually raised to nineteen.

Local governments contributed to economic development by inviting new industries to local areas. By the early 1950s four major industrial areas—Tokyo-Yokohama, Osaka-Kobe, Nagoya, and Northern Kyushu were already so congested that expanding industries could not find enough room to construct new factories. For this reason industrial dispersion plans are justified as they were in Japan in the 1960s. In Japan one of the roles of the national government in the plans for economic development was to encourage local governments to invite new industries and to persuade private industry to locate locally. In case of Japan, the national government created a special national aid policy by which it offered grants-in-aid to local governments that invested matching funds to pay for public facilities such as piers for sea ports, industrial roads, etc. (In developing countries of today, traffic jam in capital cities could be

comparable to the urban congestion.)

On the local governments' side, there were reasons to attract new industries to their areas in the 1950s and in the early 1960s. In this period, local communities suffered from financial deficits caused by increasing post-war demands for welfare and by expenses for recovery from disasters such as damages caused by typhoons. Another factor is the taxation system in Japan, which encouraged local communities to invite industries offering tax incentives regarding property taxes, enterprise taxes, and corporation resident taxes. Thus, in 1966 about 70% of all Japanese cities had created local ordinances giving incentives to new industries. These incentives typically included the following provisions: 1) the incoming industries would be exempt from paying local property taxes for 3 to 5 years; 2) the industries would receive land for industrial sites as a gift; and 3) the local government would promise to construct public facilities in support of business activities.

Local communities not only enacted ordinances to lure industries, but they were also active in establishing direct contacts with the big industries in Tokyo and Osaka. In addition, local officials would go to Tokyo to persuade the officials of the national government to grant special national support to their cause. Locally elected parliamentarians and local politicians along with local public officials went to the LDP headquarters and to the economic ministries of the national government. During this process, the New Industrial Cities Construction Act of 1962, based on the National Development Plan of 1961, played an extremely important role in mobilizing local energies. The new law promised to give special national aid and borrowing privileges to the designated areas to help them realize their plans for regional development. The national bureaucracy played an important role in guiding the local governments in defining the terms upon which industries were invited to locate in designated areas.

The participants in the making of decisions on economic development were conservative politicians, central ministries, business groups and citizens from local areas. There were many political consequences of the spread of industries in the new regions.

5. Environmental Issues

In the early 1970s Japan experienced cases of political conflict between the central and local governments. The early 70s, was the period when opinion was divided on various political and policy issues such as pollution and environmental disruption and Japan was searching for solutions to these problems. However, even before the 70s, in reality, there were many such conflicts concerning central and local governments, which were related to economic problems. Local communities sought to preserve their own business interests and their own way of life, while the national bureaucracy was trying to nationalize the economy and the standards of public services. In the 1970s the inherent nature of central-local conflicts took concrete form when the great emphasis on economic growth by the Japanese national

government was rejected or at least criticized by local communities with differing policy priorities. Furthermore, the reverse impact of local policy initiatives on the national policy outcomes was witnessed. That is, the opposition parties' local governments were successful in the late 1960s and early 1970s in criticizing the growth-centered policies of the national government. Crucial here were the so-called "residents' movements" and the increase of leftist local governments. In this period, responding to the above problems Japanese local governments expanded their role as policy makers in environment, city planning, welfare or many other policy areas on their own as well as agents of the central government. The 1970s was the transitional period for local governments.

History

1868 Meiji Restoration (Modernization Efforts Started)

1888 Municipal Governments
(Councilors Elected, Mayors Indirectly Elected)

1889 Meiji Constitution

1890 Prefectural Governments (Governors appointed)

1945 War (WWII) Ended and Occupation Reform

1952 Independence Recovered

- * Economic Growth
- * Environment and Pollutions
- * Welfare Programs and Financial Problems

1995 Decentralization Reform Commission Established

1997 Recommendations from the Commission

1998

Local Revenue and Expenditures in Japan (FY 1996)

consumer tax and other (75.1 trillion yen)		Local Revenue (85.3 trillion yen)	Local Expenditures (85.3 trillion yen)
n a t i o n a l t a x	Local Distribution Tax	local taxes (33.8%)	salaries (22.9%)
	grants to localities	additional local tax (2.0)	general administration (17.5)
		local distribution tax (16.8)	
	national expenditures	grants from central government (13.1)	investment expenditures (31.5)
	borrowing	borrowing (13.0)	borrowing
		others (6.6)	public enterprises (3.2)
			others (1.8)

LOCAL ALLOCATION TAX

Sources : Income Tax + Corporate Tax + Liquor Tax $\times 0.32$ + A Part of Consumer Tax

Estimation Formula

(For Each Local Government)

Sum of Allocated Money

= Basic Needs - Local Tax Revenue

Equalization Effects Estimated From Allocation Per Capita

12 Large Cities ¥ 25,083

Other Cities ¥ 30,970

Town and Villages ¥ 154,304

Table 1: Vertical Fiscal Imbalance in ten countries (FY 1992) (%)

Country		(a) expenditure share of subnational gvt.	(b) revenue share of subnational gvt.	vertical fiscal imbalance	
				surplus/deficit (b) - (a)	dependence on central transfer grants as % of current receipts
Federal Countries	United States	51.4 (40.7)	45.9 (34.4)	-5.5 (-6.3)	20.9
	Canada	65.3 (62.5)	53.2 (47.8)	-12.1 (-14.7)	35.4
	Australia	48.6 (45.9)	23.0 (24.6)	-25.6 (-21.3)	40.3
	Germany	58.6 (39.8)	47.2 (29.6)	-11.4 (-10.2)	18.5
Northern Europe	Denmark	57.3 (52.0)	32.3 (31.1)	-25.0 (-20.9)	45.5
	Sweden	47.6 (39.4)	38.7 (33.7)	-8.9 (-5.7)	22.2
United kingdom		31.9 (27.9)	0.07 (0.06)	-31.2 (-27.3)	79.8
Southern Europe	France	31.1 (17.9)	18.0 (9.7)	-13.1 (-8.2)	38.6
	Spain	43.6 (27.5)	19.7 (12.6)	-23.9 (-14.9)	46.6
Japan		69.2 (49.3)	36.5 (25.1)	-32.7 (-24.2)	39.6
average		47.3 (40.2)	27.0 (24.8)	-20.3 (-15.4)	36.0

(source) OECD, *National Accounts*, 1996., IMF, *Government Finance Statistics*, 1996.

note: 1. Account of social security fund is excluded.

2. In parentheses, account of social security fund is included.

3. Tax sharing arrangements calculated as "tax revenue".

4. In federal countries, subnational gvt. includes both states and local level.

Table 3: Fiscal Equalization by local allocation tax (47 prefecture, FY 1993)

classification		prefectural tax revenue (hundred million)	local allocation tax (hundred million)	general revenue (hundred million)	per capita (thousand of yen)		
					prefectural tax	local allocation tax	general revenue
	aichi	9,552	69	10,017	143	1	150
	osaka	11,369	272	12,232	130	3	140
	kanagawa	9,210	124	9,765	115	2	122
B	shizuoka	4,495	927	5,853	122	25	159
	saitama	6,286	1,563	8,145	98	24	127
	chiba	5,652	1,448	7,408	102	26	133
	hyogo	5,738	2,286	8,400	106	42	155
	kyoto	2,800	1,213	4,221	108	47	162
	tochigi	2,188	1,240	3,621	113	64	187
	ibaragi	3,122	1,742	5,049	110	61	177
	fukuoka	4,363	2,394	7,039	91	50	146
	gunma	2,121	1,203	3,513	108	61	179
	hiroshima	2,930	1,837	4,971	103	64	174
	gifu	2,201	1,546	3,927	107	75	190
	shiga	1,398	1,079	2,574	114	88	211
	mie	1,949	1,469	3,586	109	82	200
	miyagi	2,342	1,661	4,183	104	74	186
C	okayama	1,925	1,752	3,830	100	91	199
	ishikawa	1,290	1,217	2,688	111	105	231
	nagano	2,266	2,116	4,606	105	98	214
	kagawa	1,064	1,072	2,220	104	105	217
	toyama	1,261	1,388	2,750	113	124	246
	fukushima	2,120	2,222	4,549	101	106	216
	nara	1,150	1,348	2,580	84	98	288
	fukui	1,082	1,152	2,317	131	140	281
	yamaguchi	1,505	1,757	3,394	96	112	216
	niigata	2,539	2,828	5,607	103	114	227
	yamanashi	879	1,228	2,202	103	144	258
D	hokkaido	5,205	7,114	12,837	92	126	227
	ehime	1,253	1,854	3,224	83	122	213
	wakayama	941	1,560	2,600	88	145	242
	kumamoto	1,364	2,306	3,816	74	125	207
	oita	1,003	1,865	2,984	81	151	241
E	yamagata	1,007	1,938	3,068	80	154	244
	saga	740	1,476	2,288	84	168	261
	nagasaki	1,095	2,320	3,528	70	148	226
	iwate	1,093	2,489	2,714	77	176	262
	kagoshima	1,200	2,743	4,085	67	153	227
	tokushima	688	1,565	2,319	83	188	279
	miyazaki	815	1,958	2,862	70	167	245
	okinawa	735	1,800	2,605	60	147	213
	akita	919	2,198	3,218	75	179	262
	aomori	1,041	2,471	2,626	70	167	245
	tottori	486	1,356	1,914	79	220	311
	shimane	615	1,848	2,546	79	237	326
	kochi	590	1,863	2,531	71	226	307
F	tokyo	23,191	—	24,447	196	—	206
average		138,779	80,878	229,456	112	65	186

Source: MOHA's data.

Note 1: general revenue means the sum of prefectural tax, local allocation tax, and local transfer tax.

Note 2: 47 prefectures are grouped into 5 categories based on the index of fiscal capacity.

A 1.0~, B 0.5~1.0, C 0.4~0.5, D 0.3~0.4, E ~0.3

INSTITUTIONAL AND TECHNICAL CONSTRAINTS IN NARROWING REGIONAL DISPARITIES IN INDONESIA (THE CASE OF THE INTERGOVERNMENTAL GRANTS POLICY)¹.

Presented by Dr. Adrian Panggabean
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Summary

The objective of this handout is three-fold. First, to summarise the salient features of the broad patterns of regional development in Indonesia. In here, the handout documents the great interregional disparities as judged from several indicators such as: economic activities, income, social, and production structure. Findings from the most recent studies on the issue of regional convergence is also reported. They confirm the non-convergence trends in Indonesia. Second, this handout surveys the most important government's policy approach in dealing with the issue of regional disparities. Here, the nature of the grants system (as the most important government's policy instrument), as well as the underlying institutional feature within which this policy operates, will be outlined. Finally, this handout examines, in a more detailed manner, the performance of this policy in trying to narrow the regional disparities. Then, it will summarise findings from various studies as to how the underlying institutional setup dilutes the potential effectiveness of this policy in narrowing regional disparities.

1. Patterns of Regional Disparities: A Non Convergence Tendency.

Thanks to the improved database collected by the Central Bureau of Statistics (BPS), the stock of studies on the patterns of regional development in Indonesia has increased (see for examples: Panggabean: 1997; Garcia-Garcia and Soelistianingsih, 1997; Hill, 1997; Akita and Lukman, 1995; Azis, 1995, 1992; Barlow and Hardjono, 1995; Kim, Knaap, and Azis, 1992; Hill, 1992, 1989; Devas, 1989; Ravallion, 1988; Kameo and Rietveld, 1987; Uppal and Sri-Handoko, 1986; Giarratani and Soeroso, 1985; Ibrahim and Fisher, 1979; Esmara, 1975). All of these studies examine, from various angle and using different sets of data, the pattern of regional development in Indonesia over the last 25 years.

Having surveyed all of those literatures, It is interesting to conclude that interregional disparity is still wide. Some even come down to one common conclusion: that the interregional disparity in Indonesia is neither closing nor widening. In other words, the broad pattern of interregional disparities in Indonesia has been characterised by a non-convergence tendency. Five salient features of this survey is worth reporting. Each feature (i.e., interregional disparity in: (1) economic activity; (2) income; (3) social indicators; (4) production structures, as well as; (5) trends in regional disparities), is summarised below.

