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LOCAL GOVERNMENT FIELD STUDIES  
IN THE PHILIPPINES, THAILAND, AND INDONESIA

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The views and interpretations expressed in this report are those of the authors and should not be attributed to the Agency for International Development.

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## I. INTRODUCTION

The Agency for International Development's (AID) interest in local (subnational) government goes back several decades, when it was originally perceived as a potential complement to centrally managed projects in developing countries. Certain development tasks were considered essential, the foremost being the provision of basic infrastructure and production services (roads, bridges, dams, irrigation systems, electricity, and so on). It was reasoned that, from an efficiency point of view, government institutions with responsibilities for the subnational areas in which they were situated could be an important complement to the central government effort to accomplish these needed tasks. When possible, efforts were made both to channel resources through them for such projects, and to improve their abilities in planning, implementation, and maintenance.

In attending to these primary physical development tasks, however, little thought was given to local government's representativeness, autonomy, or relationship to nongovernmental institutions. Now, however, many developing countries have principal infrastructure and production services in place, and their populations are facing "second generation" development problems that place increasing demands on existing institutions. Increasingly, location-specific, multifunctional environment and population-related problems are occurring, and central governments alone cannot meet all the demands. Thus it is now important to examine the type of local government institutions involved and their ability to respond to these needs.

Inherent in the ability to respond to needs are a set of questions about the role of local government. To succeed in the long run, local governments will need to be local governments, with clearly delineated responsibilities and the autonomy to carry out these responsibilities, with controllable access to revenues, and operating in a manner that builds local nongovernmental capacity rather than competes with it. Key policy questions for AID are, thus, to what extent is this the case in developing countries, what are the trends and causes, and what role, if any, can and should AID play?

To answer these questions, three offices of AID/Washington are collaborating in a two-step study. The first step was to conduct a portfolio review of AID local government projects throughout the world. Results from this study showed that the formal documentation alone could not adequately answer the key

questions<sup>1</sup>. The second step, of which this report is a part, was then to go into the field to attempt to understand the "behind the scenes," underlying factors involved.

During November 1982, teams from the Bureau for Program and Policy Coordination and the Bureau for Science and Technology conducted 2-week field visits in three countries: the Philippines, Thailand, and Indonesia. After the visits, teams convened in Bangkok for a 2 1/2-day comparative workshop.

This report summarizes the findings of the three separate country investigations and of the comparative workshop. The reader is cautioned that, because all three countries visited are in a single area of the world and in a similar stage of development with certain common features, the findings and recommendations must be checked with those derived from other developing countries before they can be considered on a more universal basis. The reader also is cautioned that this is a background paper, not a policy paper: the views herein are those of the authors, not necessarily those of the Agency for International Development.

## II. COMPARATIVE FINDINGS

### A. Overall Findings

In none of the three countries visited are local governments fully autonomous in the functions they carry out nor do they have full control of revenue generation and expenditure. There are compelling historical reasons for this that will be discussed below. In all three countries, however, teams found some evidence for trends in the direction of increased local autonomy, indicative but not conclusive in a limited study of this type. In all three countries, local governments generally were found to be operating in a manner conducive to the building of local nongovernmental capacity, including private enterprise. At the national level, however, central governments often are competing with rather than promoting nongovernmental institutions in some sectors while promoting private enterprise in others. The trend now may be away from this sort of competition, and it is generally not at the local level. Finally, teams found that USAID projects, while not evaluated in their detailed performance, are supportive of the positive role of

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<sup>1</sup>Silverman, Jerry M., et al., AID Assistance to Local Government: Experience and Issues, Development Alternatives, Inc., November 1982.

local government and are supporting the trend toward increased capacity and autonomy.

## B. Past Cycles and Trends

In all three countries, whatever indigenous forms of government might have naturally evolved locally were effectively halted and dismantled during the colonial era. This era was characterized by decisive and increased centralization in all three countries. While Thailand was not itself a colony, it was beset by colonial powers on all sides and decisive control of outlying areas was the only effective way to stave off colonial encroachment.

In the first half of the 20th century, however, different patterns emerged in the three countries that explain much about what happened to local governments thereafter. In Thailand, central government authority was consolidated and institutionalized in local areas, down to and including district level. In Indonesia, Dutch colonial style was to manage the system externally instead of relying on local systems as did the British in South and Southeast Asia. At the end of the colonial period this left Indonesia with neither strong central influence in local areas nor successfully evolved local institutions. In the Philippines, experience with American systems and American ideals may have created awareness of and demand for local government but without the strong historical antecedents on which representative local government would be successfully ensured at the local level.

Following independence after World War II, both Indonesia and the Philippines experienced a period of increased autonomy at the local level. However, this autonomy brought increasing problems to both countries that eventually led to recentralization. Thailand largely avoided problems of this type by remaining centralized throughout. In newly independent Indonesia, the central government was not yet strong enough to control localities, whereas in the Philippines, autonomous, elected local government was thought appropriate and workable, perhaps influenced by the American experience. The lack of developed local institutions in Indonesia led to increasing political strife and violence until the central military and bureaucracy effectively centralized the country in the midsixties. In the Philippines, local corruption, violence, and "sick society" were charges made by President Marcos in declaring martial law in 1972 and placing strict controls on local government.

Throughout the 1970s both Indonesia and the Philippines maintained highly centralized systems until each government felt secure enough to begin a cautious reversal of trend. In

Thailand, experiments with democracy in the early-midseventies and awareness of the vast, emerging political base in rural areas led to block grants to subdistricts that later may be seen as the start of a trend toward local autonomy. In all three countries, forces exist that will influence future trends. This will be discussed in Section D.

### C. Current State of Local Government and the Role of USAID

This section briefly summarizes the findings of the separate country reports in terms of the current state of local government and the role USAID country missions have played and are playing in this regard. The discussion is divided in three sections: (1) a comparison, among countries, of the various levels of subnational government as a key to understanding why AID is placing different emphases on different levels in different countries; (2) a comparative review of AID's role; (3) a comparative discussion of financial autonomy in the three countries, which is necessary to an understanding of future trends in the next section of the report.

#### 1. Levels of Subnational Government

Table 1 roughly compares the various levels of subnational government within the three countries. In all three countries, the lowest level is the (very) small community with its own traditional, "autonomous" rules, norms, leadership, and patterns of cooperation that include raising and using some local money and manpower without much outside intervention. The next lowest level of government is somewhat autonomous in that leaders and councils are chosen by election or consensus from local populations by local populations, and parts of budgets are raised and spent locally. This occurs in a predictable fashion even where locally raised revenues must be reallocated from central authorities. Locally raised revenues and expenditures are small, however, usually from relatively low land taxes, in comparison to yearly grants from the center. These central grants, although they are not significantly increasing (somewhat reduced in Indonesia and Thailand), have been fairly predictable. Their future is uncertain in these countries as they, like many other countries in the world today, face increasing budgetary austerity at national levels, although in all three countries there are strong political reasons for continuing these grants. At all levels, however, locally generated revenues and central government grants together usually are overshadowed by central agency expenditures within local jurisdictions (less so in the Philippines). Influence over these central programs by local governments is not great,

although there are some signs of increasing influence, especially in the Philippines, but usually not at the bottom levels.

Table 1. A Comparison of Subnational Administrative Levels in the Philippines, Thailand, and Indonesia

Approximate Population Size	Philippines <sup>a</sup>	Thailand	Indonesia
5 million	(region)	-----	province
1/2 million	province	province	district
50,000	municipality	district	subdistrict
5,000	<u>barangay</u>	<u>tambon</u>	village
500	village	village	hamlet

<sup>a</sup>The Philippines has 60 chartered cities, separate from provinces; Thailand has 120 municipalities within provinces that operate differently from districts (includes all provincial capitals, some district towns); Indonesia has three special districts, separate from provinces. (See separate country reports in appendixes for greater detail.)

The two lowest levels of government are small and numerous indeed, even compared to the size of rural American townships, and it is thus at the intermediate levels where most past development efforts involving local government have focused. It is at these intermediate levels where some increased capacity has been achieved and basic infrastructure and service projects have been managed. In Thailand, these levels (province and district) are, in the main, tightly controlled arms of the central government. In Indonesia, central and local representation are mixed (province, district, and subdistrict), while in the Philippines, provinces and municipalities show the most autonomy among the three countries. "Region" level in the Philippines, except for the two more autonomous regions with large Islamic populations, is not at this time really a governance level per se; instead it acts as a forum for interprovince and province-center dialogue within the region.

## 2. USAID Role

The focus of USAID project efforts involving "local government" varies in level and function among the three countries according to needs, opportunities, and constraints. In the Philippines, past successes in capacity, infrastructure, and basic services, of which USAID projects were an important part, occurred at these higher intermediary levels (province, for the most part). Thus current efforts are aimed at reaching through the provinces to lower levels for increased institution-building and expanding existing capacities to engage in "livelihood"-type projects aimed at second-generation development problems. In Indonesia, similar efforts are under way but at higher levels, because of the less-developed capacities at lower levels. In Indonesia, USAID's Provincial Development Project builds on the increased capacity of provinces (similar in population size to the regional level in the two other countries) to engage in noninfrastructural projects to attack second-generation development problems. In Thailand, while province and district levels of the central government have clearly improved greatly over the past 20 years in both efficiency and capacity, again partly because of past USAID project efforts as well as those of other donors, greater opportunity for locally managed development exists at the Tambon (subdistrict) level. Because capacity at this level is largely lacking, USAID's Decentralized Development Management Project will focus on planning and implementing skills for locally identified projects, many of which are likely to be fairly simple infrastructure activities at this stage of institutional development. (USAID's area development and national-level institutional development projects aim at solving second-generation development problems through national agencies at various governmental levels down to and including those agents stationed at the subdistrict level, but they stress involvement of representative bodies at local levels.)

In a study of this type and duration it was not possible (nor intended) to evaluate how well each of the separate projects was designed and implemented to meet the goals set for them. The striking feature in all three countries, however, was that these projects were shaped not so much by considerations of effectiveness and efficiency per se (see the DAI report), but by the historical and developmental factors that constrained and defined what the logical next step was in order to address the existing and emerging problems. The differences and similarities among the projects from country to country have been summarized here and can be studied in more detail in the separate country reports (Appendixes B through D). The differences found seem to relate more to the differences among the countries than they do to a lack of coherent AID strategy (cf. DAI's conclusion about AID local government projects being

a "mixed bag"). Likewise, the basic similarities, where they exist, seem to relate to the presence in all three countries of multifunctional, second-generation development problems that are prompting this type of response.

### 3. Financial Autonomy

An important measure of the political and functional autonomy of local governments is financial autonomy. The delegation of central authority to local bodies to maintain a political process on issues of local importance and to provide and manage local impact government services is not meaningful unless the local bodies have access to one or more economic bases from which they can derive sufficient resources to exercise their legal authority. These bases could be local, such as real property, commercial transactions, or marketed government services, or they could be access to a national base through revenue-sharing mechanisms. Regardless of the source, the key features of fiscal autonomy are (1) the importance of the locally raised resources relative to the financial requirements of the local government functions, and (2) the degree of local control over decisions as to how to tax and use the economic base.

In terms of the three countries visited, the Philippines has far greater fiscal autonomy than either Indonesia or Thailand. The revenue capacity of the real property tax plus other revenue-raising authorities provides local government at the provincial, chartered city, and municipal level with a revenue base that is significant in terms of their programs. Additional resources also are provided from the central government in the form of grants-in-aid, although, as in the other two countries, these grants-in-aid are tied to the national budget process and come with central controls.

In terms of local control, the Philippines is far more fiscally autonomous than Indonesia or Thailand despite the centrally imposed budget-earmarking requirements and budget review/approval process. While earmarking of the grants-in-aid reduces the overall degree of local public choice, within each category, the Philippines permits considerable autonomy as to which projects are to be priorities in a given year. Central review of local budgets is to determine if the local government has complied with the technical requirements of the central government, that is, 30 percent of grant spent for agriculture, and so forth. The policies determining the expenditures within the broadly specified categories are set largely by the local units themselves.

The central control of political processes and functions found in Indonesia and Thailand also appears on the financial side. Local governments in these countries raise and control only a token share of the expenditures made by government within the local jurisdictions. In addition to their minor expenditure role, local governments in Indonesia and Thailand rely heavily on grants-in-aid for the financial needs of the few activities that they directly undertake. These grants-in-aid coupled with the preponderance of central ministry staff at the local level ensure additional central control of local fiscal activity.

In terms of future trends in decentralization, Thailand has a fiscal advantage over Indonesia in that its local government revenues result from surcharges on nationally levied taxes. Therefore, local governments are not totally dependent on the national budget process for their revenues--they are dependent on the state of the economy--and the population at large is aware of the local government's independent right to tax. This is an important precedence in terms of future growth of local government. In Indonesia, on the other hand, the local grant-in-aid is more dependent on the willingness of the national government to budget revenue-sharing funds. In terms of control, Indonesia's locally elected bodies are an important advantage compared to Thailand in the future growth of local control of funding decisions.

#### D. Underlying Factors and Trend Indicators for the Future

In each of the three countries, study teams found underlying factors both for and against a sustained trend in increasing local government autonomy. Their summary evaluation leads to cautious optimism in all three countries. These factors are summarized in Table 2.

Second-generation development problems were found in each country, as was an awareness by significant elements of the central political bodies that increased local government autonomy would be necessary to deal with these needs. In the Philippines and Indonesia, the presence of so many islands making up the country (7,000 in the Philippines, 3,000 in Indonesia) makes communications more difficult and the local nature and effects of development problems more obvious. In Thailand, the intractability of certain types of development problems specific to local areas, especially agricultural problems in Northeast Thailand, plus the awareness that local rural areas are no longer political vacuums, is having a similar effect.

Table 2. Underlying Factors for Future Directions  
Regarding Local Government in the  
Philippines, Thailand, and Indonesia

Underlying Factors	For (+) or Against (-) Increased Local Government Autonomy		
	Philippines	Thailand	Indonesia
Presence of 2nd-Generation Development Problems	+	+	+
Difficulty of Addressing 2nd-Generation Development Problems Recognized by Center	+	+	+
Rhetorical Commitment to Increased Local Autonomy	+	(+)	(+)
Increased Capacity Already Available and Recognized at Local Level (manpower, education, training, etc.)	+	-	-
Degree of Legal Precedence Available (laws on the books)	+	-	+
Political Demand/Lobbying Coming From Lower Levels	+	(+)	-
Political Stability at Center	(+)	(+)	(+)

In all three countries, arguments of lack of local capacities and capabilities have been used in the past to defeat consideration of increased local government autonomy. In Thailand, these arguments are still strong, in part because of bureaucratic culture and traditional paternal attitudes toward the countryside, but also because the level of local government being considered is considerably more local than the focus of interest most discussed in the other two countries (the subdistrict, or Tambon level in Thailand, because district and province governments are central government bodies). Such arguments also are still being voiced widely in Indonesia, but in both countries projects and programs exist, including USAID projects, to increase local capabilities, as occurred earlier in the Philippines at province, chartered city, and municipality levels, and is occurring now at lower levels. Also, the

capacity at lower levels in all three countries is likely to increase for other reasons. In Thailand, for example, there is an increasing surplus of young people with tertiary education who in earlier times would have entered the central bureaucracy, or in more recent times would also have entered businesses in cities. When more of these people are forced to find jobs at the local level, capabilities at the local level, and perceptions of those capabilities at the Center, should change.

In both the Philippines and Indonesia there is a legal basis for increased local government autonomy, although in each country a degree of control is retained. In Thailand, however, with its long history of centralization, the legal basis for local government does not exist, although there are several proposed drafts in the national parliament that have not yet come up for open debate. The political demand for increased autonomy is strongest in the Philippines, again probably for historical reasons, and weakest in Indonesia, where there is no real arena for such expression. In Thailand, leaving aside the special case of Muslim areas in the South, the precedent of block grants given to subdistricts in 1975 demonstrated both the demand and the potential political payoff to national parties supporting increased, locally managed development efforts.

Finally, history shows us that in all three countries, lack of threat and central political stability favor increased local government autonomy--an aspect of the "strong central government-strong local government paradox" referred to in the DAI report. Teams were not able in the scope of this study to assess all the relevant factors in central government stability in these three countries. There is cautious optimism for these three countries and for the Southeast Asian region, but clearly this crucial factor needs careful assessment on an ongoing basis if one is to anticipate trends in local government or, indeed, trends in many other interest areas that are highly affected by central political stability.

Table 3 lists additional country-specific factors which the teams considered in making their assessment. These are discussed in greater detail in the separate country reports in the appendixes.

### III. RECOMMENDATIONS

In each of the three countries visited, teams uncovered a web of complex, less obvious factors that helped explain the status of local government, why programs were being conducted the way they were, and what were the likely influences in the direction of future events. In each country, some movement, or

Table 3. Trend Indicators For and Against  
Local Government Autonomy

Country	For	Against
Philippines	Vigorous Local Election Process Local Govt. a Nationally Debated Issue	Police, Finance, and Fire Remain Centrally Controlled After Several Years, Local Govt. Code Still Not Passed
Thailand	Some "Technical" Expertise Now Available at Local Levels Active Village Committees and Local Initiative Fairly Strong Political Incentives for National Parties Some Experimentation and Precedent, Incl. Military "Non-Secure Area" Programs Grants to Local Level More Predictable  Parliamentary Initiatives District Towns More Attractive, Quality of Local Leadership Likely to Rise	Central Auditing; Taxation Highly Centralized  Central Officials Heavily Involved in Formal Processes of Local Initiatives Suspicion of Politicians  Overall Military Suspicion of Open Local Government Politics  Grants to Local Level Smaller Compared to 4 Years Ago
Indonesia	Block Grants to Province, District, and Village Increased Discretion of Local Governments in PDP Project Support of Ministry of Home Affairs  "Petition of 50" for Increased Democratization	Security Orientation of Central Government  Narrow Local Resource Base (devt. budget from oil and outside sources)  Adherence to Concept that Authority Cannot Be Divided

transition is occurring, both influencing and influenced by economic development. In all three countries, local government is likely to become an increasingly important influence on economic development as second generation development problems increase and central agencies experience greater difficulties in coping with them. Clearly, an understanding of this complexity and transition is necessary to shape the role of local government to be as effective, representative, and supportive as possible in the economic development process. Such an understanding is also necessary to program USAID funds most effectively. To do this, systematic assessment is necessary in this complex area.