1. Handout presented in JICA's international symposium on "Local Development and the Role of Government", Tokyo, 5 March 1998.

The first feature is regarding the interregional variations in economic activity. The distribution of activities between regions in Indonesia is highly uneven. Roughly two-third of the Indonesian economic activity (measured in terms of non-oil GDP) takes place in Java. The rest one-third is shared by regions in the islands of Sumatra, Bali, Kalimantan, Sulawesi, Maluku, and Irian Jaya (we call it non-Java, for simplicity purpose). Within the non-Java groupings, in only four provinces (North Sumatra, South Sumatra, South Sulawesi, and East Kalimantan) do economic activities appear to be relatively significant. Such a picture has been similar over the last twenty-five years.

Second, is regarding the interregional income disparities. Using non-oil GRP as a measure of income, Hill (1997: 8) noted that the province of Jakarta is the only really high income province. Only a small number of other provinces are marginally above the national average: North and South Sumatra, East Java, Bali, Central Kalimantan, and South Kalimantan. Further, Hill (1997) also noted that nine provinces of Eastern Indonesia, and all three provinces in Nusa Tenggara areas are poor. Using household expenditures data as a measure of income, interregional disparities appear to be less uneven. However, the conclusion reached from using this data set is not very different from the one reached by using the non-oil GRP data. More importantly, ten years ago the conclusion reached was the same with this.

Third, is regarding the interregional disparities in social indicators. Here, the record has been rather different than what income and economic activity suggests. According to standard education and health indicators, interregional disparities in Indonesia are low and declining. Provinces in Nusa Tenggara areas are, once again, stand out as the least developed regions in Indonesia. Again, such a picture has been the same for the last ten years or so (see: Hill, 1997, 1992, 1989; Kim, Knaap, and Azis, 1992; Hill and Williams, 1989).

Fourth, is regarding the interregional disparities in production structures. Java and Bali are regions where almost all footlose export-oriented and import-substituting industrial activities located. Outside Java, location of such industrial activities is found in Batam and North Sumatra. Natural resource based industries, on the other hand, are concentrated more in outside Java. Production of cash crops are also located in off-Java, especially in Sumatra, West Kalimantan, and parts of Sulawesi. With regard to service economy, Java (especially Jakarta) stands out as the most developed region. This conclusion is of no different with what it was ten years ago.

Finally is regarding the trends in regional disparities. This is a comparison of interregional relativities over a period of time. Studies by Panggabean (1997), Garcia-Garcia and Soelistianingsih (1997), Akita and Lukman (1995), and Amiruddin (1992), suggest that no significant changes has occurred in interregional disparities. Their findings reinforce the previous assertions.

2. The Role of Government in Narrowing Regional Disparities in Indonesia.

In dealing with the problem of regional disparities, I could not mention another policy, more important and larger in scale, than the intergovernmental grants policy. The scale of this policy is large. In average, over the last 15 years, this fiscal instrument takes about 8 to 9 per cent of the Indonesian GDP per year.

In principle, this grants system is to finance decentralization. However, in Indonesia, this single policy has another objectives: to stimulate local economies as well as to create a more balanced development. That's why this policy has always been at the very centre of the central government's economic strategy. Using this fiscal instrument, the central government pools all financial resources before being distributed to regions. Through this policy, regional socio-economic performance was kept relatively stable even when the national economy (i.e., between 1978 and 1989) was subject to large external shocks.

This strategy, however, is not without costs. First, while the flow of funds may be favourable from regional economies' viewpoint, such a system has created chronic fiscal dependency on central government transfers. Two thirds of subnational governments' revenue derived from this source. Second, the success by which a balanced development can be achieved has become very sensitive to the design of this fiscal instrument. Just when the design of this instrument is unintendedly biased against equity and efficiency principles, fiscal disequalisation and inefficiency occurs; and, as will be shown later, that affects the potential achievement that this policy's objective is supposed to achieve (i.e., a balanced regional development).

I limit my policy observations only on this grants policy instrument. This handout will describe the performance of this system. Simultaneously, I will try to show how technical and institutional aspects of this policy have affected this policy's effectiveness. Subsections below will describe several salient features of this policy.

2.1. Decentralization Format in Indonesia: A Brief Description.

To begin with, it is necessary to outline the decentralization format in Indonesia. This is important since grants system exists within the context of decentralization.

There are three principles of governance in Indonesia. The first is called decentralization principle. This term is broadly defined as the devolution of functions to subnational levels of government. Though the definition seems clear, in practice the functions devolved represents a small fractions of the real functions. The second principle is deconcentration, meaning field administration of central government. The third principle is called co-administration, which essentially is a combination between deconcentration and devolution whereby local government as an autonomous entity can be instructed by the higher government level to execute a particular function or authority on its behalf (i.e., delegation of functions). While the definition seems clear enough, in practice it is not.

More importantly than just definition, perhaps, is the implementation practice of these three principles. First, in practice the deconcentration and co-administration principles have been the two most important principles in shaping the centralization of authority in Indonesian system of subnational governance. Both principles reinforce the already unclear division of functional responsibilities. Second, within this approach, not only that the decentralization of allocation power through the local tax is very limited, but also that the decentralization of managerial power is low. Even in the areas where functions have been officially devolved to subnational governments, the central government still retains its role in decision making. Third, along with this centralized approach plus a relatively weak accountability character of the

local bureaucracy, the limited character of decentralization has created numerous implications for the nature of local budgetary choices regarding spending and spending efficiency. Finally, this institutional setup is uniformly applied across the whole country. This is the institutional environment within which the intergovernmental grants policy operates.

2.2. Nature of the Grants System: A Brief Description.

Now we talk about the grants system itself. The grants system in Indonesia comprises of two main components: the INPRES development grants, and the SDO routine grants.

The INPRES development grants consists of seven separate components and each launched in different years starting 1969. They all have different administrative features, formulae, and weighting. Hence, the total amount of grants received by each region becomes the sum of various individual grants, each of which is assessed and allocated separately by the relevant ministries. The effect of such a design has been on the fluctuation of the effective (as in contrast to nominal) weighting over time. An unsystematic and inconsistent approach to interregional equalisation, has, therefore, resulted.

From administrative side, there are also conflicting perceptions with regard to INPRES grants. BAPPENAS (National Planning Agency) argues that grants intended to finance decentralization principle since the grant effectively finance decentralised functions. Meanwhile, the Ministry of Home Affairs claims that this is the financial implication of the co-administration principle (i.e., the third principle of local governance in Indonesia) since the INPRES funds are the central government's money. This conflicting interpretation has its effects, i.e., on the extent of control and discretion over the funds. While BAPPENAS interpretation would mean a movement towards a more decentralised use of funds (and thus towards a block-type of grant), the Ministry of Home Affairs' interpretation would mean continued close scrutiny and specification over the use of monies (and thus towards a specific-type of grant). The prevalence of such a conflicting interpretation is mainly attributed to the failure in clarifying the three principles of governance adopted.

The same story happens with the SDO component of the grants system. SDO comprises of around ten individual grants (by 1996). Each of it has its own objectives. Not all of the elements has an allocation formulae. The per capita amount of each individual grant is also small. Most of them raise a number of issues in relation to equity and efficiency. For examples, some elements of this grant are being distributed without a clearly defined allocation criteria (in the sense that allocations do not take into account differences in spending needs, cost variations, and revenue capacity factors); some others do have allocation criteria, but the way they are calculated upsets the principle of equity in allocation (see: Panggabean, 1997). The question, then, is: with such a design, how does the system perform?

3. The Role of the Grants System in Narrowing Regional Disparities.

3.1. The Effects of Grants on Interregional Equalisation.

Let us first talk about the good story of this grants policy. While it is true that the subnational

governments are chronically underfinanced, intergovernmental grants system has apparently helped adjusted the fiscal deficiencies at subnational level by financing a major part of the local expenditure responsibilities. This, has enabled the subnational governments to participate in the provision of merit goods and thus in the redistribution of opportunities, access and hence income. However, certain vertical fiscal imbalances remain.

It is argued before that the way the intergovernmental grants are distributed means that they have not been able to neutralize the fiscal imbalances between the three levels of government. Hence, the following results occur. First, equalisation of horizontal fiscal imbalances is rather weak. The analysis done by a number of studies suggest that the distribution of grants only mildly compensates for interregional differences in expenditure needs and costs. Equalisation of fiscal capacity between regions is even weaker. This result leads me to assert that intergovernmental grants bring about interregional equalisation only in a limited sense. This means that differentials in fiscal opportunity and access between regions remain, which in turn reduces the contribution of the grant system in bringing about interregional equity. Econometric analysis presented by Panggabean (1997), Garcia-Garcia and Soelistianingsih (1997), and Azis (1992) confirm the above assertion: that the equalisation in income per capita between regions tends to be very slow, even after including grants within the estimation process. However, It may be fair to also comment that the interregional variations in growth rates are generally the result of private or sectoral investment pursuing the greatest returns. The grants system, at least by design, has the role as an antidote to this tendency. We could plausibly speculate that in the absence of this grants, disparity would have been worse. Some specific findings pointing at the suboptimal performance of the grants system are worth reporting and summarised below.

First, the intergovernmental grant system has addressed the issue of vertical equity by financing the subnational governments' expenditure responsibilities, enabling them to provide merit goods and thus contribute to the redistribution of opportunities, access and income. However, the vertical fiscal imbalance has not not been fully eliminated.

Second, the evidence suggests that the role of grants in bringing about equalisation of horizontal fiscal imbalances is rather weak. Statistical assessments indicate that the grants system scores low with respect to equalisation in fiscal capacity, and moderate in relation to equalisation of both spending needs and costs of service provision. Hence, the grants system only mildly compensates for interregional differences in expenditure needs and costs of service provision, while having barely any effect on equalisation of fiscal capacity between regions. As a result, differences in fiscal opportunity and access between regions remain, thereby reducing the grant system's contribution to interregional equity.

3.2. The Effects of Grants on Interregional Growth.

Not many studies, apparently, focus on this issue. From some studies which are available, a common conclusion may be reached. Using an econometric analysis, there is an evidence to suggest that incremental changes in a region's total stock of capital accounted for by INPRES grants appear to play little or no role in regional per capita income growth. In other words, INPRES investment appears not to

be productive. By comparison, there is some evidence, albeit not much, to suggest that sectoral investment (made by the government) is productive and that it contributes to interregional growth in per capita income. In contrast to INPRES, private sector investment is invariably productive. This result, however, does not rule out the possibility that the infra-marginal productivity of INPRES investment may still be substantial even when its net additions to the total capital stock make very little or no contribution to growth. Explanations for this relate to the structure and the institutional environment within which this grant operates.

To add, the existing studies on this issue also suggest that the design and the structure of the grants system does not provide adequate incentives for efficiency improvements. Panggabean (1997) demonstrates that the underlying institutional environment has severely constrained the beneficial effects of grant on regional economic growth stimulation, through its negative effects on resource mobilization, on stimulation of capital spending, on investment productivity, and on allocation and productive efficiencies.

With regard to So, no resource mobilization incentive is incorporated into its design. Evidence from the field suggests that in its policy process, the centralized system of personnel, coupled with inadequate arrangements in personnel administration, has led to misforecasting of the level of So required. As a result, there has been some opportunity loss in terms of the number of development projects which could have been undertaken within that fiscal year had resources been more accurately allocated. Organizational and personnel structures themselves are inefficient so that the efficiency of So, which is directly linked with them, is distorted. A link is also established between the centralized authority and local budgetary choice. It is suggested that pressures from rigid and centralized organisational and personnel structures prevent the subnational governments from providing sufficient funds for capital spending and for operation and maintenance purposes. While the former would mean a slower rate of capital formation in regions, the latter would affect the long term productivity of grants-generated assets.

Next, the design of the development grants includes virtually no element to promote local revenue effort. This prevents the development grants from being effective in stimulating local resource mobilisation. Field evidence suggests that the link between grants and other sources of investment is weak within the planning cycle. In other words, the planning and budgeting processes do not ensure a complementarity between public and private investment. Hence, the potential effects of grants on the savings rate locally is reduced.

Finally, regarding the nature of the assignment of functional responsibilities which inhibits an efficient allocation of resources. Evidence was put forward to claim that the distortion in the choice of investment is also the result of an overly detailed specification. Some more field evidence also suggests that policy fragmentation, weak administrative capacity, and delays in disbursement all reduce the productivity of the assets which are generated and contribute to inflation in the costs of investment.

All of the above field findings helps to explain why development grants appear to have little impact on regional economic growth. In addition, the unclear division of functional responsibilities may inhibit the adoption of a least cost combination of inputs for production of goods and services (i.e. production

efficiency).

3.3. How Institutional Factors Affect the Effectiveness of Grants System.

Finally, the analysis on the benefit incidence of grants-funded programmes shows that institutional arrangements can weaken the redistributive effects of the grants (see: Panggabean, 1997; Shah, et al., 1994).

The field examples presented by some studies suggest that the way programmes are planned or implemented can potentially dilute the effectiveness of intergovernmental grants in reaching the poor. Unclear definitions of functional responsibilities are shown to have diluted the potential effectiveness of grant-funded programmes. Limited discretion given to local authorities, lack of accountability on the part of executive branch of local government, and lack of co-ordination between government agencies, are also factors which can displace the incidence of benefits from grant-funded programmes, and so reduce the impact of these grants on interregional and interpersonal equity. Finally, field evidence presented in many studies shows that institutional arrangements can weaken the redistributive and allocative efficiency effects of the grants. It was shown that the way programmes are planned and implemented can potentially dilute the effectiveness of grant-funded programmes in reaching the poor. Unclear definitions of functional responsibilities, limited discretion, and the lack of co-ordination between government agencies, are all institutional factors which can dilute the potential efficiency effects of grants policy in narrowing regional disparities.

**INSTITUTIONAL AND TECHINICAL CONSTRAINTS
IN NARROWING REGIONAL DISPARITIES IN
INDONESIA:
THE CASE OF THE
INTERGOVERNMENTAL GRANTS POLICY**

Presented by Dr. Adrian Panggabean
Faculty of Economics
University of Indonesia

Indonesia: Some Facts...

- ◆ 17,000 islands
- ◆ 2 million square kilometres of land (or 5 million square kilometres-incl. waters)
- ◆ 5,000 kilometres in distance (East-West)
- ◆ 200 million population
- ◆ More than 200 different ethnic groups and languages

Administrative Structure...

- ◆ Unitary state in the form of a Republic
- ◆ 27 Provinces
- ◆ 303 Local Governments
- ◆ 3,840 Sub-districts
- ◆ 5,000 Urban Kampongs
- ◆ 63,721 Rural Villages
- ◆ 4 Million civil servants (1 million of which is subnational governments' employees)

Broad Patterns of Regional Development...

- ◆ Disparities in economic activities (2/3 of Indonesian economic activity is in Java). The same for the last 25 years.
- ◆ Disparities in Income, Using non-oil GRP-income is uneven (Jakarta is very high, Eastern Provinces and Nusa Tenggara are poor, small number of regions are marginally above national average). Using household expenditures data-income is less uneven.

...Patterns of Development (Cont'd)

- ◆ Disparities in social indicators. The same story and magnitude as ten years ago.
- ◆ Disparities in production structures (interregional differences in production basis). No change over 10 years or so.

◆Trends in disparities confirm the non-convergence tendency:

- The speed of convergence is low.
- Weak tendency towards convergence.

Such a Pattern Exists...

- ◆Despite the government's continuous effort to balance the development using the grants system...
- ...which has been in place since 1969
- ...and very large in scale (8-9% of GDP)
- ...targeted to all lower levels of government
- ...which is relatively reliable, even during bad economic times

Econometric Tests Suggests That...

- ◆Grants as an economic instrument only affect regions' production structure marginally.
- ◆Investments made through grants appear to play little or no role in regional percapita income growth.
- ◆In other words: productivity of grants-funded investments is marginal.
- ◆The effect of grants on interregional income equalisation is also marginal.

Two Types of Constraints:

- ◆The Ability of this fiscal instrument to achieve the objective is constrained by two factors:
- ◆Technical constraints (i.e., the design of this fiscal instrument)
- ◆Institutional constraints (i.e., the underlying institutional framework within which this policy operates)

Technical Constraints...

- ◆Originated from the failure to put in place rational design in the fiscal system:
- ◆First, the grants are prescribed in too much detail. Hence introduce distortions into the system.
- ◆Second, the system does not provide adequate incentives for efficiency and equalization.

To be specific...

- ◆Virtually no fiscal capacity equalization element is included
- ◆The element of fiscal effort is only marginally represented
- ◆Fragmented nature of the system. Hence, produces unsystematic approach to equalization
- ◆In a number of the grants' elements, objective allocation criteria are missing

What's more...?

- ◆The grants system scores low with respect to equalization in fiscal capacity

- ◆ The grants system only scores moderate in relation to equalization of both spending needs and costs of service provision
- ◆ In effect, the grants' contribution to interregional equalization is reduced.

Institutional Constraints...

- ◆ Functional boundaries overlap. The way grants-funded public programmes is thus being affected.
- ◆ Administrative arrangements for the various elements of the grants are cumbersome.
- ◆ The link between grants-funded investments and other source of investment is weak within the planning cycle.

What's More...?

- ◆ Policy fragmentation, weak administrative capacity, and delays in disbursement contribute to inflation in costs of investments. Reducing potential efficiency.
- ◆ Lack of accountability to electorates inhibits the promotion of an optimal choice of spending of the grant's funds.

Recent Developments...

- ◆ IDT—Grants to Poor Villages with strong Eastern Indonesia Focus.
- ◆ PP No.8/1995—Experimental Programme of Decentralization (Pilot Regions).
- ◆ Enactment of Law No.18/1997—Law on Local Tax and Charges (Effective on 23 May 1998).

JICA International Symposium on Local Development and the Role of Government "Local Governance - Cebu Experience"

**Presented by Hon. Mayor Alvin B. Garcia,
Cebu City Mayor,
the Philippines**

Ladies and gentlemen,

A pleasant good afternoon!

I will talk about Local Development and Governance in the context of decentralization. But first, allow me to give a little background and history of the city where I sit as Mayor. Cebu City is the biggest city outside Metro Manila. It has a population of about 800,000 people occupying approximately 33,000 hectares of land, 15% of which is a densely populated coastal plain.

Cebu was discovered by Spanish explorer, Ferdinand Magellan in 1521. At that time, it was already a thriving port city. He planted a cross therein which today still exists. He moved on to nearby Mactan Island whose inhabitants distrusted him. He waged war against them and in the heat of battle, Magellan was mortally wounded. At present, an old monument marks the spot where he died.

Magellan's men fled in their boats and eventually returned to Spain through the Southeast Asian seas, the Indian Ocean and Cape of Good Hope. This is the first recorded circumnavigation of the world since they started their trip from the Spain through the Atlantic Ocean, then to the Pacific Ocean passing Cape Cod.

In 1565, another Spain explorer, Miguel Lopez de Legaspi landed in Cebu. He moved to other parts of the Philippines and eventually colonized the entire country. He introduced the first rudiments of a formal government when he organized the numerous settlements he visited and subdued, into a colony of Spain.

The early form of Colonial government was highly autonomous. Local tribal Chieftains had full control over their areas, exacted tributes (taxes) from them and defended them from external threats. In turn, these chieftains share part of the tributes to Spain through the Colonial government in Manila. As the local communities grew and governing them from afar became more complex, the central government established administrative bodies in the local communities and this was the beginning of local governments as we understand it today.

When the Americans took over the Philippines at the turn of the century, local governments as previously described, were already in existence. They were highly decentralized and autonomous. In order to fulfill the America's self-proclaimed mission to educate the Filipinos and develop the Philippines prior to granting it independence, they moved to centralize power in the National government headed by an American Governor-General (such title is similar to General MacArthur in Japan after the Pacific War). Even the title evokes vast powers and resources at his disposal.

By the time, the Philippines was granted independence, it inherited a highly centralized National government based in Manila. When the Congress of the newly independent Republic convened, it realized the importance of decentralization to spur local development. They passed laws on decentralization and

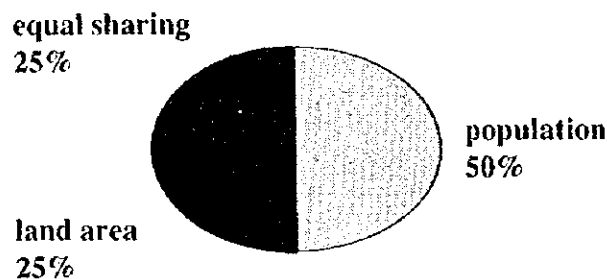
local autonomy only to be derailed once again in 1972 when President Marcos declared Martial Law. He arrogated all powers into himself so that all local governments had to literally beg on their knees to get favors from him.

LOCAL GOVERNMENT CODE OF 1991

It took another 5 years, after the overthrow of President Marcos, for a responsive Local Government Code to be enacted. Although acknowledged locally and internationally as a very progressive piece of legislation for local development, it has attained some successes and suffered some drawbacks in its implementation.

REVENUE GENERATING POWER

Cebu city has taken advantage of this power granted by the Code. It now has a broader tax base than before. The Code, however, prohibits the Local Government Units (LGUs) from assessing taxes on Internal Revenue, such as income taxes, excise taxes, turnover taxes, sales taxes, customs duties, etc. These taxes are lumped together in a pie and distributed back to the LGUs on a formula based on : population 50%, land area 25%, and equal sharing 25%. This is called IRA (Internal Revenue Allotment).



• Drawback

The formula does not take into consideration the amount of contribution the local government has placed in the pie. Usually, big income-generating local governments need bigger infrastructure and other support than others in order to sustain its growth and progress. Hence, the need for a bigger share.

• Advantage

The formula acts as an equalizer to the poorer regions who do not generate much income, they will still get their share on the basis of the Formula without regard to income contributed therein. A good cure for regional disparities.

The broader tax base of LGUs enumerated by the Code include Real Property taxes, Mayor's License and Permit Fees, Amusement Taxes and other minor taxes. The big and progressive LGUs take advantage, while the smaller LGUs cannot.

Advantage:

Cebu city and other progressive LGUs are developed enough and the values of their real properties are sufficiently high to mean considerable assessments and the concentration of businesses are sufficiently dense to make collection activities cost-effective.

Drawback:

In smaller LGUs where property values are low and businesses are few, small and dispersed, it costs more to collect than the revenue intended to be raised, this taxing power is ineffective.

PEOPLE EMPOWERMENT

Another window of opportunity opened by the Code is for people and private sector participation in local democratic processes. The Code mandates the creation of many special local bodies, the biggest of which is the City Development Council. Recently this body met and decided to have a master plan created for the development of Cebu City and bid it out to interested consulting firms.

Cebu City Local School Board and People's Law Enforcement Board (PLEB) are also very active. The former is now undertaking a massive school-building program under its own budget and is also implementing an Intranet/Internet connectivity program; while the latter has been meting out disciplinary actions against erring policemen.

How come some bodies are more effective than others? It boils down to the know-how of the people who lead and comprise these boards. These who have the initiative and experience can take advantage of the Code. These who don't, just hold meetings.

OTHER FORMS OF LOCAL FINANCE

The Code enumerates other development finance options and some LGUs have taken advantage of them. Mandaluyong City built a market through the BOT scheme (Built-Operate-Transfer), the Province of Cebu issued bonds backed by real estate, Legaspi City and San Carlos City floated bonds for its socialized housing projects, Cebu City has a pending socialized housing bond flotation, BOT for a housing condominium, a market and a City Hall annex.