Missions should undertake systematic assessment of local government prospects. The Bangkok workshop undertook to use the collective experience of local government involvement in these three countries to educe what such an assessment should consist of. These are reported in Appendix A. They begin with a proposed goal/objectives statement and are followed by a series of "whether to" and "how to" considerations for mission decisionmaking in local government involvement. They are realistic guidelines for these three countries, but they will need to be checked and adapted for use in countries in different stages of development in other areas of the world.

## APPENDIX A

LOCAL GOVERNMENT FIELD STUDY: POLICY  
AND GUIDELINESI. BACKGROUND

The workshop group used three national case studies (Thailand, Indonesia, Philippines) to elaborate policy goals and objectives basic to AID local government initiatives. Although workshop members stated their insights in various ways, it was generally agreed that local governments can play an important role in enhancing the capacity of local populations to initiate, carry out, and sustain broad-based development. However, before this proposition is fully accepted, two issues should be considered. First, while local governments are potentially useful in furthering this overall development goal, missions should attempt nongovernmental options as well; for example, assistance to rural development associations, banks, small industries and agribusinesses, and irrigation groups. Missions must consider these options in concord with, or in place of, local government projects. However, this paper is limited to the topic of local government. Second, the value of providing direct support to local government cannot be assumed; it must be assessed in terms of "whether to" and "how to" provide assistance in a given context. The three country case studies provide valuable insights in how such an assessment can be made. The second and third sections of this paper propose standards for the assessment process. The first section discusses policy objectives.

II. OBJECTIVES

Workshop participants reached substantial consensus on three principal points:

1. AID missions should encourage and support those specific activities that promote local nongovernment initiative and capacity (including local private enterprise) and should discourage local government activities that inhibit, reduce, or usurp initiative or capacity. The objective is establishment of autonomous local governments and strong, dynamic nongovernmental entities. Local government should not hinder, and where possible should enhance, responsible local initiative.

2. Because AID support to local government usually flows through central government, great care must be taken to assure that resources promote local autonomy and self-reliance. In

the absence of specific analysis and preventive measures, increased dependence on central government resources and initiatives is a likely outcome. Discussion on this point revealed several issues: (a) the role of central government allocations, the number of "strings attached" to them, their magnitude in relation to locally raised revenues, and so forth constitute important assessment and strategy issues (discussed below); (b) the importance of broad participation and "pluralistic decisionmaking" as important issues for assessment and strategy. Participatory, pluralistic decisionmaking is a desirable objective in itself, and missions should be expected to explain and justify any local government projects lacking these elements.

3. AID support for local governments should encourage the growth of local revenue-generating capacity. This objective is fundamental to achievement of local autonomy and self-reliance.

A fourth item was discussed (about which workshop participants did not concur) and requires further elaboration: What is the role of negotiations, prior to any AID involvement in local government? Can enough functions be transferred to local government to ensure autonomy? Experience in the three countries showed that AID ability to influence policy prior to involvement in local government projects needs to be assessed. Where influence is negligible, an incremental or phased approach offers greater chance of reaching the objectives. Still, participants recognized the necessity for mission alertness to opportunities to influence policy and that under some circumstances missions should decide not to support local government initiatives. This, too, raises questions of assessment and strategy, which will be discussed next.

### III. ASSESSMENT OF POTENTIAL ("WHETHER TO")

The AID portfolio review recently completed by Development Alternatives, Inc. (DAI) found that "local government assistance is a legitimate focus for AID," but the record on local government projects is "a mixed bag that has produced mixed results." DAI recommends better assessment, especially of informal, "behind the scenes" patterns, more selective support, and examination of AID project processes in light of capacity-building objectives. The Southeast Asian field study had as its main objective a careful examination of particular factors in the three countries--many "behind the scenes"--that influenced or should have influenced mission decisions. These factors are discussed in separate country reports and explain some of the differences in approach that DAI found in its review. This report attempts to move beyond description to tentative formulation of guidelines for assessment and strategy. Such

guidelines can provide means to put policy in operation, but first should be tested against "behind the scenes" patterns in other areas of the world. These guidelines also may be compared with a similar set in Annex C of the DAI report.

A few questions are fundamental to each of the 12 topics or issue areas discussed below:

1. What are the factors which support or oppose movement toward decentralization of governmental authority and greater local autonomy?
2. How are these factors changing over time, and why? (Issues of "direction" and "momentum" are no less important than "current position.")
3. What is the expected overall effect of the factors in each issue area?

Finally, all the issue areas should be considered together and an overall assessment made. Because most of these factors are complex, not easily measured, and vary in significance from country to country, this is a qualitative risk assessment that should be delivered narratively, possibly as a part of the mission's Country Development Strategy Statement (CDSS).<sup>1</sup>

#### A. Historical Factors

How one assesses a country's progress toward autonomous, pluralistic local government depends on where the country is coming from. In each of the three countries studied we found differences and similarities in historical factors that shed much light on present conditions and trends. In the Philippines, for example, experience with local autonomy during the post-World War II period and before has built political demand for a return to greater local autonomy. For Thailand, however, local semiautonomous states were incorporated fully in the national system before the 20th century, and local political structures were fully dismantled--a necessary step to avoid

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<sup>1</sup>The 12 topics can be arrayed in a matrix for easy reference, but it is the analysis itself that is important, not the checklist (an ex post exercise in filling in the boxes would be counterproductive). To construct a matrix, array the 12 topics down the left side; across the top the horizontal headings would be (1) Factors toward decentralization, (2) Factors against, (3) Trends in these factors, (4) Reasons for trends, (5) Assessment.

losing outlying areas to encroaching colonial powers. In Indonesia, on the other hand, efforts in the 1950s to foster autonomous, representative government became embroiled in wide-sweeping social changes affecting the countryside. These changes culminated in widespread violence and civil disorder. Present-day leaders remain cautious about devolving power and authority to local communities.

Evolutionary trends in central-local government relationships in Third World countries are not well understood. One expert in the Philippines perceived cyclical trends, with power swinging back and forth over the relatively short term (5-10 years) depending on economic and political stability and perception of external threat. In Thailand, if the trend is cyclical it would certainly be over a much longer period. Part of the assessment difficulty may relate to functions and tasks themselves, not to authority per se. The increase in environmental and social problems in the United States, for example, raised a demand for central actions in areas previously thought to be more of local concern. Environmental problems in the Philippines and Indonesia, however, may be having the reverse effect: small islands and watersheds are perceived as more amenable to local management. In Thailand, while some environmental problems are raising national demands (deforestation and river pollution), the need to tailor technologies to local conditions to get needed intensification seems to be having the opposite effect, raising demand for more authority locally.

## B. Sociocultural Factors

Each of the three countries has special concerns about minority groups and outlying areas that raise security issues. The assessment question is: To what extent will these concerns outweigh or overcome concerns for rural development and local initiatives? This issue connects with legal, legislative, and administrative concerns; that is, can different models be applied in different parts of the country? Socio-cultural factors also influence attitudinal issues and "bureaucratic culture." How are rural inhabitants perceived by central authorities; is there a disdain for local capabilities that effectively blocks any real transfer of authority? If so, what is the extent of this? While we certainly encountered central officials in all three countries who expressed doubts about local capabilities, we also found evidence, especially in the Philippines, that (perhaps partly because of AID projects) local capabilities indeed had improved, that younger, more educated and capable "new" men and women now hold key positions in local governments. In Thailand, the Decentralized Development Management Project, recognizing that lack of "local capacity"

is a key argument being used against decentralization, is attempting (among other things) to remove this constraint as an effective argument by upgrading local capabilities and demonstrating this to central policymakers. In Indonesia, training of local government staff and upgrading local government institutions are at the center of the mission's efforts in this field.

### C. Ideological Factors

What are the various ideological factors supporting or inhibiting decentralization? In the Philippines, a real value seems to be placed on local, responsive government, although people realize it is not easily attained. In Thailand and Indonesia, however, concepts of centrality are strong and historically rooted beliefs. Patron-client attitudes also are strongly ingrained in all three countries and mitigate against local initiative. More government planners, however, are becoming aware of the danger in these attitudes and are searching for ways to change them.

### D. Legal/Legislative Factors

This is an obvious area of concern in any systematic assessment. What are the legal bases for local government, for local revenue generation and expenditure? What are the forces for change? (See political factors, below.) It is also necessary, however, to look behind the laws; some laws may not be enforced, whereas, in other cases, mores or understandings are so strong that legal sanctions are not needed to maintain them.

### E. Political and Political Demand Factors

What is the evolutionary stage of the political environment? How stable is the national government? If there is severe political instability at the national level there may be little chance for significant transfer of authority to local governments (cf. DAI study conclusion on the paradox of strong national government needed to get strong local government). What are the centers of power for and against decentralization and how are these changing and why? What is the nature of political demand for locally responsive government and how is it expressed (channels of expression may be local press, local associations, letters to legislators, etc.)? How strong is the sentiment and what are the causes of the demand? In all three

countries studied, teams observed that demand for local government was related to "second generation development problems" that were difficult for central governments to handle.<sup>2</sup>

#### F. Policy Factors

The mission should examine policy statements, development plans, government regulations, and so forth, not just in terms of their rhetoric but also in terms of how they are actually applied. How are they changing and why and what do they show about the likely role of local government? Are there any multisectoral initiatives that could serve as an opening "wedge" for consideration of an increased local government role?

#### G. "Bureaucratic Culture"

To what extent is the bureaucracy technocratically oriented and what are bureaucratic attitudes toward local government? Are these changing and why? How flexible or rigid are key bureaucratic entities? Which government units have the most power to help or hinder local government? How do they perceive their role vis-a-vis local government--directive or supportive? What are the personnel and staffing policies? What is the real degree and nature of deconcentration in the government, beyond administrative roles?

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<sup>2</sup>Demand in the Philippines appeared more accentuated than in the other two countries, perhaps because of island ecosystems being more amenable to local control and closer experience with (American) local government ideology. But all three countries had reached a stage where basic infrastructure was in place in many areas, population had grown (better health care), and population pressure on available land resources raised demands for such things as inputs and technologies to accomplish needed intensification. Communications, education, and awareness led to increasing vocalization and to increasing awareness of the inability of central authorities alone to meet these needs. The type of response, however, seemed to depend much more on specific country conditions (discussed in the strategy section below).

## H. Local Capacity

What is the stage of development of both governmental and nongovernmental institutions at the local level? What are the education, manpower, staffing, physical, and financial resources? Are technical resources available locally? Can they be purchased or borrowed? If borrowed from the national government, can it be done without loss of autonomy? What is the national government's policy toward private organizations and private enterprise? What are the incentives for local business? (Answers to these questions have strong implications for strategy considerations as well and are discussed in the next section.)

## I. Other Local Resources

What is the state of physical accessibility in the local areas and the state of development of local resources? If local taxing power were used is there anything there to tax--what types and how much? What about local traditional management skills, organizational customs, and precedents--are these ones that can be built on or are new structures and learning required?

## J. Local Awareness and Politics

Are there participatory mechanisms existing at the local level that will give people a voice in local government? Alternatively, are there local "fiefdoms" that inhibit participation? What is the degree of participation? Can specific mechanisms be feasibly installed?

## K. Overall Factors

What is the balance of centralizing and decentralizing underlying factors? As development proceeds and domestic product increases, the distribution of authority--national versus local, public versus private--is not a simple zero-sum situation. What are the functions that the central government wants to control and those that it will allow local control over? Are there any policy contradictions in this regard and how are they likely to be resolved?

What are the underlying "relatively predictable" factors (such as population pressure, environmental trends, etc.) and

how will these affect all the factors discussed above? Will they mitigate for or against increased local autonomy?

#### L. AID Capability and Other Donor Programs

Assessment of AID capability involves consideration of what strategy is to be pursued (next section) but must be addressed prior to deciding to participate. Other donor strategy must be assessed for its effect (massive influx of funding for the central government to undertake tasks being done in local governments can wipe out years of carefully nurtured institution-building).

In concluding this section, it was suggested that assessing factors such as the above should not be a one-time exercise but could be a periodic exercise the missions should undertake to uncover and consider the changes taking place and the progress being made. Assessment such as this serves both the mission and AID/Washington by explicitly delineating the risks involved and thus forming a more explicit basis for approval and disapproval of mission programs.

The 12 topics discussed above came from the field studies and the comparative workshop; thus, they were not available to us at the beginning of the study to use as assessment tools for these three countries. (The factors actually used in the assessment are discussed in the main body of the report, above.) Nevertheless, it seems clear that an overall assessment of underlying causes for movement and trends in these 12 factor areas would result in a cautious "go ahead" sign in these countries. But the countries themselves cannot adequately illustrate by example a situation where the conclusion would be not to get involved in local government at the time. For that reason, it is worth presenting some hypothetical examples of such a situation. These might include (1) a country recently having suffered extreme fractionalism or civil war, now engaged in strong recentralization; (2) a country with remote or inaccessible local areas governed overwhelmingly by traditional methods, or worse, local semiautocracies held in check by their lack of outside resources and capacity, and by their need for local support;<sup>3</sup> (3) a country where local leaders lack a modicum of formal education or are otherwise held in such disrespect by central elites as to preclude even starting a local government project (education projects might be more feasible);

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<sup>3</sup>See the works of James C. Scott on earlier unbalancing of "patron-client" relationships in Southeast Asia because of outside "aid."

(4) a country where population density is so low, traditional mechanisms so effective, and development problems so basic that there is no effective demand for local government. Situations of this sort would become clear in any detailed assessment using the above 12 categories and should, in an overall assessment, result in a negative determination. Note that any one of the 12 factor areas, if strongly negative, could result in an overall negative determination, but that in many real-world situations, the factors will be neither all that strongly negative, nor will one factor alone cause concern. With enough knowledge and careful consideration, then, an overall determination is possible.

#### IV. ASSESSMENT OF STRATEGY ("HOW TO")

Once a "whether to" assessment has been completed with positive results, and prior to designing a local government project, missions should undertake an assessment of strategy options. Strategy analysis should precede project identification, rather than be a post hoc exercise in justification. Logically, then, the strategy assessment also should be done as a part of the CDSS exercise. Three working subgroups in the Bangkok meeting arrived at strategy recommendations that addressed widely diverse issues. The following discussion represents an amalgamation of diffuse, but useful insights.

A strategy assessment could begin with an analysis of the level of demand for local government and the range of responses feasible in the national context to assess both the level of government at which the strategy should aim and the specific functions of government to be involved. Some of the individuals interviewed in the three countries thought they could discern stages in demand and response although the specific country experience matters greatly (too many variables) and the "stages" are difficult to specify abstractly. In general, however, it may be that, as communications and technological problems both increase, local traditional (village) responses are no longer sufficient (village elders, herbalists, blacksmiths, etc.). At the same time "center knows best" attitudes and methods arise because of outside contact felt first and strongest in capital cities, whose populations, education, wealth, and technological advances grow out of proportion to the rest of the country. As long as the needs are not too great in local areas, the center may be able to handle them (some roads, land registration, etc.). After a point, however, "second generation development problems" set in. These tax central capacities, thus raising demands for greater local attention, which, depending on various factors, give rise to a degree of deconcentration, decentralization, or, more likely, a mix of both.

In the three countries studied thus far, this stage is now occurring. The type of response, however, varies from country to country, most locally oriented in the Philippines, where a tradition of local government and familiarity with U.S. local government institutions exists. At the other extreme, Thailand's governmental system is almost entirely national, with some movement toward deconcentration within the national system. Experience in some limited aspects of local governance is available in municipalities (towns and cities) and sub-districts (tambon---throughout the country), the latter of which the USAID project is trying to build on. In Indonesia, there has been a decade of experience with decentralization efforts, and more emphasis is now being placed on devolution of authority to local governments. The type of response in all three countries was found to be largely conditioned by historical factors. Response, like demand, also may go through phases. The Philippines being the most advanced in terms of local government experience and capacity, local governments there are expanding from basic infrastructure concerns to livelihood, environment, and equity concerns. In Thailand, however, simple projects (village roads, wells, etc.) are combined with very basic capacity building (basic planning, budgeting, etc.). In contrasting the two countries in terms of local government, however, it is important to keep in mind that the more autonomous bodies are at two different levels: the provincial level in Thailand is not autonomous, but it does have staffing, planning, and implementing capabilities comparable to those at province level in the Philippines, whereas at sub-district level in both countries, the lack of such capability is also comparable.

In laying out alternative strategies before deciding which ones to pursue, mission should ask the following types of questions:

- What are the alternative types and levels of local government that could be assisted?
- What sectoral or substantive areas are most needed and which are the most likely entree points at these levels?
- What are the alternative scales (e.g., single province, multiprovince), timing, and phasing?

Along with these initial strategy questions, experience in these three countries has indicated the following guidelines and considerations.

1. A level of government as close to the beneficiaries as possible is desirable consistent with expanding local capabilities. If the lowest level has little near-term chance of

success, higher levels should be considered where initial success can foster confidence to continue the process. By inference, this also has major implications on and from the type of activities to be performed.

2. In considering the activities or sectors of assistance there is a tradeoff between the short-term accomplishments (via technical assistance, for example) and the longer term process for enduring capacity (same conclusion as that of the DAI study). However, this tradeoff is not an absolute one and also depends on staging. The activities or sectors chosen for entree points should be ones that have good chance for success, because confidence is necessary for further capacity building. It is possible that earlier rural roads efforts in the Philippines had this effect on local government; certainly many people felt it did although the case has not been proved.

3. In considering entree points, legislation already enacted but not yet implemented may offer good targets of opportunity. Involving provincial legislative bodies more closely in program planning was a suggestion for Indonesia. On the other hand, assisting ongoing programs or areas of existing central government commitment may be good entree points because they offer greater chance for success and potentially greater policy impact. In any case, entree points should not attempt to cover too many functions too soon. Again, the aim is to build experience and confidence through successful activity implementation.

4. While entree points may be targets of opportunity and may be constrained by initial capacities, missions must have well-thought-out plans to move toward the more encompassing goal and objectives in local government institution-building programs. These could be phased within projects or among projects. They require longer term commitments to succeed (10 or more years).

5. The functions or sectoral authorities granted to local governments should be explicitly delineated by central governments. In the Philippines, local government officials were hopeful that the proposed Local Government Code, by spelling things out, would in effect give them more authority even if it did not actually change anything, because they would know exactly where they stood and could thus concentrate their efforts with greater assurance. Conversely, loosely specified authorities can be subject to central government arbitrariness, which may be very discouraging to local initiatives. Missions should explore the policy options available. It may be necessary to use a less meaningful or less needed sectoral entree point (or even level of government) that has clearly delineated authority. Some members of the workshop, however, pointed out that prior negotiations for clear, functional delineations could

alarm central ministries and could start blocking actions, because most functions are jealously guarded. Demonstrating success by starting small, however, could provide leverage. Missions also must assess the degree to which negotiations are possible and carefully consider alternative entree points in the tradeoff between importance of a function and degree to which authority for that function can be clearly delineated. In any case, there must be a plan for movement toward the goal state, and progress toward it must be evaluated.

6. Policy dialogue before and during the project can be linked to project learning experience through conscious, planned self-evaluation. The dialogue should be with national policymakers, with PVOs, with the private sector, and with other donors.

7. In moving from entree points to goals, the process should remain flexible and self-evaluative--midcourse corrections should be expected. The need is to strike a moving balance among policies, capacities, and actions. Thus mission personnel and central policymakers will need to keep asking themselves "where are we?" in terms of this movement toward the goal state. New activities or authorities that exceed capacities should not be pushed, but, on the other hand, expanding capacities should be recognized and acted on--otherwise the old lack-of-capacity argument will continue to be used to withhold authority from local levels.

8. Finally, the choice of entree points, activities, and phasing will have to realistically consider mission staffing implications. Experience in these three countries has shown that local government projects are, as might be expected, unusually staff intensive.

In planning a path from initial entree points to the goal and objectives, the workshop discussed a number of considerations that would assist missions in creating more viable plans and projects, both in terms of how to get to the goal as well as how to know where you are in getting to the goal. These can be grouped under three general topics: (1) autonomy, (2) pluralism, and (3) tactics.

1. Functional autonomy is a major objective, meaning the local authority and ability to initiate, carry out, fund, and sustain needed activities. This implies local revenue-generating capacity (including the authority of local governments to use that revenue directly). It was noted that in all three countries, national governments retained varying but substantial powers over local governments, so that a phased or gradual approach was the only politically feasible method, despite increasing recognition of need. In a phased approach to autonomy, workshop participants noted the following types of

emphasis would effectively increase local power vis-a-vis the center:

-- One of the first things local governments can learn and can become increasingly effective at throughout their development is how to manipulate central government resources to better meet local needs. This involves learning central government capacities, resources, relationships, and processes, as well as the formal and informal techniques necessary for effective communications with the center. The Thailand study showed that this latter attribute was what was really required and expected, although it might have little to do with management skill in the local context. In the Philippines, effective local governments had studied central resources and had learned effective communication techniques: formal requests, carbon-copies to alternative agencies, follow-up, and so forth.

-- There are many ways to increase local government's ability to lobby for increased autonomy. Arguments are more compelling when they are well reasoned (better reasoned than central agencies) and when they demonstrably represent a plurality of local need. For example, in the Philippines, local government officials were able to cite specific aspects of environmental problems, who these problems were affecting, and what should be done about it. In one province, provincial and municipal governments were conducting effective pilot projects to demonstrate what they could do with greater authority in this area. Connected to effective lobbying is effective broad, local capability. Starting with a particular sector (rural roads, for example) may demonstrate capacity to handle certain engineering functions. But it is then necessary to add on other skills in other sectors to demonstrate that local governments can successfully add on such skills as needs arise and can be broadly responsive. Workshop participants also noted that broadly responsive local government is a desirable objective in itself; beyond narrow sectoral responsibilities, local governments should aim at achieving a state wherein they can best serve local populations by responding to unanticipated needs as they arise in the community.

-- Local governments should work on methods of improving revenue collection in areas where they already have clear authority. This has proved and is proving important in raising local government effectiveness in the Philippines.

-- Local government projects should aim at increasing the nongovernment revenue base in their localities, whether in areas where they have revenue collection authority or not,

because growth of the local economy is one of the most effective means of increasing their bargaining power with the center. To do this, specific "reinvestment mechanisms" are needed in such projects. Local development plans should state what these specific reinvestment mechanisms are in the local context.

In sum, the phased approach is needed when initial negotiating ability of AID with central authorities for a specific plan toward local government autonomy is not effective or appropriate. It combines policy dialogue with increased local demand and capability in a manner that demonstrates the advantages and abilities of more autonomous, local government. It may start off with "targets of opportunity" but builds beyond them in a conscious, assessable manner, making "course corrections" through experience and self-evaluation.

2. Pluralistic or representative decisionmaking in local government is a desirable objective in itself and should be fostered in AID local government projects. How to do this merits careful consideration in some depth in the local context. A first question would be whether there is a local representative body, such as a provincial legislature. If so, their approval or initiation can be built into project structures at key points. Mission should recognize that to do this may cost the project some short-term administrative efficiency, but such a cost should be explicitly recognized and agreed to, to foster the more overarching, longer term objective. This is one interest area in which central government "strings" attached to grants to local government might be used to advantage.

3. Finally, the workshop participants suggested a number of miscellaneous "tactics" that host country experience showed might be used effectively in local government projects:

-- "Contests" for extra grant awards among local governments (e.g., villages) can be used effectively to promote local involvement and enthusiasm and sustain local initiatives to the point where they can become institutionalized. This is being used effectively in southern Thailand.

-- Project support for local nongovernment groups in local government project areas can aid in fostering pluralism as well as increasing nongovernment capacity directly. This should be a complementary part of the strategy, as noted above. Local governments themselves also can target and facilitate private associations as productive units and help lobby for them.

-- Projects may seek special legal status for particular geographic areas to test assumptions about local government capabilities. It also was pointed out, however, that if not carefully done, this can be a two-edged sword if the special conditions set up cannot be applied elsewhere and the model is rejected because of its special circumstances.

-- Finally, wherever possible, direct budget support should be avoided or, if necessary to use it to demonstrate capacity, plans for phase-over should be firm to avoid creating structures that are unsupportable beyond project completion dates, defeating the purpose of developing autonomous, self-sustaining local governments.

APPENDIX B

THE ROLE OF LOCAL GOVERNMENT IN LOCAL DEVELOPMENT IN  
THE PHILIPPINES: REPORT OF A USAID STUDY TEAM

I. INTRODUCTION

A team of four AID/Washington staff members joined three members of the USAID Manila staff and four Philippine social scientists to conduct a study of local government during the period November 2-12, 1982.

The team members were as follows:

- Professor Perla Legaspi, Center for Local Government, University of the Philippines
- Professor Rosemary Aquino, La Salle University
- Professor Robert Siy, Asian Institute for Management
- Professor Buenaventura Canto, Asian Institute for Management
- Mr. George Flores, USAID Manila
- Dr. Randy Cummings, USAID Manila
- Dr. David Korten, USAID Manila
- Dr. Terri Grandstaff, AID/Washington, Bureau for Program and Policy Coordination
- Mr. Matthew Freedman, AID/Washington, Bureau for Program and Policy Coordination
- Dr. Paul O'Farrell, AID/Washington, Bureau for Program and Policy Coordination
- Dr. John Eriksson, AID/Washington, Bureau for Program and Policy Coordination

The purpose of the study was to provide insights to assist in the formulation of an AID policy paper on local governments. The goal for the team was to enhance the capability of local populations to initiate and carry out sustained, broadly based development. The team analyzed the historical evolution, current role, and potential future directions of local government relative to other institutions, and local government as a catalyst for furthering local initiative and pluralistic

decisionmaking processes. The methodology included a review of a wide range of government and private sector documents as well as interviews with some 50 individuals in Manila and the provinces including officials of various levels of government, national and local business people, representatives of private and voluntary organizations, and scholars and researchers. The interviewers represented the spectrum of groups knowledgeable about local government and local development in the Philippines. The team wishes to express its appreciation to those interviewed for the time and insights they shared. The accuracy of the observations and interpretations contained in this report are the responsibility of the team members, however.

Although the duration of the team's stay in the Philippines was brief, several significant events involving local government occurred during the period. First, the Ministry of Local Government held a series of meetings in Manila marking the 10th anniversary of its founding. This occasioned articles in the press, including an address on local government by President Marcos, and the inauguration of a new publication devoted to local government topics, Local Government. Second, the National Assembly was actively debating a proposed local government code that would bring together laws and other regulations relating to local government, as well as set forth some new legislation in this area.

## II. LEVELS OF LOCAL GOVERNMENT IN THE PHILIPPINES

There are currently five types of local government in the Philippines: regional, provincial, city, municipal, and barangay. The current structure of local government is fairly complex, represents the influence of various colonial periods, and includes several innovations of the last decade. There are 13 administrative regions given formal status by the 1978-1982 Five-Year Development Plan. The main purpose of these regions is for planning, budgeting, and coordinating central government-funded programs. Regions are, for the most part, not considered a unit or level of government, or "governance," per se. A Regional Development Council (RDC), composed of regional representatives of central line ministries and authorities, as well as of provincial officials, and chaired by a regional provincial governor, is the executive body of the region. The regional office of the National Economic Development Authority (NEDA) serves as the staff arm of the RDC and typically plays a key role. A major task of the RDC and the regional NEDA is to prepare and approve the submission to the Ministries of Finance and Budget, a "Regional Development Investment Plan." The various line ministries, including their Manila headquarters, still play a strong role in this process.

It is conceivable that regions may become local governmental bodies with elected assemblies with revenue-raising power and a degree of independence in funding and implementing regional programs. However, most people interviewed considered the regional level to be a deconcentration of central and local governments. They did not envision the region developing into a level of government with the power and autonomy comparable to current provincial government. The recently organized "Autonomous Regional Governments" of Regions IX and XII in Mindanao, as well as the Metro Manila Commission, have been given limited powers along these lines and are being monitored as possible prototypes for other regions.

The next level of government is the province, of which there are 72, varying from 4 to 11 per region. While the governors and provincial councils or assemblies were appointed by the President of the Philippines during the martial law period, they are now once again elected (since the lifting of martial law) by the population which live outside urbanized areas designated as "chartered cities." As such, the governors are the highest level of elected officials representing primarily rural populations. The provincial councils are complemented by "provincial development councils" (PDCs), composed of selected members of the provincial council as well as certain appointed provincial government staff, provincial representatives of line ministries, and representatives from the private sector. The PDC and a provincial development staff prepare a provincial development investment plan (RDIP). The chief staff member is the provincial development coordinator who typically has graduate training in public administration or one of the social sciences and is assisted by project analysts at the college-graduate level, an economist, and others. In addition, there is a provincial administrative officer, treasurer, assessor, engineer, agricultural officer, health officer, and others. Provinces and lower levels of local government have varying degrees of revenue-raising and appointment powers, as well as varying control over grants from the central government. These powers and the extent to which they are used will be discussed in Section III.B on local government autonomy.

The next type of local government is the chartered city, of which there are 64, ranging in population from 25,000 to several million. The majority of these units are in the 40,000-150,000 population range. Chartered cities have elected structures of mayors and city councils as well as locally appointed members to city development councils. These structures, which include city development coordinators and staffs, parallel those of provinces. On the staff level, professional qualifications match and sometimes exceed those of the provinces. City development plans are prepared by city development councils and staffs. Chartered cities are independent of the provincial government.

The next level of local government, the municipality, is directly under the provincial government. There are 1,500 municipalities in the Philippines (about 20-30 per province), and together they account for all national areas not accounted for by chartered cities. Because they exclude the chartered cities, municipalities view themselves as the representative governments of rural populations. Municipalities have parallel elective and appointed structures to those of chartered cities and provinces. Professional capacities of municipal staffs are much thinner both in quantity and quality than is true of the city and provincial levels, however.

The lowest level of local government is the barangay, of which there are some 42,000 in the country. Rural barangays are, in effect, collections of villages. Except for the municipal seat, most municipalities consist of rural barangays. Most chartered cities also have large rural hinterlands, and many cities have as many rural barangays as urban barangays. The densely populated commercial, residential, and/or industrial core of a city consists of any number of urban barangays, which correspond to one or more barrios, or neighborhoods. The barangay assembly, consisting of the entire barangay population of age 18 and above, votes for a barangay council and captain. The functions of the council include those of proposing needed development projects to higher levels of government, undertaking development projects or sanctioning their being undertaken by voluntary barangay associations, some limited revenue-raising power, and general assistance to higher levels of government in the delivery of public services and in the maintenance of law and order. Barangays, whether rural or urban, rarely exceed 3,000 households in size and most number 1,000 or less.

Village-level organization goes back to precolonial times in the Philippines, and the current basic structure of provinces and municipalities is primarily a result of the Spanish colonial era. However, institutions and practices have been strongly influenced by the United States during its colonial rule.

### III. FINDINGS

The findings of the study are organized into three broad categories: (1) Local Government Capacity and Activities; (2) Local Government Autonomy; and (3) Local Government Relationships with Other Local Development Institutions. The team believes an assessment of trends in each of these categories is important to reaching a conclusion on the role of local government in local development and on the related question of whether AID should consider support for local government in a

given country. These trends will determine whether local populations reach out to local government as a desired instrument for development or whether they react passively to local government or seek to avoid contact with it.

The first and second categories (capacity and autonomy) are closely related to the concept of "decentralization" found in the literature of public administration and local government. Decentralization, as used in this report, will always imply devolution of decisionmaking power and authority to local government. This is equivalent to increased autonomy for local government.

All three categories--capacity and activities, autonomy, and relationships with other local development institutions--have both commitment, or intent, and performance dimensions. Statements of policy, for example, are statements of commitment or intent. While they should not be ignored in an assessment, actual performance or implementation of policy should be weighed more heavily. Repeated performance contrary to stated policy virtually negates the latter.

An understanding of the historical context as well as trends in factors affecting local government is critical. What should be of importance for AID or other donors is an assessment of significant movement toward greater local government capacity and action, autonomy, and constructive relationships with other local development institutions, rather than correspondence to an absolute standard.

The first step in this assessment process is to examine the historical content. The team benefited greatly in this regard from an interview with and a recent paper by Dr. Raul P. de Guzman, Professor and Dean of the College of Public Administration, University of the Philippines.<sup>2</sup> Dr. de Guzman identifies alternating trends or cycles of relative centralization and decentralization of government in the Philippines: a trend toward centralization during the colonial period, followed by increasing decentralization from independence in 1946 until the declaration of martial law in 1972, a shift toward centralization during the 1972-1981 martial law period, and signs of a movement toward decentralization since the lifting of martial

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<sup>1</sup>It also may be accompanied by, but not as an essential element of, "deconcentration" of staff from central government to local levels.

<sup>2</sup>Dr. Raul P. de Guzman, "The Future of Local Governments," Local Government, 1, 1 (October/November 1982), Manila, Ministry of Local Government.

law in 1981. De Guzman further suggests that these cycles are influenced by the political environment in terms of perceived degree of "crisis" or "normality."

Philippine experience shows that the trends towards centralization and decentralization are influenced by the situation or the political environment; that is, whether we are in a normal or crisis situation. In normal times, there is a tendency on the part of the government to decentralize. Conversely, in a crisis situation there is a tendency to centralize government operations. With the return to a normal political situation, we can expect a trend towards decentralization or more participation of local governments in national development.<sup>3</sup>

This thesis was confirmed in interviews with others who interpreted the centralizing actions of the martial law period as, in part, a reaction against extreme local autonomy, bordering on local fiefdoms in some provinces.

A major question to which a study of local government in the Philippines or in similar settings must address itself is the following: can an underlying, secular trend in the role of local government in local development be discerned? A tentative response will be proposed in the concluding section of this report.

#### A. Local Government Capacity and Activities

The professional capacity of local government to plan and undertake development activities has been considerably strengthened during the last 15 years, especially at the provincial and chartered-city levels. Almost in tandem with this growth of capacity has been a growth in the activities undertaken or stimulated by local government. Most impressive in physical terms have been road construction and maintenance and domestic water supply and sanitation system construction and operation. Other activities include special health and nutrition programs in cooperation with line ministries, expansion and modernization of public markets, and support for income and employment-generating activities at the barangay level.

USAID assistance has played a major role in these developments. This involvement goes back to assistance for "Operation Spread," 1966-1968, followed by expanded support for various

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<sup>3</sup>de Guzman, p. 7.

phases of the Provincial Development Assistance Program (PDAP), 1968-1980, and two major "spin-off" projects: Rural Roads I and II, 1976-1982, and Barangay Water I and II, 1977-1985. These programs directly benefited over 50 provinces through training and technical assistance as well as capital assistance for the construction of rural roads and domestic water supply and sanitation systems. Capacities for administration, coordination, planning, budgeting, personnel classification and management, and financial management have been created and strengthened. In 1976 the special agency established in the Office of the President to administer these programs was transferred to a newly established Ministry of Local Government. The organizational structures and approaches initiated in these USAID-assisted programs have been extended to the entire structure of provincial and other levels of local government in the Philippines.<sup>4</sup>

USAID assistance to local government in the Philippines has entered a new phase during the last four years. While not abandoning the strengthening of staff capacity through training and technical assistance, there has been a new emphasis on enhancing local revenue-raising capacities and performance, and on participation in initiating and implementing income-generating projects at the grass roots level through the Real Property Tax Assessment and Rural Service Center projects and the recently approved Local Resource Mobilization project. The Rural Service Center project is now active in 22 "rural" chartered cities and, in addition to strengthening the professional capacities of city development staffs in such areas as financial management and revenue mobilization, is supporting the creation of barangay-level voluntary associations intended to improve basic infrastructure (for example, sanitary facilities) in some instances and, in other instances--more often than not--to establish income and employment-generating, profit-earning enterprises (for example, brickmaking).<sup>5</sup>

The new Local Resource Management project carries this broadened approach to strengthened staff capacity, improved financial administration, and enhanced beneficiary participation to the provincial level, beginning with 3 provinces and expanding eventually to 15 provinces over two project phases.