Given the demand for capital for development projects in local governments, it seems surprising that these forms of development financing are still the exception rather than the rule. I know of only less than 10 LGUs of the over 1600 LGUs in the Philippines using these innovative schemes. Why aren't there more of them? My guess is that only a few LGUs can access the know-how to take advantage of the opportunity. Those who can, do it. Those who cannot, use traditional means of financing.

THE LOCAL GOVERNMENT CODE: CONCLUSION

Six years has passed after the Code has taken effect, many LGUs have indeed benefited from its provisions. But progress has also been hindered because it has often been defined in the context of the

Code, when progress should be defined on its own terms.

For example, a highly-respected award for local government programs is given partly on the basis of how the program is taking advantage of the Code. It's almost saying that other beneficial programs are not successful if these did not take advantage of a Codal provision.

The tragedy of the Code is that many people have come to think of it as the end-all and be-all of decentralization. Many of us labor under the illusion that we have decentralization because of the Code. We have forgotten that the Code is there, because of decentralization, to foster the inherent autonomy that has been the birthright of local communities since time immemorial.

The Code provides opportunities, but there are other opportunities outside of it. And where it provides limitations, alternative means may be provided through other legislation.

In other words, our attitude towards the Code should be : take advantage of its opportunities, but do not be limited by it. Otherwise, from being a window for the empowerment of local governments, the Code becomes the wall that hems them in.

ACCESSING OFFICIAL DONOR ASSISTANCE

Donors look for places that are most likely to produce results for their investment. For its Governance in Local Democracy (GOLD) Program, for example, USAID chose LGUs where the local chief executive is noted for his leadership, accomplishment and innovativeness. Donors also want to put in their money where the local government has demonstrated a capability to implement previous projects. I would like to think this is part of the reason why there is much OECF/JICA assistance to Metro Cebu.

Why are some LGUs more capable than others in implementing ODA-assisted projects, and therefore more capable of exploiting Codal provisions for direct ODA interaction? The principle applicable on revenue generation, is also applicable to accessing Official Donor Assistance. Provisions in the Code that allow LGUs to benefit from direct contact with donor agencies are only good for those LGUs which are ready for such contact.

These are LGUs which are ready with their own development and infrastructure plans because they have appropriate technology such as GIS (Geographic Information System), or maybe CADD (Computer-Aided Drafting and Design). They have state-of-the-art communications and networks, Intranets and Internet connectivity. In short, they have strong project development capabilities.

LGUs which are not ready and are caught napping on the side of the road have little chance of getting on the ODA gravy train.

Regional Disparity

This dynamics of growth leading to further growth has created disparities in regional development. Leaders from the provinces and cities outside Metro Manila complain about "Imperial Manila" for the disproportionate amount of public and foreign funds expended in the capital. At the same time, because Metro Cebu has attracted so many grants and loans, neighboring provinces and regions have started complaining about "Imperial Cebu".

It is clear that the level of development is different between regions. When this difference increases because of the disparity between the regions' capability to attract more investment or to access ODA, maybe it's time for some kind of attempt to level the playing field.

Project Development Offices

What I hoped to underline in the previous discussion is that opportunities do not actualize themselves. What matters most is whether a city has the capability to take advantage of an opportunity. May I therefore propose that Official Donor Agencies or the National Government be directed first towards helping LGUs or regions attain a minimum level of capability that allows them to take advantage of opportunities - inside and outside the Code. Such assistance could be specifically directed to those LGUs or regions which so far have not availed the subject of any official donor assistance or project. In particular, I would propose helping LGUs Or the regions set up their own Project Development Offices. Donor agencies can provide training, capital outlay, or equipment/software. The project to be developed may be for revenue generation, human resource development, planning, etc.

PERIODIC LGU-ODA FAIR

I would like to propose a two-part event. The first part is an introductory meeting between City Mayors, Development and Planning Officers, Finance Officers and Development Agencies. During this meeting, the Donor Agencies explain what kind of projects they can support, and present guidelines for proposal. The LGU officials then go home to consider their needs and opportunities. Using their new Project Development Office they start working on their proposals. At this point it may be necessary for them to contact a specific Donor Agency for clarifications.

The second part takes place after a sufficient period of time for proposal preparation, a month or two thereafter. In this latter event, the LGUs take their proposals to various ODA tables, or ODA representatives, who receive and browse the proposals in booths set up by the LGUs for this yearly event. The arrangement is supposed to work like a fair or a market, give the sellers an opportunity to meet the buyers.

Looking beyond the elections

After the coming elections in May, the new Congress will have to review the Local Government Code. I am confident that we can improve and fine tune the Code further based on our experiences with it in the past 6 years.

In the end, after the amendments shall have been proposed, discarded or accepted, we will still end up with a document that will not be perfect. It will still contain opportunities, as well as limitations.

My advice then would be the same - let's take advantage of the opportunities, but seek not to be hemmed in by the limitations. After all, our quest is not for an perfect document, but for the promotion of local autonomy for effective local governance.

**The Role of ODA in Advancing Regional Development
and the Capacity Building of Local Governments
March 5, 1998**

**Presented by Mr.M. Kojima
Managing Director, Planning Department , JICA**

1. The Importance of Regional Development and the Capacity Building of Local Governments

- (1) Mega-City problems and the widening gap between big cities and rural areas.
- (2) The increasing importance of the role of local governments in the process of decentralization and increasing autonomy.
- (3) Self-determination of political and administrative system in each country including the relations between the central government and local governments.

2. JICA's Activities

(1) Technical Cooperation

- Receiving trainees and specialists
- Sending experts
- Providing necessary equipments
- Project-type technical cooperation
- Development Studies (F/S, M/P)

(2) JOCV (Japan Overseas Cooperation Volunteers)

(3) Emergency Disaster Relief

(4) Implementation of Grant Aid Program

3. The Role of ODA in Rural Development and the Capacity Building of Local Governments

- (1) Economic and social aspects—Rural developments and developments ← of local communities, which also serve for the capacity-building of local governments together with narrowing gaps.
- (2) Political and administrative aspects—local administration, local autonomy and decentralization
- (3) Mode of project - type cooperation
 - Center type cooperation
 - Local development type cooperation
 - Increasing importance of close coordination between the central government and the local governments, and the clear identification of budget allocation and responsibilities

4. Coordination between JICA and the Japanese Local Governments and the Active Utilization of

Their Expertise in Carrying out JICA's Activities

(1)Receiving trainees(573 persons in 32 prefectural governments in FY1996)

(2)Sending prefectural experts(157 local officials from 31 prefectural governments in FY1996)

- Direct contribution of the Japanese local governments and local autonomy.

5. Process of Decentralization and increasing Local Autonomy in the World and the Emerging

Aspects in Carrying out ODA

(1)Shifting authorities and budget allocation from a central government to local governments

- Increasing importance of the role of local governments, in particular, in carrying out cooperation in rural development and their capacity building.

(2)The role of the central government in G-G base cooperation

- Confirmation of the intention and priorities of the central government

- Importance of respecting initiatives and ownership of local governments in carrying out cooperation

**THE ROLE OF DEVELOPMENT ASSISTANCE
IN LOCAL GOVERNANCE PROGRAMMING
---WHAT WE THINK WE'VE LEARNED IN THE PHILIPPINES**

**Presented by Dr. Michael M. Calavan
Chief, Office of Governance and Participation
U.S. Agency for International Development, Manila**

I've been asking myself why I was invited here. My best guess is because USAID is doing cutting-edge programming (in place well before I arrived) and because I said some fairly provocative things in recent meetings with JICA teams in Manila. I'm not here to convey official USAID policy, but to talk about what we've learned about supporting democratic local governance in the Philippines. I hope I can do that in a way that provokes discussion without seeming arrogant.

First, a little background information:

- The Philippines passed a far-reaching Local Government Code in 1991. (The only law we know of that is even roughly equivalent is Bolivia's.)
- Significant new financial resources were made available under the "Internal Revenue Allotment", a share of national revenues.
- Local governments also have significant authorities to make and enforce laws, raise revenues, and hire local full-time staff.
- In USAID/Philippines, work in this area is a governance and democracy activity.
- Our project in this area is GOLD---"governance and local democracy". (There is a handout.)

Now for some tentative lessons learned:

I. Optimism, not pessimism is called for

- Surveys about problems and shortcomings of local government bring predictable, traditional, not-very-useful answers. It's more useful to ask about broad, positive trends.
- Our field observations and periodic Rapid Field Appraisals give ample reasons for optimism. (RFA#7 is available as a handout.)
- Of course, we're working with "the best", but if we want to support fundamental change, what other course is reasonable?

II. It's okay to (carefully) embrace open politics

- We don't do this in an over-enthusiastic, young lover's way, but more like mature Latins.
- But we work directly with governors, city and municipal mayors, local legislators, even barangay (village-level) officials.

---We won't support any candidate or party in the coming local elections, but hope ongoing activities under the GOLD project will be discussed and debated during the campaigns.

---We're very pleased the (non-partisan) local government leagues are becoming potent political actors. (For example, by shaping debate on revision of the Local Government Code.)

---Some project Technical Working Groups are headed by elected leaders, others by local government employees, NGO leaders, or private business leaders.

III. The obvious way to strengthen local governance is to work with local governments

---We don't attempt to strengthen local governments by working through a national government agency, and now that we don't, find it ironic we did so in the past.

---We do work directly with 9 provinces, 2 independent cities, and their constituent municipalities and barangays.

---We also work closely with 3 local government "leagues" (for provinces, cities, and municipalities) and a new "league of leagues".

---Most expertise under the project is provided by Filipino consultants. We're optimistic they will sell their services to local governments after the project ends.

IV. Demand-driven programming can really work

---We began by "advertising" for partners, and chose the most promising. (Not the richest, but the most creative, energetic, and transparent.)

---Project staff really don't enter a situation with a ready-made program hidden in their brief cases.

---Project activities were identified at large (70-175), participatory workshops where the governor's vote weighed no more than other participants'.

---Demand-driven programs have predictable similarities, but also some striking differences.

---Project activities are directed and pushed hard by Technical Working Groups and "Protocols".

---Project inputs are limited to facilitation/coordination services, and short-term technical assistance.

---There is extensive cost-sharing. Local governments pay some of the costs of workshops, cross-visits, etc. and are regularly creating new budget line items to ensure long-term support of activities initiated under the project.

V. It's time to move participation from rhetoric to reality

---The GOLD project brought a particular package of facilitation skills (called the "Technologies of Participation") to the Philippines. Filipinos love it.

---ToP is simple and teachable, but highly adaptable, and has been used in dozens of ways in about 1000 events.

---Over 900 people have been trained in ToP, and use is spreading well beyond the project.

---Impressive uses of ToP include a large participatory 5-year planning in Bohol Province, 250 Barangay Planning and Budgeting workshops in several provinces, and in our work with politicians and revenue

officials on improving local property tax collections.

---Perhaps 30,000 people have participated in one or more participatory workshops/
dialogues/planning sessions.

---Cost-sharing is a potent participation technique.

Perhaps I've confused you enough. I'll gladly answer questions in this session, talk to you informally later.

Governance and Local Democracy Project

Background

The Local Government Code of 1991 actualized the Filipino people's commitment to decentralized, democratic governance and sustainable development. As an enabling instrument, that landmark legislation opened immense opportunities for local development initiatives and for greater community participation in governance. Since the Code's implementation in 1992, communities and their local governments have responded with unsurpassed enthusiasm and creativeness, resulting in remarkable gains.

The *Governance and Local Democracy (GOLD) Project* is designed to demonstrate that, through a decentralized system of governance, local communities can accelerate the development process through autonomous planning, local revenue generation, and improved service delivery. Consistent with the tenets of local autonomy, the GOLD project hopes to achieve this through a strategy of *assisted self reliance* and provision of technical support on a demand driven basis. Under this strategy, a major consideration is a local government's interest to develop on its own, but recognizing its limitations, seeks support in areas of concern that the community itself defines. In that support, emphasis is placed on enhancing the ability to access and use resources more effectively.