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<sup>4</sup>For additional detail on USAID assistance to provincial and city government in the Philippines, see Appendix C, "Provincial Development Assistance Project (PDAP) Experience and Lessons," in the Local Resource Management Project Paper, USAID/Philippines, 1982.

<sup>5</sup>The Barangay Water Program also requires that systems be owned, amortized, managed, and maintained by user associations.

This project is based on an assessment that the most significant impact on local development can be achieved by working at the provincial level and interacting with the municipal and barangay levels.

Several additional implications of strengthened local government capacity were suggested in team interviews. First, interviewees pointed to increased awareness in the public and private sectors and the emergence of a "new man" or "new woman" in local government, a professional trained in the "scientific approach" and less susceptible to the previously institutionalized system of political patronage. Other factors to be discussed below, such as the legislative and policy framework, will of course heavily influence how well the "new" man or woman<sup>6</sup> is able to succeed. Nonetheless, there appears to be a general perception of a new breed of local government staff.

Other implications of enhanced local government capacity suggested to the team concern increased ability to lobby for and manipulate national resources. Multifunctional capabilities at local levels also show signs of increasing (discussed below). At the same time, there was a recognition by central government officials interviewed that it was more efficient and in their self-interest to deconcentrate activities, that the local officials could further national objectives by implementing a local strategy. This realization is one aspect that identified movement in the direction of increased awareness of the potential of local government on the part of the central government authorities which did not detract from the legitimacy of the central government.

#### B. Local Government: Autonomy

The former category was concerned essentially with local government efficiency to carry out development activity at the local level. Little was said about what was to be done, or, more important, who is setting the agenda for local government. The present category is concerned with this issue, the issue of local government autonomy.

Autonomy for purposes of this discussion involves not only a devolution of revenue-raising, appointment, expenditure, and other decisionmaking power from central government, but it also implies responsiveness by local government to local populations

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<sup>6</sup>One of the most dynamic professional local government staff members interviewed by the team, a City Development Coordinator, was a woman.

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through electoral and/or other participatory processes. Only if responsiveness to local populations is present, along with a measure of independent decisionmaking power, can local government be viewed as an instrument capable of enhancing the capacity of local populations to initiate and sustain broadly based development.

Philippine experience suggests that trends in several factors related to local government autonomy should be assessed in order to arrive at a balanced overall judgment. These include the legislative and legal framework, including executive orders and regulations; control over financial resources (central and local); control over budget allocations or expenditures (regardless of source of funds); control over human resources (hiring and firing authority); scope of permitted functions; and adequacy of responsiveness as manifested in elections and other forms of popular participation. These factors tend to have a de jure, or "in law," dimension and a de facto, or "in fact" or "in practice," dimension. Trends in both are of significance as will be noted in the examples described below.

It will also be noted that not all examples of enhanced local government autonomy imply a reduction in central government authority (that is, a "zero-sum game"). For example, increased utilization of longstanding local taxing power represents a real enhancement of local government autonomy without reduction in existing central government authority. This may mitigate central government concerns about enhanced local government autonomy as well as central government perceptions of the costs of giving up more de jure authority. A second possibility is that the increase in social complexity brought about by development may increase the required activity of both the central and local levels of government. While this implies a sorting out of responsibilities it does not suggest a loss of authority by one level to achieve a gain by another.

#### 1. Legislative and Policy Frameworks

Legislative and policy frameworks are critical both to independent local government and to promoting the capacity of local populations to initiate and sustain development activities. These frameworks provide the "enabling environment" in which individuals and their voluntary associations are encouraged or discouraged from investing their own efforts and resources in development activities as well as re-investment after external assistance has ended. They often impinge directly upon the incentives and opportunities to invest, produce, and employ.

In the Philippine context, these enabling frameworks include the Constitution of 1973, Executive Orders or Presidential Decrees affecting local government (such as P.D. 86 and 86-A on Barangays, and E.O. 803 on the Integrated Management System for Agricultural Services), the proposed Local Government Code, and the attitudes and actions of the various elected assemblies both at the national and local levels. They also include a range of economic policies affecting investment and production incentives at the local level.

The autonomy of local governments is explicitly recognized in the Philippine Constitution of 1973. Article II, Section 10 states:

The State shall guarantee and promote the autonomy of local government units, especially the barangays, to ensure their fullest development as self-reliant communities.

Article XI, Section 5 provides that:

Each local government shall have the power to create its own sources of revenue and to levy taxes, subject to such limitations as may be provided by law.<sup>7</sup>

However, the interpretation of the Constitution in various Presidential Decrees, Executive Orders, and other laws has shown that the central government has been in no rush to decentralize government to the local level. Current orders and law reserve the power of employment, placement, and management of all police and many financial responsibilities to the central government. In addition, important operating procedures of local government are specified by the central level particularly related to finance. Finally, many functions such as agriculture services, health, and primary education are provided explicitly by national line ministries with local governments not yet a full partner in the planning and management decisions. On balance, orders and decrees have been important vehicles in establishing and strengthening the barangays.

The situation is not static, however. In agriculture, Executive Order 803 has transferred the day-to-day management of all provincial-level Ministry of Agriculture personnel to the provincial government level. While the detailed meaning of this order has not been worked out, the hiring and firing of personnel and primary budget authority will be retained by the Ministry. The on-the-job supervision, including assignments

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<sup>7</sup>de Guzman, p. 1.

within the province, will be carried out by the local government. Further, decentralization of finance is also under discussion in terms of the provision of similar local government supervisory authority over the Ministry of Finance's province and municipal treasurers and assessors.

The specific legislative effort to interpret the Constitution is the proposed Local Government Code which is now being debated by the assembly. In preparation for over 2 years, this code attempts to consolidate the authorities of local government into one piece of legislation as called for by the Constitution. However, the ambivalence of the central government towards decentralization is evident in the length of time the code has been under consideration and its avoidance of a number of key issues by permitting "current" law to prevail. Furthermore, the code refers to the role of the President as exercising "general supervision" to "ensure that local affairs are administered according to Law." One interpretation would suggest delimiting the central role of the central government to include assurance of budgetary consistency with national policy while a differing interpretation would imply national government jurisdiction over all aspects of local affairs. Also, the General Powers section of the Code's draft discusses the need for viable entities to provide services. However, the code does not discuss local government as a catalyst in creating local capacity, nor does it recognize the fact that other institutions may be more viable in providing service through, for example, special water districts. Finally, the code makes reference to "limitations as may be provided by law."

Thus, it may be concluded that some delineation of authority and responsibility by the central government is necessary to provide the context for local government activity. It may also be concluded that the political makeup of the Philippine government suggests that a more significant avenue for meaningful political and administrative autonomy is a different process than a general code that reflects a bureaucratic "lowest common denominator" approach. The process of "weaning away" the central government's authority by enhancing local capacity and without jeopardizing the central government's legitimacy may have a greater positive impact than any enabling legislation. This is especially true since any enabling legislation in the Philippines can be withdrawn at any time by the President while the movement for local decisionmaking and increased freedom of an individual over the individual's own life cannot be revised.

Notwithstanding the status of the code, its presence is an opportunity to debate a number of key issues. These are as follows:

-- Appointment of financial officers. The central government is reluctant to transfer financial authority to local governments but indicates a willingness to permit local officials to select, from a "short list" of Ministry of Finance-employed treasurers and assessors, the specific individuals who would be assigned to their province or municipality. There would also be a trial working period (probation) before the appointment became permanent.

-- Recall. National leaders are promoting this and local officials are the opposition. Local officials fear that the volatile and emotional electorate will tend to over-use this feature of the code and create a destabilized environment for local officials. At a minimum, local officials claim that they will not be able to take needed but politically unpopular decisions. Those promoting the recall argue that electoral accountability is essential to decentralization.

-- Synchronization of elections. Like the recall this is supported by the national level and opposed by elements of the local level. At issue is the potential submergence of local issues by the national election issues which would be debated at the same time. The stated national-level arguments are primarily election cost and efficiency since elections are, to some extent, disruptive of normal life.

-- The future of chartered cities. The code proposes to modify the definition of chartered cities to exclude those under 150,000 population and with an income less than 30 million pesos per year. This would result in the majority of chartered cities losing their present independence from the province and becoming a dependent local government under the province with similar status as a municipality. There is a direct financial implication since central government grants to these cities would, in the future, be filtered through the province. However, the long-run effect would be to shift the electoral base of the province government from the rural municipalities toward the newly included dependent cities. Consequently, the provincial governor and council would become a reflection more of urban issues than rural.

-- Police and funding mandates. While these issues are still a strong concern of local officials, the code maintains the status quo.

Despite the debate over the Local Government Code, decentralization is more of a concern to local officials than to the national assembly. At the local level, some view the code as a reinforcement of the centralized status quo. However, in several areas visited, those local officials who fit the "new man"

and "new woman" characterization were less concerned about the code than about exercising local initiative to the limit of present authority. Several mayors indicated that they felt there was considerable room within the present law and proposed code for local government to promote local development, provide services, and be supportive of the nongovernment development activities of the people. These leaders emphasized their efforts to improve tax collection within existing rates as set by the central government, promote business and cooperative development, and explore new methods of financing development such as voluntary self-help.

In one municipality, the principal streets were provided with street lights by a combination of the donation of the lights by a prominent businessman and agreement by the residents who lived near the lights to permit the wire to be connected to their home service and pay the bill. In a chartered city, the local officials were carrying out an intensive campaign to get Manila-based industry to branch out and locate in their area.

## 2. Financial Resources and Control of Budget

Local government in the Philippines is accorded the important authority to raise tax revenues from a significant element of the economic base, that is, real property. This authority, coupled with other tax and nontax sources, provides local governments with a flow of resources which enhances its political desire for autonomy. However, in the past, control of local government by the central government has been exercised through various appointment and procedural features of the finance system which has diminished local government's autonomy. This control has been reinforced by the actions of local leaders in not aggressively utilizing existing authority and not being innovative in exploring new methods of finance. Today this central control of finance is less obvious and diminishing, and local governments are taking a greater share of the responsibility to plan, budget, and expend resources.

One important central control of finance is that the revenue and expenditure authority of local governments is determined by the central government. The authority of local governments to tax specific bases and collect nontax revenues can, therefore, be expanded or limited by the national government. In addition, the central government specifies percentages of revenues both from local sources and from the central grants-in-aid which local governments must budget for specific functions such as police, agriculture, and tourism, and categories such as salaries, and development. After preparation by

local budget officers and approval by the local elected council, local government budgets are reviewed and approved by the central government. Formerly, this review and approval was done by the Ministry of Finance, but today it is carried out by the Ministry of Budget at the regional level. In terms of the relationship between policy and budget, the current local government budget approval procedure is a technical review to ensure that each local government budget complies with current law. The review does not change expenditure priorities or programs which were determined by the local government itself. However, local governments are still saddled with a large number of mandated expenditures in several functional categories, but opinion on the degree of central control imposed by these mandates was mixed among local government officials.

Over the past 15 years, a considerable effort (significantly assisted by USAID) has been made to upgrade the quality of the revenue-raising system. Training of officials and tax mapping have been particularly important elements of this effort. Today, many elected local governments recognize the need for and have come to depend on further improvement in the efficiency of the revenue collection system to improve the capability of the local government to finance services. Significantly, local government leadership has departed from the narrow, traditional focus of local government expenditures--that is, provision of basic infrastructure and selected public goods--and expanded its activity by supporting the development of a wide variety of private sector production and marketing activities. This new interest not only demonstrates a sophisticated perception of the full extent of the economic base, but also a rising demand for a stronger tax base. In addition, it indicates the understanding that the expenditure of effort and resources to improve the economic base is a more efficient alternative to welfare programs in a depressed local economy. This more businesslike approach to taxation, revenue generation, and public expenditures is one facet of the basis for the "new man" and "new woman" characterization of local government leadership. A majority of the mayors of chartered cities and municipalities who were interviewed noted the importance of attracting local investment to enhance the local property tax base so that the jurisdiction could earn more revenues to finance needed local services. In several cases, the mayors were attempting to improve the investment climate by financing infrastructure which would attract more businesses and manufacturing.

Another area of central control is the appointment by the Ministry of Finance of its own personnel to the positions of treasurers and assessors at the provincial, municipal, and charter city levels of government. In the past, this appointment authority, combined with the Ministry's past local government budget approval authority, was a particularly powerful

control over local governments because the treasurer had tax collection, budget planning, and comptroller responsibilities, and the assessor was responsible for valuating the tax base. Today the central government continues to employ the treasurers and assessors. However, the responsibility to prepare the budget has been transferred from the treasurer to newly created budget offices within the local governments. These offices are staffed by local government employees. In addition, the debate on the Local Government Code suggests that there will be some compromise between the levels of government over the sharing of authority to appoint these officials.

A large portion of the government resources which are spent in a given local area are still funneled through the central government's line ministries. Control of these resources is a good measure of local government autonomy. In the past, local plans were formulated on the basis of the area plans of line ministries. Local government officials then played the role of ministry lobbyist. If the line ministry had its plan approved and funded, the local jurisdiction would benefit insofar as its plan also included the line ministry's proposed projects. There are two elements of decentralization which relate to interaction of local governments and line ministry plans and budgets. First, local government officials are increasingly better able to present their case for projects with the line ministries and therefore influence their plans. Several local government officials interviewed cited an array of tactics to influence the direction of central government, line ministry expenditures. Second, important planning and financial decisions on line ministry budgets are now made at the regional level which has local government representation. The ability and success of local government officials to use their project design capability and position on the Regional Development Council will be a useful indicator of further decentralization.

### 3. Control Over Human Resources

As noted above, local governments have essentially no control over the local police and limited control over treasurers and assessors. The new Executive Order 803 has given them supervision over the personnel provided by the Ministry of Agriculture. However, local governments employ their own staff in a number of areas, primarily in the areas of administration and public infrastructure. As a result of the considerable amount of training provided to local government staff, the provinces and chartered cities employ capable planning and budget personnel. Experiments also are underway which are bringing greater local government involvement in the direction of the staff of other functions such as health. However, the

transfer from national to local management will be slow and tied to the willingness of the national ministries to release the financial authority which has gone along with the management of the staff.

#### 4. Scope of Permitted Functions

Local governments in the Philippines now have significant control over a number of functions related to the provision of infrastructure--roads, bridges, the water system, and sewage systems. Because of Executive Order 803 on the Integrated Management System for Agricultural Services they are sharing control of this function. Pilot programs such as PUSH are also increasing the responsibility local governments have in the provision of health. In education, local governments are involved at the secondary level but do not appear interested in the management of the primary school system which is now handled by the central government.

Local governments are taking an increasing interest in environmental issues and activities which generate jobs and income--the first as a result of their perception that the national line ministries are too slow, inefficient, and insensitive to the problems, and the second because of their interest in a healthier and more equitable economic base and the enthusiastic support of the central government through a variety of programs such as the KKK, or livelihood program.

The functions of significant interest to local governments are police and finance. In all areas visited, local leaders stated that local governments should have authority over the police and they should have a greater share of the authority over finance by transferring the treasurer and assessor positions to local staff. One of the key elements in further decentralization will be the method by which the conflict over police and finance are worked out. In both functions, the old fears of the central government which characterize local governments as corrupt and feudalistic have been revived by the demands of local leaders to take over these functions. Local leaders, on the other hand, point to the central government's clumsiness and lack of local sensitivity in managing these functions. However, by pressing for these functions, are local governments jeopardizing the gains in autonomy which already have been won and the gains which could be obtained in less controversial functions? It is difficult to predict the outcome at this time even though one compromise is under discussion in the National Assembly's consideration of the Local Government Code.

Additionally, there are important multifunctional issues in the Philippines today that imply both increased capacity and autonomy for local government. These are a host of environmental and second-generation development problems needs beyond basic infrastructure and services that are powerful incentives for an increased local government role. Environmental problems in the Philippines tend to be largely local problems because of the many islands (7,000) that make up the nation. Deforestation, flooding and drought, fisheries problems, and so on all affect local populations, and regardless of the functions now legally assigned to local governments, local populations turn to their local governments for help. A number of local officials cited this pressure from local populations while at the same time noting it increased their bargaining power with national governments since they could convincingly represent local populations on these issues. Second-generation development problems also tend to be multifunctional, and again it is the local government that receives the demands and can argue that its local presence and multifunctional outlook are more suitable for responding to these problems than the more distant and functionally separated national line ministries. While there is evidence that both local capacity and autonomy are being increased in this regard, it also increases local government influence in manipulating national capabilities and resources. Executive Order 803, for example, authorized local governments to coordinate a variety of interacting agricultural activities among national agencies.

##### 5. Popular Participation

With regard to popular participation, Filipinos, in general, place a high value on local government. Public debate on its importance and functions is an acceptable activity throughout the country and at all levels of interest. The importance of elected officials to their constituents and the governing process is significant. Traditionally, local residents have seen elected local officials--especially mayors--as their person in government who is to be approached when there are problems of almost any nature and who is expected to make a serious effort to help solve these problems. This relationship between the population and local government officials largely explains the increasing interest local government leaders have in having more authority to deal with environmental problems because environmental problems have directly affected local populations. These problems are quickly brought to governors and mayors. This view is still held firmly and with the restoration of elections in 1980, the voters demonstrated that they were willing to turn out unresponsive incumbents. Elected officials who were interviewed exhibited a conscious awareness of their periodic accountability to their constituents in elections. It was

also mentioned in interviews that voters take an active interest in elections. This interest is not fully explained by the legal requirement that all adult citizens must vote but indicates an interest in popular participation in the affairs of local government.