GOLD Project Sites

Bohol Province
Bulacan Province
Capiz Province
Cotabato Province
General Santos City
Lanao del Norte Province
Naga City
Negros Oriental
Nueva Vizcaya Province
Palawan Province
Sarangani Province

Started in 1995, GOLD works with nine (9) Provinces and two (2) highly urbanized cities selected through a participatory process. The Project Steering Committee consists of project partners and is chaired by a Local Chief Executive.

Purpose and Strategy

The GOLD Project seeks to bring about more responsive democratic institutions with greater citizen participation for local governance and development. The purpose is to achieve effective local governance with maximized popular participation in selected local government units and establish a functioning system of communication support replication.

The GOLD Project strategy supports selected local communities in their efforts to;

- Enhance participatory decision-making processes;

- Identify and achieve improved performance in governmental operation;
- Strengthen supportive organizational linkages at the local and national levels; and
- Address policy roadblocks that constrain local governance and development.

The strategy is premised on *assisted self-reliance*. This involves using external resources to strengthen local capacities to initiate and manage activities that benefit the community. It means working with the public and private sectors on activities that bring about development. It also means supporting local communities-their local governments and NGOs-on a *demand-driven basis*; *i. e.*, giving support in those areas where such is most needed as defined by the local communities themselves.

Activities

GOLD Project activities fall under five categories:

- Strengthening of Participatory Mechanisms
- Local Government Action Areas
- Support for the Local Government Leagues and NGO Networks
- Policy Support
- Institutionalizing Communication Systems

Breakthroughs

Strengthening Participatory Mechanisms; GOLD Institutionalizes participatory modes of delivering technical assistance through (a) mobilization of Code-mandated local special and multi-sectoral bodies, and customized application of group process facilitation methods in the delivery of technical assistance.

- GOLD has trained 920 participants in basic group facilitation (Technology of Participation) methods drawn from local government partners, GOLD technical protocol teams, and other USAID-supported projects.

- GOLD piloted additional facilitation and special-purpose training courses for Barangay officials and advanced-level facilitators.

Resource Mobilization and Management. GOLD's provides; 1) the Real Property Tax System (RPTS) assistance, 2) Fund Management Information System (FMIS) assistance, and 3) general revenue generation-related technical assistance, and 4) *Human Resource Mobilization and Management* assistance in support of service delivery Improve initiatives identified by local governments.

Appendix 2. Presentation Papers and Other Hand-Outs for Presentation

- Provincial Technical Assistance Teams in all four RPTS protocol sites are redesigning property tax assessment and collection processes.
- Negros Oriental's five-year Financial Management Information System (FMIS) Plan was approved by the Provincial Government and a rapid assessment of Nueva Vizcaya's FMIS needs is underway.
- Bohol, Nueva Vizcaya, Lanao del Norte, Negros Oriental, Naga City and Capiz are implementing systematic interventions to build capacity for implementing and managing organizational change for improved service delivery. A key focus is to provide local government officials with appropriate tools, technology to understand, lead, and manage change through participatory mechanisms.
- Cotabato was awarded by the Department of Health at the Third National Health Assembly for the GOLD-supported Municipal Health Planning and Budgeting Workshops and Hospital Boards were created in all public hospitals to improve management oversight of service delivery.
- Naga City formulated a 3-year Health Services Delivery Plan in response to priorities set in the previous GOLD-supported multi-sectoral conference for improved health services.
- GOLD developed a participatory local planning-budgeting process in five GOLD sites for 204 local governments to help; 1) make local planning and budgeting processes more participatory, 2) link plans with budgets, and 3) make plans and budgets more responsive to development needs and priorities.

Development investment Prioritization and Promotion; GOLD assistance includes two types; (1) Investment Promotion and (2) Project Development for Resource Mobilization

- Investment Promotion Offices or Resource Management Centers have been created to assist established businesses and attract new investment in potential projects and Cotabato held its first Trade and Investment Exposition with the assistance of the Department of Trade and industry and GOLD.
- Local Governments in Palawan, Capiz and Bohol have undertaken feasibility studies of infrastructure, irrigation, and agro-industrial projects using their own resources and expertise in collaboration with the private sector.
- Municipalities in Capiz developed project specific master plans, operationalized a joint venture

enterprise in partnership with the private sector, and explored innovative financing modes for funding the expansion of a public market.

- Eight municipalities in Capiz initiated the Inter-municipal Water Supply System Project to improve services while capitalizing on economies of scale to reduce costs to citizens.

- A Rural Waterworks Association in Palawan is receiving assistance to rehabilitate the water supply system and the watershed from which the town's water supply is sourced. GOLD provides guidance in developing the association's collection and financial management systems, and to strengthen the relationship between the association and municipal government.

Environmental Planning and Management; GOLD assists local governments to work more closely with their citizens to define priority problems, initiate achievable actions, and fund these initiatives using local resources. Sixty-two locally initiated projects are currently underway.

- Solid waste management programs have been launched by participating local governments that include a waste recovery center in Bulacan, collection and dumpsite improvements, segregation schemes, and integrated SWM approaches in General Santos and Metro Dumaguete.

- Local governments in Capiz have decentralized coastal resource management responsibilities and four municipalities have joined to jointly manage Pillar Bay, a shared resource.

- Local governments in Sarangani, Bohol, and Nueva Vizcaya have initiated free farming programs with private sector support, assumed the management of watershed and reforestation projects from the national government, and implemented the first local government-initiated Community Based Forest Management Program in the country.

- Local governments in Palawan, Bulacan, Bohol, Capiz, Naga City, General Santos City and Cotabato have incorporated participatory modes into their development and environmental planning process.

Policy and Communication; GOLD's Policy and Communication assistance helps local governments and the Leagues of Local Government to develop their own capabilities, and monitors GOLD site protocol activities to formulate emerging policy issues.

- GOLD presented the results of the *7th Rapid Field Appraisal of Decentralization* to national government agencies, the leagues of local government and the media.

- Thirteen Occasional Papers were published on local finance, police supervision, personnel management, health services, opportunities for improving local government-NGO relations, reforming the municipal development fund, inter-local cooperation, and resource allocation disparities.
- A key focus is assistance to the Leagues of Local Government and DLG's Oversight Committee in their review of the 1991 Local Government Code and support in creating the new League of Leagues of Local Government.

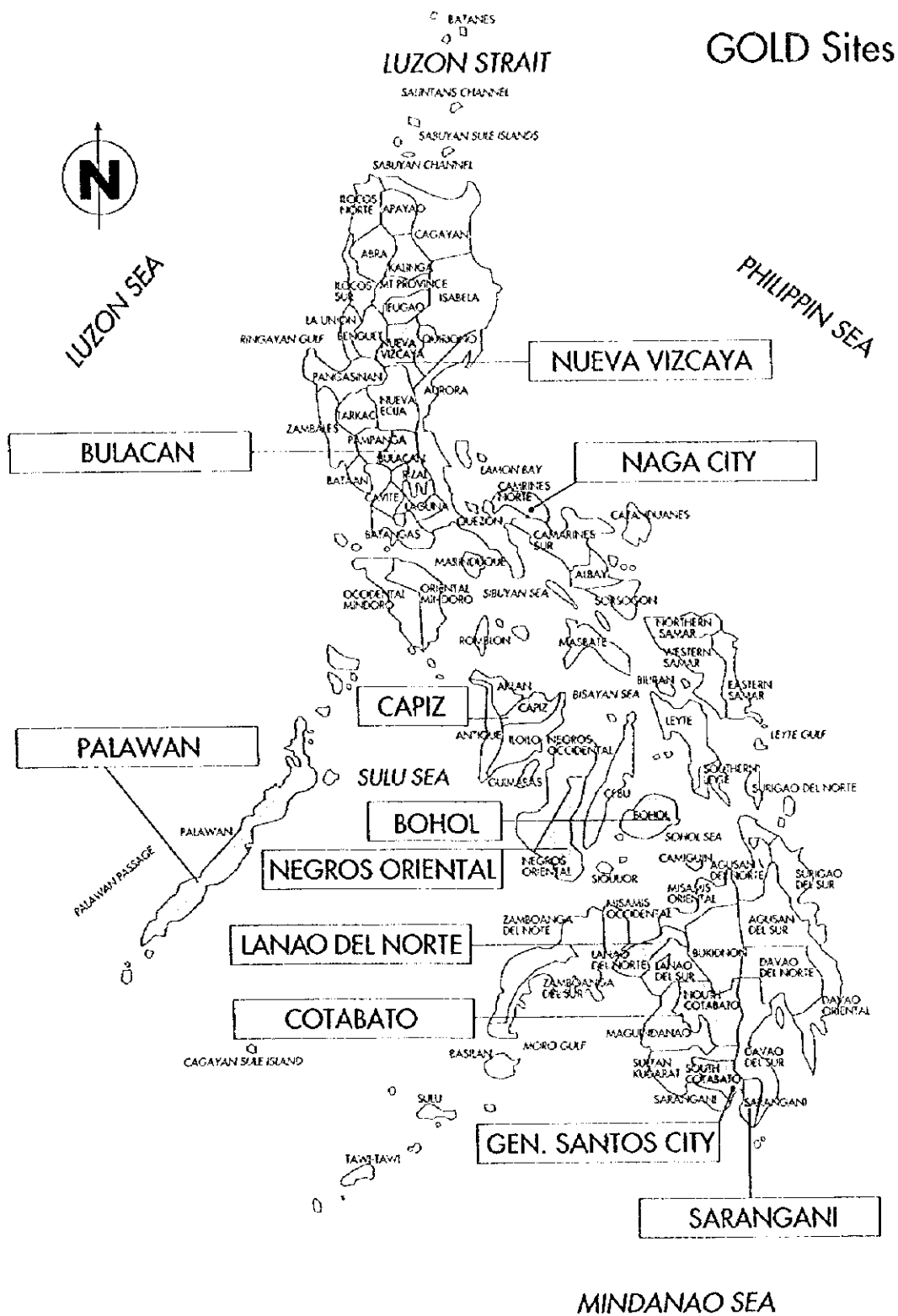
Implementing Agency

The Governance and Local Democracy (GOLD) Project is a United States Agency for international Development (USAID)-sponsored technical assistance program to the Government of the Republic of the Philippines. Technical support is provided to participating local governments by ARD, inc., a consulting firm with a strong international track record in decentralization and local governance concerns. ARD previously implemented the successful Local Development Assistance Program (LDAP) which provided valuable support to the Philippine Government's decentralization effort from 1991 to 1994. ARD is assisted by OI DCI, GFG, HERS, and PADCO through subcontract managements.

For institutional development assistance to NGOs and the Leagues of Local Government, USAID provides separate grants to the Philippine Business for Social Progress (PBSP) and the Evelio B. Javier Foundation (EBJF).

For additional information on the GOLD Project, please contact.

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Michael M. Calavan

SYNOPSIS OF FINDINGS

SEVENTH

RAPID FIELD APPRAISAL OF DECENTRALIZATION

Summarizing Past RFAs

July 1992 saw newly elected local government officials adopting a "wait and see" attitude.

January 1993 found local government officials beginning to move forward on Code implementation, with national government agencies responding.

September 1993 had problems in the devolution of personnel being solved, and the Internal Revenue Allotment system beginning to function.

June 1994 demonstrated increased momentum on the part of LGUs as they reaped fruits of experimentation.

June 1995 found increased local resource mobilization, and improved service delivery. However, National Government agencies had not pro-actively filled new roles after devolution was accomplished.

May 1996 demonstrated incredible diversity of experimentation as the decentralization process diffused across all classes/types of LGUs and deepened into more mature management of service delivery.

Governance and Local Democracy Project

Project No.492-0471

Prepared by the Associates in Rural Development, Inc.

Under Contract No.492-0471-C-00-5089-00

With USAID/Philippines

EXECUTIVE SUMMARY

This *Rapid Field Appraisal of Decentralization* is the seventh in a series undertaken since the implementation of the Local Government Code in 1992. These appraisals provide the local perspective on trends in the decentralization process, and constraints to those trends. Consultants familiar with a region undertook a rapid, qualitative investigation based on interviews. In the *7th RFA* all regions except the National Capital Region were covered, along with National Government Agencies.

The *7th Rapid Field Appraisal* revealed innovation, quality, and relevance at the local level. Innovation because local officials sought new ways to accomplish matters that the Code allows local governments to achieve. **Quality** service is more often the goal, as local communities focus on how well service is being provided. **Relevance** as officials and communities work together to address locally defined issues.

The *7th Rapid Field Appraisal* puts forth four conclusions:

1. Governance in the Philippines is being redefined at the local level.
2. Decentralization under the 1991 Local Government Code has been a success.
3. A new, participatory style of local leadership is emerging.
4. National government agencies have not pro-actively addressed the challenge of providing technical backup to local governments pursuing locally defined priorities.

These themes are supplemented with a wealth of local detail, discussed in terms of **Trends** discovered, **Constraints** to these trends, and possible **Recommendations**. Trends describe what is happening in the dynamic process of decentralization. Constraints are then linked to these trends, and recommendations are aimed at those actions that will hasten the forward movement of the process.

There are several sections:

- **Local Revenue and Resource Mobilization**, which discusses the upsurge in attention being given to increased efforts at revenue generation and alternative financing modes;
- **Delivery of Basic Services** (Health, Agriculture, Social Services, Environment), where the problem of localizing delivery in the face of continuing initiatives on the part of national government agencies;
- **Participation**, which juxtaposes substantial compliance with the letter of the Local Government Code and some continuing constraints on deepening citizen participation;
- **The National Government Agencies**, with special focus on NEDA, DILG, and COA; and
- **Special Focus: Autonomous Region in Muslim Mindanao**, which delineates the special situation faced by local governments under the ARMM's own Local Government Code (passed in 1994).

Rapid Field Appraisals are designed to provide timely feedback on the policy and administrative adjustments needed to fulfill the goals for greater local autonomy set forth in the 1987 Constitution. It is in this spirit that recommendations are put forward.

SYNOPSIS OF FINDINGS
SEVENTH
RAPID FIELD APPRAISAL OF DECENTRALIZATION

BACKGROUND

In August 1997 the Governance and Local Democracy Project (GOLD)* undertook this seventh in a series of *Rapid Field Appraisals (RFAs)*. The rapid appraisal approach to monitoring decentralization reforms was pioneered in 1992, during the USAID-assisted Local Development Assistance Program (LDAP). *RFAs* have tracked the implementation of the 1991 Local Government Code since that time, and it is anticipated that *RFAs* will continue to be undertaken at approximately yearly intervals.

Rapid Field Appraisals have played a unique role in monitoring decentralization reforms in the Philippines. The Implementation Teams for both LDAP and GOLD have been specifically tasked with tracking the pace and direction of the government's decentralization agenda. This effort provides timely feedback on the policy, administrative, and political adjustments needed to respond to the vision and goals for greater local autonomy set forth in the new Constitution of 1987 and its subsequent enabling legislation, especially the Local Government Code which was implemented in January 1992.

Among all *Rapid Field Appraisals*, the *Seventh RFA* is the most extensive. All regions except the National Capital Region were covered. National Government Agencies were also contacted in order to assess their perspectives as they participate in the decentralization process.

Rapid Field Appraisals have always been chiefly concerned with describing the actual experience of decentralized governance at the local level, rather than with reporting anecdotal viewpoints derived from secondhand information. Consultants familiar with a region undertake a rapid, qualitative investigation based on interviews with local government officials, national government agency personnel, and respondents from the private sector and non-government organizations. Interviews are guided by an informal questionnaire designed to assay key elements of the decentralization process, namely:

- Local Revenue and Resource Mobilization
- Delivery of Basic Services (specifically Health, Agriculture, Social Welfare and Development, and Environment)
- Participation, and

*The Governance and Local Democracy Project (GOLD), assisted by the United States Agency for International Development, is currently providing support to the Government of the Philippines for its decentralization reforms. This represents a continuing partnership between the two governments to institutionalize the democratic reforms under the 1987 Constitution and dramatically restructure the character of governance in the Philippines from a centralized to a decentralized system.

- Government Operations, including Personnel Matters and Intergovernmental Relations

The results of regional appraisals are then brought together in a "Synthesis Seminar" in which a team consensus is sought as to prevailing trends and major constraints. The views of national agencies are reviewed and fed into the distillation of trends/constraints, and are used to *Rapid Field Appraisals* have always been chiefly concerned with describing the actual experience of decentralized governance at the local level, rather than with reporting anecdotal viewpoints derived from secondhand information. Consultants familiar with a region undertake a rapid, qualitative investigation based on interviews with local government officials, national government agency personnel, and respondents from the private sector and non-government organizations. Interviews are guided by an informal questionnaire designed to assay key elements of the decentralization process, namely:

- Local Revenue and Resource Mobilization
- Delivery of Basic Services (specifically Health, Agriculture, Social Welfare and Development, and Environment)
- Participation
- Government Operations, including Personnel Matters and Intergovernmental Relations

The results of regional appraisals are then brought together in a "Synthesis Seminar" in which a team consensus is sought as to prevailing trends and major constraints. The views of national agencies are reviewed and fed into the distillation of trends/constraints, and are used to compare local experience with national perceptions. Where appropriate, recommendations that suggest themselves from the trends/constraints consensus are also formulated by the consultant team. A *Synopsis* is then prepared on the basis of the consensus reached at the synthesis seminar. (More details on *Rapid Field Appraisal* methodology can be found in the Annex on Method.)

THEMES OF THE SEVENTH RAPID FIELD APPRAISAL

The 7th *Rapid Field Appraisal* revealed innovation, quality, and relevance at the local level. Innovation because local officials sought new ways to accomplish matters that the Code allows local governments to achieve. New resources are being sought and new enabling environments are being established at the local level. **Quality** service is more often the goal as local communities change from a focus on whether or not a service is provided to a concern with how well the service is provided. **Relevance** is the touchstone of local governance now, as officials and communities work together to address locally defined issues with locally available resources.

The empirical findings from the field led the team to put forward four general conclusions:

1. Governance in the Philippines is being redefined at the local level. The 1991 Local Government Code provides an enabling environment that allows experimentation, participation, and differentiated service delivery throughout the Philippines. For instance, governments are no longer seen as the sole deliverer of social services. Partnerships with the private sector and non-government organizations have been crafted for more responsive local governance.
2. Overall, decentralization under the 1991 Local Government Code has been a success. Despite transition difficulties encountered at the beginning of implementation in 1992, and administrative systems that are often holdovers from pre-Code centralized procedures, redefinition of governance has allowed local governments to better serve their communities.
3. A new, participatory style of local leadership is emerging. Many local leaders are more attuned to development activities, and are willing to engage in partnership with the private sector and non-government organizations. In this manner, scarce resources are maximized.
4. A major constraint to further decentralized democratic development is reluctance at the center to change. After initial administrative moves to devolve personnel to local governments, national government agencies have not pro-actively addressed the challenge of providing technical backup to local governments pursuing locally defined priorities. Too often governance takes place in the context of inherited centralized modes of thinking and planning, and administrative systems have not been changed to reflect new realities.

While these are general themes that emerge from this Seventh *Rapid Field Appraisal*, there is a wealth of local detail, which enriches our understanding of democratic decentralized governance. This "Synopsis" discusses these details in terms of **Trends** discovered, **Constraints** to these Trends, and possible **Recommendations**. There are several sections:

- Local Revenue and Resource Mobilization
- Delivery of Basic Services (Health, Agriculture, Social Services, Environment)
- Participation
- National Government Agencies
- Special Focus on the Autonomous Region in Muslim Mindanao

LOCAL REVENUE AND RESOURCE MOBILIZATION

There is an upsurge in attention being given to, and concern for, local revenue mobilization and

management. Local officials are engaged in increased efforts to generate local revenues and to avail of alternative revenue sources and creative financing modes. Key aspects of this trend include a growth in joint ventures and creative forms of public-private partnerships aimed at bringing the issue of generating local revenues to a broader audience: There are even stirrings of greater participation in the decision-making process surrounding new revenue ventures. This is the outcome of local government's growing realization that elements of civil society need to be brought into the process of sustaining government revenue ventures.

On the down side, there is continuing frustration among local governments with respect to policy and administrative constraints, many of which have been noted in previous *RFAs*.

Trends

Four basic trends were identified. The first three reflect continuation of strong trends indicative of creative resource generation first identified during the 5th and 6th *RFAs*. First, there appears to be increased participation of the private sector (both business and NGO/PO groups) in generating resources—financial and human—for local initiatives. There are reports of renewed efforts to develop small-scale BOT schemes, to form joint ventures in building or managing markets, and to construct small-to medium-scale infrastructure such as fish ports, market buildings, etc.

Second, an increasing number of local governments are actively pursuing pre-implementation of alternative ventures to generate revenues. These include user fees, fee for service, credit finance (loans and bonds), etc. But there remains a large knowledge gap affecting both the pace and scale of such activities. This gap should not detract from the basic trend that continues from previous *RFAs*; that local officials are intensely interested in and pressing forward with alternative forms of finance.

A third trend is that local governments are more activist in exercising their corporate powers for purposes of creating investment and economic development incentives. There are examples of local governments developing quasi-public corporations in order to attract, coordinate, and participate in development enterprises managed via private sector means.

The last trend in this category is not entirely new, but is gaining strength. There is a significant rise in the assertiveness of local governments in exercising their dominion in matters affecting their locality, but implemented by national agencies. Local officials are more adamant that project objectives be in line with local priorities and that resource allocations be under their management, or at least be subject to local discipline. Instances were even cited where localities were willing to lose projects, both large and small, as a result of insisting that local priorities/perspectives prevail. While the team does not venture to judge whether this trend is advantageous, it nonetheless represents a genuine effort to assert the preeminence of

local autonomy.

Constraints

In terms of inter-governmental relations, there remains frustration at the local level with counter-productive policies and administrative procedures constraining local development. Concern is expressed over a wide variety of areas, but most frequently with respect to policies affecting financial autonomy, audit, planning and approval processes.

While there are certainly a multitude of specific problems affecting better revenue mobilization and management, the consultants focused on three areas. First, it continues to be evident that various administrative practices and systems held over from the pre-Code era are unresponsive and severely constrain momentum toward revenue self-sufficiency. This is especially evident with respect to audit procedures and real property tax administration. Audit regulations remain so tied to antiquated methods and procedures that local governments experience not only constraints on their most innovative efforts, but also face constraints to such basic improvements as computerization of fund management and tax systems. Local officials report that the very objectives of computerization—efficiency, streamlined processing, multiple entry and forms reduction—are undercut by the interpretation of auditors insisting on the use of certain forms, steps, etc.

In the case of real property tax administration, local governments find that the rule-bound systems inherited from the pre-Code era have contributed to endemic minimized tax collections. This situation is further exacerbated by the many years before 1991 when valuations were not market adjusted, leaving local governments to face the daunting task of adjusting rates to market values in a short period, which is politically unacceptable.

A second constraint is that there remains a significant deficiency of timely, practical information, relevant skills, and local experience available to enable alternative financing modes. It must be recalled that prior to the Code, local staff and officials were rarely called upon to act outside of strictly proscribed boundaries of financial management. Debt financing was not encouraged and the sophisticated funds management required to deliver devolved services was rarely practiced. Most local governments operated in a "projectized" mode, that is, funds were received and applied for specific projects, and little discretion or management flexibility were required. Thus, outside of cities and adjacent municipalities, there is little sophistication regarding innovative public finance management. Information that does exist, such as supplied for BOT, is generic and only of use in early stages.

A third constraint is the problem of rationalization of public financial resources. There is strong objection to unfunded mandates, the steep rise in national agency budgets, and the lack of focus arising from funds

allocated via congressional insertions and countryside development funds. Local governments regularly and aggressively pursue the latter as a means of funding projects. However, many point out that an extremely large amount of national resources – far more than local governments receive as their Internal Revenue Allotment – is being allocated to local activities without benefit of either local input or rationale. While short-term development needs might be met via such centralized funding mechanisms, longer-term development plans of local communities are continually disrupted by congressional funding of "pet" projects, typically with a bias for visible infrastructure, much of which is nonessential to long-term investment priorities. This is on top of exhortations to pursue unfunded mandates or accept new nationally-defined programs.