A point of contact between popular participation and local government capacity is that in all districts in which PDAP was active, the provincial governors were reelected. Among those interviewed, the feeling was that the management improvements brought about by PDAP and spin-off projects were a contributing factor to the reelection. In the view of several elected officials, the people were sensitive to and supported those in local government who were efficient and responsive.

### C. Local Government Relationships to Other Institutions on the Local Level

There are a wide range of institutions other than local governments that are active at the local level in the Philippines. These include chambers of commerce and industry; banks; industrial and trading enterprises; civic and business clubs such as Kiwanis, Rotary, Lions, and Jaycees; United Way; church and religious organizations; credit and other kinds of cooperatives; and, finally, local-level units of central government line ministries. There are in addition several major indigenous private and voluntary organizations and foundations with business or religious backing, often with some international assistance, that support development projects and cooperative enterprise at the local level (for example, Philippine Business for Social Progress, Project Compassion, International Rural Reconstruction).

The extent and nature of local government relationships to these institutions is crucial to assessing the developmental role of local government as a catalyst for local initiative. Positive and constructive relationships imply a situation in which assistance to local government is more likely to complement than to preempt and should even encourage the orientation of other institutions toward promoting local capacity to initiate and sustain development activity. Hostile relationships or a lack of any relationship may result, on the other hand, in local government-sponsored activities being uncoordinated or competitive with other development activities at the local level and possibly even being thwarted by other institutions. Local government per se, however, cannot ensure that the investment and reinvestment process is initiated and sustained, although it can ensure a stable environment conducive to local initiative.

In fact, the team found in its field visits that relationships between local government and other local institutions were fairly extensive, constructive, and active at both formal and informal levels. City and provincial development councils included representatives of private and voluntary organizations and business associations (and vice versa). Councils and staffs successfully sought the active participation of such groups in planning and reviewing local government development expenditures; in directly identifying and sponsoring local development projects, such as income-generating enterprises at the barangay level, skills and management training courses, and so on; and in identifying a comparative advantage for private sector involvement.

Whereas local government contracted with the private sector for infrastructure construction purposes, the team did not find any cases of local government employment of private consulting firms for planning or research purposes.<sup>8</sup>

Relationships between local government and local units of line ministries and authorities seemed mixed, however. Frequent contact and cooperation appeared to prevail in some instances, but lack of coordination and even mutual suspicion and competition was apparent in other instances.<sup>9</sup>

A new, significant element is the KKK or livelihood program of the Ministry of Human Settlements (MHS) that encourages and supports barangay-level enterprise projects and utilizes local government officials to review and monitor such projects. Opinion on the KKK program by local government officials interviewed was mixed; some questioned central, detailed designation of eligible projects and procedures; others welcomed it. These mixed situations and reactions reflect the changing roles of local government and local units of central government.

At the national level, however, a degree of competition between government and private enterprise does seem to be a problem. With the exception of those favored firms with close

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<sup>8</sup>One city development coordinator indicated that the local area did not have such expertise in the private sector and that private consulting firms from Manila were not considered because of their high relative cost and lack of knowledge of local areas. The staff of the firms, however, were considered for projects under the Regional and Municipal Development Funds.

<sup>9</sup>This conflict becomes quite explicit when local units of central ministries are involved in donor-financed projects that permit payment of salaries substantially above those possible for local government.

political ties to the national administration, Philippine business is becoming increasingly vocal in its criticism of national government policies, in contrast to the early martial law period when business generally welcomed the relative stability brought about by the new regime and the emphasis on and accomplishment of economic growth. But criticism has mounted during the last year on the following counts: (1) inequitable and arbitrary tariff liberation and price control measures; (2) a rigid and control-oriented bureaucracy; (3) untimely tax and restrictive credit measures; (4) a proliferation of government agencies that regulate exports; and (5) the entry of government into business (one source cited 91 government corporations in finance, utilities, industry, agricultural trading, and other fields).<sup>10</sup>

Other criticisms recently emanating from the private sector include (1) continuing poverty and high unemployment caused in part by misguided government policies and priorities; (2) controlled communication and lack of articulation of people's perceptions; (3) expanding security threat in some areas from the insurgent New People's Army (NPA), reflecting popular dissatisfaction with government policy and with abuses by the military; (4) dominance of vested interests over concern with national welfare, associated with growing state capitalism, red tape, corruption, and "cronyism"; and (5) lack of private sector participation in the budgetary process and an excessively centralized budgeting process, along with inadequate data and archaic bureaucratic procedures.<sup>11</sup>

The response of government to these criticisms has also been mixed. There have been promises to streamline procedures for investment and exporting, as well as a proposal to establish a fund from which the private sector could borrow to buy back at least some of those failing businesses taken over by the government in the wake of past financial problems. Some government reactions to these criticisms have been quite defensive, however, and signals with respect to future government involvement in business have been conflicting--varying between assurance that the expansion of public enterprise is a temporary phenomenon to indicating that government may be moving further in that direction.

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<sup>10</sup>Report by Jose Concepcion, Jr., Conference Chairman, "Government-Private Sector Relations: Imperatives for Development," a Report to President Ferdinand E. Marcos on the 8th Philippine Business Conference, November 3-5, 1982, Manila.

<sup>11</sup>Contained in a Makati Business Club Working Paper and Draft Resolution on "Philippine Growth and Development," as reported in Business Day, September 1, 1982, Manila.

Local government-local private enterprise relationships cannot help but be affected by these national-level problems. To the extent that local governments develop a degree of genuine autonomy from national government, however, constructive relationships of the kind described above can emerge with some insulation from the national-level problems.

#### IV. CONCLUDING OBSERVATIONS

There are other factors that may well have a major impact on the future role of local government in the Philippines. First is the policy and strategy of other major donors. This impact is, unfortunately, potentially serious and adverse. The World Bank, for example, is planning a multimillion-dollar rural roads construction project with a central ministry. This effort may adversely affect the expanding local government capacity and autonomy in this function. The Japanese, along with the Asian Development Bank and UNICEF, are proposing \$125 million for barangay water supply through a central ministry. These approaches threaten the local government capacities built through PDAP and subsequent programs. Other donor policies must therefore be a major component of policy dialogue on local government.

Another factor that will have serious repercussions on the pace and tenor of increased local participation is the longevity of the Marcos regime. In virtually all interviews, the "what happens after Marcos" question was implicitly or explicitly raised by the interviewee. Although speculation took various forms, it is clear that the stability of the national government after the Marcos regime will affect the pace of increased local participation.

A third factor relates to the current Executive Branch review of greater decentralization, carried out by members of the President's personal staff. Although it was not possible to discern the motivations of these individuals, it was clear that they perceived it to be in the best interests of President Marcos to explore greater decentralization to further political stability. The ultimate outcome of their study will also color the future of this subject.

Several leading considerations should be borne in mind in reaching an overall conclusion on the direction in which local government in the Philippines is currently heading. First, it must be remembered that disorder at the local level was one important factor which led to centralization and martial law. Nonetheless, national leadership does have reasons for moving toward greater decentralization and genuine local government

autonomy. These include (1) the difficulty of managing centrally an extremely diverse and far-flung nation of 7,000 islands experiencing increasingly location-specific, multi-functional development problems; (2) the development of a large, professional political constituency in the form of a range of elected and appointed local government officials who lobby for more resources and greater local control over resources; and (3) signs of a vigorous local electoral process, where no province experienced less than a 40-percent turnover in barangay captains in the April-May 1982 elections, where virtually all such elections were contested by three to five candidates, and where new captains, often women, were generally from a younger generation.

Finally, local government is a live, hotly debated issue in the Philippines. The fact that this debate takes place and that strong proponents of increased local government autonomy speak out is significant. The signals are not unidirectional, however. As noted in a previous section, it has been made clear by President Marcos that certain functions--albeit for understandable historical reasons--will remain under central government control, especially police and fire protection. While the implementation of new legislation such as the proposed Local Government Code might further increase local autonomy in such areas as financial management, movement is likely to be incremental and subject, in critical areas, to Presidential discretion. Whether the code institutionalized the status quo or creates the enabling conditions for further local government autonomy is unclear, and only time will tell. Careful delineation of responsibilities, functions, and authorities from the central government to local governments would be the ideal, but practical politics in the Philippines dictates that levels of political autonomy come after the local entity demonstrates that it is competent to carry out functions in a nonthreatening way. Because of the type of regime in the Philippines it is also unclear that enabling conditions in the form of, inter alia, a local government code, would provide the sufficient framework, should President Marcos decide against the use of the code.

On balance, however, it would appear that a secular trend has developed in the direction of increased, genuine, and meaningful decentralization, in part through catalytic USAID assistance. This process has brought about enhanced de facto autonomy (increased exploitation of existing revenue-raising authority) and may well have created a constituency on behalf of local government to which central government is more

prepared to listen.<sup>12</sup> Increased local government capacity and autonomy has, in turn, been associated with apparently constructive relationships with other local institutions and increased popular participation at the local (barangay) level.

Thus, it would appear that local government in the Philippines has the potential for becoming an effective, complementary (to other institutions) instrument for enhancing the capacity of local populations to initiate and sustain development activities.

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<sup>12</sup>In effect, increased "deconcentration" in the form of expanded, qualified staff at the various levels of local government leads to actions, demands, and responses that result in increased "devolution" of authority.

APPENDIX C

LOCAL GOVERNMENT IN THAILAND

I. INTRODUCTION

The purpose of this appendix is to assess the current direction and momentum of efforts to foster local government and local initiative in rural Thailand. This assessment is based on field visits to two provinces in Northeastern Thailand (Ubol and Yasothon) and one province in Southern Thailand (Narathiwat). We also interviewed USAID and Thai government officials and NGO leaders in Bangkok. One member of the team (Dr. Montri) is a Thai political scientist and is well acquainted with national politics and central administration. The other team member (Dr. Calavan) is an AID anthropologist familiar with local politics and administration in rural Thailand.

The scope of work which guided our study raised the following major issues:

- Which institutions have the most potential to contribute to the overall AID goal of local capacity?
- What have been the types of approaches AID, host country government, and other donors or agencies have used that aimed at or affected the goal of local capacity?
- Is there a conflict between the development of local planning and design expertise and the development of effective popular participation in decisions regarding resource allocation, project selection, and design criteria?

These issues are reflected in the major sections of this paper: "Institutions," "Approaches," and "Efficiency versus Autonomy."

II. INSTITUTIONS

Local government in Thailand is substantially under central control. The major implementor of this control is the Department of Local Administration in the Ministry of Interior. Provincial governors, district officers, and their core staff members are employees of this influential administrative unit. Local representatives of other ministries (Agriculture and Cooperatives, Education, Public Health, and so on) work under

the control of the governor at the provincial level and the district officer at the district level.

Relatively few central officials are assigned to administrative units below the level of the district. Officials in three categories are regularly assigned at the subdistrict (tambon) level. These are the Tambon Agricultural Extension Officer, Tambon Community Development Worker, and sanitarians and midwives who work in tambon health stations. In addition to the tambon, other units of local government include the Municipality, the Sanitary District, and the Village. In addition to the bureaucrats who work within, or with, each of these units, there are elected officials associated with each. The units will be examined in hierarchical order.

#### A. The Province

Each of Thailand's 72 provinces has a provincial assembly. Each elected member represents a specific district; each district has from one to eight representatives. Representatives are elected districtwide, and serve a 5-year term. Membership varies from 18 to 36, depending on the population of the province. Each provincial assembly allocates funds from a budget of modest size; in the provinces visited, annual budgets varied from B3,000,000 to B7,000,000 (\$130,000-300,000). The budget is based on taxes, license fees, and so on, collected by central government officials and variously earmarked for and remitted to the provincial assembly. A Ministry of Interior official working at the provincial level estimated that the annual operating budget of central ministries in a given province are 8 to 10 times as large as the provincial assembly budget.

Since assembly members are part-time and unsalaried (they receive a small allowance for each meeting attended), those who stand for election are generally well-to-do. In the provinces visited, a majority of current members are businessmen of Chinese ancestry. The major activity of the provincial assembly is to select infrastructure projects and deal with private contractors. It is a commonplace (but unsubstantiated) assertion that assembly members run primarily to gain contracts for personal or family construction firms.

Since 1975, assembly members have been elected. Before then, they were selected by the governor. There is a body of administrative law which governs the activities of the provincial assembly.

## B. The Municipality

There are 120 legal municipalities, which include Bangkok, Pattaya, 72 provincial capitals, and 34 large district towns. Municipal council representatives are elected. Municipal and provincial councils are geographically distinct. Provincial council members are elected only from areas outside municipal boundaries. Municipal council budgets are similar in size to those of the provincial council. Taxes and license fees are collected by central government officials, earmarked, and remitted to the municipalities.

## C. The Sanitary District

District towns (other than the 34 designated as municipalities) are given legal status as sanitary districts. These small units have a population of a few thousand and concern themselves primarily with provision of basic sanitary services--water and sewers--and modest regulation of local business activity. The Sanitary District Council has ex officio members including the district officer, a deputy district officer, the district police chief, and a public health official. In addition, the headmen of all legal village units within the boundaries of the sanitary district are automatically members of the Council.

Four Council members are elected by voters in the sanitary district. Most elected members are small businessmen of Chinese descent. Thus, the Sanitary District Council is an interesting hybrid of central bureaucrats working in the district administration; elected headmen for whom Council membership is but one aspect of an onerous, part-time job; and unsalaried representatives. Council activities are regulated by a substantial body of administrative law. This includes careful specification of bid-taking and contract-letting procedures. Sanitary District Council "books" are kept by the district financial officer, a central government bureaucrat.

## D. The Tambon

Each rural tambon has a council. The tambon has a population of roughly 3,000-8,000. Since the great majority of Thais live in rural tambons, this is Thailand's most significant unit of local government. The council is constituted as follows:

- The Kamnan (tambon headman, elected by village headmen from among their number) is the ex officio chairman.

- All village headmen are ex officio members.
- A local schoolteacher is ex officio secretary.
- A local health official serves as an ex officio member.
- Each village elects a representative (in addition to the headman) who serves a 5-year term.

Thus a tambon with six constituent villages has 14 council members, a tambon with 10 villages has 22 members, and so on.

Each tambon also has an advisory council, consisting of central government specialists in agriculture, public health, education, community development, and construction, who work at the tambon or district level. Although the tambon is an old unit, established in Thai law nearly 100 years ago, the council is rather new. Councils were first established in the late 1960s and early 1970s. The process included election of village representatives and provision of training to all council members. Much of this work took place under the auspices of the Accelerated Rural Development (ARD) Department. ARD was a USAID initiative of the mid-1960s.

The only guaranteed source of income for the tambon council is the agricultural land tax. The tax is collected by central officials, and 80 percent is remitted to the tambon council. This is not a significant source of council income, since it seldom amounts to more than several hundred dollars annually. Since 1975, tambon councils have received much larger block grants. These grants have "energized" the tambon councils, and are used for a variety of public works projects.

#### E. The Village

Village headmen are elected "for life," that is, until they reach their 60th birthday. Many incumbents, of course, resign before the specified retirement date for personal reasons or because they have lost the confidence of their constituents. Many headmen are supported (or overseen) by a village development committee. These committees have no basis in law, but have been formed under the influence of community development workers active at the tambon or district level.

In some areas of insurgent activity, certain villages have been designated as self-defense villages. Male residents serve in a local militia unit, and all villagers are involved with military officials in a variety of self-defense, training, and development activities.

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## F. Other Significant Local Activities

Thai villagers have traditionally managed local activities and resources through a variety of groups. These include:

- Temple Committee. This group coordinates construction and maintenance of temple buildings, manages temple lands and budget, and so on.
- Irrigation Society. In some parts of the country, traditional irrigator groups have been responsible for construction, maintenance, water allocation, punishment of cheaters, and so on.
- Funeral Club. Member households make a standard contribution in support of wake and funeral activities in the bereaved household.
- Cooperative Labor Group. These groups exchange labor among households for such agricultural tasks as transplanting, weeding, and harvest of rice.
- Hui. Groups of this type, Chinese in origin, generally support capital formation or entrepreneurial activities.
- Unofficial Cooperatives. These groups have been formed in recent years for joint purchase of medicines, formation of rice "banks," and so on. They do not operate under official regulations, and thus are not referred to in Thai as "cooperatives."
- Official Cooperatives. These units, formed under complex, detailed administrative law, carry out a variety of credit, purchasing, and educational activities in close cooperation with a number of central government departments. They may support the agricultural activities of members, may be applied to other primary production activities (for example, fishing), or they may support such activities as silk production or food processing.

## III. APPROACHES

In 1975, during a period of unusually open political activity, the central government (under the leadership of Kukrit Pramoj and the Social Action Party) initiated a program of block grants to local areas. The program was established quickly, in part to take advantage of a large revenue surplus

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generated in 1974-1975 by the rice export tax. All tambon councils in Thailand were given identical grants of B500,000 (\$25,000 at the time) to carry out locally controlled and selected infrastructure projects. No provisions were made for differences among tambons in wealth or population. Projects were limited to roads, irrigation systems, and water projects such as pond construction. Local labor was generally employed under the direct supervision of tambon council members.

This program was well regarded in the countryside but aroused great distaste among central bureaucrats. Villagers regarded the program as the most significant rural initiative of the government in living memory. Seven years later, most villagers can still identify "Kukrit roads," "Kukrit wells," and so on. Bureaucrats who disliked the program cite examples of local corruption and inefficiency and imply that these were virtually universal. Recently published studies reveal a reality someplace between these perceptual extremes. Corruption and inefficiency were common but hardly universal. Many worthwhile projects were completed.