Finally, local government officials continue to protest, as they have since 1992, that local shares of national wealth are neither transparently identified nor rationally allocated. Although the Department of Budget and Management last year issued DBM Circular 8-96 on the processing of claims to local government shares in national wealth, there is consensus that more needs to be done on this subject.

DELIVERY OF BASIC SERVICES

In a general trend first noted in the *Sixth Rapid Field Appraisal*, local officials, staff and even NGO representatives are increasingly questioning the unchecked rise in the budgets of national agencies that have devolved significant functions and personnel to local government. Respondents noted that some agencies have been devolving functions and major personnel costs while continuing to receive budgetary allocations from Congress as if they were still in charge of delivering the very services that were devolved. This issue goes beyond the problem of the cost of devolved functions to renew critical questions about "imperial Manila's" apparent reluctance to accept the profound implications of a decentralized approach to development and governance.

It is in this context that the 7th RFA examined trends and constraints in four devolved service delivery areas: health, agriculture, social welfare, and environment.

ON HEALTH

Overall it is observed that while delivery of health services is most often the most difficult technical challenge for local governments, the Department of Health has been supportive and creative as a devolved agency. For instance, it set up an office—Local Government Assistance and Monitoring Service—precisely to respond to issues and concerns that arose out of the devolution process. This is all the more admirable in that Department of Health is constantly faced with balancing the rights and needs of health workers and local community needs.

Trends

Since devolution, local governments have continued to allocate revenues from both traditional and non-traditional sources to address health needs and provide benefits to personnel.

Consultants found that participatory decision-making with respect to health care is on the rise. There is increasing participation of communities, NGO/POs in the planning, implementation, monitoring and evaluation of health programs, especially at the municipal and barangay levels, in response to the demand for quality health services and DOH promotion and support for participation at the local level outside of mandated venues. However, the trend is toward more participation in program implementation, rather than in organized health boards. At the barangay level, NGOs are more able to influence the degree of participation and the quality of service delivery.

On the financial front (a key issue, given the expense of health care), local governments are increasingly generating income from fees for services, charges for materials and similar methods. However, the Commission on Audit continues to insist that fees and the like be returned to the local governments' general fund. Thus, those localities that have passed legislation requiring that such income be used only for health services must accomplish this indirectly via the budget. That is, after the funds are returned to the general fund and accounted for, they are then budgeted for health--rather than the more direct method of health centers utilizing retained earnings.

Aside from fee for service schemes, there are other indications that local financing for health is on the rise. There is an increase in local governments devising community-based health finance schemes outside of the new Philippine Health Insurance Corporation. Realignments of maintenance and other operating expenses for health personnel and capital outlays are on the rise.

Constraints

The first constraint is that Local Health Boards are not fully functional in many locales. Consultants suggest this is a result of a lack of clarity regarding Local Health Board functions and mandates. This is compounded at the municipal level by limited flexibility in planning and budgeting accorded Local Health Boards, since most funds are pre-programmed by the Province or the Department of Health.

Department of Health Field Offices and the Population Commission's Provincial Offices are still not yet fully attuned to provide technical assistance. They still act as primary implementers of nationally conceived or nationally desirable programs.

Recommendations

The mandate and functions of Local Health Boards should be reviewed and communicated to localities through more creative information, education, and communication. The goal would be to have Local Health Boards become more involved in local health care management. Also, the Department of Health, the League of Provinces, and the League of Cities, should conduct a study on modes of hospital management to include non-traditional approaches such as cooperative management, partial or full privatization, or establishment of independent management committees. It is recommended that both national and local legislation be considered to earmark revenues generated from health facilities and services for health programs.

Finally, it is worth noting that a number of consultants reported that the Department of Health has managed to involve local governments in the conceptualization and negotiation of Official Development Assistance. The Integrated Community Health Services Project, a \$50.8 million loan and technical assistance grant co-financed by the Asian Development Bank and the Australian Agency for International Development, was developed in partnership between the DOH and local governments. It is recommended as a model for how National Government Agencies could involve localities in the accessing of development aid.

ON AGRICULTURE

Past *Rapid Field Appraisals* have reported mixed trends in the agricultural sector. Prior to passage of the Code, local officials often viewed delivery of agricultural extension services as too generic, poorly managed, and not adapted to local realities. It became evident in early *RFAs* that devolved agricultural personnel were having great difficulty figuring out what to do when challenged to plan priority programs for their localities. It appears that this service, perhaps more than any other, has been so highly centralized over the years that its staff are unaccustomed to independent operations of the type required by decentralization. As a consequence, the performance of devolved extension personnel has not generally met the expectations of local executives.

The main venues for participation in agricultural planning are provincial and municipal development councils, fisheries resource management councils, and agricultural resource management councils. In these venues the citizenry attempt to influence agricultural and fisheries programs that are vital to their livelihood.

The Department of Agriculture's strategic response to the call to provide technical assistance to decentralized services is still basically organized around, and limited by, opportunities set by national programs. This approach may be useful in some respects. In others it serves to diminish local priorities

and divert attention from the more fundamental need for devolved personnel to design and manage locally determined programs. For instance, *Gintong Ani* is in part premised on augmenting the salaries of devolved agriculture extension workers in order that they implement *Gintong Ani* programs. Local officials aver that they welcome any support available and are reluctant to refuse offers of assistance—and since the 6th RFA they seem to have grown more comfortable with *Gintong Ani*. Still, it remains the case that the assistance is seldom closely related to local priorities. At the national level, Department of Agriculture officials claim that local officials are "not prioritizing" agriculture, when in fact local officials are acutely interested in agricultural development. However, they may be giving priority to aspects of the problem not favored or supported by DA.

Trends

Two major trends appear in this area. First, in many localities there is a growing trend for innovating in agricultural programs, both national and locally generated, with NGO participation. Both regular and special programs of the Department of Agriculture infuse additional resources into local government units and contribute to agricultural development. There is a slight difference in emphasis between the governmental and non-governmental sectors in localities. The tendency is for NGOs to be more involved in alternative, more innovative programs, while the local government turns to the Department of Agriculture for more conventional assistance.

Second, since devolution, local governments have consistently demonstrated support for agriculture as shown by their funding of agricultural infrastructure, mobilization and support of PO/NGO and cooperative movements, of nurseries, training programs and the like.

Constraints

Most local governments implement Department of Agriculture programs and, in varying degrees, consider them helpful. However, given the program's structure there is little leeway for substantive variation. In spite of "full devolution" local governments continue to have limited control over planning, implementation, monitoring, and evaluation of projects funded from the national budget and overseas assistance. To address local priorities, local governments typically source their own funds and find technical assistance outside the Department of Agriculture structure. Likewise, localities continue to be constrained from developing and implementing their own programs, in part because the Department of Agriculture continues to dominate the field with "large and in charge" programs such as *Gintong Ani*. This constraint is exacerbated by the fact that local governments lack access to technical assistance for planning, since devolved extension workers had not been required previously to have these skills.

Recommendations

The Department of Agriculture should launch an on-site training program for devolved personnel in agriculture development planning, especially at the municipal level. In conjunction with this, the Department of Agriculture must develop systematic pro-active means to solicit and respond to local technical assistance needs. This will counter-balance the current tendency to focus efforts on enlisting devolved personnel and local officials to support centrally designed and managed programs. Fifth and sixth class municipalities should be given priority in this effort. Consultants felt that since there were Provincial Agriculturists even before the 1991 Local Government Code, training at the provincial level is not as urgent.

Department of Agriculture funds earmarked for what are essentially extension activities should be re-directed into block grants to local governments for agricultural development. Operational priorities should be shifted from national programs "topping up" devolved personnel benefits to support of actual extension activities that respond to local priorities. The practice of topping up perpetuates inequities between local and formerly national personnel, and exacerbates problems of integrating devolved personnel into local structures.

A last recommendation is for the Department of Agriculture to adopt a more demand-driven approach to use of both general appropriations and overseas development assistance (ODA). As noted, above, the Department of Health has demonstrated with the Integrated Community Health Support Program that this is possible. Funds should not be pre-programmed for specific, relatively inflexible purposes, but should be allocated via block grants or similar mechanisms to support a wide variety of local agricultural development priorities.

ON SOCIAL WELFARE

Devolution of social welfare services has been in most respects a "success story" of decentralization. The Department of Social Welfare and Development willingly and aggressively managed the devolution of its personnel, who were typically well respected by local executives and readily absorbed into local organizational structures. Overall, the changeover process has gone well. Services continue to be delivered without too many difficulties.

Trends

There is, by all accounts, a productive continuing partnership between the Department of Social Welfare and Development and local governments in delivering social services. Even before devolution, local governments had a role in selecting social service beneficiaries. Devolved personnel do not feel cut off

from the "mother agency," as there is continued coordination in programming and prioritizing. Former national personnel have accepted devolution to local governments, in part because these governments do indeed prioritize funding of social services. And the role of non-government organizations in service delivery and coordination is less contentious in the area of social services. In short, there tends to be a strong effective linkage among local governments, non-government agencies, and the Department of Social Welfare and Development.

An interesting development in the area of social services is linked to the Minimum Basic Needs (MBN) approach. Implementation of the MBN data system is far from universal, and it is occasionally viewed as an "unfunded mandate". However, in some areas it is being seriously utilized to direct social services; and this tends to broaden service delivery from short-term crisis response to more wide-ranging help for clients. Nonetheless, it cannot be said that the MBN approach has had an abiding impact on how planning is done.

Finally, efforts towards the Social Reform Agenda have had an impact at the local level. While there were problems with funding releases for the first year of the Poverty Alleviation Fund (when guidelines were released late in the year), for the second year local respondents cited considerable impact.

Constraints

There are three constraints to the optimum delivery of social services cited by consultants. The first is the preference some local governments have for concrete, visible infrastructure, as these are perceived to be better means of getting votes. Thus, while social services are supported in the budget, there remains a gap relative to actual needs—particularly in lower class municipalities.

The other constraints have to do with the structure of projects under the Social Reform Agenda. A listing of programs and projects—what amounts to a menu—is available to localities. The input of local governments is restricted to selecting from this pre-identified list, rather than being able to design their own projects to meet the goals of alleviating poverty and meeting minimum basic needs. For instance, officials in Lanao del Norte felt that what was needed were Level III waterworks, but guidelines for Poverty Alleviation Funds specified only Level I or Level II.

Finally, since national government agencies serve as conduits for the Poverty Alleviation Fund, their internal procedures can delay the release of moneys.

Recommendations

We do not presume to offer recommendations regarding the first constraint, since it is the responsibility of

voters to encourage their governments to set priorities wisely within existing budgets. However, with regard to projects under the Poverty Alleviation Fund (II), there are two recommendations to the Social Reform Council:

1. The programming mechanism should be reviewed to include greater local control over fund allocation and utilization—with barangays and various sectors of civil society included in consultations. For instance, rather than choose from a set menu prepared by the national government, local governments could be encouraged to specify exactly what they need.
2. Since Poverty Alleviation Funds are for municipal projects, funds should be released directly to municipalities

ON ENVIRONMENT

Environmental management is in an ambiguous position, since it is not a completely devolved function. Section 17 of the Local Government Code specifies that environmental functions devolved to local government are still under the "supervision, control and review" of the Department of Environment and Natural Resources.

Trends

There is a very high level of concern about the environment throughout the Philippines. Mindful of their obligation to promote the general welfare of their inhabitants, local governments everywhere are getting involved in environmental management. Local governments are increasingly developing programs and budgeting revenues for the environment. Urban areas often focus on the solid waste management, while rural areas focus on watersheds or other water supply issues. Groups of municipalities have banded together to protect coastal resources. Awards and recognition programs, the best known being the annual "Clean and Green" contest, are utilized to increase awareness and participation in environmental management. The attitude of locally assigned officials of the Department of Environment and Natural Resources varies—from encouragement, to indifference, to attempts to preserve the administrative prerogatives of the Department and its employees.