Perhaps the most significant thing about the tambon Council Fund Program was that it created a political precedent that was hard to break. Ordinary villagers and tambon leaders like the program. The authoritarian, unpopular Thanin government discontinued the program in 1977, but nevertheless felt impelled to finance a large number of small-scale, centrally managed projects in rural areas. In 1978, the military-supported government of General Kriangsak reinstated a block grant program. This time, grants varied with the wealth and population of the tambon. The program is currently in its fourth year, and has been accepted as part of normal political/administrative process in the countryside.

The program is currently called the Rural Employment Generation Program (REGP), reflecting its importance as a source of slack-season employment for villagers as well as a funding source for local government. Grants now vary according to a standard "need" formula, reflecting level of population, income, and equity. In the current fiscal year they will vary from B150,000 to approximately B400,000 (\$6,700-17,400). The program is administered by a special national committee attached to the Prime Minister's Office. Annual allocations must be expended by tambon councils within a period of a few months. Central bureaucrats argue, and council members generally agree, that annual allocations are predictable within relatively narrow limits. It is reasonable, therefore, for councils to project activities over a period of several years. Long-range planning is further encouraged by officials of the Community Development Department who lead council members through a 5-year planning exercise. The plans are frequently published in mimeographed form.

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Local strategies vary. In some cases, part or all of the funds are reallocated to villages for local projects. In other cases, political reality dictates that a significant local minority needs to be "bought off" (with a well, for example) so that a major project which will benefit the majority (such as an irrigation system) can proceed. A single project may exhaust funds for the year or may require funds over several years. Annual decisions are subject to review (for technical quality and consistency with tambon 5-year plans) at district and provincial levels.

The tambon council has access to substantial technical expertise from bureaucrats serving at the tambon, district, or provincial level. They can call on engineers who work for the Accelerated Rural Development Department, public health workers at the district office, tambon and district agricultural extension workers, and community development workers. It is unclear how much influence these advisors have over selection of tambon council projects, but there is evidence that it is substantial in some areas. In the Muslim South (where most villagers are not literate in Thai) community development workers usually fill out project data sheets. In most rural areas, an educated person carries out this task. More often than not, this individual is a central government official.

Much of the construction work is carried out by small- to medium-size contractors. In Ubon and Yasothon Provinces, road construction and pond excavation projects are ordinarily turned over to contractors. In Narathiwat, fewer projects are given to contractors. A contractor ordinarily provides trucks, dozers, and 15-20 workers. These employees are drivers, equipment operators, foremen, and skilled workers. Unskilled labor is provided by tambon residents. They are paid at a piece work rate (e.g., on road projects a specified volume of earth must be moved) roughly equivalent to the official minimum daily wage of B52 per day. The tambon council establishes criteria for hiring local labor. Workers are typically hired for periods of one to three months. Annual projects seldom last longer.

USAID/Thailand's Decentralized Development Management Project (DDMP) operates in support of the Rural Employment Generation Program. In 10 districts in five Northeastern provinces, AID funds are being "mingled" with those of the REGP. In a year or two, recipient tambon councils will be permitted (and encouraged) to expend these substantial extra funds on a variety of projects not currently permitted under REGP regulations. The purpose of the project is to establish a "cutting edge" which demonstrates to villagers and central bureaucrats the administrative potential of local government. An unstated goal is to support mission-perceived "momentum" in the Thai political/administrative system toward self-supporting, autonomous local government.

Other external donors are mounting projects with impact on local government and initiative in rural Thailand. The World Bank is supporting projects in upgrading provincial planning capability in Northeastern Thailand. The Japanese Government has initiated a village development program, also in the North-east.

There are interesting internal initiatives in addition to those already mentioned.

- Several members of Parliament have drafted legislation that would give tambons substantial self-taxing authority. So far, however, the proposed legislation has not been subjected to open parliamentary debate.
- Some provincial governors have shown considerable imagination in supporting local government and initiative at the village level. (The Governor of Narathiwat appears to be a leader in this area.)
- Over a period of decades, the Department of Community Development (Ministry of Interior) appears finally to have "gotten it together." Community development workers now operate at the tambon level and seem to have enjoyed considerable success in "energizing" village activities. Some of their activities--such as reorganizing village roads and house lots on a grid system--seem unduly onerous in relationship to social and economic payoffs. Others seem to provide little more than "window dressing"--for example, standardized fences, flagpoles, and gates for every house compound. But others add significantly to the quality of village life. We were greatly impressed with village libraries, nursery schools, communal gardens, playgrounds, and medicine cooperatives that we encountered in Yasothorn and Narathiwat.
- Nongovernmental organizations are involved in local initiatives of many kinds. For example, the National Women's Council sponsors leadership and vocational training for women in several rural areas. Ultimately, some women may be encouraged to take a stronger role in local government.



#### IV. EFFICIENCY VERSUS AUTONOMY

This issue became the dominant one of the Thai study. As we attempted to assess the current direction and momentum of the Thai system of local governance, we found it necessary to observe (1) the attitudes of central government officials, (2) initiatives being taken at the local level, and (3) reactions of the villagers. The presence or absence of significant local initiative is a proper subject for intense debate and detailed research. However, we found the issue of efficiency versus autonomy central to our assessment of the present state of the system. Efficiency arguments are inherently sensible and attractive in bureaucratic settings. Unfortunately, in Thailand they can be used to undercut a wide range of local initiatives.

Bureaucrats who distrust open politics in rural areas can use this rhetoric for subtle, rather than open, attack. Some funds are always misspent, and this can be used as a justification for tighter regulations, more frequent reporting, more detailed documentation, additional review procedures, and so on. At the same time, some degree of local administrative efficiency is clearly necessary. Local governments which fail to mount successful projects will soon lose credibility and support. There must be a balance between the two; at the same time we must be sensitive (in the Thai setting, anyway) to the possibility that concerns for bureaucratic efficiency may overwhelm efforts to nurture and protect local autonomy.

We detected the following systemic emphases on efficiency:

-- There is strong emphasis on external, technical oversight of expenditure of REGP funds by tambon councils. Official project documents are often drafted by central government officials, rather than elected members. Because of their technical expertise, accelerated rural development, agricultural extension, community development, and public health officials often achieve control over substantial aspects of project selection and design. tambon council projects are also reviewed at district and provincial levels, and must be certified as "technically sound" and "consistent with the tambon Five-Year Plan."

-- The entire process of local government is subject to centralized auditing. Each regional office is responsible for investigating the activities of central ministries and local government units in about 10 provinces. Bookkeeping and contracting procedures are all imposed from the center.

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-- The taxation system is highly centralized. It is highly complex with numerous, inconsistent accretions, but no tax is simply collected and expended by local government units. Instead, there is a bewildering patchwork of earmarking, remittances, and block grants which provides local governments with modest budgets.

-- Nationwide, REGP funds are being cut each year. In 1982 they were about 40 percent smaller than they had been in 1978. Officials point out that overall expenditures on rural development have increased, but this locally expended resource has decreased.

-- Bureaucrats constantly reiterate the need for development of management skills at the local level and assert that they are virtually absent at present. This is bothersome for two reasons: (1) it ignores the presence of significant groups and activities--irrigation societies, temple committees, funeral clubs, youth groups, management of fish ponds, cooperative labor groups, and so on--and forces the unwarranted conclusion that such skills must be developed "from scratch"; (2) a significant portion of the skills taught--speaking Central Thai, organizing ceremonies and receptions, briefing officials, bookkeeping and contracting according to central government regulations--are primarily useful in dealing with the central bureaucracy, and may have little to do with autonomous management of local resources.

-- For a variety of bureaucratic reasons, some moves toward recentralization have been made in recent years. Control over rural elementary education has been taken from the district and provincial levels and given to a unit located centrally within the Ministry of Education. As a result, provincial council representatives have lost an oversight responsibility.

-- Military suspicion of open politics sets effective limits on the velocity of administrative devolution, and in the short to medium term, on how far it can go.

-- In Thai culture there is a general suspicion of professional politicians and open politics. Suspicions regarding base motives and corruption are quickly accepted as fact. Since bureaucrats are respected and politicians are not, we are presented with a virtual mirror image of the contemporary American situation.

-- Officials believe that effective local government will be achieved only through "harmonious" processes of planning and governance. Villagers, at least, should operate

under broadly shared goals. Any sign of open disagreement, clashing ideas, or a political "deal" is taken as an indication that local people are "not ready" for autonomy.

A pessimist, especially one unfamiliar with rural Thailand, may be inclined to stop reading here. There is a substantial base for cynicism. However, those familiar with Thai villages for 10 years or more are aware that significant change has taken place. There is some evidence that local governments may be moving, however slowly, toward significant autonomy:

-- There is significant rhetorical commitment by bureaucrats to decentralization and even to local autonomy. Officials offer arguments supporting the "logic" of decentralization: (1) more effective utilization of local knowledge, (2) inability of the central government to extend its activities "farther" into the countryside, (3) deeper village commitment to locally initiated projects, (4) slower urbanization as a result of improved village lifestyle, and (5) improved security as villagers are more satisfied with their lives. In time, villagers and officials may begin to take this rhetoric seriously.

-- There is evidence that local leaders are becoming more assertive vis-a-vis central bureaucrats. Members of a tambon council in Yasothorn Province asserted (in the presence of provincial community development officials) that "Bureaucrats should consult with us before they start projects in our tambon." Furthermore, they expressed their intention to lobby actively for projects they consider particularly important.

-- There is a realization in government that effective participation is dependent on changing the attitudes and behavior of bureaucrats. The Governor of Narathiwat sets an example for his staff by frequent village visits and dialogues with village groups. He also supports training for his subordinates in more effective interactive and development skills.

-- Community development, agricultural extension, and public health workers are now active at the tambon level, so their expertise can be readily incorporated into locally initiated activities.

-- There are a large number of village committees. In many cases, the impetus comes from tambon community development workers. Under this stimulus, many impressive local activities are mounted--libraries, playgrounds, nursery schools, rest pavilions, youth groups, and women's cooperatives. The "village development contest" system

developed in Narathiwat by the provincial government has done much to energize village committees. Villages opt to become "development villages" and to enter the annual competition. New villages are officially accepted into the competition each year on the King's birthday (December 5). This year there are about 200 competing villages. The outstanding village in each district is given a prize of B10,000. The three outstanding villages in the province are given additional prizes of B50,000, B30,000, and B20,000. These funds are used, under local control, to initiate a revolving fund for loans to farmers and businessmen.

-- The data are mixed, but there are some indications that established modes of village initiative--such as mobilization of volunteer labor--are not destroyed by the REGP grants. Villagers in Narathiwat are still willing to work on other projects, at other times of the year, for the general good and without wages. In one village, local men were engaged in building a series of pavilions--for recreation and as meeting places for local organizations. An ingenious rotation system, suggested by the tambon community development worker, requires each adult male to work several hours each week. The system had been sustained over a period of months, with impressive results.

-- The "Kukrit" funds of the mid-1970s and current REGP funds have been politically associated with the Social Action Party (SAP). This has been a factor in the party's continuing electoral success. It is possible that SAP or some other party will derive a strategic lesson from this and make stronger decentralization initiatives--such as local fiscal and jural authority--part of its platform and gain control of parliament.

-- The government, through the Internal Security Operations Command, has chosen to give designated "self-defense" villages slightly greater autonomy than ordinary villages. For example, this year they will remit the agricultural land tax in its entirety. This modest sum will be at the disposal of the village development committee. If this approach is successful in "insecure" villages, perhaps it can be extended to ordinary villages.

-- The REGP has given rise to "interdependent" private sector construction firms. Perhaps these will provide another lobbying force in support of local initiative and local government.

-- The tertiary education system is producing graduates well beyond the needs of the central bureaucracy and

multinational firms. As educated individuals seek opportunities outside Bangkok, the educational level and quality of local leadership will rise and may pose a more effective counterweight to central bureaucratic control.

-- Overall economic growth is reflected in improved living conditions in district towns. For example, we find better shops, nice restaurants, banks, night clubs, doctors, hospitals, and modern highways which provide ready access to provincial towns. Such towns have an enhanced capability to "hold" and "co-opt" central officials. Bureaucrats who live longer in one place are likely to be more responsive to local needs and initiatives.

-- A few members of parliament have already drafted legislation which would provide significant taxing authority to local government units.

## V. CONCLUSIONS

In short, we witnessed a situation in the real world, one characterized by complex, interlinking chains of cause and effect. Several days of interviews and observations provided insights but limited understanding. However, our sense of the situation is that there is substantial momentum in the direction of greater local autonomy and that USAID/Thailand should continue to seek trends and initiatives to which it can attach its resources.

B

## APPENDIX D

THE INDONESIAN DEVELOPMENT AGENDA AND  
THE ROLE OF LOCAL GOVERNMENT

I. LOCAL GOVERNMENT IN INDONESIA: THE HISTORICAL CONTEXT

In the Indonesian context, assessments of current trends and future scenarios with respect to the role of local government must be undertaken with an appreciation of the historical legacy which shapes the contemporary attitudes and perceptions of government authorities. In particular, the era of 1950 to 1965 continues to weigh heavily in the judgments and actions of Indonesian leaders.

A. The Trials and Tribulations of Democratic Politics: 1950-1965

While Indonesia entered the 1950s as a free and independent nation, its economy remained in a devastated condition following 4 years (1941-1945) of harsh rule by Japanese occupation forces and an ensuing 4-year (1945-1949) guerrilla campaign against the recolonizing effort of the Dutch armed forces. Thus, by 1950, most infrastructure and industrial facilities were in extremely poor condition, and efforts to revive the economy were relatively ineffective as the government lacked both the resources and political strength to undertake a long-term process of agricultural and industrial growth.

It was already apparent by the early 1950s that politics was taking precedence over economics. In particular, a range of centrifugal forces was coming into play with the effect of eroding the legitimacy of the Indonesian nation-state. In particular, a growing threat of significant importance was emerging in the hinterland, where regional ethnic and religious identities were beginning to assume a predominant role over allegiances to the central government. Because it was unable to maintain a strong and stable political coalition, the central government was rendered powerless in its effort to stem the tide toward regional separatism. The national political arena featured a multitude of parties engaged in a constant process of maneuvering to gain a more ascendant position in the struggle for influence and power. Cabinet turnovers on a less-than-yearly basis became a common occurrence throughout the 1950s.

The trend toward national disunity began to assume ominous dimensions in 1957 when many of the outer islands declared their independence of the central government. Rebellions of

this kind on a less grandiose scale were a frequent source of instability throughout the 1950s, but the 1957 secession movement represented a serious and formidable challenge to Jakarta's authority. This challenge was met head-on by the army (although some elements of the armed forces went over to the rebel side) and within a year Jakarta succeeded in restoring its authority over the insurgent areas. Nevertheless, the central government still remained enfeathered and enfeebled by a fractious and divisive political process, which by the late 1950s and early 1960s began assuming a more foreboding nature with the emergence of peasant political movements on both the left and right of the ideological spectrum.

From a bottom-up or rural sector point of view, the 1950s could be described as the "Golden Age" for local government and local initiative. Village, as well as district and provincial, self-government was mandated through the mechanism of local elections for both legislative and executive functions, and by the early 1950s, political parties were already active in promoting their candidates for legislative positions as well as for district and provincial chiefs. Local governments operated with a wide range of authority and autonomy, although, like the central government, they were very short of budgetary resources. The emergence of local government as a major focus of institutional life in the 1950s was also accompanied by the rapid appearance of community-based organizations (frequently serving as the organizational extensions of a particular political party which assumed an active role in mobilizing community leadership and initiative).

While the open and highly participatory nature of local and regional government would have seemed on the surface to constitute a triumph for democracy and a positive sign of strength and vitality within the body politic, in actual fact this activism served to accelerate the downward slide towards further political and economic chaos. In particular, it was becoming apparent that local structures of cultural and institutional cohesion within Indonesian society were being subjected to extreme stress by a highly partisan and overheated political process. The political parties were beginning to mirror and transform local religious and socioeconomic cleavages into major ideological polarities with conservative and liberal Islamic movements, secular nationalists, and Communist Party activists each seeking to gain dominance over the others. In most cases, local governments were either too weak to contain the virulent nature of these conflicts, or they themselves were paralyzed by the same divisions which characterized other sectors of Indonesian society.

By the early and mid-1960s it was apparent that Indonesia was undergoing a process of rapid social and economic disintegration and that furthermore, barring some kind of unforeseen

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event, there was little hope of bringing a halt to the growing chaos and disorder which could be seen at both the central and local level. The unforeseen event occurred in the 1960s when an abortive coup undertaken by factions within the Indonesian Communist Party, along with some support from disaffected elements in the armed forces, roused the leadership of the Indonesian army to assume a dominant and singular role in the national political arena.

#### B. The Era of Reconstruction: 1965 to the Present

Based on its perception of the 1950-1965 era, the army leadership assumed that there were only two basic structures which could serve as the guarantors of national unity and stability: the army itself and the state bureaucracy. In the 1950-1965 era the country had made a bold and sustained effort in the practice of democratic politics, but this had ended in near disaster. In the view of most army leaders it was now up to them and the government bureaucracy to pull the nation back together and to establish the kind of stability so desperately needed in generating economic growth.

Aside from the army itself, it was intended that the central government and its administrative apparatus should be able to exercise its will and presence down to the lowest levels of village life in order to localize and resolve those tensions which might otherwise spill over into a broader pattern of discontent or challenge to government authority. In order to prevent local governments from coming under the control of those centrifugal forces which characterized the pre-1965 era, an effort was undertaken to make local authorities more responsive and accountable to the commands and directives of the national government. Thus, civil servants were forbidden to assume any membership status or active role in any of the political parties, and most positions for district and provincial chiefs were filled by military officers appointed by the central government. The dependency of local governments on the center was further strengthened by the fact that the latter remained beholden to the former for most of their revenue.