Particularly impressive is the high level of citizen involvement observed throughout the Philippines. Local governments have formed many specialized organizations to deal with the environment, generally multi-sectoral. The fact that there is greater cooperation among local governments, the non-government sector, international groups, and national government agencies augurs well for environmental management at the local level.

This environmental activism is not confined to the executive branch, but also includes activist

Sanggunians and individual Kagawads. Many new environmental codes have been prepared or are being drafted.

Constraints

Current policy implementation limits and discourages local government involvement in forest management. The Department of Environment and Natural Resources still largely implements Integrated Social Forestry. Because their actions are still under the "supervision, control, and review" of DENR, local governments have yet to demand control over communal forests.

Since environmental management is a new area of local government action, there is a lack of technical expertise. Communities recognize this, and thus there is a strong demand for training, cross visits to other localities, and similar forms of technology transfer.

National policies often have ambiguous goals and objectives, and conflicting regulations, which hinder private sector investment and local government initiatives. For instance, national government pronouncements encourage private sector tree farming, while at the same time regulations attempt to insure that cut trees do not come from natural forests. These two laudable goals come into conflict when cumbersome verification processes for cultivated logs makes private sector production very difficult.

As is so often the case with national government programs, local governments are unable to effectively address environmental concerns because they are not involved in planning and managing national programs in their areas. Too often the national government makes policy commitments that affect local governments, but those governments are excluded from the decision-making process.

Recommendations

It is most important to clarify the environmental policy framework for the Philippines as a whole, and the corresponding roles and relationships among the Department of Environment and Natural Resources, its local offices, and local governments. Local governments are anxious to protect the environment and realize that the Department of Environment and Natural Resources, is overstretched in its nation-wide responsibilities. Much greater clarity is needed on what the Department is going to do, and what local governments will do.

Once this is accomplished, local governments can begin to institutionalize local units responsible for addressing local environmental concerns. These could be separate environmental offices, or units within, say, the agricultural office. In any case, technical support from the Department of Environment and Natural Resources for these units must occur.

PARTICIPATION

Concern for participation permeates all subject areas examined in *Rapid Field Appraisals*. Effective citizen participation can take place in any policy arena, at any point of the policy cycle. In this section we take a brief look at the overall picture of participation.

Trends

Earlier *RFAs* identified a positive trend toward greater participation in local governance. These assessments identified a broad trend toward more NGOs being accredited and subsequently incorporated into special bodies. In short, there has been substantial compliance with the letter of the Local Government Code.

Likewise, *RFAs* reported the gradual easing of interference by local chief executives in the choice of NGO representatives and in NGO participation in general. While there are some localities where local executives and NGOs have difficulties working together, this occurs less frequently than conventional wisdom would have it—there has been much less “trad-pol” behavior among local chief executives than many expected or assumed.

Reinforcing these positive trends is the widespread use of multiple venues for popular participation. Venues not mandated by the Code, but utilized for specific purposes can effectively funnel citizen inputs to governance. Fisheries and Aquatic Resources Management Councils allow direct input into policies and actions vitally important to coastal dwellers. Community organizing which typically accompanies many social services increases citizen impact on the government. *Bantay Dagat* and *Bantay Gubat* bodies translate citizen concern about the environment into participation in governance.

Local officials have realized that the “resources” available to local governance are greater when activities incorporate NGOs, private firms, and ordinary citizens. Joint ventures, BOTs, and other public-private partnerships multiply resources brought to bear on specific issues. The volunteerism that is encouraged by, for instance, Local Health Boards proves to citizens that their activities can make a difference.

Constraints

One of the major constraints to fulfilling the spirit of the Local Government Code as well as the letter is the diffuse mandate of Local Development Councils. The non-government community has spent considerable effort to obtain seats on the Council, often to learn that nobody knows what exactly is supposed to occur, or how to manage it. Thus, as time has passed more energy has been devoted to the specialized, non-mandated bodies discussed above.

A second constraint flows from the discussion of agricultural and environmental service delivery. There is a lack of community involvement in planning and managing national programs in their locality. National government agencies in Manila continue to plan programs and projects that affect localities. The mandate of the Local Government Code (Sections 2(c), 26, and 27), on prior consultations before any program or project is implemented in local jurisdictions, has rarely been followed.

A final constraint is remaining clashes of perspectives between local governments and non-government organizations. The wild suspicions of the early 1990s (NGOs perceived as communist, local governments perceived as oppressive) have faded, but difficulties remain that must be worked out. Elected local officials are accustomed to meeting deadlines of the governing cycle and deriving their legitimacy from elections. NGOs are accustomed to maximizing discussion, no matter how long the process takes, and derive their legitimacy from service delivery or more professional criteria (such as particular expertise). To cite this constraint is not to imagine that it will disappear—it must be recognized by observers as ineradicable.

Recommendations

Technical assistance should be made available for designing processes which maximize the utility of Local Development Councils, and other participatory venues, for both government and non-government representatives. This would include technologies for participatory planning, facilitation of meetings, linking budgets to plans, and participatory monitoring. Already certain provinces like Nueva Vizcaya are demonstrating that this can be accomplished.

A second recommendation is that both national government agencies and foreign donors should make the effort to embrace a demand-driven project style. The Department of Health, through its Integrated Community Health Care Support Program, has shown how this can be done even for large, foreign-funded programs.

THE NATIONAL GOVERNMENT AGENCIES

As has been the case since the *5th RFA* (June 1995), *Rapid Field Appraisals* now include an examination of the plans and initiatives of National Government Agencies with respect to decentralization under the 1991 Local Government Code.

Many issues originating from National Government Agencies have been canvassed in the separate discussions of resource mobilization, and of the devolved services in agriculture, health, social services, and the environment. This section briefly notes findings from the National Economic and Development

Authority (NEDA), the Department of Interior and Local Government (DILG), and the Commission on Audit (COA).

NEDA has identified as one of its priorities the "building of LGU capacities in planning and project development and the rationalization of national government support to LGUs according to the LGUs' financial strength and economic potentials." Toward this end, NEDA initiated the formation of Project Development Assistance Centers in each region to assist local governments in the project cycle. In addition, NEDA Board Resolution No.1(1997) allows local governments to construct national roads and bridges within their jurisdiction as long as at least 50% of the funds come from local budgets. The aim of this policy is to promote local "ownership" of such projects.

The DILG performs a somewhat contradictory role with respect to decentralization. The Bureau of Local Government Development is the secretariat for the Oversight Committee, and as such is in extensive contact with local governments as amendments to the Code (during the 5-Year Review of the Code) are discussed. The Local Government Academy is attempting to build local capacity in a number of areas. Yet, the DILG's several memoranda on the use of the 20% Development Fund are widely seen by local officials as prejudicing local autonomy.

Finally, the Commission on Audit also figured in recent moves with respect to autonomy. In response to a widespread clamor about the operations of provincial hospitals, a joint circular by DBM, DILG, and COA was drafted to allow the Provincial Hospital Administrator to approve vouchers. However, the Legal Department of COA gave the opinion that such an action would need legislative approval rather than just action by the executive branch of government, and thus the circular was not issued.

SPECIAL FOCUS: AUTONOMOUS REGION IN MUSLIM MINDANAO

The Autonomous Region in Muslim Mindanao (ARMM) merits special focus for two reasons.

First, the region is important for peace and development in the Philippines. Many, both within the Philippines and abroad, look for progress in this region to alleviate deep-seated problems of southern Philippines. The second reason is that the context for local governance in the Autonomous Region in Muslim Mindanao is very different from the rest of the Philippines.

Context

The 1987 Constitution specifies that special autonomous regions be constituted for Muslim Mindanao and the Cordillera. The Organic Act for the Autonomous Region in Muslim Mindanao was passed in 1989, and ratified in a plebiscite in four provinces.⁶² This resulted in the devolution to the regional government

of practically all domestic functions of government. When the 1991 Local Government Code was passed only health services were left to be devolved.

When the Autonomous Region passed its own Local Government Code in 1994, it insured that all powers, responsibilities, and resources were retained by the regional government rather than by provinces and municipalities^{*}. The regional government insured that the act not diminish the power of the regional government. For instance, Section 457 of the ARMM Local Government Code provides that the regional government appoint provincial officials: Health Officer, Social Welfare and Development Officer, Agriculturalist, Natural Resources and Environment Officer, and the Tourism Officer.

Findings

Not surprisingly, there is a desire among provincial and municipal officials in the ARMM for the same powers, responsibilities, and resources that their counterparts in the rest of the Philippines enjoy. These officials are part of the same Leagues of local government as are officials from the rest of the Philippines, and are well aware of the opportunities for decentralized governance offered under the 1991 Local Government Code.

A second finding is that, even given the regional dominance in service delivery, local government units supplement regional efforts. This is particularly the case for agricultural and fisheries programs, which are so important in these rural areas.

A third finding is the increasing intellectualization and professionalization of local elected leadership, and local government bureaucracies. More officials have college degrees, and more express technocratic or professional aspirations for decentralized development.

A fourth finding is that civil society in the Autonomous Region in Muslim Mindanao is quite strong and dynamic. This finding may strike some observers as surprising, given stereotypes of Moslem society. However, it is easy to find self-help groups at the local level to which many citizens can orient their activities. These groups, like non-government groups throughout the Philippines, occasionally source funds from abroad. However, fundamentally their roots are in the local community.

* An Organic Act for the Cordillera was defeated in a plebiscite in January 1990. A second Organic Act was passed in late 1997, and will be subjected to a plebiscite on 7 March 1998.

The second Organic Act for the Cordillera, by contrast, provides that nothing in the act shall diminish the powers and responsibilities that local governments enjoy under the 1991 Local Government Code.

ANNEX: ON METHOD

Rapid Field Appraisals have always focused on the local perspective. This *RFA* is no exception. Consultants are chosen who are knowledgeable about their regions. The consultants are asked to observe, investigate, and report on local opinions and experiences of the decentralization process. Regional reports are then discussed at a two-day seminar among the consultancy team (for the 7th *RFA*, 13-14 August 1997), which discussions form the basis for the overall "Synthesis".

The *RFA* approach typically yields very different information than do evaluations that rely on reports to central government from government field representatives, or studies which portray local reality by interpreting what should be happening as a result of policies and administrative pronouncements emanating from the center.

Topical Areas

Past appraisals have addressed a wide variety of topics that seemed most important at a given point in the decentralization process. The choice of topics has been largely dependent on the most conspicuous and critical dynamics of the moment. Yet all *RFAs* have in various ways looked at certain consistent themes such as local finance, local service delivery and participation of the NGO sector.

For the 7th *RFA* we reviewed all past *RFAs* and then derived the following five topical areas which maintain continuity as well as take cognizance of emerging themes:

1. Local Revenue and Resource Mobilization
2. Local Government Service Delivery
3. Participation
4. Inter-Governmental Relations
5. Local Government Administration.

Local service delivery as usual received focus and attention; consultants looked at agriculture, environment, health, and social welfare. Also examined was participation in relation to planning and service delivery issues.

Trends Analysis Approach

The 7th *RFA* again uses the trends analysis approach. Trends analysis differs from conventional problem analysis in two ways. First, trends analysis seeks to understand and describe what is happening in the dynamic process of decentralization rather than to undertake a critique based on the premise that

decentralization should hypothetically be at a certain point.

Second, while not averse to acknowledging and recording problematic issues, trends analysis is essentially concerned with identifying positive trends as a means to describe in what manner decentralization is moving towards its objective of better governance based on local exercise of greater powers, authorities and responsibilities.

Trends analysis also identifies constraints and links these to the positive processes. In this manner, recommendations are more precisely aimed at those actions that will hasten the forward movement of the process.

List of Consultants

This *Synopsis of Findings* was prepared by Kenneth H. Ellison, Chief of Party, and Steven Rood, Policy and Indicators Measurement Specialist, on the basis of the *7th Rapid Field Appraisal* seminar and individual appraisal papers submitted by the following consultants:

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