Accompanying its moves to strengthen the hand of central government over local affairs, the army began to reshape the political process with the intent of curbing those forces which in their estimation had brought the country to near ruin in the pre-1965 era. As a first step the Communist Party was banned, and the remaining political parties, now forced to consolidate and proscribed from establishing any permanent organizational base in rural society, were deprived of their previous role and power in the political process. These actions reflected the intent of the army to depoliticize rural society and to reduce,

if not eliminate, the capacity of any competitor organization which could act as a potential counterweight to government authority.

In summary, in the post-1965 era, local government became an instrument for asserting central government control, and while local authorities were involved in some development functions, much of their concern was devoted to the restoration and preservation of law and order.

Confining local government to a primarily law and order function meant that the dominant role in fostering local and regional development fell to the national line ministries. Highly centralized and technocratic in operational style, and extremely protective of their institutional prerogatives, the line ministries have designed and implemented most of Indonesia's development effort in the post-1965 era; they have done this with more than occasional indifference to regional and local needs. Most local governments have simply been bypassed or given only token involvement in project planning and administration. Indeed, a frequent complaint of governors and district chiefs has concerned the fact that they have not known what kinds of projects the central ministries were undertaking in their own jurisdictions.

For most of the 1970s the dominance of the central ministries, and the attendant compartmentalization of the Indonesian development effort, did not serve as a major hindrance in attaining government-prescribed growth targets. Much of the development agenda was simply confined to the rehabilitation of Indonesia's decaying infrastructure and production base and most of these tasks did not involve the planning and administration of complex management tasks. Therefore programs and projects could be divided and doled out among the line ministries, with the assumption that the whole would eventually equal the sum of its parts. To the credit of the line ministries, in the past 15 years they have generated an impressive record of progress: roads have been rebuilt, irrigation networks restored, rice production increased, and basic education and health services rapidly extended to many Indonesian households.

## II. THE EMERGENCE OF THE SECOND-GENERATION DEVELOPMENT ERA: FROM THE PRESENT TO THE FUTURE

With considerable gains attained in restoring primary and secondary infrastructure, and with an increasing volume of oil revenue available to support the expansion of government development efforts, it was apparent by the mid and late 1970s that more emphasis would need to be placed on investments in

sectors which had hitherto been ignored or given low priority in the national development agenda. Indeed, some would observe that a transition was under way with the era of "first generation" projects, an era involving the reaping of quick returns in the restoration of infrastructure and basic production services, now coming to a close, thereby forcing the government to embark on a second generation of projects involving few immediate returns on investment and entailing complex responses to a more sophisticated range of institutional, social, and technological issues. The evidence for this change in the character of Indonesia's development effort has been most visible in the five areas discussed below.

#### A. Second-Generation Development Tasks

In the past 5 years the central government has placed primary if not exclusive emphasis on increasing rice production. Nevertheless, it is becoming more apparent that the initial era of dramatic upturns in per hectare yields is coming to an end, as those areas most suitable for irrigated rice intensification are reaching a point of optimum returns with current production technology. The upland rainfed areas and the vast areas of marginal swampland, which together characterize much of the ecology of the Indonesian archipelago, and where, in addition, most of the country's inhabitants live, now constitute the next frontier for increasing production of both rice and secondary crops, including large and small ruminants. Until recently, however, these ecosystems have received little emphasis in the national development effort.

While substantial progress has been achieved in restoring and expanding lowland irrigation networks, their maintenance will ultimately depend upon the introduction of soil conservation practices in severely denuded upland watershed areas where the current runoff from soil erosion is producing major flooding and siltation problems for lowland irrigation systems. Watershed development will require a multipronged effort in the application of new soil-conserving cropping, animal husbandry, and forestry practices.

As the central government has sought to accelerate the process of transmigration of inhabitants from overcrowded Java to sparsely settled areas in the outer islands it has become apparent that existing institutional support systems have frequently been less than effective in providing adequate support for starting up and sustaining new transmigration communities. Considerably more attention will need to be focused on designing new management systems which can provide the wide range of goods and services, from both the public and private sector, which enable these new communities to generate and sustain their own livelihood systems.

Most of the government's rural development programs have been focused on middle- and large-scale landholdings, that is, those most able to generate a marketable surplus in meeting the needs of the urban rice consumer. Nevertheless, the majority of Indonesia's rural households, particularly in Java, cultivate small subsistence holdings while at the same time generating supplementary income from off-farm sources. In this respect, there is a need for devoting more attention to strengthening the economic base of both on- and off-farm production potentials for low-income households in order to expand and diversify their income-generating capacity.

The vast diversity in agroeconomic conditions which characterize local and regional conditions in Indonesia have generally been ignored as most national programs have tended to blanket regions with uniform package approaches. Future national development efforts will need to allow for greater regional and local decisionmaking in devising and adapting programs and technologies which address variable resource endowments within the island archipelago.

## B. Second-Generation Project Characteristics

By the late 1970s this agenda of second-generation tasks was beginning to assume greater prominence in the councils of the Indonesian Government. It was further recognized among some government authorities that the existing institutional framework for planning and administering Indonesia's development efforts would need to be modified to support this new development agenda.

### 1. Systems Perspective

In particular, placing a greater emphasis on upland cultivation, watershed development, and marginal swampland agriculture will involve addressing a new and more complex range of environmental conditions. Development programs for these areas will need to be designed from a systems perspective in order not to overlook important biological and environmental components within these highly fragile ecosystems. This need for a more sophisticated range of development responses contrasts sharply with many of the government's current agricultural programs, particularly the lowland rice intensification effort which involves fine-tuning one or two components within a relatively well-known (scientifically) monocropping agricultural regimen.

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## 2. Scale Perspective

Aside from their claim for a systems perspective, the new projects will also differ from past projects in terms of their scale. Given the wide variability in regional and local ecosystems throughout the Indonesian archipelago and the lack of scientific knowledge concerning their production potential, programs and projects will frequently need to start with small-scale experimental efforts. Such projects will need to be designed with sufficient on-the-ground decisionmaking flexibility to allow for adaptation and tailoring of technologies to site-specific conditions.

## C. The Institutional Ramifications

The most explicit institutional ramifications which derive from the above diagnosis are threefold in character.

### 1. Intersectorality

First, most of the new generation projects will be intersectoral in nature. A watershed project or an upland rainfed agricultural project will require that separate line ministries--in this case the food crops, forestry, and animal husbandry departments--work together in providing a set of technologies and services which allow peasant cultivators to utilize and sustain innovative cropping and animal husbandry practices in conjunction with soil conservation measures. However, left to their own devices, most line ministries will not seek to coordinate their efforts in undertaking cofinanced and/or coadministered intersectoral projects.

### 2. Localized Decisionmaking

Secondly, since many of the new generation projects will be small in scale, both for experimental reasons and for responding to variable microconditions at the local level, the existing centralized decisionmaking structures which characterize most line ministries will not bear up under the weight of having to plan and execute a multitude of discrete and diverse project undertakings. The process of passing bundles of small projects up and down a many-layered administrative hierarchy would serve to overtax the most efficient administrative system, and furthermore the attendant delays in securing approvals from an overloaded pipeline ignores the need for

providing quick onsite response times in the implementation of projects under conditions of risk and uncertainty.

### 3. Participation

Finally, many of the new projects will encompass a much greater range of social complexity than has been the case for past development efforts. Heretofore, major investments have been made in restoring those secondary structures of the rural economy which indirectly support greater rural productivity, such as roads, irrigation, and schools. A major transition occurs with respect to the initiation of second-generation projects, as they will focus more directly on enhancing the income and employment-generating capacity of those primary production units which constitute the basis of the rural economy--the farm household, small- and medium-scale industry, and community-based enterprises. In this context, the major development tasks will be to devise a mix of technological, marketing, management, and regulatory responses which provide incentives and options for rural producers to expand and diversify their economic base. In turn, this effort will require close cooperation between local producers and sources of technical assistance in designing approaches which effectively address existing production constraints and opportunities. In brief, the new projects will be more participatory in character, with public and private institutions working in concert with local constituencies in formulating growth-inducing changes at the microlevel as well as generating demands for supportive changes in the macropolicy environment. In the absence of such involvement and interaction the prospects are very limited for mobilizing the considerable degree of local initiative required in sustaining significant production changes within the rural economy.

#### D. The Reemergence of Local Government

Throughout the latter half of the 1970s, the need for defining some new institutional approaches which would be supportive of more localized and participatory intersectoral project management was beginning to assume a more prominent position on the agenda of Indonesia's development effort. In the early 1970s, the Ministry of Internal Affairs, which by mandate has jurisdiction over local government affairs, had already inaugurated a series of revenue-sharing programs in expanding local government development roles. These programs involve the transfer of central government funds on a regular and annual basis to provincial, district, and village governments. Depending on the nature of the program involved, each has its own

allocation formula, with funds being provided either on a per capita basis or by some other criteria, for ensuring a pattern of equitable distribution among Indonesia's diverse regions. In most instances, local governments must comply with central government guidelines on how these funds are to be expended, and the areas of investment are usually limited to specific sectoral activities. In some cases, however, the programs allow local governments considerable latitude in selecting their own investment priorities.

The revenue-sharing effort, referred to in Indonesia as the "Inpres" programs, has emerged as a major funding source for local government development activities, and accounts for approximately 20 percent of the total central government development budget. In addition to its involvement in promoting the expansion of revenue sharing, the Ministry of Internal Affairs has been active in strengthening local government planning and management capacities. This effort culminated in 1974, with the issuance of a Presidential decree formally authorizing all provinces to establish their own planning bodies. In 1981, a similar decree established planning agencies under the authority of district governments.

Finally, in the past several years, the central government has become much more relaxed about having private voluntary organizations, both indigenous and nonindigenous, involved in mobilizing rural-based efforts in community development and local enterprise development. In the direct aftermath of the 1965 era, most private voluntary organizations (PVOs) and other similar organizations were discouraged from undertaking community action work. In recent years, with political stability restored, the central government has become much more supportive of private groups which are seeking to provide technical assistance and services in strengthening community self-help capacities. As a consequence, there has been a proliferation of community-based development activities sponsored by local, national, and international religious or civic-based organizations. In some instances, the central government, recognizing their particular skills in community organization, has contracted for PVO services in improving the effectiveness of local development programs. While the level of PVO activities in Indonesia remains relatively modest when compared to a country like the Philippines, recent government responses should provide a stimulus for greater vitality and growth in this sector

The evidence cited above indicates that over the past decade central government authorities have been seeking to establish a foundation for the reemergence of local government as a major center of action in the development process. The central government has proceeded in this direction at a slow but deliberate pace, assuring at each step that they would

build rather than exceed levels of confidence and competence among local authorities in their capacity to plan and manage local development activities. This measured and gradualist approach is also dictated by memories of the 1950-1965 era when local political conflicts and regional separatism posed a serious challenge to national unity. In this sense, the caution exercised by the central government is also designed to build its own confidence in assuring that local governments and communities will not use their newly acquired powers to jeopardize the hard-won political and economic gains of the post-1965 era.

At this juncture, the central government is very much at a transition point between the past and the future. The painful memories of national instability in the pre-1965 era are beginning to recede into the twilight of time, and, as a consequence, national decisionmakers, particularly a new generation of more secure and confident leaders, are beginning to envision a future where local communities and the private sector will need to assume new entrepreneurial roles in initiating and sustaining local economic growth. The new generation is still unclear as to what role local government can and should play in fostering such local initiatives, but it is clearly supporting a step-by-step transfer of power and control to local authorities.

### III. THE PROVINCIAL DEVELOPMENT PROJECT (PDP): A SECOND-GENERATION PROTOTYPE

It is in the context of the above trends that AID began in 1977 to work with officials in the Ministry of Internal Affairs in launching the Provincial Development Project (PDP). The project has as one of its principal objectives the strengthening of local government planning and coordination capacities. The PDP effort arose out of a recognition by both AID and the Ministry that local governments would constitute a key institutional means for reorienting what is now a highly centralized and fragmented development process. In the post-1966 era, the national line ministries have controlled most of the government development resources, with the result that programs and projects are designed in a tightly compartmentalized and monosectoral manner and then implemented by agencies which, like all bureaucracies, jealously guard their domains against outside intrusions. At the same time, however, in the mid and late 1970s, donor agencies have been seeking to pioneer a number of second-generation projects (such as watershed management and upland agricultural development) which, by virtue of their more systemic (intersectoral) and localized (decentralized) nature, have not been compatible with the sectoral fragmentation and centralization so evident in the operations of the national line departments. Thus, when the Ministry of Internal Affairs

opened the door to outside cooperation, AID was one of the first donor agencies to see in this gesture an opportunity for utilizing local government as a key institutional mechanism for reintegrating and decentralizing a highly segmented and top-heavy development process.

The PDP is premised on the principle that administrative power derives from control over budgetary resources, and that given a stronger resource base, local governments can finance their own projects as well as leverage their funds in pressing the line ministries to address more complex cross-sectoral development tasks. Thus, in a manner unprecedented in previous Indonesian development experience, the PDP provides discretionary funds directly to provincial and district authorities rather than through conventional line department budget processes.

Aside from introducing a more systemic or intersectoral perspective into project design and implementation, AID also perceived that local government structures could assume responsibility for the kind of localized, participative decision-making required in undertaking small-scale, site-responsive project activities. For the most part the national line ministries function as relatively self-contained units, which in their own technocratic and centralized style assume a frequently bureaucratic and almost apolitical indifference to regional and local needs. Many district heads and provincial governors have experienced the frustration of dealing with remote and unresponsive line agencies. It is only the Ministry of Internal Affairs, a nonsectoral agency, which is held accountable by mandate for reconciling national development priorities with the demands and needs of regional and local communities. Since for the most part the development process has remained under the command of the line ministries, this has put the Ministry in a position of being held accountable for decisions over which it has little authoritative control.

For the Ministry of Internal Affairs, the expanding role of local government would serve as a corrective counterweight against the national line departments in allowing for a stronger appraisal of regional and local interests, and thereby providing for the reintegration of politics and economics, whereas for AID and other donors, local government would constitute the institutional means for abetting the adoption of more localized, intersectoral decisionmaking processes in the service of second-generation projects.

## A. The PDP Strategy

PDP constitutes the centerpiece of the AID effort in expanding local control and initiative in the development process. Local government is a primary focus of attention because it has the legal mandate for self-government, that is, for representing the needs and interests of village constituents, and the organizational means for mobilizing community leadership and resources in addressing basic development issues. For a number of reasons, many local governments in Indonesia remain in a weak or relatively inconsequential position vis-a-vis both their constituents and central government authorities. The major goal of PDP is to move local government to a position of leadership in activating community involvement in a more localized, self-sustaining development process. To accomplish this goal, PDP and the Ministry of Internal Affairs are employing a multifaceted strategy which seeks to expand self-governing capacities for local project planning and management. The primary elements of this strategy are described below.

### 1. Local Resource Availability

As mentioned above, power derives from control over budgets, and one component of the PDP strategy is to provide direct budgetary allotments to local governments over which they have complete discretionary control. Thus, PDP funds (70 percent of which derive from the central government and 30 percent from AID loan/grant funds) are allocated directly to provincial and district governments with the stipulation that they must be directly utilized to support income- and production-generating development projects. With few exceptions, project funds cannot be allocated for infrastructure investment or social development projects. In addition, central government guidelines enjoin local governments to identify projects for PDP funding which do not merely duplicate the efforts of the national line ministries but rather represent a new and innovative approach to local needs and desires. Otherwise, provincial and district governments can exercise complete freedom in the use of PDP funds, a condition which is further reinforced by guidelines forbidding central government authorities from initiating or imposing any of their own project ideas for PDP funding.

### 2. Community and Strategic-Based Planning

A second element of the PDP strategy is an emphasis on the development of planning processes which involve (1) greater

community-level interaction and support as well as (2) more systematic aggregation of local development priorities. In the first instance it is intended that local governments will adopt planning procedures which enable local communities to initiate and sustain their own development activities. In effect, this goal is designed to institutionalize processes of local participation which serve to draw forth local entrepreneurial and organizational resources to unleash underutilized household, small-scale industrial, and community-based production capacities. In the second instance, more aggregative planning methods are being utilized in order to substitute current ad hoc project selection processes with more rational and systematic budget allocations. In this case, the emphasis on building planning processes is designed not only to bring greater discipline and coherence to local expenditure decisions but also to move local government into a stronger bargaining position vis-a-vis the national ministries. In effect, enhanced local government planning will provide a base from which local communities can begin to insist that the activities of the national ministries support and complement the priority needs identified in provincial and district planning documents.

### 3. Local Manpower Training

A third institutional component of the PDP effort is devoted to improving the general planning and management skills of local government officials and their constituents, including the upgrading of local technical proficiencies in those sectors where PDP is providing major funding support. Many local areas do not have the administrative or technical skills in either the public or private sector to adequately perform PDP planning and project tasks. These deficiencies are particularly acute in the fields of engineering and agriculture, where there are critical manpower shortages at both the national and local level, and where major improvements are being made through PDP funding in allowing local officials and village inhabitants the opportunity to acquire rudimentary paraprofessional skills in these areas.

A related and reinforcing effort to improve local government manpower capacities includes the Mission-funded Local Government Training (LGT) project. The LGT project is designed to provide provincial and district governments with field-based training and consultative services in applied management and planning techniques. Unlike many Indonesian training programs, LGT is seeking to expand the educational environment beyond conventional and more formalized classroom conditions. Learning opportunities are structured around focused interactions between local officials and their actual organizational environment, with an emphasis on using new skills and administrative processes which address on-the-job problems. In this

respect, the LGT project is designed to support the PDP effort in fostering a process which features greater interaction between local governments and their constituents in the formulation of community- and strategic-based planning practices.

#### 4. Institutional Networking and Innovation

A fourth element of the PDP strategy is designed to link local governments to a larger set of institutional networks and interactions which can serve as sources of capital, technology, and more generalized support for important local development efforts. In the past, most local governments have functioned in a vacuum with few linkages to external institutional resources. For example, many of the national agricultural and industrial research centers remain out of touch with local conditions, and most local governments are unfamiliar with these external resources and uncertain as to how they might enlist their support in responding to local needs. PDP is employing a two-pronged effort in seeking to fill this institutional void. First, local governments and communities are being acquainted with the variety of services available from external institutional sources and further encouraged to take the initiative in mobilizing these resources to address local needs. Thus, with greater frequency, local authorities are contracting with the national agricultural research centers for assistance in identifying cropping technologies appropriate to their particular areas. Second, where external resources are not available or where they might be more appropriately mobilized from within local jurisdictions, the PDP effort is encouraging local governments to create their own institutional mechanisms in undertaking local development tasks. Thus, several provincial governments have already established their own research stations for integrated cropping research and development.

In brief, the intent of PDP is to support a growing web of interactions between local communities and the range of macro- and micro-community institutional networks which can complement and support locally initiated development actions. The role of local governments in this process will vary in accordance with the task to be addressed. Thus, in some cases this will mean that local governments will need to act in broker or facilitative roles in linking external sources of capital and technology with locally based initiatives. In other cases, local governments may need to assume a more active leadership role in both the packaging of project proposals and in mobilizing capital and technology from within a larger public and private sector marketplace. Finally, in the absence of appropriate national and local institutional capacities, local governments may have to actively foster the growth of local public and private institutional resources.

## B. PDP Thematic Concerns

In summary, the PDP strategy consists of a number of component elements, each designed to expand local self-governing capacities and to bring about greater community involvement and initiative in the development process. In most instances, rather than pursuing them as discrete, independent elements, the PDP effort integrates budgetary resources, planning modes, training, and institutional networking in addressing several thematic concerns. In particular, PDP activities have tended to cluster around two major programmatic areas: (1) farming systems research and development and (2) small-scale industry and trading, both of which constitute the cutting edge of the new second-generation projects. The substantive content of the PDP portfolio is described in the next two sections.

### 1. Farming Systems Research and Development

PDP has been at the forefront of an effort to focus greater attention on those farming systems which have been of low priority in Indonesia's development effort. Improvements in lowland rice intensification schemes have dominated government investment patterns in the agricultural sector. Upland and swampland development, which together constitute the dominant ecological and population base for Indonesia, have been given little if any attention in the agenda of national priorities. Nevertheless, in many cases these areas constitute a potential base for generating major production gains in crop and livestock production. The government has been slow to enter these areas because little scientific knowledge is available concerning the range of technologies which can be introduced under the diverse microconditions which characterize these ecosystems. PDP is making considerable progress in working with peasant cultivators under both upland and swampland conditions in testing and adapting new production technologies.

The upland ecosystems constitute a major challenge because of the comprehensive character of the task at hand; innovations in cropping patterns have to be designed as part of a larger set of microsystem changes which include the adoption of new animal husbandry practices and on-farm, soil-conserving reforestation efforts. Changes of this magnitude require a detailed understanding of existing farming systems and the full cooperation and support of peasant cultivators in testing and sustaining new farming practices. In this regard, PDP has taken the lead in introducing leucaena-based farming systems in the upland areas. Leucaena is a fast-growing, multipurpose leguminous tree which can be used for soil erosion control, fuel wood supply, and cattle fodder. Initial field results indicate a

rapid adoption rate by farmers. The national government, impressed by the progress achieved in this area, is now preparing to provide more broad-scale support and extension of leucaena-based farming practices.

As an integral element of its support of leucaena-based farming systems, PDP has been active in expanding the animal components of upland farming systems. The leucaena tree provides a new source of animal fodder and thereby provides an opportunity for farmers to increase their animal stock. In addition, PDP involvement in supporting the expansion of livestock production has been particularly relevant to lowland farming systems. Conventional government policy has focused on the promotion of cattle production, yet most lowland small farms lack the resource base necessary for supporting large ruminants. In this case, PDP has been working with local governments in the design and implementation of programs which support the growth of small ruminant populations as a supplementary income source for small farms.

The activities of PDP in supporting the expansion of animal production as a component of farm production systems represent a major programmatic innovation, as most farming system programs in Asia, Latin America, and Africa are almost exclusively focused on improving cropping regimens. Few have devoted much attention to designing cropping systems which support intensified livestock production. In this sense, PDP is in the vanguard of tapping new sources of production and income to help strengthen and diversify Indonesia's small-farm sector.

The farming system activities described above involve the integration of all four of the PDP strategy elements. Thus, the budgetary discretion provided through PDP allows local governments and communities to fund those projects which relate most directly to their local needs and priorities. Likewise, the identification of local production opportunities is undertaken through the utilization of improved microplanning procedures. Thus, the training element of the strategy has featured considerable emphasis on upgrading skills in agricultural planning, implementation, and evaluation. Finally, local governments are contracting for a range of services with other institutional networks to provide adequate technical support for PDP agricultural projects. There is frequent interaction with the national agricultural research centers which provide training and technical guidance in the design and implementation of on-farm experimental trials and demonstration plots. In those cases where it is appropriate, local governments are also establishing their own institutional structures to address specified development tasks. In several instances, this has entailed the setting-up of local field stations, which utilize more responsive and intersectoral approaches to agricultural

development, and the equipping of extension agents with interdisciplinary skills for technology applications across sectoral boundaries, particularly in the fishery, animal husbandry, and cropping areas--all of which are highly interdependent subsystems within most farm and household economies.

## 2. Small-Scale Industry and Trading

Small-scale rural industry and trading have not been a major development priority for the Indonesian Government. In the post-1965 era, much of the growth in private enterprise and marketing development has occurred in the so-called "modern" sector, where large, capital-intensive firms, frequently started as joint ventures with multinational counterparts, have assumed a dominant role in many sectors of the Indonesian economy. In some instances, the emergence of these firms has served to displace and destroy their small-scale competitors in the more traditional labor-intensive sector.

Traditional small industry and trading activities in Indonesia are important because they provide employment for a large percentage of the rural labor force. Their labor-absorbing feature is particularly important in those areas of Indonesia, such as on the island of Java, where high population densities and attendant low land-inhabitant ratios compel many small farmers and landless laborers to seek part- or full-time employment in off-farm occupations. In many instances, small industry and trading activities are one of few employment options available to low-income households, particularly for women, who account for a large percentage of the work force in small-scale trading.

The history of inattention to the needs of small-scale enterprise and trading means that these functions are performed at very low rates of productivity. Marginal improvements in access to new technology, credit, and marketing services could yield impressive gains in generating more employment and income in these sectors. In the absence of central government initiatives, some provincial governments have started their own programs to provide credit and technical services to small enterprises and traders. In general, these efforts have been modest in scale and uneven in their performance. Nevertheless, they provide a valuable base of experience and, for the most part, PDP is using these local initiatives as a point of entry in assisting the expansion of off-farm employment opportunities.

Aside from focusing on the expansion of local marketing and technical extension services, a major emphasis of PDP concerns the process of developing a more viable credit framework

for the small industry and trading sectors. Since the mid-1970s, the Indonesian Government has been faced with the task of transferring a large volume of oil-boom revenue back into the domestic economy, and one frequently employed strategy has been the funding of a multitude of specialized and highly subsidized government credit programs. Thus, great quantities of credit are being dispersed at interest rates well below market rates, and this has served to produce all the classic social and economic distortions which usually occur when governments attempt to defy market forces. Much of the credit is captured by higher income groups, which frequently use it for unauthorized purposes--thereby inviting more government regulation. Most of the national credit programs lack the institutional means for making credit easily available at the village level, and this serves to deny access to those low-income groups who are in most need of additional resources but who are least able to absorb the heavy transaction costs of repeated visits and form-filling at distant government offices. In addition, repayment rates are very low, which in turn keeps most of these programs highly dependent on a constant infusion of subsidies from central government sources.

The private sector has not been responsive in meeting the growing demand and need for credit in most rural areas. Money-lenders do operate at the local level, but interest on their loans (which usually require repayment in kind) is high. There are small informal credit and savings groups within villages, but they are generally undercapitalized and hesitant to expand their services beyond the trust and confidence of well-known acquaintances. The history of bank failures in Indonesia, along with prevailing low interest rates on savings, makes most rural inhabitants reluctant to engage in saving deposit transactions with the formal sector. As a consequence, the supply of credit within the rural sector is very limited, and in most instances surplus capital will drift to urban areas where returns are higher and the risks lower.

In summary, the task of building a self-financing credit infrastructure which can provide small but easily accessible short- and long-term loans to low-income rural borrowers remains a critical and unresolved development issue. A major goal of PDP is to pioneer some new institutional and policy approaches to this problem. In particular, it is seeking to improve ongoing provincial government programs, which by virtue of their local standing are less constrained by the heavy hand of national regulations and therefore more open to change and innovation. This effort focuses on four areas of activity. First, it is providing greater capitalization for existing credit programs to extend their coverage to a greater number of borrowers. Second, it is seeking to expand the institutional options by which credit can be made more accessible at the village level, where there are currently few organized lending

outlets. Third, it is seeking to reduce the use of subsidized credit in order to move existing programs to a self-financing basis and thereby reduce their dependence on central government funding. Finally, PDP is seeking to build a policy dialogue with local and national officials in restructuring the regulatory and institutional environment to support the growth of a stronger and more self-reliant credit system.

Achieving progress in the above-mentioned areas will be a slow and incremental process. Government policy is still predicated on the twofold assumption that credit should be subsidized and that propensities to save in rural areas are limited. The evidence strongly indicates, however, that subsidized credit is a wasteful and relatively unproductive approach to stimulating rural investment and that, furthermore, propensities to save among rural inhabitants are of sufficient magnitude to warrant policy and institutional incentives which encourage capital mobilization within the rural sector itself.

PDP has been particularly helpful in strengthening local credit institutions in the densely populated provinces of Central and East Java, where off-farm labor in both the small-industry and trading sectors constitutes an important source of income for most low-income rural households. In 1972, the provincial government of Central Java established the Badan Kredit Kecamatan (BKK), or Subdistrict Credit Body. This semiprivate agency is designed to meet the short-term credit needs of the rural poor. Thus, there is a BKK branch office in nearly all of Central Java's 492 subdistricts, where credit is easily accessible on simple and convenient terms.

By 1979, when PDP came upon the scene, many of the BKK branches had grown rapidly into well-established credit organizations. Some branches were still floundering and others were near bankruptcy, but on the whole the BKK had succeeded in building a durable financial base, as evidenced in the increasing volume of loans dispersed at very low default rates. More important, loans provided by the BKK are given out at rates of interest sufficient to cover administrative costs including, in those cases where branch units are well managed, a net increase in loan funds. The elimination of subsidized credit in this local credit effort represents a major break with conventional wisdom in the Indonesian context, and has enabled the BKK to begin to be self-reliant in its financial operations.

With the above record of accomplishment, PDP was quick to seize the opportunity of using the BKK as a base for expanding rural credit and savings services. As an initial step, PDP is providing additional capitalization to expand the reach of BKK loan services. In order to further expand its capital assets, PDP is also working with the BKK in devising programs which will test a range of incentives for inducing rural inhabitants

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to deposit savings in BKK branches. Unconstrained by having to provide subsidized credit, the BKK is in an excellent position to move even further away from conventional wisdom in offering interest rates on deposits which significantly exceed those currently provided in most other savings programs.

A similar program, but in a less advanced stage of development, is the Kredit Usasha Rakjat Kecil (KURK) program, or Small People's Credit Effort, operated by the provincial government in East Java. In this case, village cooperatives are being used as the administrative mechanism in providing short-term loans, primarily to small rural traders. This program is in need of further refinement, particularly with respect to building a cooperative base and loan fund which will be less dependent on government subsidization.

The above credit programs and others like them in several additional provinces constitute a major opportunity for introducing basic institutional and policy changes for financial services in the rural sector. PDP is in the forefront of efforts to expedite such transformations. It is to be expected, however, that change will occur in a gradual fashion, with local improvements in one province serving to stimulate changes in other local government programs, including policy priorities at the national level.

#### IV. SUMMARY AND RECOMMENDATIONS

The preceding discussion was intended to serve as a preliminary examination of the problems and potentials involved in efforts to strengthen the capacities of local government in Indonesia. As such it draws upon a variety of sources and experiences in an attempt to determine the political and social parameters within which any local development project in Indonesia must operate. The conclusion of this examination is that strengthening the capacities of local government institutions in Indonesia is a reasonable objective that can be appropriately pursued through various development programs. Findings in support of this conclusion are based on evidence that such programs increase the amount of participation and effective control of local populations over public interventions in their communities. They include indications that programs designed and implemented by lower levels of government are more likely to be sensitive to local conditions and responsive to local needs and thus more effective in fulfilling their objectives. Local control over projects, moreover, enhances the sustainability of project benefits. Efficiency is a final reason for devolving responsibilities to local governments because such organizations are more likely to respond quickly and appropriately to community needs.

## A. Sociopolitical Parameters

Indonesian efforts to devolve authority to local governments originated in the 1950s. These efforts were accompanied by the rapid growth of community-based organizations which assumed a very active role in mobilizing community leadership and initiative. On the surface, these trends would have seemed to constitute a triumph for the evolution of an open and democratic society. In fact, however, they served to accelerate the sociopolitical and economic disintegration of the society. This disintegration culminated in widespread social unrest in the mid-1960s and resulted in the ascendancy of the Indonesian army in the national political arena.

Based on its perception of the 1950-1965 era, the army adopted a security orientation toward its governance of the archipelago and instituted a highly centralized bureaucratic structure with a substantial degree of authority over local affairs. The highly centralized nature of the Indonesian government has remained up to the present. However, in the last 5 years, gradual deconcentration of the administration of some central government policies and programs has occurred. At the same time, nongovernment organizations have been given more latitude to operate in rural areas. Key central government officials are now experimenting with devolution of authority over development activities to lower levels of government, and new organizations are now being created to enable these local governments to participate more effectively in the development process. AID efforts to enhance the capacity of local governments in Indonesia have played an important role in the emergence of these new trends. The Provincial Development Project is the focus of AID efforts in this regard. The principal objective of PDP is the strengthening of local government planning and coordination capacities. It is premised on the principle that administrative power derives from control over budgetary resources and thus provides discretionary funds directly to provincial and district authorities. PDP activities are unprecedented in Indonesian development experience and have the strong support of key ministries attempting to expand the role of local governments in the development process. Lessons learned from PDP are already being incorporated into other development projects, and the program provides a strong experiential base for proponents of devolving authority to lower levels of government.

Recommendation: An AID mission considering provision of assistance to local government should undertake an assessment of a range of factors related to the evolution, current status, and potential of local government as an effective instrument for enhancing the capacity of local populations to effect development.

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Recommendation: Strategies to increase the capacities of local governments must take a long-term perspective, but efforts should focus on strategic incremental changes which have a potential multiplier effect on future trends associated with local development capabilities.

## B. Strengthening Local Government

The assessment of ongoing efforts to strengthen local government focused on four main issues: the policy environment, the relationship to private activities, institution-building, and technology transfer. These issues are individually summarized below.

### 1. Policy Environment

Critical features of the policy environment affecting local government capacity were discussed in some detail in the preceding analysis of the sociopolitical parameters of local government development. PDP, LGT II, and specific central government programs are directly addressing many of the structural disincentives that exist within this environment. Indonesia is a unitary state with a highly centralized bureaucratic structure. Presidential Decree No.5, 1974 and 1979, established the legal framework for devolving greater authorities to the provincial governments. PDP is attempting to strengthen the institutional capabilities of these governments, specifically focusing on their role in coordinating multiple development programs. These efforts are tied to the provision of discretionary funds to the provinces to provide them with first-hand experience with the identification, design, and implementation of multisectoral programs. Lessons learned from PDP are now being integrated into other AID and central government initiatives resulting in greater local autonomy in areas not directly tied to PDP itself. Thus, the initial successes of PDP have enabled USAID/Jakarta to more fruitfully engage in a dialogue on policy issues related to local government in its succeeding program strategies.

Recommendation: Policy dialogue can be approached in many different ways. In Indonesia, the nonconfrontational strategy, supported by successful experimental efforts, appears to have enabled the Mission to make important headway on policy issues deemed critical for overall program success.

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## 2. Relationship to Private Initiatives

Throughout the 1960s, the majority of Indonesian development projects were related to the rehabilitation of the country's primary infrastructure. In the 1970s agricultural support services and secondary infrastructure received the greatest emphasis. These improvements were deemed critical to the establishment of an operating climate conducive to private sector growth. Current local government efforts still have a substantial infrastructure component. At the same time, local governments are taking new initiatives in such areas as institutional networking as a means of enhancing local development prospects. These new initiatives involve integrating private voluntary organization activities into local development programs which can be an important means of stimulating private initiative. For much progress to be made in this area, however, bureaucratic attitudes toward the peasantry, as indicated by their technocratic orientation to development, will have to change substantially. LGT II is directly addressing this problem.

## 3. Institution-Building

Efforts to examine institution-building encompassed a broad range of factors including local revenue generation and local autonomy. The local tax base in Indonesia is very narrow. Until recently, this was not considered a critical problem because of the country's oil wealth, which provided roughly 65 percent of the development budget. Development funds at the local level were derived from this oil wealth and distributed in block grants (called inpres) to provincial, district, and village government units. These programs have not yet suffered as a result of the sharp decline in oil revenues, but their future is uncertain. The significant degree of dependence of local governments on the largesse of central authorities for their development does not augur well for the emergence of greater local autonomy. The government itself has not directly confronted these issues nor has the AID program. This is no doubt a consequence of the luxury which Indonesia's oil wealth afforded it. Specific institution-building components have been a major focus of the PDP and LGT II programs. These efforts have been closely coordinated with direct, practical experience in project activities and, to a degree, have been subservient to the latter. The Mission is now placing renewed emphasis on the institution-building components of these projects.

#### 4. Technology Transfer

In the past decade, production-oriented development programs of the central government have focused almost exclusively on wet-rice cultivation. Upland rainfed areas and vast tracts of marginal swampland have been ignored. Many PDP subprojects have focused on the development of a range of new technologies appropriate for these ecosystems. Substantial progress has already been made regarding the successful introduction of these new technologies.